

KiddiVouchers

Tax-Free Childcare
10 Things Parents Need To Know



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1. Tax-Free Childcare will launch in Autumn 2015 - but parents can save right now with Childcare Vouchers

The Government plans to introduce a new Tax-Free Childcare scheme from Autumn 2015, giving parents a tax refund of up to 20% of childcare costs. Parents will be able to register for the scheme via the gov.uk website.

However, there's no need to wait until 2015 - parents can save much more by signing up for Childcare Vouchers now.

2. The new scheme will leave many parents worse off

Childcare Vouchers provide basic-rate taxpayers with savings of up to 32% of childcare costs, while higher-rate taxpayers save up to 42% of childcare costs. In comparison, Tax-Free Childcare only provides savings of up to 20% of childcare costs.

The 20% rebate from Tax-Free Childcare applies to childcare costs of up to £10,000 a year per child, whereas the tax relief from Childcare Vouchers applies to costs of up to £2,916 a year per parent or £5,832 per couple.

In general, parents will only be better off under the new scheme if their childcare costs are higher than the figures shown in the table below. Parents with lower childcare costs would be better off with Childcare Vouchers.

3. Existing Childcare Vouchers scheme members will be protected - but only for as long as they stay in their current employment

Parents who have children after Autumn 2015 will not be able to benefit from Childcare Vouchers. However, parents who already have children can sign up for Childcare Vouchers now. From Autumn 2015, they will then be able to choose whether to stay in the Childcare Voucher scheme or whether to opt for Tax-Free Childcare. Parents with modest childcare costs will generally be better off continuing to receive Childcare Vouchers.

Parents who sign up for Childcare Vouchers before Autumn 2015 will be able to continue to order Childcare Vouchers for as long as their employer keeps their scheme open. However, if a parent moves to a new employer, they will be considered to have opted out of Childcare Vouchers. They will not be able to join their new employer's Childcare Voucher scheme.



Family circumstances	Level of monthly childcare costs after which tax-free childcare becomes the better option
Single parent, basic-rate taxpayer	£ 389
Single parent, higher-rate taxpayer, joined childcare vouchers before 6th April 2011	£ 510
Single parent, higher-rate taxpayer, joined childcare vouchers after 5th April 2011	£ 260
Couple, both basic-rate taxpayers	£ 778
Couple, one basic-rate taxpayer, one higher-rate taxpayer who joined childcare vouchers after 5th April 2011	£ 649
Couple, both higher-rate taxpayers who joined childcare vouchers after 5th April 2011	£ 521

4. Parents who receive tax credits are more likely to be disadvantaged

Parents are already not allowed to claim Childcare Vouchers for any childcare costs which form part of their tax credit claim. The interaction between Childcare Vouchers and tax credits is complex and parents who are eligible for help with childcare costs from tax credits are often better off not using Childcare Vouchers.

However, many families who don't currently receive tax credits for their childcare costs do still receive tax credits at a rate of £545 a year - this is called the Family Element. The Family Element is not affected by Childcare Vouchers so many parents currently receive this benefit as well as being able to enjoy tax and National Insurance savings from Childcare Vouchers.

Under Tax-Free Childcare, parents will only be eligible for tax relief if they are not claiming any tax credits. This means that parents will need to opt out of receiving tax credits if they want to benefit from the 20% relief on childcare costs.

5. Employers stand to lose hundreds of thousands in National Insurance savings

The current Childcare Voucher scheme provides employers with National Insurance savings, worth up to £400 a year per scheme member. Large employers, including councils and NHS Trusts, often enjoy savings of over £100,000 a year. Tax-Free Childcare will not provide employers with any National Insurance savings, which is likely to have an impact on HR budgets.

The vast majority of employers are happy to offer Childcare Vouchers when a parent asks them to set up a scheme, with the National Insurance savings often providing a key attraction.

6. Some parents will be ineligible for Tax-Free Childcare

Childcare Vouchers are available to working parents regardless of whether they have a partner who is also in work. However, Tax-Free Childcare will not be available to anyone who has a stay-at-home partner.

Additional-rate taxpayers are allowed to benefit from Childcare Vouchers, but with a reduced allowance so that their tax savings are capped at the same amount as a basic-rate taxpayer. However, additional-rate taxpayers (and their partners) will not be able to benefit from Tax-Free Childcare.

7. Tax-Free Childcare adds complexity to modern families

Parents who have high childcare costs as a result of having more than one child in childcare are most likely to benefit from the new scheme. Tax-Free Childcare is based on a per-child rather than a per-parent model, which is clearly fairer to some parents.

However, this change is not without issues. Where parents are separated or divorced, they can currently both benefit from Childcare Vouchers. Under Tax-Free Childcare, only one of the new households will be able to claim.

Also, if a working parent takes a new non-working partner, their entitlement to claim Tax-Free Childcare will cease. This applies despite the new partner having no relationship to the child and perhaps not having the right experience to take over childcare duties.



8. Self-employed parents will become eligible for help with childcare costs

In a welcome move, Tax-Free Childcare extends childcare support to the self-employed. Self-employed parents cannot currently benefit from Childcare Vouchers, despite the Childcare Voucher industry campaigning for many years for the scheme to be extended.

However, parents who work for themselves via an owner-director limited company can already benefit from Childcare Vouchers. If their partners also work for the family business, then they can also claim the full Childcare Voucher allowance.

9. Parents who sign up for Tax-Free Childcare will be required to re-confirm their eligibility once a quarter

When parents register for Childcare Vouchers, their voucher order usually continues automatically unless their circumstances change. Many parents set up an automatic transfer from their childcare voucher account to their childcare provider, so they can relax in the knowledge that the payment will be sent.

The Tax-Free Childcare system will require parents to re-visit the Government website every three months to confirm that they continue to be eligible for the scheme. For most parents, the new approach will be more complex than the current system.

10. Parents and childcare providers stand to lose on flexibility and convenience

The competitive nature of the Childcare Voucher sector has led to a culture of ongoing innovation and investment. Parents increasingly expect to be able to access their childcare voucher accounts on mobile devices; to be able to set up ad-hoc payments by email or phone as well as online; and to be able to choose paper or email vouchers as well as direct transfers to a carer's bank account. Childcare providers expect to be able to ask voucher providers to quote a reference of their choice, such as the child's name. Carers also appreciate receiving text and email notifications when payments have been sent and being provided with a clear online account with a full transaction history.

Tax-Free Childcare is unlikely to offer the same level of convenience for parents and carers. Parents will be required to login to their online account if they wish to set up an ad-hoc payment and they will no longer be able to choose paper or email vouchers. Carers will lose the ability to ask parents to quote the child's name or invoice number against payments, as payments will instead be referenced with a system-generated identifier for each child.

Many Childcare Voucher providers also offer free peripheral benefits to their members, such as discounts on shopping and days out. These added-value benefits typically provide higher and more long-term discounts than public discount websites, at no cost to the employer or to tax-payers. These benefits are likely to cease under Tax-Free Childcare.

The negative features of Tax-Free Childcare could easily be overlooked if parents were genuinely going to receive a higher financial benefit from the scheme. However, as explained above, most parents will be worse off than if they were able to use Childcare Vouchers. This will ultimately lead to childcare being less affordable for many families, which will have an impact not only on family life and parental choice but also on the economic wellbeing of the childcare sector.



Any questions?

To find out more, call Wider Plan Business Enquiries free on **0800 612 6110**, or email business.enquiries@widerplan.com