

A comprehensive Guide to Tax-Free
Childcare and Childcare Vouchers Schemes


Big Changes, Big Choices.

Time is running out...

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As the new Tax-Free Childcare scheme is rolled out, and further information on how it will be implemented is made available, we will continue to update this guide. Please check back regularly to ensure you are referring to the most up-to-date version.

A comprehensive guide to Tax-Free Childcare

The new Tax-Free Childcare scheme, which was first announced in 2013, has now been launched and will be rolled out to eligible parents across the UK, including in Northern Ireland.

Despite being in the pipeline for so long very few parents have an understanding of what the Tax-Free Childcare scheme involves, or even that it is being introduced at all.

This guide aims to clear up any confusion by explaining the key features of Tax-Free Childcare and, perhaps most importantly, will help you decide if it will benefit your family financially.

The Government has also launched a website, www.childcarechoices.gov.uk, designed to help parents understand what support is available for them. You can use this website to sign up to receive email alerts that will tell you when you can apply for Tax-Free Childcare, as it is being introduced for the youngest children first (those aged under 4 on 31 August 2017). Additionally, all parents of disabled children (under 17 years old) are now able to apply for Tax-Free Childcare. There is also information available on the www.gov.uk website.

It is important to note that, while the Government is linking the provision of Tax-Free Childcare with access to 30 hours free childcare, 30 hours free childcare is **not** available in Northern Ireland and will only apply to families living in England.

The guide is split in to nine sections:

1. Context
2. Overview of Tax-Free Childcare
3. FAQs
4. Tax-Free Childcare and Childcare Providers
5. How does Tax-Free Childcare compare to Childcare Vouchers?
6. How to work out if you will be better off on Tax-Free Childcare
7. Examples
8. Finally...Points to consider
9. Where to get further advice

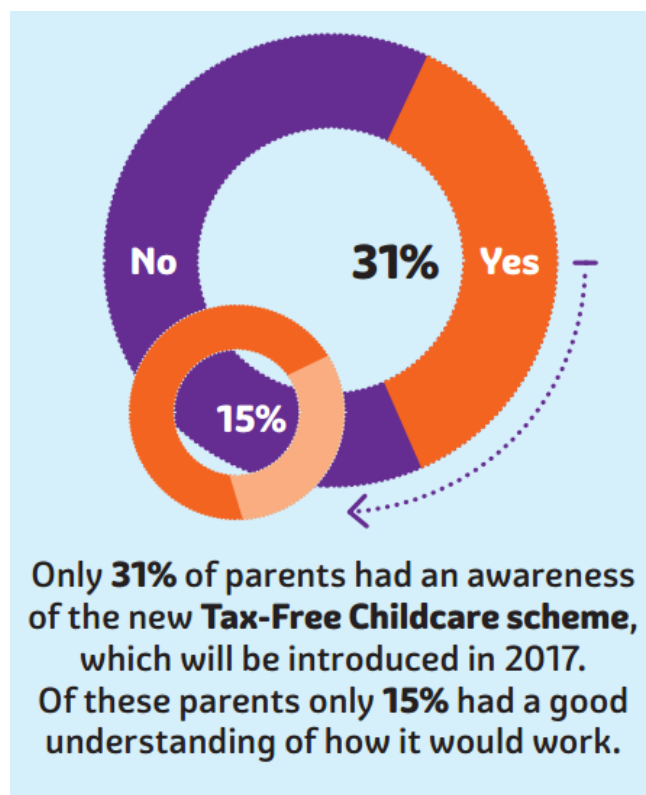
1. Context

Tax-Free Childcare was first announced in the 2013 Budget as part of Government measures to help families with the cost of childcare. The scheme is now available to parents of the youngest children (those under 4) and parents of children aged under 17 who have a disability. It is being gradually rolled out to other families across 2017. By the end of 2017, all eligible parents will be able to access the scheme.

