



BRIEFING PAPER

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Childcare Vouchers and Tax-Free Childcare - Frequently Asked Questions

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Summary

The Government is bringing in a new Tax-Free Childcare (TFC) scheme for working families. TFC will eventually replace the childcare vouchers and directly contracted childcare provided by employers under the Employer Supported Childcare (ESC) scheme. Both childcare schemes are UK-wide.

Childcare Vouchers

Through Employer-Supported Childcare (ESC), the Government provides support to working parents via an income tax exemption and National Insurance Contributions disregard. There are three forms of ESC: childcare vouchers, directly contracted childcare and workplace nurseries.

Some employers give their employees childcare vouchers which can be used to purchase childcare from a registered childcare provider. Most employers who provide childcare vouchers do so through a salary sacrifice scheme. Recipients do not have to pay income tax and National Insurance on childcare vouchers up to a maximum value of £55 per week. The weekly value allowable depends on how much the recipient earns and when they joined the scheme.

According to the Government, over 50,000 employers offer childcare voucher schemes and ESC is used by around 450,000 families. The Childcare Voucher Providers Association states that 780,000 parents currently use childcare vouchers.

Tax-Free Childcare

The TFC scheme was introduced in April 2017 and is expected to be fully rolled out by March 2018. For eligible working families, TFC offers to cover 20% of childcare costs, up to a maximum value of £2,000 per child per year, for children under the age of 12 (or up to £4,000 per year for children with disabilities under the age of 17). The scheme operates through online childcare accounts. The Government's [10 point guide for parents](#) provides an overview of the scheme.

TFC will help more working parents to access support with childcare costs, particularly those who: are self-employed; or are not covered by an ESC scheme; or earn on or near the National Minimum Wage. The Government estimates that around 2.3 million families will be eligible, of which 1.5 million are likely to have qualifying childcare costs. The Government contends that TFC is fairer and better targeted than childcare vouchers, in particular because support is paid per child rather than per parent, and there is a maximum income limit for parents of £100,000 per annum.

Campaign to Retain Childcare Vouchers

Parents will not be able to simultaneously receive support from both ESC and TFC. Parents who wish to remain in ESC will be able to, while their current employer continues to offer the voucher scheme. There is no obligation to switch to TFC. However, existing voucher schemes will be closed to new applicants from April 2018.

A number of organisations, including the charity Working Families and the Childcare Voucher Providers Association, have called on the Government to keep childcare vouchers open to parents alongside the TFC scheme on the grounds that:

- Childcare vouchers are widely-used and popular with parents and employers.

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- Some families will lose out under Tax-Free Childcare, compared to childcare vouchers.
- Vouchers provide a way for employers to demonstrate their commitment to supporting family-friendly working practices.

An [e-petition](#) calling for childcare vouchers to be retained had reached 115,969 signatures as at 11 January 2017.

Which Scheme Provides More Support?

The Government has estimated that around 1.2 million families will be better off under the new TFC scheme. Furthermore, as ESC will remain open for those already in the scheme, the Government asserts that “there will be no direct losers”.

However, whether ESC or TFC is better for an individual family will depend on their specific circumstances. This might depend on factors such as:

- Whether one or both parents is in an ESC scheme
- The rate of tax paid
- How many children and of which age are receiving childcare
- Childcare costs

In general, families on low incomes are likely to receive more generous support through Tax Credits or Universal Credit than through childcare vouchers or TFC. However, the interactions between the schemes are complex and in certain cases families may be better off applying for childcare vouchers or TFC than claiming benefits.

It is important that individuals seek advice on their own specific circumstances. The Government provides an online [childcare calculator](#) to help parents check what help they could get with childcare costs.

The Government’s [Childcare Choices website](#) provides further information on other sources of assistance for childcare costs.

1. What is Employer-Supported Childcare?

Through Employer-Supported Childcare (ESC), the Government provides support to working parents via an income tax exemption and National Insurance Contributions (NICs) disregard. There are three forms of ESC:

Childcare vouchers – An employer can give its employees childcare vouchers, up to a maximum value of £55 per week (depending on the earnings of the employee), which can be used to purchase childcare from a childcare provider.

Directly contracted childcare – An employer can pay for childcare up to a maximum of £55 per week for their employees directly (depending on the earnings of the employee), typically by entering into a contract with a childcare provider and paying for childcare on the employee's behalf.

Workplace nurseries – Places allocated to the children of employees in workplace nurseries are completely exempt from tax and NICs if they meet certain conditions.

HMRC's guide [E18: how can you help your employees with childcare](#) (last updated September 2016) provides detailed information on exemptions and qualifying conditions.

1.1 Childcare vouchers

Some employers give their employees childcare vouchers which can be used to purchase childcare from a childcare provider. The provider must be registered or approved by an appropriate body. Most employers who provide childcare vouchers do so through a salary sacrifice scheme. This means an employee gives up part of their salary in return for a non-cash benefit.¹

Recipients do not have to pay income tax and National Insurance on childcare vouchers up to a maximum value of £55 per week. The weekly value allowable will depend on how much the recipient earns and when they joined the scheme. From 6 April 2011 tax relief on childcare vouchers was restricted for higher and additional rate taxpayers joining the scheme. Existing members were not affected by this change.²

The [Childcare Voucher Providers Association](#) provides an indicative table of the annual savings that might be realised by an employee joining a childcare voucher scheme on or after 6 April 2011 (see overleaf).

