

A comprehensive guide to Tax-Free Childcare

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Contents:

1. Introduction
2. Overview of Tax-Free Childcare
3. FAQs for Parents
4. FAQs for Employers
5. FAQs for Childcare Providers
6. How to work out if you will be better off on Tax-Free Childcare or another form of support
7. Case studies
8. Points to remember when considering joining the Tax-Free Childcare scheme
9. Where to get further information

1. Introduction

Tax-Free Childcare is available to all eligible families with children under 12 (under 17 if the child has a disability). This guide will help you decide if Tax-Free Childcare will benefit your family financially or if you will be better off accessing another form of support.

The Government launched a website beststartinlife.gov.uk to help parents understand what support is available. You can use this website to apply for Tax-Free Childcare. While the Government's website contains information on a scheme that gives access to 15 hours and 30 hours free childcare for eligible families in England, these schemes are **not available in Northern Ireland**. Parents in Northern Ireland who are eligible for Tax-Free Childcare can instead apply for a 15% discount on those childcare costs through the Northern Ireland Childcare Subsidy Scheme.

If you are a parent in England, it is not necessary to join Tax-Free Childcare in order to receive the 15 or 30 free hours of childcare. These can be accessed alongside Childcare Vouchers if you are currently signed up to a Childcare Voucher scheme with your employer.

Childcare can be a significant cost for working families. We want to ensure that all parents:

- know what support is available and
- are claiming all that they are entitled to.

Tax-Free Childcare is a support that will help some families become better off. However, some families may be financially better off on Universal Credit or continuing to use Childcare Vouchers if they are already benefiting from that scheme. Each family should make the choice depending on their own circumstances however Employers For Childcare's Family Benefits Advice Service is here to help and can advise you on what is right for your family.

2. Overview of Tax-Free Childcare

What is Tax-Free Childcare?

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

Who can join the Tax-Free Childcare scheme?

At a glance:

- Working families, including the self-employed, in the UK who have children under 12 (or under 17 if disabled)

The scheme is available to parents of children under the age of 12 - children stop being eligible on 1 September after their 11th birthday (under age 17 for children with disabilities). Adopted children are eligible, but foster children are not.

Work related eligibility

Both parents must be in employment, or one parent in a single-parent household, earning between £203.36 per week and £100,000 per year¹.

If you are self-employed you are eligible to join provided you have registered your business with HM Revenue and Customs (HMRC). You can use income from both employment and self-employment to meet the minimum income requirement. Your first 12 months of self-employment is your start-up period. During this time, you don't have to earn the minimum £203.36 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 income using just your self-employment income if you take this approach).

Parents continue to be treated as being in employment and can usually continue receiving, or apply for Tax-Free Childcare, if they are on **sick leave or annual leave**.

Additionally, a parent can apply for or continue claiming Tax-Free Childcare for older children, throughout the whole period they are on **ordinary or additional maternity, paternity or adoption leave** for a new child. Where a claimant, or their partner, are claiming Tax-Free Childcare in respect

¹ This refers to you or your partner's 'adjusted net income' in the current tax year. This includes any bonuses you expect to get. Your adjusted net income is your total [taxable income](#) before any personal allowances and minus grossed up qualifying Gift Aid or pension contributions.

of a child whose birth or adoption is the reason for the period of leave, they will only be eligible for Tax-Free Childcare for the last 31 days before they return to work.

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, Employment and Support Allowance or Carer's Allowance.

If you apply for Tax-Free Childcare you will not be able to get Universal Credit or Childcare Vouchers.

If you successfully apply for Tax-Free Childcare you should immediately inform Universal Credit, they will then stop your Universal Credit payments. Informing them as soon as possible should help avoid any overpayment of Universal Credit. Households living in Northern Ireland are able to access additional support through the Northern Ireland Childcare Subsidy Scheme as being eligible for Tax-Free Childcare is one of the requirements of that scheme. You will still be eligible for Child Benefit if you are using Tax-Free Childcare. If you are using Childcare Vouchers you will need to tell your employer within 3 months of applying for Tax-Free Childcare so that they can stop providing the Childcare Vouchers. **Remember you will be unable to re-join the Childcare Voucher scheme if you leave it to use Tax-Free Childcare, so make sure you speak to our Family Benefits Advice Service to find out if this is the right choice for you.**

Immigration status

Parents must usually live and work in the UK unless you are a Crown servant or member of the Army and posted overseas. The scheme also extends to those living in any EEA country and working in the UK. You (or your partner, if you have one) must have a National Insurance number and at least one of the following:

- British or Irish citizenship
- [settled or pre-settled status](#), or have been living in the UK before 1 January 2021 with the [right to reside](#)
- permission to access public funds.

