

Employer's guide to Childcare Vouchers & Tax-Free Childcare



CHILDCARE OPTIONS

Where are we now?

The government launched a new form of childcare funding support for working parents, called Tax-Free Childcare (TFC) which changes the package of financial support it offers to working parents.

- Childcare Vouchers (also known as 'Employer Supported Childcare') will continue to operate alongside the new scheme, but closed to new scheme entrants on 4th October 2018
- Any parent already participating in the Childcare Vouchers scheme before 4th October 2018 can continue to benefit from the savings as long as their child remains eligible*, they stay with the same employer, and they have had a wage adjustment and received vouchers within any 12 month period

- Families cannot benefit from the tax and NIC savings via the existing Childcare Vouchers scheme and the savings from the new Tax-Free Childcare scheme at the same time
- Some will be better off staying on the Childcare Vouchers scheme, whereas others will be better off with Tax-Free Childcare

The bad news is that the rules around TFC are complex. But the good news is that we're here to help you understand the changes and their implications on both your business and your employees.

*Eligibility will end 1st September after the child's 15th birthday, or 1st September after their 16th birthday if they are disabled

Why does it matter to my business?

- The biggest impact will be the potential loss in employer NIC savings if employees leave your scheme to join Tax-Free Childcare (up to £402/year, per parent)
- You need to be prepared for questions and an expectation from your working parents for guidance and support to make the right decision for their family
- As parents move to the new Tax-Free Childcare scheme, you will lose a valuable employee engagement tool for an important segment of your workforce
- Many parents will be better off with Childcare Vouchers and will be turning to you to ensure that option remains available to them in the longer term

Three actions you can take right now

1 Prepare for the long haul

Many parents will be better off with Childcare Vouchers and will be turning to you to ensure that option is available to them in the longer term.

If you already have a Childcare Vouchers scheme in place, reassure them that you are committed to keeping it running long term.

2 Look to your provider for support

Ensure you are with a Childcare Voucher scheme provider that will be in it for the long haul too:

- Are they able to give you a long term commitment that they will continue service?
- Are they financially secure? Check their Dun & Bradstreet rating
- Do they offer free communication services to help you keep parents informed?
- Ask them about other employee benefits that could help keep your working parents and wider workforce engaged and motivated



Three actions you can take right now

3 Create your communication plan

The aim of your communication plan is to ensure that the savings from Childcare Vouchers are maximised for both your existing Childcare Voucher scheme members and for your organisation.

- Work closely with your scheme provider and utilise all the tools and expertise they should have available to you
- Prevent your scheme members from making a hasty decision, as once they leave Childcare Vouchers to join Tax-Free Childcare, they cannot rejoin
- Help them understand the differences between the two schemes and the key information that could have implications on their eligibility

- Employees should also consider the implications of any potential changes in their personal circumstances over the next 12 months and beyond, including:
 - Having another child
 - Their child becoming eligible for additional free childcare hours (which would reduce their childcare costs)
 - Their child reaching the age of 12
 - In two parent families, the possibility of one of them ceasing to work, or reducing their hours to under £120/week
- Show them how to save even more with Childcare Vouchers, e.g. for older children, or for the wide range of childcare options available, such as after school clubs



How does the administration of the schemes compare?

CHILDCARE VOUCHERS

- Managed through the employer
- Usually provided through salary sacrifice, which means employees receive Childcare Vouchers as a contractual benefit in place of a portion of their gross salary (however, some employers provide Childcare Vouchers in addition to salary)
- Voucher value is made available to the employee through an online account, which the parent can use to request payments to their chosen registered childcare providers

TAXFREE CHILDCARE

- Managed by the government through NS&I, employers play no part
- Eligible parents open an online account with NS&I and pay money into the account, with the government 'topping up' the amount
- Parents use this account to pay their registered childcare providers
- Parents must re-confirm their eligibility every three months

What savings are available?

CHILDCARE VOUCHERS

- Savings are applied per parent
- Parents can save up to £933/year in tax and NIC, depending on their tax rate. If both parents are participating in the scheme, that amount could double up to £1,866
- Employers also save up to £402/year in NIC for each employee participating in the scheme (up to 13.8% of voucher value)

TAXFREE CHILDCARE

- Savings are applied per child, per 'household'
- For every £8 paid in by the parent, the government will pay in an extra £2, equivalent to 20% of childcare costs
- Parents can receive up to £2,000/year, per child towards their childcare costs (based on a limit of £10,000 total spend), or £4,000 for a child who has a disability
- The government 'top ups' are limited to £500 per quarter (£1,000 per quarter if disabled)
- Employers will not save NIC under the new scheme

Who is eligible for which scheme?

CHILDCARE VOUCHERS

If one or both parents joined the scheme before 4th October 2018, they can continue to benefit from the savings as long as:

- Their child remains eligible - eligibility ends 1st September after the child's 15th birthday (or their 16th birthday if disabled)
- They stay with the same employer (unless protected under TUPE)
- They have had a wage adjustment and received vouchers within any 12 month period (after which they are considered to have 'left' the scheme)
- They earn above the national minimum wage once salary is reduced

There is no income limit and they can be used at the same time as claiming Child Tax Credits, Universal Credit, or the 30 free hours for 3-4 year olds scheme.

TAXFREE CHILDCARE

- Can be used for children under 12 years old (or under 17 if disabled) who are usually living with the parent**
- Where there are two parents in the household, both must be employed
- If over the age of 21 (different rules apply for those aged between 16-21), both parents (or a single parent) must earn at least £120/week (equal to 16 hours at the national minimum or living wage)
- Neither parent must earn £100,000/year or more
- Parents cannot join if claiming Child Tax Credits, Universal Credit, or Childcare Vouchers
- Self-employed parents can join

***Eligibility will end on 1st September after the child's 11th birthday*

Who are the winners for each scheme?

CHILDCARE VOUCHERS

- Couples where one parent doesn't work or earns less than £120/week
- Parents with childcare costs for children aged between 12 and 15
- Lower and middle earners with average childcare costs*
- Higher earners, where one parent is earning £100k/year or more
- Parents who claim Child Tax Credits, Universal Credit, or 30 free hours for 3-4 year olds alongside Childcare Vouchers, where combined savings exceed those offered by Tax-Free Childcare

TAXFREE CHILDCARE

- The self-employed
- Parents with a larger number of children and/or higher childcare costs

**Average family expenditure on childcare is about £3,700. Based on the average UK annual income of £28,000, a two working parent family will be better off with Childcare Vouchers if their childcare expenditure is less than £9,330 (£4,665 for a single parent).*

Engage and motivate your wider workforce

We're committed to continuing to provide our high quality Childcare Vouchers service to employers, employees and childcare providers long-term; so your scheme is in safe hands with Edenred.

We believe having a strong employee value proposition is crucial to attracting talent, keeping talent and motivating them to perform at their best.

So if you're thinking of new ways to engage your working parents and wider workforce, talk to us today to discover our exciting range of innovative online solutions. They enable you to connect better with your employees through recognition, reward, and benefits.

- **Childcare Vouchers** - secure the future of your scheme by moving it over to Edenred with our 'easy switch' service
- **Employee benefits portal solutions** - employee discounts, cycle to work, financial wellbeing, benefits management and more
- **Connect** - enabling you to quickly and easily deliver and manage an online peer-to-peer employee recognition platform
- **Incentives & rewards** - from instant, digital eReward codes to prepaid cards; get more - not just from your employees - but from your customers and channel partners too

Call us on 0333 400 5311 to find out more

