

# A parent's guide to Childcare Vouchers & Tax-Free Childcare



**CHILDCARE OPTIONS**

## What has changed and what are your options?

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.

As a result, the Childcare Vouchers scheme (also known as 'Employer Supported Childcare') closed to new entrants on 4th October 2018. This means that if you're not already on the Childcare Vouchers scheme, that option is no longer available to you.

For those already on the Childcare Vouchers scheme, you still have a choice of both schemes. The bad news is that you cannot benefit from the Childcare Vouchers scheme and the new Tax-Free Childcare scheme at the same time.

It's important to fully understand the different types of support available to maximise the savings that you are entitled to.

Many families will be better off staying on the Childcare Vouchers scheme, as they would not save as much with Tax-Free Childcare, or may not even be eligible for the new scheme. Also, once you leave Childcare Vouchers to join TFC, you will not be able to rejoin. So our advice is - look before you leap!

This guide will help you understand the two schemes, the key pieces of information that could have implications on your eligibility, and to ensure that you can make an informed decision and get the best deal for your family.

# The big 3 questions everyone is asking

## 1 What changes have the government made?

The Childcare Vouchers scheme enables working parents to save up to £933/year, per parent on the cost of childcare for children under the age of 16.\* So families where both parents work and belong to a scheme could save up to twice that amount at up to £1,866/year.

However, the government has introduced a new scheme called Tax-Free Childcare. Under the new scheme parents can claim top-ups for childcare costs. The government will add £2 for every £8 added to an online account up to a savings limit of £2,000/year, per child under the age of 12.\*\* But to enjoy the full £2,000 savings, you would need to be spending £10,000/year on childcare. Parents need to reconfirm their status and eligibility every 3 months.

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

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



# The big 3 questions everyone is asking

## 2 What will happen to the existing Childcare Vouchers scheme?

Childcare Vouchers will continue to operate alongside the new scheme, **but closed to new entrants on 4th October 2018.**

The good news is that parents who were already participating in the Childcare Vouchers scheme before the closure date can continue to benefit from the savings for 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.

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

## 3 How can I work out which scheme is better for my family?

The rules around Tax-Free Childcare are quite complex and working out which scheme you will be better off with isn't a simple financial comparison. Take a look at our fact-checker over the next few pages to help you understand all the variables side-by-side.



# How are the schemes managed?

## CHILDCARE VOUCHERS

- Managed through your employer
- Usually provided through salary sacrifice, which means you receive Childcare Vouchers in place of a portion of your gross salary
- Voucher value is paid into an online account, which you can use to request payments to your chosen registered childcare providers

## TAX-FREE CHILDCARE

- Managed by the government through NS&I, your employer will play no part
- If eligible, you would open an online account with NS&I and pay money in, with the government 'topping up' the amount
- You can use this account to request payments to your registered childcare providers
- You must re-confirm your eligibility every three months

# What savings are available to me?

## CHILDCARE VOUCHERS

- Savings are applied per working parent
- You can save up to £933/year in tax and NIC. If both parents participate in the scheme, that amount can double to up to £1,866/year
- Savings are dependent on your tax rate

## TAX-FREE CHILDCARE

- Savings are applied per child, per 'household'
- For every £8 paid in by you, the government will pay in an extra £2 - equivalent to 20% of childcare costs
- You can receive up to a maximum of £2,000/year, per child towards your childcare costs, or £4,000 for a child who has a disability
- The government 'top ups' are limited to £500 every three months (£1,000 every three months if disabled)

# Which families are eligible for which scheme?

## CHILDCARE VOUCHERS

If you joined the scheme before 4th October 2018, you can continue to benefit from the savings as long as:

- Your child remains eligible\*
- You stay with the same employer (unless protected under TUPE)
- You have had a wage adjustment and received vouchers within any 12 month period (after which you are considered to have 'left' the scheme)
- You 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.

## TAX-FREE CHILDCARE

- Can be used for children under 12 years old (or under 17 if disabled) who are usually living with you\*\*
- If there are two parents in your household, both of you 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 £100k/year or more
- You cannot join if claiming Child Tax Credits, Universal Credit, or benefiting from the tax and NIC savings through Childcare Vouchers
- Self-employed parents can join

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

\*\*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

## TAX-FREE 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).



# What to do next to ensure you get the best deal for your family

## 1 If you're already a member of the Childcare Vouchers scheme...and want to stay with it

Relax. You can continue to benefit from the savings as long as:

- Your child remains eligible - eligibility will end on 1st September after the child's 15th birthday, or 1st September after their 16th birthday if they are disabled
- You stay with the same employer (unless protected under TUPE)

## 2 But keep an eye on when you received your last vouchers...

You are only considered to be participating in the Childcare Vouchers scheme if you have had a wage adjustment and received vouchers within any 12 month period.

This means that if it has been more than 12 months since you last received vouchers, HMRC class this as having 'left the scheme' and you won't be able to rejoin.

You only need to take the minimum amount of vouchers to keep your eligibility active - this could be as little as £1/month - and Edenred Childcare Vouchers do not expire.

## What to do next to ensure you get the best deal for your family

### 3 Maximise your savings with Childcare Vouchers

Many parents are not aware of all the different ways in which Childcare Vouchers can be used to help their family save. They can be used for all kinds of registered childcare, including:

- Home-based care, e.g. childminders, au pairs, nannies
- Pre-school care, e.g. nursery schools, play schools, crèches
- Care for older children, e.g. breakfast clubs, after-school clubs, holiday clubs

They can also be combined with other forms of government support, such as child tax credits and free childcare hours for 3-4 year olds. Check up on the additional support you're entitled to.

### 4 Look before you leap - don't switch to Tax-Free Childcare without crunching the numbers

The government has released a [childcare calculator](#) that enables you to work out the savings based on your family's individual circumstances. **However, you must take into account how your family's circumstances may change in the future**, such as:

- Having another child
- Your child becoming eligible for additional free childcare hours (which would reduce your childcare costs)
- Your child reaching the age of 12
- In two parent families, the possibility of one of you ceasing to work, or reducing your earnings to under £120/week