¹ For more information see: HMRC, [Guidance: Salary sacrifice for employers](#), last updated 31 August 2017

² See HMRC, [Employer Supported Childcare](#), April 2013 for detailed guidance. The background to the Government's decision to restrict tax relief is set out in the Commons Library briefing paper [Tax relief for childcare](#) (SN00019).

Tax band	Maximum voucher allowance			Maximum savings per annum
	Weekly	Monthly	Yearly	
Basic rate	£55	£243	£2,915	£933
Higher rate	£28	£124	£1,484	£623
Additional rate	£25	£110	£1,325	£622

Source: Childcare Voucher Providers Association, [About Childcare Vouchers](#) [Accessed 10 January 2018]

In most cases employers pay a voucher provider a fee for administering ESC. There are a number of different voucher providers operating in an open market.

ESC is only available to employees whose employer offers it. According to the Government, over 50,000 employers offer childcare voucher schemes³ and ESC is used by around 450,000 families.⁴ The Childcare Voucher Providers Association states that 780,000 parents currently use childcare vouchers.⁵

1.2 Closing ESC to new applicants

The Government is bringing in a new Tax-Free Childcare (TFC) scheme for working families (see Section 2). TFC is designed to eventually replace ESC (childcare vouchers and directly contracted childcare). Workplace nurseries will not be affected by the changes.

Parents will not be able to simultaneously receive support from both ESC and TFC. **Parents who wish to remain in ESC will be able to, while their current employer continues to offer the voucher scheme.** There is no obligation to switch to TFC. **However, existing voucher schemes will be closed to new applicants from April 2018.**⁶

As ESC will remain open for those already in the scheme, the Government asserts that “there will be no direct losers”. However, it acknowledges that over time the gradual decline in participants (for example, as children reach the maximum age and cease to be eligible) will affect voucher providers’ current business model.⁷

³ [PO 120130 \[Child Care Vouchers\] 22 December 2017](#)

⁴ HM Treasury, [New scheme to bring tax-free childcare for 2.5 million working families](#), 19 March 2013

⁵ Childcare Voucher Providers Association [Website Home Page](#) [Accessed 3 January 2018]

⁶ GOV.UK, [Tax-Free Childcare: 10 things parents should know](#), last updated 18 March 2016

⁷ HMRC, [Childcare Payments Act 2014 Impact Assessment](#), updated 13 March 2017, p2

1.3 Campaign to retain childcare vouchers

In February 2017 the charity Working Families and the Childcare Voucher Providers Association published a report entitled [The future of childcare support for working parents](#) which called on the Government to keep childcare vouchers open to parents alongside the TFC scheme.

The report made the following points in favour of retaining childcare vouchers:

- Childcare vouchers are a widely-used benefit that is popular with parents and employers alike.
- Many lower earners will lose out on money under Tax-Free Childcare, compared to childcare vouchers.
- Vouchers give a central role to employers, who value the scheme and being able to support the parents who work for them. Parents find vouchers easy to access due to the involvement of their employer, and vouchers provide a way for employers to demonstrate their commitment to supporting family-friendly working practices.⁸

E-petition 200585

An online petition to [Keep Childcare Vouchers open beyond April 2018](#) had reached **115,969 signatures** (as at 11 January 2018). The petition makes the following case to retain childcare vouchers:

Hundreds of thousands of parents will lose out under the new tax-free childcare. The voucher schemes should be kept open alongside tax-free childcare to give parents a genuine choice for the support that best suits their family.

Childcare Vouchers have been used by millions and are currently used by 780,000 parents. The new Tax-Free Childcare (TFC) regime will extend childcare support to some people that cannot access the current voucher scheme and this should be welcomed.

Government plans to close Childcare Vouchers to new entrants so hundreds of thousands of parents could lose out by £100s or find themselves unable to claim any support at all! Including couples with one working parent who won't be eligible under TFC.

The [Childcare Voucher Providers Association](#) and the charity [Employers for Childcare](#) support the petition.

The petition has been scheduled for debate in Parliament on **15 January 2018**.

Early Day Motion 775

[Early Day Motion 755](#) was tabled by Caroline Lucas on the 9 January 2018. The motion is as follows:

That this House notes that childcare vouchers are a widely-used benefit that are popular with parents and employers alike, with more than 60,000 businesses of all sizes offering vouchers to more than 750,000 parents; further notes that, with childcare costs having risen faster than incomes in recent years, a large majority of parents still find their decision to work dependent on the availability of good quality, affordable childcare; regrets the

⁸ Working families, [The future of childcare support for working parents](#) [Accessed 10 January 2018]

Government's decision to close childcare vouchers to new entrants from April 2018; is concerned that the lack of any formal role for employers in the new Tax-Free Childcare scheme will lead to falling levels of engagement by employers in the support of working parents around their work-life balance and childcare needs; calls on the Government to keep childcare vouchers open alongside Tax-Free Childcare, so that parents can choose the scheme that is most suitable to their needs and offers the most support to their family; and further calls on the Government to consider how childcare vouchers could be extended to the self-employed.⁹

As at 11 January 2018 the EDM had 47 signatures.