Parents can sign up now for email alerts that will tell them when they can apply for Tax-Free Childcare. To sign up, visit the Government's new Childcare Choices website:

www.childcarechoices.gov.uk

During summer 2016 Employers For Childcare asked 6,000 local parents about their understanding of Tax-Free Childcare. Our findings showed that only 31% of parents had an awareness of Tax-Free Childcare and, of these, only 15% could say they had a good understanding of how the scheme would work.



Childcare can be a significant cost for working families therefore Employers For Childcare wants to ensure that all parents know what support is available and are claiming all that they are entitled to. Tax-Free Childcare is a new support that will leave some families better off. However, some families will be financially better off by choosing to access another form of support, for example, Childcare Vouchers or Tax Credits. It is important that each family makes the best choice depending on their specific circumstances.

2. Overview of Tax-Free Childcare

What is Tax-Free Childcare?

The Tax-Free Childcare scheme allows eligible working families to claim 20% of their childcare costs, up to £2,000 per child per year, or £4,000 for a child with a disability, from the Government.

Who is eligible to join the Tax-Free Childcare scheme?

At a glance...

- Both parents, or one parent in a single parent household, must be in employment, working over 16 hours a week and earning between £120 per week and £100,000 per year
- Self-employed parents are eligible to join
- Can be used to pay for childcare for children under the age of 12 (under age 17 for children with a disability)

The scheme will be available to parents of children under the age of 12 (under age 17 for children with disabilities). For a family to be eligible, both parents have to be in employment, or one parent in a single parent household, working over 16 hours a week and earning between £120 per week (£111 per week if the parent is under 25) and £100,000 per year.

If you are self-employed you will also be eligible to join provided you have registered your business with HM Revenue and Customs. You can use income from both employment and self-employment to meet the minimum income. Your first 12 months of self-employment is their start-up period. During this time, you don't have to earn the minimum £120 a week to be eligible for Tax-Free Childcare. You can average your self-employment income across the year to meet the minimum income criteria however you will need to meet the minimum using just you self-employment income if you take this approach.

Parents must usually live and work in the UK unless they are a Crown servant or member of the Army and posted overseas. The scheme also extends to those living in Ireland and working in Northern Ireland. However, you must be using a childcare provider who is registered in the UK.

Parents can still apply for Tax-Free Childcare if they are on paid:

- Sick leave
- Ordinary or additional maternity, paternity or adoption leave or getting maternity allowance
- Shared parental leave
- Annual leave.

Parents can also apply for Tax-Free Childcare if they are not working but expect to start a new job within the next 14 days.

Where one parent does not work it may still be possible to get Tax-Free Childcare if the parent who is not in work is receiving certain benefits, for example, incapacity benefit or carer's allowance.

If parents apply for Tax-Free Childcare they will not be able to get:

- Child Tax Credits
- Working Tax Credits
- Universal credit (when it is introduced in Northern Ireland)
- Childcare Vouchers.

Child Tax Credits and Working Tax Credit payments will stop automatically if a parent successfully applies for Tax-Free Childcare.

If you are getting Childcare Vouchers you will need to tell your employer within 3 months of applying for Tax-Free Childcare so that your employer can stop providing the Childcare Vouchers.

Parents will still be eligible for Child Benefit if they are using Tax-Free Childcare.

How does Tax-Free Childcare work in practice?

If you are a working parent you will be able to apply, through the childcare service, to open an online childcare account. HMRC will check that you are eligible to join the scheme.

For every £8 you pay into your account, the Government will give you £2, up to a maximum of £2,000 per year per child (i.e. you would need to put in £8,000 for the Government to top up your account with £2,000). The amount you save with Tax-Free Childcare will be dependent on your childcare costs.

You will be able to pay into your account at any time and receive the top up. Other people, such as family, friends and employers, can also pay into the account. Payments can be made directly to the childcare provider through the online account.

If you have more than one child in childcare you will need to open an account for each child however you can do this as part of a single application.

To open an account you will need your National Insurance number and personal details such as from a UK passport or driving license.

In most cases, you'll be told instantly if your Tax-Free Childcare application is successful. If your application is unsuccessful you will be told why.