If you are living in an EU country, Switzerland, Norway, Iceland or Liechtenstein, you (or your partner if you have one) might still be eligible for Tax-Free Childcare if:

- your work is in the UK
- the work started before 1 January 2021
- you have worked in the UK at least once every 12 months since you started working here.

This is known as being a ['frontier worker'](#). You may be able to use Tax-Free Childcare to pay a provider based in a [European Economic Area \(EEA\)](#) country (this change was introduced on 21 March 2019).

Northern Ireland Childcare Subsidy Scheme

The Northern Ireland Childcare Subsidy Scheme reduces the registered childcare costs of eligible working parents in Northern Ireland by 15% for qualifying children.

The Northern Ireland Childcare Subsidy Scheme is linked to Tax-Free Childcare to ensure the subsidy is targeted at working parents more likely to be incurring higher childcare costs, this also streamlines the eligibility checking process and minimises displacement of other existing financial support for parents.

Childcare providers must be signed up with HMRC to accept Tax-Free Childcare and be registered to participate in the Northern Ireland Childcare Subsidy Scheme. Childcare providers will discount the normal fee they charge to eligible parents by 15% up to a maximum of £184 per month per child, or £368 per month for a disabled child. Parents can then obtain a further 20% contribution towards their reduced bill through Tax-Free Childcare.

For further information on the Northern Ireland Childcare Subsidy Scheme see our factsheet at <https://www.employersforchildcare.org/information-factsheets/>

How does Tax-Free Childcare work in practice?

The amount you save with Tax-Free Childcare will depend on your childcare costs. 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).

You can pay into your account at any time and receive the top up, up to a maximum of £500 top up per quarter (£2,000 top up per annum). These figures increase to £1,000 per quarter (£4,000 per annum) if your child has a disability. 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.

The application process

If you are a working parent you will need to open a Government Gateway account through the [childcare service](#). You will need to have the following information to hand:

- Your National Insurance Number and date of birth
- Your partner's National Insurance Number and date of birth (if applicable)
- A payslip, P60 form or your passport
- Each child's date of birth
- The date you and your partner (if applicable) started your most recent employment (this can be an approximate date provided the employment has been for more than three months).

Your application will be assessed by HMRC who will let you know if you are eligible for Tax-Free Childcare. This can take up to 10 days.

Please note that if you work in certain Government roles with enhanced security you may be unable to complete an application online. Please contact the Childcare Services Helpline (number below) and they will guide you as to how to make an application.

You will need to reconfirm that you are still eligible for Tax-Free Childcare every 3 months 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.

If you have any queries regarding the process, you can contact the Childcare Service Helpline on 0300 123 4097.

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, and
- 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. You will need to make a separate payment for each eligible child if you have a number of children at one childcare provider.

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 but the Government will take back its contributions.

3. FAQs for parents

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

All childcare providers will be able to accept payments through Tax-Free Childcare provided they:

- are registered or approved as childcare providers in the UK, and
- have signed up with HMRC to accept payments from parents.

Childcare providers can sign up to receive payments through the scheme but it can take a few weeks to complete the process. See Section 5 for further information for childcare providers.

2. Can cross-border workers join the Tax-Free Childcare 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 who are a resident of another EEA state) and who are working in the UK. You may be able to use Tax-Free Childcare to pay a provider based in a [European Economic Area \(EEA\)](#) country.

If you work in the Republic of Ireland (or another EEA country) make sure you also report your income to HMRC through Self-Assessment to ensure you are recognised as eligible for the Tax-Free Childcare scheme. Where a parent uses a childcare provider in the Republic of Ireland, they are still eligible for Tax-Free Childcare following Brexit. However, HMRC may be unable to access information from regulatory bodies outside of the UK so will be unable to sign up childcare providers through their IT system. This may mean that parents who choose to use a Republic of Ireland provider will instead need to use the manual option to receive 'Compensatory Payments'. This is a complex area for families, and if you think it might be relevant to you, we advise you to call our Family Benefits Advice Service on fbas@employersforchildcare.org.

3. 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 parent meets the work requirements and the other is unable to work, for example, due to a disability or caring responsibilities, then they may still be able to claim Tax-Free Childcare. For example, a couple with one parent claiming Carer's Allowance or Contributory Employment and Support Allowance (ESA) will be eligible for the scheme, provided the other parent meets the earnings criteria.