⁹ [EDM 755 Childcare Vouchers 9 January 2018](#)

2. What is Tax-Free Childcare?

In March 2013 the Government announced it would seek to phase in a new 'Tax-Free Childcare' (TFC) scheme to provide financial support to help working families with the cost of qualifying childcare.^{10 11}

The Government consulted on the design and operation of the new TFC in 2013 and published the outcome of the consultation in March 2014.^{12 13}

The [Childcare Payments Act 2014](#) and associated regulations give legislative affect to the scheme.¹⁴

For eligible working families, TFC offers to cover 20% of childcare costs (the equivalent of basic rate tax relief), up to a maximum value of £2,000 per child per year, for children under the age of 12 (or up to £4,000 per year for children with disabilities under the age of 17). The Government has published a [10 point guide for parents](#) which provides an overview of the scheme.¹⁵

The Government estimates that around 2.3 million families will be eligible, of which 1.5 million are likely to have qualifying childcare costs. The average support to families is expected to be £800 per year.¹⁶

2.1 The rationale for TFC

The Government considered that "there is a strong case for improving access to childcare and assisting working families with their household budgets, helping more people to go out to work, or work more, if they want to".¹⁷ TFC is intended to provide "a flexible, straightforward and targeted system of support to help working families with the costs of registered childcare".¹⁸

¹⁰ HM Treasury, [New scheme to bring tax-free childcare for 2.5 million working families](#), 19 March 2013. The Government's plans were confirmed in the [2013 Budget](#) Red Book (HC 1033, March 2013, pp54–55, paras 1.178–1.181)

¹¹ As with ESC, to qualify the childcare provider must be registered or approved by an appropriate body.

¹² HM Treasury and HMRC, [Delivering Tax-Free Childcare: the Government's response to the consultation on design and operation](#), 17 March 2014

¹³ A full list of public consultations related to the Tax-Free Childcare scheme can be found on the [Revenuebenefits website](#) [Accessed 10 January 2017]

¹⁴ In particular, the [Childcare Payments \(Eligibility\) Regulations 2015](#) (S.I. 2015/448) contain the conditions that a person must meet in order to receive support for their childcare costs, and the [Childcare Payments Regulations 2015](#) (S.I. 2015/522) contain the detailed rules concerning the operation of the scheme.

¹⁵ GOV.UK, [Tax-Free Childcare: 10 things parents should know](#), , last updated 18 March 2016

¹⁶ HMRC, [Childcare Payments Act 2014 Impact Assessment](#), updated 13 March 2017, p2

¹⁷ HMRC, [Childcare Payments Act 2014 Impact Assessment](#), updated 13 March 2017, p1

¹⁸ HM Treasury and HMRC, [Delivering Tax-Free Childcare: the Government's response to the consultation on design and operation](#), 17 March 2014, p15, para 2.1

The Government has argued that TFC represents a “significant step forward compared to Employer-Supported Childcare”,¹⁹ in particular because it will help more families to go to work and will provide better targeted support:

The Government is committed to supporting working families and is investing more in childcare than ever before. Tax free childcare is one part of that increased childcare support, and everyone who earns at least £120 per week on average, but doesn't exceed the upper income limit of £100,000 per annum can apply for the scheme, which is fairer and better targeted than vouchers.

Tax-Free Childcare will be available to over 2 million households to help with the cost of childcare, enabling more parents to go out to work if they want to. Working parents will be able to apply via an online childcare account, and access up to £2,000 per child (or £4,000 for disabled children).

The system is fairer and better targeted than vouchers, which are only offered by a minority of employers and self-employed parents are unable to access them. Tax-free childcare benefits parents whose employer doesn't offer vouchers and the self-employed. It's also fairer: support will be paid per child rather than per parent, so lone parent households will get the same support as those with more than one parent...²⁰

The *Childcare Payments Act 2014* impact assessment outlines the drawbacks of ESC that the new TFC scheme is intended to address:

The ability for Employer Supported Childcare to provide wide ranging, effective and fair support to working families is limited by a number of drawbacks:

1. its coverage is limited – only available to parents whose employer offers it (5% of employers, reaching half the workforce);
2. it is not available to self-employed parents;
3. it is generally not available to those paid near or at the National Minimum Wage;
4. the tax exemption and NICs disregard is of no benefit to employees earning below the relevant thresholds;
5. it is poorly targeted, with no maximum income limit; and
6. it takes no account to the number of children in each family. For example, a lone parent with two children will receive substantially less than an eligible two-parent family with one child.

The employer NICs disregard is poor value for money for taxpayers. The disregard generates a saving for employers of up to 13.8% of the cost of the childcare vouchers provided. This is a significant government cost (forgone receipts) embedded in the scheme which is not spent on childcare.²¹

¹⁹ HM Treasury and HMRC, [Delivering Tax-Free Childcare: the Government's response to the consultation on design and operation](#), 17 March 2014, p23, para 2.52

²⁰ [E-petition 200585 'Keep Childcare Vouchers open beyond April 2018' – Government response](#). [Accessed 4 January 2018]

²¹ HMRC, [Childcare Payments Act 2014 Impact Assessment](#), updated 13 March 2017, p4

The Government expects childcare providers to benefit from TFC as more parents will be able to access childcare support, and it expects employers to benefit from more employees being able to work, or work more.²²

2.2 Eligibility for TFC

Eligibility for TFC depends on the parents'/guardians' situation, the child/children and the childcare costs involved.