Every 3 months, you will need to reconfirm that you are still eligible for Tax-Free Childcare using your childcare service account. You can do this by ticking a box to confirm that your details have not changed. You will be reminded to do this 4 weeks before the reconfirmation deadline.

Using the online childcare service account

Once you have successfully applied for your online account, you will be able to:

- View all of your children's Tax-Free Childcare accounts in one place
- Confirm every 3 months that you are still eligible for Tax-Free Childcare
- Make payments into each child's Tax-Free Childcare account
- Use each account to pay for your childcare costs.

You will be able to make one-off payments into each Tax-Free Childcare account or you can set up a standing order to make regular payments. The Government has said that it will apply the top up automatically, and it should be received instantly. You will then be able to use the full balance to pay for your childcare.

You will be able to pay up to 10 childcare providers from each Tax-Free Childcare account however you will need to make a separate payment for each eligible child.

When can I apply for Tax-Free Childcare?

Tax-Free Childcare is being rolled out on a phased basis, allowing families with the youngest children (those under the age of 4 on 31 August 2017) and children with a disability (aged under 17) to enter first. It is available now for those families to apply, having been launched on Friday 21 April 2017. All families should be able to access the scheme by the end of 2017.

Closing a Tax-Free Childcare account

If you are no longer eligible for Tax-Free Childcare you will still be able to add money to the account but will not receive any Government contributions. You will still be able to use the balance in the account to pay for childcare. If you no longer want to use the Tax-Free Childcare account you can withdraw your money however the Government will take back its contributions.

3. FAQs

Below is a list of the most commonly asked questions from parents regarding Tax-Free Childcare.

Will all childcare providers be able to accept payment through Tax-Free Childcare?

Yes, all childcare providers, provided they are registered or approved as childcare providers in the UK, will be able to accept payments through Tax-Free Childcare. Each childcare provider must, however, register with HMRC to accept payment from parents. Only those who register will be able to accept payment. Childcare providers were invited to register with HMRC during 2016, however they can still register at any time, but it can take up to 12 weeks to fully register. See Section 4 of this guidance for further information for childcare providers.

Can cross-border workers join the scheme?

While eligibility criteria states that only parents who live and work in the UK will be eligible, this extends to those living in Ireland (or a resident of another EEA state) who are working in Northern Ireland. However, you must be using a childcare provider who is registered in the UK.

Are there any circumstances where a family will be eligible for Tax-Free Childcare if one parent is working and the other is not working?

Both parents must usually be working. However, if one of you meets the work requirements and the other is unable to work, for example, due to a disability or caring responsibilities, then you may still be able to claim Tax-Free Childcare in certain circumstances. For example, parents claiming Incapacity Benefit, Carer's Allowance and Contributory Employment and Support Allowance (ESA) will be deemed eligible for the scheme, provided the other parent is also eligible.

Can I use Tax-Free Childcare alongside other forms of help with childcare costs?

No, Tax-Free Childcare cannot be used in conjunction with either Childcare Vouchers or Tax Credits (including both Child Tax Credit and Working Tax Credit). This is different to the Childcare Voucher scheme which can be used in conjunction with Tax Credits.

Can I apply for Tax-Free Childcare if I am a single parent?

Yes, single parents can apply for Tax-Free Childcare provided they meet the eligibility requirements. It is important to note that only one account can be set up per child so if parents are separated, and both parents contribute to childcare costs, they will need to set up one account that they can both pay in to.

Can I switch between Childcare Vouchers and Tax-Free Childcare?

Parents who are considering moving from the current Childcare Voucher Scheme* to the new Tax-Free Childcare should seek advice before cancelling their Childcare Vouchers.

The current guidance from HMRC states that if a parent cancels their salary sacrifice Childcare Vouchers to join Tax-Free Childcare they will be unable to switch back to Childcare Vouchers. This is applicable from day one of the Tax-Free Childcare Scheme, not just after the April 2018 closure of Childcare Vouchers to new entrants. This rule is applicable even if the parents find they are worse off using Tax-Free Childcare.

