

Tax-Free Childcare – Information for Childcare Providers

You will have recently received a letter from HMRC asking you to register on the Tax-Free Childcare scheme, which will be available to parents early next year. This information sheet aims to answer the main questions you may have about the Tax-Free Childcare scheme and how it impacts on the existing Childcare Voucher scheme.

What is Tax-Free Childcare?

Tax-Free Childcare is a new scheme to help parents with the cost of childcare. It will be phased in from early next year.

Parents who join the Tax-Free Childcare scheme will be able to save up to £2,000 per year per child on their childcare bill, however only parents who have a childcare bill of £10,000 per year per child will make the maximum saving.

Parents who wish to use the new scheme (and meet the eligibility criteria) will need to open a Tax-Free Childcare account, for every £8 they add to the account the Government will add £2 (until the £2,000 limit has been reached).

For example: If a parent pays £100 per week to their childcare provider, they will add £80 to their account and the Government will add £20. The parent then pays their childcare provider through the account.

Will parents still be able to use the Childcare Voucher scheme?

Yes, the Childcare Voucher scheme will remain open to new entrants until April 2018. After this date only parents who are members of the scheme will be able to continue using Childcare Vouchers.

Parents can only use one scheme at a time, i.e. either Childcare Vouchers or Tax-Free Childcare. Parents who are unsure which scheme is more beneficial for their circumstances can call Employers For Childcare's Family Benefits Advice Team for a free calculation on 0800 028 3008.

What do Childcare Providers need to do?

If a parent who uses your services wishes to join the Tax-Free Childcare scheme you will need to register with HMRC. You may have already received a letter from HMRC informing you how to do this.

HMRC are asking childcare providers to sign up before the scheme goes live for parents next year. You can choose to register now or you can wait until the scheme begins, however bear in mind that it can take up to 12 weeks for your registration to be processed.

Will parents be better off using Tax-Free Childcare or Childcare Vouchers?

This depends entirely on each family's individual circumstances. Some parents cannot access the Childcare Voucher scheme, such as parents whose employer doesn't offer the scheme or self-employed parents, for these parents Tax-Free Childcare is a better option.

The savings a family can make with each scheme will vary according to their 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 for Parents to remember:

1. The headline saving of £2,000 per child is the maximum amount available. In order to make this saving parents need to have childcare costs of £10,000 per child per year.
2. You cannot claim any Tax Credits while using the Tax-Free Childcare scheme. The legislation makes provision for the automatic termination of a parent's Tax Credit award once they make a valid declaration of eligibility for Tax-Free Childcare. However parents using Childcare Vouchers can still claim Tax Credits.
3. Only couples where both parents are working can join the Tax-Free Childcare scheme.

Additional Information

We have a number of resources on our website, including factsheets and a Savings Calculator to help childcare providers and parents understand the new scheme.

You can also speak to one of our Family Benefits Advisors who will be happy to answer any of the questions you might have, call free today on 0800 028 3008.

Our Research and Policy Officer, Rachel McMenemy, will be speaking at our event on 19 January at La Mon Hotel and Country Club about the new Tax-Free Childcare scheme and will be able to answer any questions you may have.