In general, a parent will be eligible to receive Government support through TFC if:

- they meet the eligibility conditions;
- they provide information to demonstrate their eligibility in a declaration to HMRC, and HMRC agrees, based on that information, that they are eligible;
- they have a child who qualifies for support;
- they have opened a childcare account in accordance with the scheme; and
- they, or another person, pay money into the childcare account.²³

GOV.UK outlines the eligibility conditions for TFC as follows:

Eligibility

You and your partner

You can usually get Tax-Free Childcare if you (and your partner, if you have one) are:

- in work - or getting parental leave, sick leave or annual leave
- each earning at least the [National Minimum Wage or Living Wage](#) for 16 hours a week - this is £120 if you're over 25

This earnings limit doesn't apply if you're self-employed and started your business less than 12 months ago.

If you're not working, you may still be eligible if your partner is working, and you get Incapacity Benefit, Severe Disablement Allowance, Carer's Allowance or Employment and Support Allowance.

You're not eligible if either you or your partner has a [taxable income](#) over £100,000.

Your child

Your child must be 11 or under and usually live with you. They stop being eligible on 1 September after their 11th birthday.

Adopted children are eligible, but foster children are not.

If your child is disabled you may get up to £4,000 a year until they're 17. They're eligible for this if they:

²² HMRC, [Childcare Payments Act 2014 Impact Assessment](#), updated 13 March 2017, p2

²³ [Explanatory Notes to the Childcare Payments Act 2014](#), para 11

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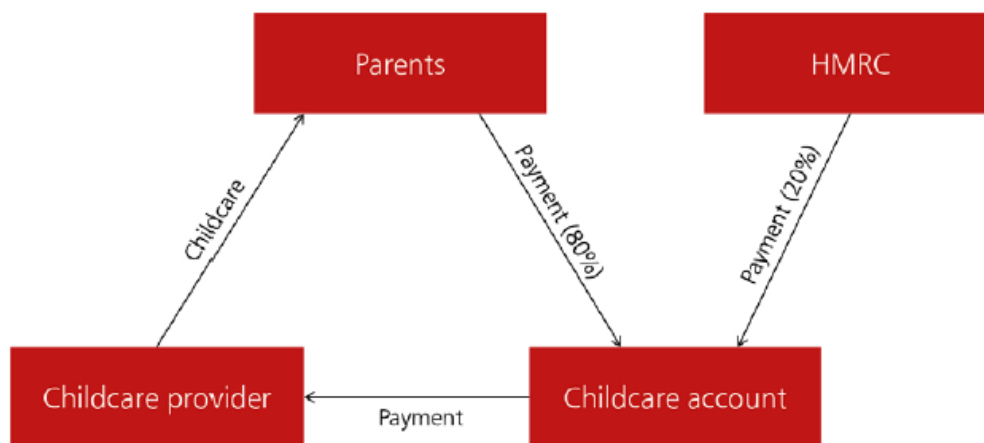
- get Disability Living Allowance, Personal Independence Payment or Armed Forces Independence Payment
- are registered as blind or severely sight-impaired.²⁴

The charity Turn2us provides more detail about the eligibility criteria on their website: [Tax Free Childcare - Can I get Tax Free Childcare?](#)

2.3 Childcare accounts

TFC operates through online childcare accounts. Eligible parents can open a childcare account online; pay money towards their childcare costs into that account; and have the payments topped up automatically by the Government at a rate of 20p for every 80p that they pay in, subject to the maximum limit of £500 every three months for each child (or £1,000 every three months if the child has a disability). Parents will then allocate this money to the qualifying childcare provider of their choice, with the account provider making the payment direct to the childcare provider (see chart below).

Chart 3.A: Operation of Tax-Free Childcare



Source: HM Treasury and HMRC, [Delivering Tax-Free Childcare: the Government's response to the consultation on design and operation](#), 17 March 2014

Parents will need to reconfirm their eligibility every three months. They remain eligible until the end of that period even if their circumstances change, for example if a parent becomes unemployed.

The TFC accounts are designed to be flexible:

- Tax-Free Childcare will be easily accessible via online accounts, with assisted approaches available for those who cannot access the internet;
- multiple people or parties will be able to pay into childcare accounts. This will enable all parents to make contributions,

²⁴ GOV.UK, [Help Paying For Childcare: Tax-Free Childcare](#) [Accessed 10 January 2018]

as well as giving other family members or parents' employers the opportunity to contribute;

- parents will be able to build up balances in their childcare accounts, for example to use over the summer holidays;
- parents will be able to withdraw money from their childcare account, should they wish to do so, with their contributions returned to them, and Government top-ups returned to the Government; and
- parents will not pay fees.²⁵

2.4 Implementation of TFC

Following some delays,²⁶ TFC was introduced in April 2017 and is gradually being rolled out. Initially the scheme was only open to parents with a child born on or after 1 April 2013 and/or children with a disability. From 24 November 2017 the scheme opened to parents whose youngest child is under six or who had their sixth birthday on that day. The Government expects it to be fully rolled out to all eligible parents by the end of **March 2018**.²⁷

In March 2017 the Government launched the [Childcare Choices website](#) which brings together all the Government's childcare schemes in one place. The website explains the eligibility criteria and the different support available to parents through the various schemes. Eligible parents can apply for TFC and 30 hours free childcare online through a single application.