*The Childcare Voucher scheme is also referred to as 'Employer Supported Childcare' or 'ESC' by HMRC.

How will Tax-Free Childcare affect my Tax Credits?

You **cannot claim both Tax-Free Childcare and Tax Credits**. If you join the Tax-Free Childcare scheme your Tax Credits will be terminated and you will remain ineligible while you are still a member of the scheme. This affects both Child Tax Credit and Working Tax Credit. If you claim Tax Credits it is important that you are aware of this before considering joining Tax-Free Childcare. You can claim Childcare Vouchers and Tax Credits simultaneously.

Will my family be financially better off on Childcare Vouchers or Tax-Free Childcare?

This will depend on each family's individual circumstances, you can find more information in Section 5.

Any other questions?

If you have any other questions you can contact our Family Benefits Advice Service on 0800 028 3008. Our team can offer free, confidential and impartial advice based on your circumstances and carry out 'better-off' calculations which will help you to work out how you will be financially better off.

4. Tax-Free Childcare and Childcare Providers

Childcare providers have an important role to play in offering Tax-Free Childcare. If a childcare provider is not registered with HMRC to accept payments then you will not be able to pay them using the scheme.

How will childcare providers receive payments through Tax-Free Childcare?

In order for parents to use Tax-Free Childcare to pay their childcare provider, the provider must register with HMRC.

During the latter months of 2016, HMRC contacted all regulated or approved childcare providers and asked them to register to accept payments of Tax-Free Childcare from HMRC. This letter contained a user ID which childcare providers can use to sign up for Tax-Free Childcare, access their account and when calling the Government's childcare service helpline.

HMRC were keen for childcare providers to sign up before the scheme goes live for parents. However, providers can sign up at any time, but it could take up to 12 weeks for registration to be processed.

If you are a childcare provider, and you have not yet signed up to receive Tax-Free Childcare payments, then it is important that you do so now. If you have lost your sign up letter, or didn't receive one, contact the childcare service helpline on 0300 123 4097.

More information is available on the Government's website: <https://childcare-support.tax.service.gov.uk/moreinfoccp>

How will payments work?

Similar to the Childcare Voucher scheme, parents will pay their childcare provider through their online Tax-Free Childcare account. The payment will be made directly into the childcare provider's bank account with a reference number for each child so the childcare provider can identify their payments. Payment should take approximately 2 to 3 working days to arrive in the childcare provider's account.

Can all childcare providers register to accept payments?

Only regulated or approved childcare providers will be eligible to receive payments through Tax-Free Childcare. HMRC will check a provider's details with the relevant regulator before registering them for Tax-Free Childcare payments.

Once childcare providers have signed up to Tax-Free Childcare, parents can use the <https://childcare-provider-checker.tax.service.gov.uk/> to search for them using either their name, address or postcode, or regulator.

5. How does Tax-Free Childcare compare to Childcare Vouchers?

The following table shows the difference between the Childcare Voucher scheme and Tax-Free Childcare.

Comparison between Childcare Vouchers and Tax-Free Childcare

	Childcare Vouchers	Tax-Free Childcare
Savings	Up to £933 per parent, per year. Employers also save on Employer's National Insurance.	Claim £2 for every £8 spent on childcare, up to £2,000 per year for each child (in order to claim £2,000 you'll need to put in £8,000), £4,000 for a child with a disability. No savings for employers.
Age of children	Up to the age of 15 (16 if they are disabled).	Under the age of 12 (or under the age of 17 for children with disabilities).
Registered childcare	Can only be used to pay for registered childcare.	Can only be used to pay for registered childcare.
Earners in a family	Either or both earners in the family can use Childcare Vouchers.	Families can only claim the new childcare tax saving if both parents are working . In a single parent household, that parent must be working.
Income	There is no cap on the maximum income a family can have to claim Childcare Vouchers, although the amount a parent can save depends on the tax bracket they fall into.	For a family to be eligible both parents must be working and earning at least the equivalent of 16 hours at the National Living Wage per week and a maximum of £100,000 per year.
Availability	Only available to parents if their employer offers the scheme.	Available to all parents provided they meet the relevant criteria.
Self-employed parents	Self-employed parents are not eligible to join the scheme.	The new scheme will be open to self-employed parents.
Implementation date	Currently open to new entrants and will remain so until April 2018 when it will close to new entrants. Only those already using the scheme will be able to continue using Childcare Vouchers post April 2018.	Tax-Free Childcare was launched on 21 April 2017 for families with a child who will be under the age of 4 at 31 August 2017 and those families who have a child with a disability. Those families who are eligible, and will be better off under the scheme, can now apply. All families will be able to access the scheme by the end of 2017.