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

Households in Northern Ireland are able to use Tax-Free Childcare alongside the Northern Ireland Childcare Subsidy Scheme, but for all other forms of support, no, Tax-Free Childcare cannot be used in conjunction with Childcare Vouchers or Universal Credit. This is different to the Childcare Voucher scheme which can be used in conjunction with Universal Credit.

The exception to this is if you are benefiting from a **workplace nursery** provided by your employer you will also be eligible for support under the Tax-Free Childcare scheme, for example, if you also have childcare costs associated with another child or time spent at another childcare provider.

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

Yes, if you are a single parent you can apply for Tax-Free Childcare provided you meet the eligibility requirements. Only one account can be set up per child so if parents are separated, and both want to contribute to childcare costs, this can be done through one account managed by the main carer.

6. Must I apply for Tax-Free Childcare to be eligible for the NI Childcare Subsidy Scheme?

Yes, it is a requirement of the Northern Ireland Subsidy Scheme to provide proof of eligibility for Tax-Free Childcare.

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

If you are considering moving from the Childcare Voucher scheme to Tax-Free Childcare you should seek advice before leaving the Childcare Voucher scheme.

If you leave your employer's Childcare Voucher scheme in order to use Tax-Free Childcare you will not be able to switch back to the Childcare Voucher scheme. This applies even if you find you are worse off using Tax-Free Childcare.

8. How will Tax-Free Childcare affect Universal Credit?

You **cannot claim both Tax-Free Childcare and Universal Credit**. If you join the Tax-Free Childcare scheme your Universal Credit will be stopped and you will remain ineligible while you are still a member of the scheme. If you currently claim Universal Credit it is important that you are aware of this before considering joining Tax-Free Childcare.

If you currently use Childcare Vouchers, and are eligible for Universal Credit, you can claim Childcare Vouchers and Universal Credit at the same time.

9. If I stop claiming Childcare Vouchers because I am on maternity leave can I claim them again once I return to work, even though the scheme is closing to new entrants?

This will depend on the length of time you are not receiving Childcare Vouchers. If you are a member of an employer's Childcare Voucher scheme you may wish to opt out temporarily, for example, due to maternity leave or taking a career break. Provided you do not have more than 52 consecutive weeks without receiving Childcare Vouchers through your employer's scheme, and do not join Tax-Free Childcare, you can resume receiving Childcare Vouchers on your return to work with the same employer. If you do not receive Childcare Vouchers for more than 52 weeks you will be considered to have left the scheme and will be unable to re-join as the Government has closed the Childcare Voucher scheme to new entrants.

10. If I am on maternity leave with a new baby, can I still pay into a Tax-Free Childcare account for my older children?

You can have Tax-Free Childcare accounts for your older children while on maternity leave for the newborn. You will be able to retain and pay into those accounts, even if you do not use childcare for the older children during your maternity leave period. However, if you are on maternity leave you will not be able to open a Tax-Free Childcare account for your newborn child until 31 days before you return to work.

You can only use Tax-Free Childcare to pay for childcare where one of the main reasons for using the childcare is to enable you to work. Typically you cannot use Tax-Free Childcare to pay for childcare on days that you are not working. You can, however, use Tax-Free Childcare for non-working days if your provider requires you to block book (for example, by week) or pay in order to retain a space, or you need access to childcare to facilitate your work.

11. The Government's website for Tax-Free Childcare also says that parents can get 15 or 30 hours free childcare, can I apply for those?

The Government's website contains information on a range of schemes to assist parents with their childcare costs.

The 15 hours or 30 hours free childcare offers are **not available in Northern Ireland** and will only apply to families living in England, who are allowed to use this alongside Tax-Free Childcare or Childcare Vouchers. If you are a parent in England, it is important to note that it is not necessary to join Tax-Free Childcare in order to receive the free hours of childcare. If you are currently eligible for Childcare Vouchers, these can continue to be used to pay for any registered childcare over and above the 15 or 30 hours free childcare offers.

12. Will my family be financially better off remaining on Childcare Vouchers or switching to Tax-Free Childcare?

This will depend on each family's individual circumstances. Contact Employers For Childcare's Family Benefits Advice Service on fbas@employersforchildcare.org for a personalised 'better-off' calculation.

