



Childcare Vouchers

An Introduction to Tax-Free Childcare

Information for Parents

In March 2014 the Government announced its plans to introduce Tax-Free Childcare, a new scheme which will enable parents to claim 20% of their childcare costs (up to a maximum of £2,000 per child). The new Tax-Free Childcare scheme will be introduced in early 2017.

This information explains the difference between Childcare Vouchers and Tax-Free Childcare and will help you decide which scheme is best for you.

How the Childcare Voucher scheme works

The Childcare Voucher scheme operates through your employer. You are able to sacrifice a certain amount of money 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.

How Tax-Free Childcare will work

Parents register for an online childcare account through the Government website GOV.UK. HMRC will check that you are eligible to join the scheme e.g. both parents must be working.

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).

Parents will be able to pay into their 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. Unlike Childcare Vouchers, the amount you save with Tax-Free Childcare will be dependent on your childcare costs.

Which scheme is best for me?

The Childcare Voucher Scheme will close to new entrants in April 2018, only parents who are using Childcare Vouchers at this time will be able to continue using the scheme. This means you have until April 2018 to decide which scheme is best for you.

Working out your savings

The savings you can make with each scheme will vary according to your family's circumstances, and while one scheme may work best for one family, it may not be as beneficial for another.

For example: Mr and Mrs Jones pay £450 for childcare each month for their daughter. They are both Basic Rate Tax Payers and each sacrifices £225 each month on Childcare Vouchers, making a 32% of saving of £72 each. As a result, their joint annual saving is £1,728.

On the Tax-Free Childcare scheme, Mr and Mrs Jones pay £450 for childcare each month for their daughter. 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 then make a saving of £1,080.

In this scenario, Mr and Mrs Jones would be better off using the Childcare Voucher scheme.

Points to remember

- 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 (or Universal Credit).
- You cannot claim Tax Credits or Universal Credit while using the Tax-Free Childcare Scheme. The legislation makes provision for the automatic termination of you and your partner's Tax Credit or Universal 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.

We are here to help!

For more information or if you would like one of our specialist Family Benefits Advice Team to work out which scheme is better for your circumstances you can call free on 0800 028 3008.