6. How to work out if you will be better off on Tax-Free Childcare

Tax-Free Childcare is one support available to assist families with the cost of childcare. You will need to work out if Tax-Free Childcare is a better option for your family, as there may be another form of support that is more beneficial. This section will help you decide what is best for your circumstances.

Step One: Understanding how both schemes operate

How the Childcare Voucher scheme works

The Childcare Voucher scheme operates through your employer. You are able to sacrifice a certain amount of money each month (or each week if you are paid weekly) from your gross salary which is free of tax and National Insurance Contributions. Your employer deducts the amount from your salary and it is made available in your online Childcare Voucher account, where you can make payments directly to your childcare provider(s).

Each month a basic rate tax payer can sacrifice up to £243, which results in a tax saving of £77.76 (£933.12 annually). Higher rate tax payers can sacrifice up to £124 per month, making a saving of £52.08 (£624.96 annually). Both parents can use Childcare Vouchers, therefore, if two basic rate tax payers join the scheme they will make an annual saving of £1,866.24.

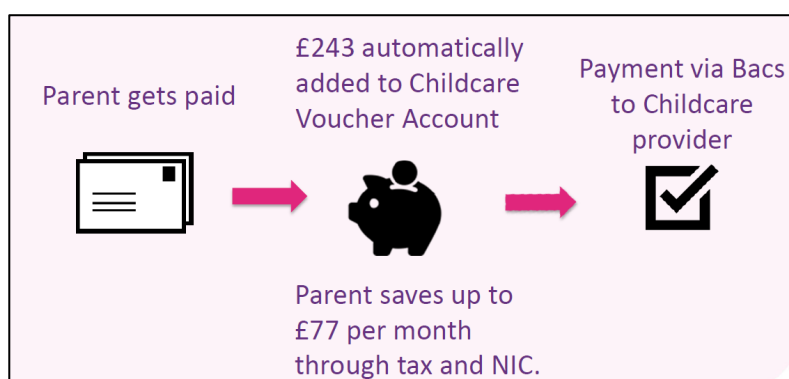
Each parent sacrifices up to £243 of their salary (tax and NIC free)

Childcare provider paid through parent's online account

Each parent saves up to £933 per year

Two parents = £1,866

At a glance...

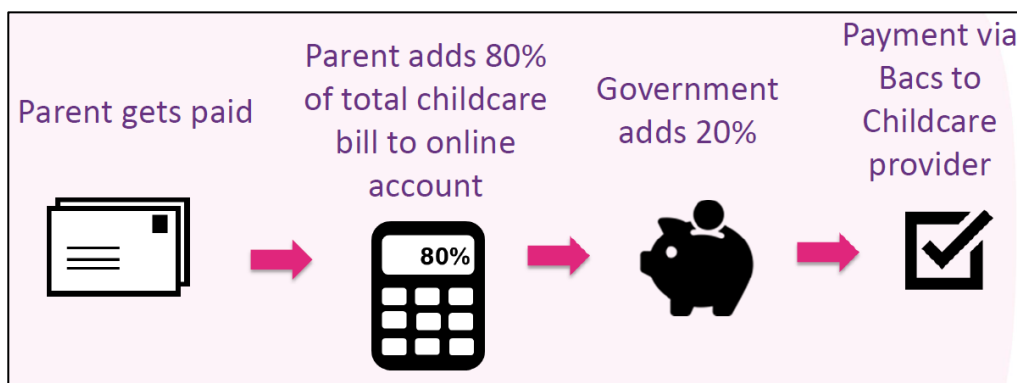


How the Tax-Free Childcare scheme works

For every £8 you pay into your account, the Government will give you £2, up to a maximum of £2,000 per year per child.