13. Any other questions?

It can be complicated working out what support you are entitled to depending on your family's unique circumstances. Many factors need to be considered ranging from your childcare costs (both now and what they are likely to be in the future), your household income, if there is a child with a disability in the home, any support you are already receiving, to whether you are separated parents where childcare costs are shared across households.

If you have any questions please contact our Family Benefits Advice Service. Our team can offer free, confidential and impartial advice based on your circumstances and carry out calculations which will help you to work out which is the best form of support for your family.

4. FAQs for Employers

1. Do employers have a role in the Tax-Free Childcare scheme?

Employers do not have a role in the Tax-Free Childcare scheme; employees apply directly to HMRC to access Tax-Free Childcare.

Employers can choose to pay into an employee's Tax-Free Childcare account, however there is no direct saving for employers through the Tax-Free Childcare scheme whereas under the Childcare Voucher scheme employers can save on Employer's National Insurance Contributions.

2. How did the closure of Childcare Vouchers to new entrants affect employers?

The Childcare Voucher scheme closed to new entrants on 4 October 2018. From then, an employer could not allow anyone else to join their existing scheme.

The exception to this rule is where an employee has taken a break of less than 52 weeks in salary sacrificing into their Childcare Voucher account. Provided an employee has not had more than 52 consecutive weeks without receiving Childcare Vouchers; this will mean that they are not treated as having left their employer's scheme and could therefore resume receiving vouchers unless the employee left the Childcare Voucher scheme and used Tax-Free Childcare during this time.

3. Is the Childcare Voucher scheme completely closed?

No, the Childcare Voucher scheme closed to **new entrants only** on 4 October 2018. Employers can continue to operate the scheme for parents who joined prior to this, and both employers and employees who remain in the scheme after that date continue to make the relevant savings.

4. If one company or organisation is taken over by another, will staff retain their entitlement to Childcare Vouchers if they transfer to the new employer?

Usually, if a parent changes employer they lose their eligibility for Childcare Vouchers. However, employees can continue to benefit from Childcare Vouchers where their company has been bought over or merged, or their role has been moved to another company or organisation, provided they have transferred under Transfer of Undertakings (Protection of Employment) TUPE or COSOP arrangements.

Any other questions?

If you have any questions, please contact our Family Benefits Advice Service by emailing fbas@employersforchildcare.org. Our team can offer free, confidential and impartial advice to employers, whether or not you are a member of a Childcare Voucher scheme.

5. FAQs for Childcare Providers

Registered Childcare providers must sign up with HMRC to accept payments from parents who use Tax-Free Childcare.

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

HMRC has written to all regulated or approved childcare providers and asked them to sign up to accept payments from Tax-Free Childcare. 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. It is important that childcare providers sign up to accept Tax-Free Childcare payments. Providers can sign up at any time, but it can 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 you should do so. The process is:

1. Phone the [Childcare Service helpline](#) on 0300 123 4097 and request a letter to get a childcare provider account to receive payments from parents using Tax-Free Childcare.
2. You will receive a letter with an 11-digit user ID.
3. Go to the [Government website](#) and follow the directions to sign up using your:
 - 11-digit user ID
 - Bank details
 - Business postcode (the one registered with your regulator, for example Ofsted in England or your Health and Social Care Trust in Northern Ireland).

After signing up to Tax-Free Childcare you can still accept payments from parents using Childcare Vouchers and other methods. More information is available on the Government's website:

www.gov.uk/guidance/sign-up-to-tax-free-childcare-if-youre-a-childcare-provider

2. How will payments work?

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.

3. Can all childcare providers sign up 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 accepting them for Tax-Free Childcare payments.

Once childcare providers have signed up to Tax-Free Childcare, parents can use the childcare provider checker within their account to search for them using either their name, address, postcode, or regulator reference.

