

Employers For Childcare

Tax-Free Childcare Scheme

From early 2017 the Government plan to make Tax-Free Childcare available to help families with the cost of registered childcare.

This factsheet provides an overview of our understanding of the support which will be available through Tax-Free Childcare, although we anticipate that further detailed guidance will be available as the implementation date approaches.

What is the Tax-Free Childcare scheme?

The Tax-Free Childcare scheme will allow 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.

For a family to be eligible, both parents will have to be in employment, working over 16 hours a week at the National Living Wage and not more than £100,000 per year. Self-employed parents will also be eligible to join.

The scheme will be available to parents of children up to the age of 12 (or age 17 for children with disabilities).

The scheme will roll out on a phased basis, allowing the youngest children to enter the scheme first. All families should be able to access the scheme by the end of 2017.

How will this work?

To set up the scheme one parent in each household will open an account through National Savings and Investments (NS&I), an agency of the Treasury. HMRC and NS&I will check the family's eligibility and open the account. Eligibility will be checked every quarter.

For every 80p paid into the account, for eligible childcare costs, the Government will top it up by 20p. Anyone can pay into the account, which means that friends, family and even employers can add to the family's childcare fund.

I am a member of the Childcare Voucher scheme, how will this affect me?

The existing Childcare Voucher scheme will remain open until April 2018. After this date only those using Childcare Vouchers will be able to remain in the scheme, it will close to new entrants.

Parents can only claim one form of help at a time, you cannot claim both Childcare Vouchers and Tax-Free Childcare.

Some families will be better off on the Childcare Voucher scheme, while some will find Tax-Free Childcare more beneficial. Our Family Benefits Advice Team can help you work out which form of help is better for your circumstances.

It is important that you choose the most beneficial form of help before the Childcare Voucher scheme closes in 2018. If you are not a member of the scheme at this time you will not be able to join it. Only those who are existing members of the scheme will be able to continue claiming Childcare Vouchers.

Will help with childcare costs still be available through Tax Credits?

Yes, although in due course the childcare assistance which is currently paid through Tax Credits will be paid as part of the new Universal Credit, which will be introduced in stages in 2017.

Families receiving Universal Credit will be able to claim up to 85% of their childcare costs.

Families who receive childcare support through Universal Credit or Tax Credits will not be eligible to join the Tax-Free Childcare Scheme.

Points to consider

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 Vouchers scheme or claiming childcare assistance through Tax Credits (or Universal Credit).

The Childcare Voucher scheme will close to new entrants in April 2018, if this is the best option for your family you must be a member of the Childcare Voucher scheme before it closes in order to keep using it.

If you are already using Childcare Vouchers you can continue to do so after April 2018. However, it is likely that if you choose to leave the Childcare Voucher scheme you will not be able to join it again.

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.

Our specialist Family Benefits Advisors can help you work out which form of financial assistance is most financially beneficial for your family. We can carry out a free better-off calculation to help you make the right choice for your circumstances.

As further information becomes available on the new scheme we will endeavour to share this on our website, Facebook page and Twitter account.

If you would like to discuss the changes with one of our Advisors please call Freephone 0800 028 3008 or email hello@employersforchildcare.org.