Unlike Childcare Vouchers, the amount you save with Tax-Free Childcare will be dependent on your childcare costs. To receive the full £2,000 benefit from Tax-Free Childcare you must have childcare costs of £10,000 per child per year.

At a glance...



To draw a comparison between the two schemes, a couple sacrificing the maximum Childcare Voucher amount each year will effectively pay £5,832 into their online account to put towards the cost of childcare. The saving they make each year through the Childcare Voucher scheme is £1,866.

A couple adding the same amount (£5,832) into their Tax-Free Childcare account will receive a top up of £1,166 from the Government, £700 less than with Childcare Vouchers.

Step Two: Working out your savings

Childcare Vouchers

If both parents are Basic Rate Tax Payers and sacrificing £486 between them, the maximum annual saving is £1,866.24. You will make a 32% saving on the amount you sacrifice.

For example: Mark and Sally pay £450 for childcare each month for their daughter Liz. Both of their employers offer the Childcare Voucher scheme.

They each sacrifice £225 per month each and make a 32% saving of £72 each. Their joint annual saving is £1,728.

Tax-Free Childcare

Parents can receive help with 20% of their childcare costs up to a maximum of £2,000 per year per child. Parents receive a 20% top up on the value they put into their Tax-Free Childcare account.

For example: Mark and Sally pay £450 for childcare each month for their daughter Liz. They only need to pay 80% of their childcare costs and therefore add £360 to their Tax-Free Childcare account each month. The Government tops the account up by £90. Annually they will make a saving of £1,080.

In the scenario above Mark and Sally are better off using the Childcare Voucher scheme.

7. Examples

Example 1

Amanda and Bill pay £90 a week (£390 per month) for an afterschool club for their son Freddie. Both parents are working and meet the eligibility criteria for both Childcare Vouchers and Tax-Free Childcare.

Childcare Vouchers: Amanda and Bill split the childcare bill between themselves and both sacrifice £195 each from their monthly salary as Childcare Vouchers. They both make a saving of £62.40 per month, their joint monthly saving is £124.80.

Tax-Free Childcare: Through Tax-Free Childcare the Government will give Amanda and Bill 20% of their childcare bill. Each month the Government will top-up their childcare account by £78.



The couple are better off using Childcare Vouchers by £46.80 per month.

Example 2

Peter and Jan have two children, Ella, who is in full-time childcare, and Jack, who attends an afterschool club. The childcare bill for Ella is £168 per week (£728 per month), for Jack it is £90 per week (£390 per month). Their total monthly childcare bill is £1,118. Both parents meet the eligibility criteria for both Childcare Vouchers and Tax-Free Childcare.

Childcare Vouchers: Through Childcare Vouchers Peter and Jan can each sacrifice a total of £243 from their salary. They both sacrifice the full amount and make a monthly saving of £155.52.



Tax-Free Childcare: Through Tax-Free Childcare the couple will be able to claim 20% of each child's childcare bill. For Ella they can claim £145.60 per month and for Jack they can claim £78 per month. Their total monthly saving will be £223.60.

The couple are better off using Tax-Free Childcare by £68 per month.

Example 3

Alex and Chris pay for part-time childcare for their daughters Victoria and Sue, the bill is £200 per week. Alex is employed and eligible for Childcare Vouchers, Chris does not work.

Childcare Vouchers: Alex sacrifices his full Childcare Voucher entitlement, £243 per month. He makes a saving of £77.76 per month.

Tax-Free Childcare: Because Chris is not in employment the couple are not eligible for Tax-Free Childcare.



The couple are better off on Childcare Vouchers by £77.76 per month.

Example 4



Molly pays for childcare for her son Dan, her monthly childminding bill is £650. She works full time.