6. How to work out if you are better off using Tax-Free Childcare or another form of support

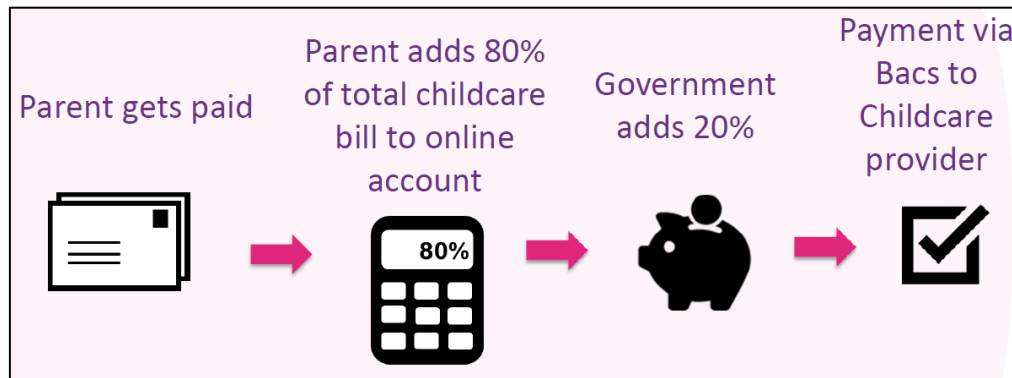
Tax-Free Childcare is one form of financial support available to assist families with the cost of childcare. It cannot be accessed alongside any other support such as Childcare Vouchers or Universal Credit.

If you are currently benefiting from Childcare Vouchers, it is important to remember that if you leave the scheme to use Tax-Free Childcare you will not be able to re-join Childcare Vouchers, even if you find you are worse off. This section of the guide will help you decide whether joining Tax-Free Childcare or remaining on Childcare Vouchers is best for your family. You can also contact our Family Benefits Advice Service for help.

Step one: Understanding how both schemes operate

How the Tax-Free Childcare scheme works

For every £8 you pay into your account, the Government will pay in £2, up to a maximum of £2,000 per year per child (£4,000 if the child has a disability). The amount you save with Tax-Free Childcare will depend 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. If your childcare costs are lower than this, your saving will be less than £2,000.



How the Childcare Voucher scheme works

The Childcare Voucher scheme operates through your employer. **This scheme is now closed to new entrants, only those who were registered for the scheme prior to 4 October 2018 are able to avail of this type of support.** 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 saving of £68.04 (£816 annually). Higher rate tax payers can sacrifice up to £124 per month, making a saving of £52.08

(£625 annually). Both parents can use Childcare Vouchers, so if two basic rate tax payers are using the scheme they can make an annual saving of up to £1,632.

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 £1,632.

A couple having the same total amount (£5,832) added into their Tax-Free Childcare account would receive a top up of £1,166 from the Government, £466 less than with Childcare Vouchers.

However, parents in Northern Ireland could also make an additional saving through the NI Childcare Subsidy Scheme.

Step two: Working out your savings

1. Calculate your expected childcare costs for the year.
2. If you are eligible for the Northern Ireland Childcare Subsidy Scheme your maximum discount is 15% of the costs relating to eligible children, up to a maximum of £184 per month
3. With Tax-Free Childcare your maximum saving is 20% of the remaining costs, up to a maximum of £2,000 per year per child, after any discount is applied relating to the NI Childcare Subsidy Scheme.
4. With Childcare Vouchers your maximum saving is £1,632 for a two parent household where both parents are basic rate tax payers, and £816 for a single parent household. Savings for Higher or Additional rate tax payers will be less.
5. Usually, to be better off on Tax-Free Childcare, a two parent household will need to have childcare costs of more than £8,160 per annum. A single parent household will need to have childcare costs of more than £4,080 per annum. These figures would be less for households who are also eligible for the NI Childcare Subsidy Scheme.
6. This can also vary depending on whether you are also eligible for Universal Credit. Childcare Vouchers can be used alongside Universal Credit, unlike Tax-Free Childcare.

It can be complicated working out what is best for your family. Employers For Childcare's Family Benefits Advice Service can advise you on this, and help you to make the right choice. Contact us by email fbas@employersforchildcare.org.

7. Case studies

Case study 1

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

Childcare Vouchers: Amanda and Bill split the childcare bill between themselves and each sacrifice £195 from their monthly salary as Childcare Vouchers. They each make a saving of £54.60 per month, their joint monthly saving is £109.20.

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 continuing to use Childcare Vouchers by £31.20 per month.

Case study 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 are availing of the Childcare Voucher scheme and meet the eligibility criteria for Tax-Free Childcare.

Childcare Vouchers: Through Childcare Vouchers Peter and Jan can each sacrifice a total of £243 from their salary. They both currently sacrifice this full amount and make a monthly saving of £136.08.



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 switching to Tax-Free Childcare by £87.52 per month.

Case study 3

Rebecca and Dave both work full-time and have two children. They pay £300 per week in registered childcare costs. Both of them are availing of the Childcare Voucher Scheme through their employers. Due to their household income and family circumstances they are also eligible for the childcare element of Universal Credit.



