

Tax-Free Childcare and Childcare Vouchers

From 6 April 2018, Employer-Supported Childcare Voucher schemes will close to new applicants, although they will continue to run for as long as an employer offers one. Voucher schemes are being replaced with Tax-Free Childcare, a government scheme that was launched in April 2017 and does not rely on an employer offering a scheme. Someone cannot claim both and employees must tell their employer within 90 days if they get Tax-Free Childcare.

Applicants will only be considered (by HMRC) to be in an existing Employer-Supported Childcare Voucher scheme if they have made a salary sacrifice for vouchers before the 6 April deadline.

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Tax-Free Childcare

Tax-Free Childcare will allow some working parents to claim up to £2,000 per child (£4,000 for a disabled child) towards the cost of childcare per year. For every £80 they pay into their online childcare account, the government will add £20 up to a maximum of £2,000 per year, per child. There is no limit on how many children a parent can claim for, but a childcare account will need to be opened for each child.

In the case of a parent claiming the full £10,000, he or she will pay £8,000, while the government will give a £2,000 subsidy. The vouchers, which will be held in an online childcare account, can only be used to pay for registered regulated childcare, not for care provided by friends or relatives, unless they are registered with a regulator and registered to provide Tax-Free Childcare.

The scheme will work in quarterly entitlement periods – once eligible, parents will continue to be entitled to support for three months, regardless of any changes in circumstances, although they will have to re-confirm their circumstances quarterly. They can pay in a lump sum of £2,000 each quarter and get £500 from the government in one sum, or make monthly payments. If circumstances change or the childcare account is no longer required, money can be withdrawn by the childcare account holder with the government subsidy being repaid to HMRC.

One parent will need to make the claim, but if they are part of a couple they will need to provide details of their partner's income.

Employers can also pay into the childcare account, as well as parents, grandparents or other family members.

Who is running Tax-Free Childcare?

The government has appointed the National Savings & Investments (NS&I) to run Tax-Free Childcare.

Who is eligible to join Tax-Free Childcare?

For a family to be eligible, both parents will have to be in employment, working over 16 hours a week and earning between £120 per week and £100,000 per year.

Self-employed parents will also be eligible to join. This is a change from Childcare Vouchers, which can only be bought by people whose employer offers the scheme.

The scheme will be available to parents of children up to the age of 12 (or age 17 for children with disabilities). Childcare Vouchers apply up until age 15 (for children without disabilities). It's also available to parents on paid sick leave and paid and unpaid statutory maternity, paternity and adoption leave.

Who is not eligible to join?

Those who are not eligible for Tax-Free Childcare include:

- Any couples where one parent is not working and parents who claim for children older than 12 years old, or 17 if registered disabled.
- The scheme will only be open to some working parents (where both parents are working) or single parents and the parent is not already getting support through the existing Employer-Supported Childcare Voucher scheme.
- Any parent earning over £100,000 individually annually.
- Anyone who works less than 16 hours per week.
- Any parent who currently receives support through tax credits.

Employer-Supported Childcare Vouchers versus Tax-Free Childcare¹

Tax-Free Childcare is beneficial for:

- Self-employed people or couples who earn less than £100,000 each, as they're eligible for Tax-Free Childcare, but can't get Childcare Vouchers.
- Parents with more than one child and high childcare costs, as the help available goes up with the number of children. There's a limit for Childcare Vouchers which isn't dependent on the number of children.

Childcare Vouchers are better for:

- Couples where one parent doesn't work, as they're not eligible for Tax-Free Childcare, but the employed parent is eligible for vouchers (provided their employer offers a scheme).
- Basic-rate taxpayer parents with total childcare costs of £9,336 or less. Under this amount, the savings made with Childcare Vouchers exceed the savings made with Tax-Free Childcare.
- Higher-rate taxpayer parents with total childcare costs of £6,252 or less. Under this amount, the savings made with Childcare Vouchers exceed the savings made with Tax-Free Childcare.
- Higher earners; as anyone earning £100,000+ (or in a couple where one earns £100,000+) isn't eligible for Tax-Free Childcare, whereas these high earners can get Childcare Vouchers.

¹ <https://www.moneysavingexpert.com/family/tax-free-childcare>

Impact on Existing Childcare Voucher Schemes

Employees who are already a member of an Employer-Supported Childcare Voucher scheme and want to continue to use the scheme, can do so until their child reaches 15 – but only if the employee stays with the same employer and only if the employer continues to offer the scheme.

Employees can continue to sign up to an existing Employer-Supported Childcare Voucher scheme offered by their employer until April 2018. However, applicants will only be considered (by HMRC) to be in the voucher scheme if they have made a salary sacrifice for Childcare Vouchers.

Employers should ensure that employees who are not already in the voucher scheme are given sufficient time to consider whether or not the existing Employer-Supported Childcare Voucher scheme is right for them and, if it is, join the scheme, in order to make a salary sacrifice through the March payroll, prior to the 6 April 2018 deadline. Employees will not be able to claim Employer-Supported Childcare Vouchers and Tax-Free Childcare at the same time so will need to make a choice. Clear communication to employees will therefore be essential.

Find Out More

If you would like to discuss the content of this briefing note and how it could impact your organisation, please contact your consultant.

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