



childcare

advice & information

0800 028 3008

www.employersforchildcare.org

Childcare Vouchers and Tax Credits

Will my tax credits be affected?

Tax credits help families on low to middle incomes. There are two tax credits:

Child Tax Credit (CTC) is for people who are responsible for at least one child or qualifying young persons. 9 out of 10 families are eligible for this support.

Working Tax Credit (WTC) is for people who are employed or self-employed who usually work 16 hours or more a week. The childcare element provides help for up to 80% of qualifying childcare costs up to £175 per week for one child or £300 per week for two or more children.

Childcare Vouchers can affect entitlements to tax credits; this is because vouchers are not counted as income for tax credit purposes. They can be affected in two ways:

- your income for tax credits purposes will be reduced by the amount of pay you have given up in return for the benefit (ie vouchers);
- your eligible childcare costs for tax credit purposes will reduce as it must only include costs you pay yourself - the amount of childcare costs you pay through childcare vouchers is not included

Checklist

If you do not know if you would benefit from childcare vouchers you can compare your current tax credit award with the award you would receive alongside the tax and NICs savings with vouchers, follow the steps below.

Step 1

Check your current tax credit entitlement (this is based on your family income and qualifying childcare costs before participating in the scheme) TIP: the Inland revenue Tax Credit calculator works out entitlement from the date of the enquiry to the next 5 April.

Step 2

Check your tax credit entitlement based on what your lower family income will be (your original pay less the amount of cash you have given up in return for childcare vouchers). This calculation should also use your lower childcare costs (your qualifying childcare costs less the amount met by vouchers).

Step 3

Calculate your tax and NICs saving on taking the childcare vouchers instead of cash pay

Step 4

If the award from Step 2 plus the savings calculated in Step 3 is greater than the award from Step 1, you will benefit from the childcare voucher scheme

NB: Remember to inform the HMRC of any changes to your circumstances, ie childcare costs.

Helpline: 0845 603 2000