Childcare Vouchers: Through Childcare Vouchers Rebecca and Dave can each sacrifice a total of £243 from their salary. They both currently sacrifice the full amount and make a monthly saving of £136.08.

Universal Credit: 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 Universal Credit. The couple receive £144.38 per month in Universal Credit.

Due to this combination of Childcare Vouchers and Universal Credit the couple receive £280.46 per month towards their childcare costs.

Tax-Free Childcare: Through Tax-Free Childcare the couple adds £1,040 to their accounts and claim £260 from the Government. A household cannot be in receipt of both Tax-Free Childcare and Universal Credit.

Rebecca and Dave are better off remaining on a combination of Childcare Vouchers and Universal Credit by £20.46 per month.

Case study 4

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 £950. Both Carol and James work full time. They have no entitlement to Universal Credit 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 currently sacrifice the full amount and make a monthly saving of £136.08.

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 £4,000 per year, not £2,000. The monthly saving will be £190. In a year this will add up to £2,280.



The couple are better off switching to Tax-Free Childcare by £53.92 a month.

Case study 5

Sean and Tanya have twins, Fiona and Freddie who are 11 months old, they will both be going into full-time registered childcare. Their total monthly childcare bill is 1,840, split evenly between the 2 children, £920 for each child.



As new parents Sean and Tanya are not eligible to join the Childcare Voucher scheme, and their joint earnings are too high to be eligible for Universal Credit. However, both parents meet the eligibility criteria for Tax-Free Childcare and, living in Northern Ireland, they also meet the eligibility criteria for the Northern Ireland Childcare Subsidy Scheme.

NI Childcare Subsidy Scheme: Their childcare provider applies the 15% NI Childcare Subsidy to each bill giving a monthly discount of £138 per month, per child, a total saving of £276 per month.

Tax-Free Childcare: Through Tax-Free Childcare the couple will be able to claim 20% of each child's remaining childcare bill, i.e. £920 less £138 = £782. For each child they can claim £156.40 per month. Their total monthly saving will be £312.80.

The couple are best using a combination of the NI Childcare Subsidy Scheme plus Tax-Free Childcare giving them a total combined saving of 588.80 per month.

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

Employers For Childcare wants to ensure that all parents have the information they need to make the best choice regarding financial support for their family, whether this is Tax-Free Childcare, Childcare Vouchers or Universal Credit. There are six points parents should 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 remaining in the Childcare Voucher scheme or claiming childcare assistance through Universal Credit (depending on your eligibility).
2. You cannot claim Tax-Free Childcare in conjunction with Childcare Vouchers or Universal Credit. You and your partner's Universal Credit award will be stopped once you make a successful application for Tax-Free Childcare. Make sure you calculate the impact this may have on your household income before joining the scheme.
3. Make sure you meet all of the eligibility criteria for Tax-Free Childcare before cancelling Childcare Vouchers or Universal Credit. For example, if you are in a couple do both of you meet the income and employment rules?
4. Consider your needs both now and in the future, factoring in any changes in circumstances, for example, do you expect a decrease in the amount of childcare you will be using? This would reduce the savings you could make using Tax-Free Childcare.
5. The Childcare Voucher scheme closed to new entrants on 4 October 2018. After this date only those parents who were registered for Childcare Vouchers are able to continue doing so. If you move to Tax-Free Childcare, from Childcare Vouchers, you will be unable to re-join the Childcare Voucher scheme in the future, even if you find you are worse off.
6. Check that your childcare provider has signed up to accept Tax-Free Childcare payments.
7. Households living in Northern Ireland also need to take into account the potential additional savings through the NI Childcare Subsidy Scheme.

We know that it can be complicated for parents to work out what is best for them and we urge all parents to contact our Family Benefits Advice Service by emailing fbas@employersforchildcare.org to get personal advice on what is best in your circumstances - we will be happy to help you!

9. Where to get further information

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, Childcare Vouchers, Universal Credit and the Northern Ireland Childcare Subsidy Scheme and calculate which form of financial support is best for your circumstances. Contact us by email fbas@employersforchildcare.org.

You will also find information on the Government's website, [Best Start in Life](https://www.beststartinlife.gov.uk):

UK Government

NHS

For parents' questions, **BIG & small.**

Can I dye my hair if I'm pregnant?

What childcare support is available?

Who can I ask for help with breast-feeding?

Get advice and support at [BestStartInLife.gov.uk](https://www.BestStartInLife.gov.uk)



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