

PM pitches to families  
with childcare...

Is the new scheme right for you?

Employers to lose  
out from changes.

## Understanding the new Tax-Free Childcare Scheme (To be introduced Autumn 2015)

Childcare is changing...  
How will it impact *you*?



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This document aims to provide clear advice and guidance to allow you to decide which support best suits your individual circumstances.

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# Introduction

## Tax-Free Childcare is being introduced from autumn 2015 but you could get help NOW!

The Government recently announced that its new Tax-Free Childcare scheme will be introduced from autumn 2015.

To be eligible to qualify for this new scheme, which will initially only include children under 5 years, both parents have to be working. The Government propose to extend the age limit to include children under 12 years within the first twelve months.

Once the new Tax-Free Childcare scheme is introduced parents will not have the option of joining the current Childcare voucher scheme.

However anyone who is signed up for childcare vouchers before the new scheme starts in 2015 will have the choice of either continuing to take childcare vouchers or switch to the new scheme if they wish – depending on which scheme suits them best!

Currently childcare vouchers can be used to pay for a wide range of childcare provisions for children up to and including 15 years (16 if disabled).

If parents are currently paying for childcare then Childcare Vouchers could save them money.

## Current scheme vs proposed new scheme

	Childcare Vouchers	Tax-Free Childcare
What do parents receive?	Basic rate taxpayers – and higher rate tax payers who joined the scheme before April 2011 - can exchange up to £243 of childcare vouchers each month saving up to £933 per parent per year on childcare costs. The above amounts are PER PARENT, so two working parents could exchange up to £486 of vouchers each month free of TAX and NI, saving up to £1,866 per year.	Eligible families will get 20% of their yearly registered and regulated childcare costs paid for by the Government up to £2,000 per child. Therefore for every 80p paid into a childcare account the government will top it up by 20p subject to a top up cap limiting parents' contributions in the account of £2,000 per quarter (this can be pro-rata).
Who qualifies?	Available through employers, includes small limited companies but not self-employed.	Working parents earning less than £150,000 each. Includes self-employed but excludes parents receiving tax or universal credits.
What age can your child be?	15 years (or 16 years if registered blind or disabled)	Under 5 years when introduced - increasing to under 12 years by autumn 2016.
When does it start?	Already in place	Autumn 2015

# The current scheme - Childcare Vouchers

## How childcare vouchers work

Childcare vouchers can save many parents over a £1,000 a year on childcare. They are operated through employers and allow working parents to pay for childcare prior to TAX and NI being deducted from their salary.

The current scheme could help working parents if:

- They have children under 16 years
- They are paying for childcare

Time is money and acting now really could make a big difference.

- Each working parent can save nearly £1,000 per year on the cost of childcare
- As an employer you can save up to £402 per employee in NI

The scheme is quick and simple to set up.

**IMPORTANT:** Couples where only one parent works can get childcare vouchers, but they will not be eligible for the new scheme. Anyone signed up for vouchers before the new scheme starts in 2015, without changing employer, will be eligible to continue.

## How many vouchers can parents buy?

Basic rate taxpayers – and higher rate tax payers who joined the scheme before April 2011 - can exchange up to £243 of childcare vouchers each month and this amount is free of TAX and NI saving up to £933 per year on childcare costs. In addition parents have the opportunity to backdate vouchers (subject to scheme terms and conditions) in order to maximise savings. The scheme is also accessible to higher and top rate taxpayers as can be seen from the following table:

Illustration of savings...	Maximum Allowance			Maximum Annual Saving
	Per Week	Per Month	Per Year	
Basic Rate Tax Payer (20%)	£55	£243	£2,916	£933
Higher Rate Tax Payer (40%)	£28	£124	£1,484	£623
Additional Rate Tax Payer (45%)	£25	£110	£1320	£620

**IMPORTANT:** The above amounts are PER PARENT, so two working parents could exchange up to £486 of vouchers each month free of TAX and NI, saving themselves up to £1,866 per year.

Childcare vouchers can be used to pay for day, weekly and termly boarders, holiday clubs, nurseries, nannies, child-minders, and breakfast and after school club as well as tutoring as long as the childcare providers are registered and regulated with the appropriate authorities.

## How to proceed?

Ask your employer if they offer a childcare voucher scheme. Check with your HR or personnel department.

## What if an employer doesn't offer a scheme?

If they don't, please contact us. We'll send information on setting up a scheme on this popular employee benefit which could save them money on their Employers National Insurance Contributions.

Firms can offer voucher schemes in one of a number of ways, either by operating the scheme themselves (Self Admin) or by us fully managing the scheme for them. We charge an admin fee but this is significantly less than the 13.8% Employers National Insurance Contribution they still make a saving on.

# The proposed new scheme - Tax-Free Childcare

To qualify both parents will have to be in work for 8+ hours a week (including self-employed) earning just over an average of £50 a week and not more than £150,000 per year each and the same if you're a single parent. From introduction in autumn 2015 all children up to age 5 – and children registered disabled under the age of 17 – will be eligible. The scheme will then build up during its first year to include children under the age of 12 years.

**IMPORTANT:** Parents with children over 5 in September 2015 will not be eligible to join the new scheme. However if parents are already in the current childcare voucher scheme they can stay in it until the child reaches 15 (providing they don't move jobs).

The Government have advised they will issue further details regarding the roll out of the scheme in due course, however at the present time we understand that the new scheme will only pay for childcare that enables parents to be in paid work, which could be a lot more restrictive than the current scheme.

In order to access Tax-Free childcare eligible parents will open an online account for each of their children and these accounts will be run by National Savings & Investments, an executive agency of HM Treasury. Parents are required to reconfirm eligibility every 3 months in order for entitlement to continue. Where a parent has more than one child, therefore two or more accounts, the entitlement period will be aligned.

Under Tax-Free Childcare, eligible families will get 20% of their yearly registered and regulated childcare costs paid for by the Government up to £2,000 per child (assumes a maximum of £10,000/year childcare costs per child). Therefore for every 80p paid into a childcare account the Government will then top it up by 20p however there is a top up cap limiting parents' contributions in to the account of £2,000 per quarter (this can be pro-rata).

## Is this better or worse than the existing voucher scheme?

As with any change in such schemes there are always winners and losers. It will depend on individual circumstances. For example parents will not be eligible for the new scheme if they require childcare which is incurred for reasons other than to enable them to be in paid work - i.e. tutoring.

	Childcare Vouchers	Tax-Free Childcare
Single working parent with an under 5		😊
Single working parent with teenagers	😊	
Couple one working, one not	😊	
Couple both employed with an under 5		😊
Couple both employed with teenagers	😊	
Self employed		😊
Top rate tax payer	😊	

But why not ensure parents keep their options open by making sure they are claiming childcare vouchers now and saving TAX and NI, especially if they have older children as there is no support for them in the new scheme.

## Will the existing voucher scheme stop?

Working parents can continue to sign up for existing childcare vouchers until the new scheme is introduced and if they are a member and want to continue to use the scheme until their child reaches 15 they can – as long as they stay with the same employer. They will then have the option of switching to the new scheme if they wish.

**If parents currently pay for childcare why not take advantage of the existing scheme?**

**Please get in touch if you have any queries or wish to chat with one of our team about the options.**