In a [Ministerial Statement on 15 November 2017](#) the Financial Secretary to the Treasury, Mel Stride, acknowledged that some parents had experienced technical issues with applying online, and asserted that these had been addressed:

HMRC recognise that over the summer some parents didn't receive the intended level of service whilst using the site. Whilst the majority of parents used the childcare service without significant problems, some parents experienced technical issues including delayed decisions about their eligibility for one or both of the schemes. The Government acted quickly to address this, and HMRC and their delivery partners NS&I have now made significant improvements to the service.²⁸

Families that have lost out financially as a result of the technical problems may be able to reclaim their costs through HMRC:

<https://www.gov.uk/government/publications/childcare-service-compensation>.

²⁵ HM Treasury and HMRC, [Delivering Tax-Free Childcare: the Government's response to the consultation on design and operation](#), 17 March 2014, p5

²⁶ TFC was initially expected to be phased in from autumn 2015. See Commons Library briefing paper [Tax relief for childcare](#) (SN00019) for further information.

²⁷ [Written Statement HCWS247 \[Childcare Service Update\] 15 November 2017](#)

²⁸ [Written Statement HCWS247 \[Childcare Service Update\] 15 November 2017](#)

The Ministerial Statement also noted that applications for TFC accounts had been lower than expected, and the Government would undertake activity to raise awareness of TFC amongst parents.²⁹

Childcare providers also need to register to be able to receive payments through TFC. As at 18 December 2017, over 50,000 childcare providers (around 50% of all regulated providers) had signed up.³⁰

HMRC commissioned Frontier Economics to conduct a methodological study into the feasibility of measuring the impact on the labour and childcare markets of TFC and the Free Early Education Entitlement (FEEE). The study identified the methodological challenges of evaluating the impact of TFC on childcare use and on the childcare market.³¹

The Autumn Statement 2016 confirmed that once the scheme is fully rolled out the Government will review its operation “to ensure it is delivering as intended and to assess the benefit it is delivering for working parents”.³²

²⁹ [Written Statement HCWS247 \[Childcare Service Update\] 15 November 2017](#)

³⁰ [PQ 119106 \[on Children: Day Care\], 18 December 2017](#)

³¹ HMRC Research Report 406, [Feasibility study into evaluating the labour and childcare market impacts of Tax-Free Childcare and the Free Early Education Entitlement](#), Frontier Economics Ltd, 19 February 2016

³² HM Treasury, [Autumn Statement 2016](#), CM9362, November 2016, Para 5.11

3. How do Childcare Vouchers and Tax-Free Childcare differ?

The table below summarises the key differences between the two childcare schemes.

Childcare Vouchers	Tax-Free Childcare
Available if employer offers them.	Available to all eligible workers, including the self-employed .
One parent must work.	Both parents (or a lone parent) must be in paid work. However, families may be eligible for TFC if one parent works and the other is in receipt of Incapacity Benefit, Severe Disablement Allowance, Carer's Allowance or Employment and Support Allowance. ³³
No minimum earnings. However, workers who earn on or near the National Minimum Wage (NMW) may be unable to participate in salary sacrifice schemes due to a requirement to safeguard payment of the NMW in full. ³⁴	Each parent (or a lone parent) must earn the equivalent of 16 hours per week at the National Minimum Wage or National Living Wage – this is a minimum of £120 per week if aged 25 or over . ³⁵
No maximum income limit.	Maximum income limit of £100,000 per parent per annum.
Available for children under 16 years (or under 17 for disabled children). ³⁶	Available for children under 12 years (or under 17 for disabled children). ³⁷

³³ [PQ 120130 \[on Child Care Vouchers\], 22 December 2017](#)

³⁴ HMRC, [E18: how can you help your employees with childcare](#), last updated September 2016, p6 and p13

³⁵ Those aged 24 and under, and apprentices, must earn the equivalent of 16 hours at the National Minimum Wage rate that applies to them. Newly self-employed parents don't have to earn the minimum income level during a 'start-up' period.

³⁶ Vouchers can be used for children up to the 1st September following their 15th birthday (or 1st September following their 16th birthday for disabled children).

³⁷ TFC is available for children up to 1st September following their 11th birthday (or 1st September following their 16th birthday for disabled children).

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Can only be used to pay for registered or approved childcare.	Can only be used to pay for registered or approved childcare.
Provides up to a maximum of £933 a year (per employed parent) in income tax and National Insurance savings. ³⁸	Provides 20% towards childcare costs, up to a maximum of £2,000 per child per year (£4,000 for a child with disabilities).
Childcare vouchers from an employer may affect the amount of tax credits an employee gets. ³⁹ Childcare vouchers cannot be used at the same time as claiming TFC.	TFC cannot be used at the same time as claiming Universal Credit, Working Tax Credit, Child Tax Credit or ESC (childcare vouchers or directly-contracted childcare). ⁴⁰
Delivered by employers and Childcare Voucher Companies.	Delivered by HMRC in partnership with National Savings and Investments (NS&I).

