



Parents Guide to Tax Free Childcare

What is Tax Free Childcare?

From now, working parents of children under four on 31st August 2017 can start using Tax-Free Childcare. Under the scheme, parents receive a Government top-up of £2 for every £8 they pay into their Tax-Free Childcare account - so it effectively gives you basic-rate tax back on what you pay, hence the name.

The scheme starts with parents of children under 4 but will be rolled out to working parents of children under the age of 12, or under 17 for disabled children, throughout the year, with all eligible parents able to benefit from Tax-Free Childcare by the end of 2017.

In total you'll be able to use the scheme to pay for childcare of up to **£10,000 per child each year** - so you could get an extra £2,000 per child (up to £4,000 if your child is disabled) each year.



Say your childcare bill was £500 per month... you would pay £400 per month with the remaining £100 of the bill picked up by the Government; across the year, this would cut your £6,000 annual costs to £4,800. Once your childcare bill exceeds the Government maximum, there's no more financial support. Say your childcare bill for one child is £1,000 per month, you'd pay £800 and have £200 paid for - after 10 months, once the £2,000 maximum support has been reached, you'll then have to pay full whack.

Tax-Free Childcare will be open to all qualifying parents, unlike childcare vouchers which can only be bought by people whose employer offers the scheme. The scheme is available to ALL eligible workers including the self-employed. To qualify, both parents or partners in the household need to be working and earn a minimum of the equivalent of 16 hours/week at the National Living or Minimum Wage (currently £120/week).

PLEASE NOTE:

- You **CAN NOT** use Tax Free Childcare AND Childcare Vouchers at the same time, its one or the other. Tax Free Childcare is designed to replace Childcare Vouchers eventually. From April 2018, no new entrants will be able to join the Childcare Vouchers scheme. If you're already a member, though, you will be able

to continue for as long as your employer runs the scheme, or as long as you stay with your employer.

- You CAN NOT receive tax credits or Universal Credit if you are receiving Tax Free Childcare. Some parents may be better off with tax credits, and some with Tax Free Childcare. The government have provided a Childcare Calculator to help you with this: <https://www.gov.uk/childcare-calculator>
- You CAN receive free funded entitlement (either 11 or 22 hours, 51 weeks a year) with Tax Free Childcare.



Am I Eligible for Tax Free Childcare?

You're usually eligible if all of the following apply:

Your child:

- is under 12, or 17 if they're registered as having a disability
- usually lives with you

You (and your partner, if you have one):

- are 16 or over
- live or work in the UK
- are employed or self-employed
- are over 21 and earn on average at least £120 a week, unless in your first year of self-employment. Different rates apply if you're under 21 or an apprentice
- earn less than £100,000 a year each
- don't get other support with your childcare, including from a childcare voucher or salary sacrifice scheme

You may also be eligible if you have a partner and one of you gets any of the following benefits:

- Carers Allowance
- Employment and Support Allowance
- Incapacity Benefit
- Severe Disablement Benefit

How do I Apply for Tax Free Childcare?

You can check whether you could be eligible for the Tax Free Childcare via the governments digital childcare service Childcare Choices at <https://www.childcarechoices.gov.uk>

Childcare
Choices

When parents sign up they will be given a reference number, please make a note of this and forward to us. We will need to this to know which parent has paid.

Which scheme will be better for you - Childcare Vouchers or Tax Free Childcare?