Childcare Vouchers: Molly sacrificed the full Childcare Voucher amount, £243 per month and makes a saving of £77.76.

Tax-Free Childcare: Through Tax-Free Childcare Molly adds £520 to her account and claims £130 from the Government.

Molly is better off on Tax-Free Childcare by £52.24 per month.

Example 5

Rebecca and Dave both work full time and have 2 children. They pay £300 per week in registered childcare costs. Both of their employers offer childcare vouchers. Due to their household income and family circumstances they are also eligible for the childcare element of Working Tax Credits.

Childcare Vouchers: Through Childcare Vouchers Rebecca and Dave can each sacrifice a total of £243 from their salary. They both sacrifice the full amount and make a monthly saving of £155.52.



Tax Credits: As Childcare Vouchers do not cover the full amount of childcare costs the couple claim help for the remaining £814 per month of childcare costs through the Childcare Element of Working Tax Credits. The couple receive £136.83 per month in Tax Credits.

Due to this combination of Childcare Vouchers and Tax Credits the couple receive £292.35 per month towards their childcare costs.

Tax-Free Childcare: Through Tax-Free Childcare the couple adds £1040 to their accounts and claim £260 from the Government

**Rebecca and Dave are better off on a combination of
Childcare Vouchers and Tax Credits by £32.35 per month.**

Example 6

James and Carol are a couple paying for childcare for their disabled son Peter, who is eligible for Disability Living Allowance. Their monthly childcare bill is £758.

Both Carol and James work full time. They have no entitlement to Tax Credits as their income is too high.

Childcare vouchers: Through Childcare Vouchers Carol and James can each sacrifice a total of £243 from their salary. They both sacrifice the full amount and make a monthly saving of £155.52.

Tax Free Childcare: Through Tax Free Childcare the couple will be able to claim 20% of their child's childcare bill. Because Peter has a disability, the amount that the couple can claim is capped at £4000 per year, not £2000. The monthly saving will be £190. In a year this will add up to £2280.



The couple are better off using Tax-Free Childcare by £34.38 a month.

8. Finally...Points to remember when considering joining the Tax-Free Childcare scheme

There are three points to keep in mind when considering joining the Tax-Free Childcare scheme:

1. **Make sure you work out the savings you will make on Tax-Free Childcare before joining the scheme.** The headline saving of £2,000 per child is the **maximum** amount available. In order to make this saving you will need to have **childcare costs of £10,000 per child per year**. You may be financially better off using the Childcare Voucher scheme or claiming childcare assistance through Tax Credits.
2. **Remember that you cannot claim Tax-Free Childcare in conjunction with either Childcare Vouchers or Tax Credits** (both Child Tax Credit and Working Tax Credit). The legislation behind the scheme makes provision for the automatic termination of you and your partner's Tax Credit award once you make a valid declaration of eligibility for Tax-Free Childcare. Make sure you calculate the impact this may have before joining the new scheme.
3. **Make sure you meet all of the eligibility criteria for Tax-Free Childcare before cancelling Childcare Vouchers or Tax Credits.** For example if you are in a couple do both of you meet the hours, income and employment rules? Is your childcare provider registered and have you checked if they are happy to receive payments through Tax-Free Childcare?

If you are an existing Childcare Voucher user you should also bear in mind that the scheme will close to new entrants after April 2018. After this date only those parents who are using Childcare Vouchers will be able to continue doing so. If at this point you move to Tax-Free Childcare you will be unable to join the Childcare Voucher scheme again.

9. Where to get further advice

Employers For Childcare's Family Benefits Advice Service was specifically set up to ensure families are claiming all the support available to them, particularly with the cost of childcare.

Our Advisors can provide advice and information on Tax-Free Childcare and calculate which form of financial support is best for your circumstances. **Call free on 0800 028 3008.**

We also have a Childcare Savings Calculator available on our website. The calculator will help you decide between Childcare Vouchers and Tax-Free Childcare. The calculator is available at www.employersforchildcare.org/parents/childcare-savings-calculator/

You will also find information on the Government's new website, Childcare Choices:





Employers For Childcare

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