³⁸ Based on a basic rate taxpayer. See section 1.1 of the paper for an indication of savings for higher and additional taxpayers.

³⁹ The Government provides an [online calculator](#) to help parents decide if they would be better off taking childcare vouchers or tax credits.

⁴⁰ GOV.UK [Help paying for childcare](#) [Accessed 4 January 2018]

4. Which scheme provides more support?

The Government has estimated that around 1.2 million families will be better off under the new TFC scheme.⁴¹ Furthermore, as ESC will remain open for those already in the scheme, the Government asserts that “there will be no direct losers”.⁴²

However, whether ESC or TFC is better for an individual family will depend on their specific circumstances. This might depend on factors such as:

- Whether one or both parents is in an ESC scheme
- The rate of tax paid
- How many children and of which age are receiving childcare
- Childcare costs

Moneysavingexpert.com provides the following analysis of ‘winners and losers’ under each scheme:

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. There's a limit for childcare vouchers which isn't dependent on 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...

⁴¹ HMRC, [Childcare Payments Act 2014 Impact Assessment](#), updated 13 March 2017, p2

⁴² HMRC, [Childcare Payments Act 2014 Impact Assessment](#), updated 13 March 2017, p2

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.⁴³

The Government has published some estimates of potential gains and losses for different types of families moving to the new TFC scheme,⁴⁴ as shown in the table below. However, the Government estimates are based on the assumption that families will claim the maximum of £2,000 per child per year (20% of £10,000 childcare costs). In reality, current childcare costs mean that the annual cost of childcare is unlikely to reach £10,000 for the majority of children. Hence, the table overleaf also includes an indication for each family type of the threshold in the annual childcare cost that would result in the family benefitting from a move to TFC.

⁴³ Moneysavingexpert.com, [Tax-Free Childcare](#) [Accessed 2 January 2018]

⁴⁴ HM Treasury and HMRC, [Delivering Tax-Free Childcare: the Government's response to the consultation on design and operation](#), 17 March 2014, p24, Table 2.A

COMPARING EMPLOYER-SUPPORTED CHILDCARE AND TAX-FREE CHILDCARE				
	Number of children under 12	Maximum support through ESC	Maximum additional support through TFC (if £2,000 per child claimed)	Estimated threshold for TFC to be beneficial - annual childcare cost to family per child
Single parent or working couple with one basic rate Employer-Supported Childcare claimant	1	£933	£1,067	£4,670
	2	£933	£3,067	£2,335
	3	£933	£5,067	£1,557
Working couple, both basic rate Employer-Supported Childcare claimants	1	£1,866	£134	£9,450
	2	£1,866	£2,134	£4,725
	3	£1,866	£4,134	£3,150
Single parent or working couple with one higher rate Employer-Supported Childcare claimant	1	£625	£1,375	£3,126
	2	£625	£3,375	£1,563
	3	£625	£5,375	£1,042
Working couple, both higher rate Employer-Supported Childcare claimants	1	£1,250	£750	£6,150
	2	£1,250	£2,750	£3,075
	3	£1,250	£4,750	£2,050
Working couple, one basic, one higher rate Employer-Supported Childcare claimant	1	£1,558	£442	£7,945
	2	£1,558	£2,442	£3,973
	3	£1,558	£4,442	£2,648

Source: [Delivering Tax-Free Childcare: the Government's response to the consultation on design and operation, Table 2.A, p24](#)

It is also worth noting that some working families with three and four year old children may also be eligible for 30 hours of free childcare provision which will have an impact on the amount of TFC claimed.⁴⁵ The table below estimates this impact by assuming that for 38 weeks of the year eligible families would only need to pay for 20 hours of childcare to achieve full-time (50 hours per week) provision. This results in an annual full-time childcare cost of £6,450 per child based on an estimated hourly cost of nursery provision in England of £4.42 (taken from the [Family and Childcare Trust Childcare Survey 2017](#)). The table shows the associated TFC claim associated with this cost and the additional support that might be available from TFC. In two scenarios, families could be worse off if they move to TFC.

COMPARING EMPLOYER-SUPPORTED CHILDCARE AND TAX-FREE CHILDCARE FOR PARENTS OF 3/4 YEAR OLDS Including impact of 30 hours free childcare				
	Number of children aged 3 or 4	Estimated TFC claim per year	Maximum support through ESC	Additional support through TFC
Single parent or working couple with one basic rate Employer-Supported Childcare claimant	1	£1,290	£933	£357
	2	£2,580	£933	£1,647
Working couple, both basic rate Employer-Supported Childcare claimants	1	£1,290	£1,866	-£576
	2	£2,580	£1,866	£714
Single parent or working couple with one higher rate Employer-Supported Childcare claimant	1	£1,290	£625	£665
	2	£2,580	£625	£1,955
Working couple, both higher rate Employer-Supported Childcare claimants	1	£1,290	£1,250	£40
	2	£2,580	£1,250	£1,330
Working couple, one basic, one higher rate Employer-Supported Childcare claimant	1	£1,290	£1,558	-£268
	2	£2,580	£1,558	£1,022

⁴⁵ Commons Library Briefing Paper CBP07581: [Children: Introduction of 30 hours of free childcare in September 2017 \(England\)](#) provides further information.