Tax free childcare	Childcare vouchers
Eligibility	
<p>Anyone can apply</p>  <p>Employed & Self employed</p>	<p>Only available if employer offers them</p> 
<p>£115/wk min earnings If a couple, both parents must work</p> 	<p>No min earnings One parent needs to work</p> 
<p>Child's max age 11 (16 if disabled)</p> 	<p>Child's max age 15 (16 if disabled)</p> 
<p>Max income limit Less than £100,000 per parent</p> 	<p>No income limit</p> 
Which wins if you're eligible for both?	
<p>Max gain of £2,000 gain per child (£4,000 if disabled)</p>	<p>Max gain of £930/yr per parent (basic-rate taxpayer) £624/yr per parent (higher-rate taxpayer) £590/yr per parent (top-rate taxpayer)</p>
<p>20% off childcare costs</p>	<p>No tax & NI to pay on childcare costs, equivalent to 32% for basic-rate tax payer (42% higher-rate, 47% top-rate)</p>
<p>Best option for more kids & higher childcare cost</p>	<p>Best option for fewer kids and lower childcare cost</p>
	
<p>Source: Moneysavingexpert.com, HMRC, HM Treasury</p>	<p>MoneySavingExpert.com</p>

So who are the winners and losers under each scheme? (Source: MoneySavingExpert.com)

Tax-Free Childcare wins for:

- Self-employed people or couples who earn less than £100,000 each, as they're eligible for Tax-Free Childcare, but can't get Childcare Vouchers.
- Parents with more than one child and high childcare costs, as the help available goes up with the number of children.

Childcare Vouchers win for:

- Couples where one parent doesn't work, as they're not eligible for Tax-Free Childcare, but the employed parent is eligible for vouchers (provided their employer offers a scheme).
- Basic-rate taxpayer parents with total childcare costs of £9,336 or less. Under this amount, the saving you make with Childcare Vouchers exceeds the saving you can make with Tax-Free Childcare.
- Higher-rate taxpayer parents with total childcare costs of £6,252 or less. Under this amount, the saving you make with Childcare Vouchers exceeds the saving you can make with Tax-Free Childcare.
- Higher earners, as anyone earning £100,000+ (or in a couple where one earns £100,000+) isn't eligible for the scheme, whereas these high earners can get Childcare Vouchers.

Here's a couple of quick examples to see how it could work in practice...

Example 1. Low childcare user

Olly Onechild and his wife spend £500 of childcare across the MONTH for after-school clubs and pick ups.

If both are basic-rate taxpayers using vouchers, this would cost them £344 - a saving of £156 compared to not using them. But if they used the new TFC scheme, it'd cost them £400 - £56 more expensive than vouchers.

If both are higher-rate taxpayers using vouchers, this would cost them £396 - a saving of £104 compared to not using them. And if they used the new TFC scheme, it'd cost them £400 - £4 more expensive than vouchers.

Example 2. High childcare user

Molly Muchcare and her wife have two toddlers and spend £2,000 of childcare (in total for both toddlers) across the MONTH for nursery and pick ups etc.

If both are basic-rate taxpayers using vouchers, this would cost them £1,844 - a saving of £156 compared to not using them. But if they used the new TFC scheme, it'd cost them £1,668 - £176 cheaper than vouchers.

If both are higher-rate taxpayers using vouchers, this would cost them £1,896 - a saving of £104 compared to not using them. And if they used the new TFC scheme, it'd cost them £1,668 - £228 cheaper than vouchers.

What to do if Tax-Free Childcare is better for you

[I'm already signed up to get Childcare Vouchers](#)

After applying for Tax-Free Childcare you'll then need to give your employer notice that you want to permanently leave their voucher scheme to sign up to Tax-Free Childcare. This needs to be done within 3 months. The easiest way to do this is call your voucher provider direct and ask them to stop your membership of the scheme.

[I'm not signed up to any scheme](#)

It'll simply be a case of making sure you sign up to the new Tax-Free Childcare scheme, once signed up you will need to give your unique code to your childcare provider.

What to do if Childcare Vouchers are better for you

[I'm already signed up to get Childcare Vouchers](#)

If you're already signed up to the childcare vouchers scheme with your employer, then you can continue claiming them until your employer stops offering them, or you change jobs.

[I'm not signed up to any scheme](#)

If Tax-Free Childcare won't work out as well for you as Childcare Vouchers, but you're not yet signed up to your employer's scheme, then you need to do this by April 2018 or you'll miss the boat.