A number of organisations have published analyses or case studies exploring the potential 'winners and losers' in different family scenarios, including:

- [Moneysavingexpert.com](https://www.moneysavingexpert.com)
- [Employers for Childcare](#) (section 7)
- [Childcare Voucher Providers Association](#)

5. How do the schemes interact with benefits?

In general, families on low incomes are likely to receive more generous support through Tax Credits or Universal Credit (UC) than through childcare vouchers or TFC. Entitledto explains:

If you use vouchers, most people save 20p of Income Tax and 12p of national insurance contributions for every £1 of childcare – a total of 32p for every £1 of childcare.

If you use Tax-Free Childcare, most people save 20p for every £1 of childcare. This is the equivalent of getting back the tax paid at the basic rate of 20%

However, if you qualify for tax credits, for every £1 of childcare you get an extra 70p of tax credits. If you qualify for Universal Credit you can get an extra 85p for every £1 of childcare.⁴⁶

However, the interactions between the schemes are complex and in certain cases families may be better off applying for childcare vouchers or TFC than claiming benefits. Some of the interactions are briefly explored below.

It is important that individuals seek advice on their own specific circumstances. The Government provides an online [childcare calculator](#) to help parents check what help they could get with childcare costs.

5.1 Childcare vouchers

The charity Low Incomes Tax Reform Group explains why most people who qualify are likely to be better off claiming help through the childcare element of tax credits and not taking childcare vouchers offered through a salary sacrifice:

There is nothing to stop you receiving tax credits and childcare vouchers at the same time. However, you can only claim help through tax credits for costs you actually incur. This means **you must deduct the value of any vouchers from your average weekly childcare costs for tax credit purposes.**

For example, if your childcare costs are £150 a week for one child and you get vouchers of £55 a week from your employer, you can only claim £95 a week as your costs for the childcare element of tax credits.

In some cases the amount of tax and National Insurance you save from taking the vouchers may not make up for the amount of tax credits you lose.

Most people who qualify for tax credits are likely to be better off claiming help through the childcare element of tax credits and not taking childcare vouchers offered through a salary sacrifice. This is because initially you will lose significantly more tax credits than you will gain in tax and National Insurance savings from taking the vouchers and over the longer term you will gain only a small

⁴⁶ Entitledto, [Getting the most help with childcare](#) [Accessed 2 January 2018]

amount from the vouchers. This [example](#) shows how the interaction between the two schemes works.⁴⁷

Low Incomes Tax Reform Group's case study example is reproduced in the box below.

Box 1: Interaction of Childcare Vouchers with Tax Credits – An Example

Sally is a lone parent who earns £25,000. Her childcare costs are £200 a week for her two children. Sally's employer has just set up a childcare scheme and offers her childcare vouchers under a salary sacrifice arrangement. This means that Sally will give up some of her salary to get the childcare vouchers and by doing that she will save some tax and NI.

Sally currently claims tax credits including the childcare element of WTC – her award is £10,547 a year (made up of £4442 WTC and £6105 CTC).

If Sally takes the childcare vouchers she will save tax and national insurance on the value of the childcare vouchers, subject to a limit of £55 a week.

Tax saving 20% x £2,916	£583.20
National insurance savings 12% x £2,916	£349.92
Total tax and NI saving	£933.12

By taking childcare vouchers, Sally would see changes to her tax credits:

- The income used to calculate Sally's award would be lower as she has given up some of her salary to buy the vouchers. However due to the £2,500 disregard for falls in income initially Sally's income would only fall by £360 until a later year when it would fall by the full £2,860 that she has sacrificed. This fall in income leads to an increase in tax credits

Fall in income (initial) £416 x 41% =	170.56 increase in annual tax credits
Fall in income (longer term) £2916 x 41% =	£1195.56 increase in annual tax credits

- At the same time, if Sally takes the vouchers, she can no longer claim £200 a week as her childcare costs for tax credit purposes. She must reduce that by the value of the vouchers so she can only claim £145 a week. This leads to a decrease in tax credits of:

Decrease in childcare costs of £2860 x 70% =	£2002 decrease in tax credits
--	-------------------------------

Bring all of this together creates gains on one side and losses on the other. This shows that if Sally took the childcare vouchers she would overall (in the longer term) be slightly better off taking the vouchers but only by around £126 a year. Initially however Sally would be worse off by around £900 by taking the vouchers due to the disregard for falls in income.

GAINS	LOSSES
Tax and NI saving £933.12	Loss of tax credits £2002
Increased tax credits £1195.56	
TOTAL £2128.68	TOTAL: £2002

Source: Low Incomes Tax Reform Group, [How do vouchers interact with other schemes?](#), 22 November 2017

⁴⁷ Low Incomes Tax Reform Group, [How do vouchers interact with other schemes?](#), 22 November 2017

The Low Incomes Tax Reform Group provides the same advice for people who qualify for Universal Credit:

Most people who qualify for universal credit are likely to be better off claiming help through the childcare element of universal credit and not taking childcare vouchers offered through a salary sacrifice. This is because initially you will lose significantly more universal credit than you will gain in tax and National Insurance savings from taking the vouchers.⁴⁸

Nevertheless, according to the Entitledto website, there are two exceptional circumstances in which a family may be better off claiming childcare vouchers rather than tax credits:

Most people are better off claiming help with childcare through tax credits instead of using childcare vouchers from their employer. However, there are two exceptions to this rule when childcare vouchers may be the better option. These exceptional cases are:

- Where your income in this tax year has fallen by more than £2,500 relative to your income last tax year.
- Where your childcare costs exceed £175 per week for one child in childcare and £300 per week for two or more children in childcare.

If either of these circumstances apply to you then you may be better off claiming help with childcare costs through vouchers rather than through tax credits.⁴⁹

5.2 Tax-free childcare

Tax-Free Childcare **cannot** be used at the same time as claiming Universal Credit (UC), Working Tax Credit, or Child Tax Credit. Families claiming Universal Credit are not eligible for the TFC scheme. For families getting tax credits, registering for TFC will result in the termination of their tax credit award. The legislation also allows for regulations to be made to automatically terminate UC awards when a family registers for TFC.

Where a family chooses to claim TFC instead of Universal Credit or tax credits, they not only forgo the amount they would have received in UC or tax credits to help with childcare costs – the **whole of the UC or tax credit award is forgone**. As the Entitledto website explains:

This means all of your Universal Credit, including amounts for you, your children and your housing, not just the childcare element. Similarly, if you are claiming tax credits, your Working Tax Credit and Child Tax Credit awards will be terminated not just your childcare element. You will be able to switch back if claiming Tax-Free Childcare was not the right choice for you or your circumstances later change.⁵⁰

In general, families on low incomes are likely to receive more generous support through Tax Credits or Universal Credit (UC) than through TFC.

⁴⁸ Low Incomes Tax Reform Group, [How do vouchers interact with other schemes?](#), 22 November 2017

⁴⁹ Entitledto, [Exceptions : when you would be better off with childcare vouchers](#) [Accessed 3 January 2018]

⁵⁰ Entitledto, [Getting the most help with childcare](#) [Accessed 2 January 2018]

Nevertheless, in certain cases families may be better off applying for TFC than claiming benefits. As household income increases, support from tax credits and UC is gradually tapered away. There will therefore be a small number of parents who are eligible for tax credits or UC but who might be better off claiming TFC instead. The Government estimates that there will be around 50,000 such families. These will typically (but not exclusively) be two-parent families with average or slightly higher earnings, with one or two children.⁵¹

Parents who choose TFC can switch back to tax credits/UC if TFC was not the right choice for them or their circumstances later change.

⁵¹ HM Treasury and HMRC, [*Delivering Tax-Free Childcare: the Government's response to the consultation on design and operation*](#), 17 March 2014, para 2.65

6. What other childcare support is available?

Help with childcare costs is a complicated area as there are a number of different schemes with different eligibility criteria and offering different support. A summary is provided below.

The Government's [Childcare Choices website](#) provides further information on the various schemes.

- **Childcare element in tax credits** – working families in the UK who are entitled to [Working Tax Credit](#) and have children under 16 years old (or under 17 for disabled children) can claim back up to 70% of their childcare costs, up to a cap.
- **Universal credit** – working families who are entitled to [Universal Credit](#) and have children under 16 years old can claim back up to 85% of their eligible childcare costs, up to a cap. Universal Credit is being gradually phased in and will replace a number of existing benefits, including tax credits.⁵²
- **15 hours of free childcare** – all three and four year olds (and some qualifying two year olds) in England are entitled to 15 hours of free early education or childcare for 38 weeks of the year (equivalent to 570 hours a year). Similar schemes exist in [Scotland](#), [Wales](#) and [Northern Ireland](#).
- **30 hours of free childcare** – from September 2017 working parents (subject to a means-test) of eligible 3 and 4 year olds in England have been entitled to an additional 15 hours of free childcare, on top of the existing universal provision of 15 hours of free childcare.⁵³
- **Support while studying** – some schemes provide support for childcare costs while studying, for example:
 - [Care to Learn](#) for those under 20 at the start of a publicly-funded course, such as a school or sixth form.
 - [Discretionary Learner Support](#) for those who are 20 or over and in further education.
 - [Childcare Grant](#) for those in full-time higher education with children under the age of 15, or 17 if they have special needs.

⁵² Commons Library Briefing Paper CBP08096: [Universal Credit roll-out: Autumn/Winter 2017](#) provides further information on the implementation of Universal Credit.

⁵³ Commons Library Briefing Paper CBP07581: [Children: Introduction of 30 hours of free childcare in September 2017 \(England\)](#) provides further information.

7. Further information

The Commons Library briefing paper [Tax relief for childcare](#) (SN00019) provides the policy background to Employer-Supported Childcare and Tax-Free Childcare.

Commons Library briefing papers on the *Childcare Payments Bill* are available on the [Parliament website](#).

HMRC provide a **Childcare Service Helpline** for people who need help applying for Tax-Free Childcare or using the childcare service account:

Telephone: 0300 123 4097

Opening times:

Monday to Friday: 8am to 8pm

Saturday: 8am to 4pm

Sunday and bank holidays: 10am to 4pm

MPs and their staff can call one of **HMRC's MP-dedicated helplines** for assistance with constituents' queries.

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