

# *Help with childcare costs for working parents*

This factsheet contains information for working parents. It outlines how to access help with childcare costs and will signpost you to further sources of information.

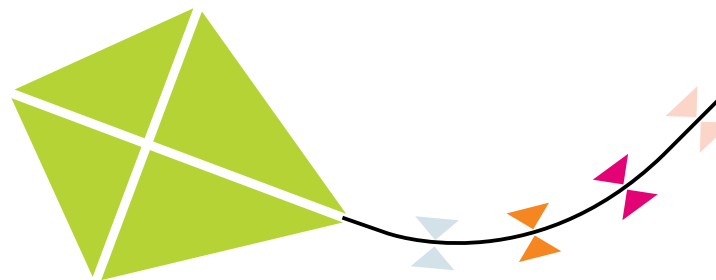
There are other types of financial help available. For more information, see our website: [www.familyandchildcaretrust.org/parentinformation](http://www.familyandchildcaretrust.org/parentinformation)

### **Can I get financial help for any type of childcare?**

Financial help for childcare is generally restricted to paying for childcare services that are Ofsted registered. For more information, see our factsheet 'What are my childcare options?'

### **What help is available through the childcare element of Working Tax Credit?**

You may be eligible for help with your childcare costs through the childcare element of Working Tax Credit. The childcare element is intended to help working parents on low incomes with the cost of registered childcare. The amount of the childcare element that you receive will depend on your family income and circumstances. Many factors affect your entitlement, so it is recommended that you check your eligibility. You can do this by contacting Tax Credit Helpline on **0345 300 3900** or by visiting: [www.hmrc.gov.uk/taxcredits](http://www.hmrc.gov.uk/taxcredits)



This factsheet includes information about:

- tax credits for working parents;
- employer-supported childcare; and,
- choosing between tax credits for working parents and employer supported childcare

Since autumn 2013 Universal Credit has been gradually replacing out of work benefits and tax credits. For further information, visit: [www.gov.uk/universalcredit](http://www.gov.uk/universalcredit)



### Am I eligible for the childcare element of Working Tax Credit?

To be eligible for the childcare element of Working Tax Credit:

- You must be in paid work of 16 hours or more per week. If you are a single parent, you must work 16 hours or more per week. If you have a partner, you must both work 16 hours or more per week; or 1 of you must work 16 hours or more per week and the other is incapacitated, in hospital, in prison, or entitled to Carer's Allowance.
- You can work for more than one employer, be self-employed or work as a director of a limited company. If you are on maternity leave or sick leave from your normal paid work, you are considered as being in paid work. For more information about this, see our factsheet 'Childcare during maternity leave'.
- You must have the main responsibility for caring for a child or children. You can claim the childcare element up to the 1st Saturday in September after your child's 15th birthday, or up to the 1st Saturday in September after your child's 16th birthday if they are registered blind (or have been taken off the blind register within the last 28 weeks) or receive Disability Living Allowance.
- You must use registered childcare.

- You must usually live in the UK, however, there are exceptions. For more information, see the immigration/residency information on the HM Revenue and Customs website: [www.hmrc.gov.uk/taxcredits/start/who-qualifies/new-arrivals-intro](http://www.hmrc.gov.uk/taxcredits/start/who-qualifies/new-arrivals-intro)

### How much of my childcare costs does the childcare element cover?

The childcare element can cover up to 70 per cent of eligible childcare costs. Maximum eligible childcare costs are set at £175 per week for 1 child and £300 per week for 2 or more children.

For example, if you have 1 child in childcare you could receive a maximum of £122.50 per week (70 per cent of £175). With 2 or more children in childcare, you could receive up to £210 (70 per cent of £300) per week.

To find out how much help you may be entitled to, use the online calculator at: [www.hmrc.gov.uk/taxcredits/questionnaires.htm](http://www.hmrc.gov.uk/taxcredits/questionnaires.htm)

The childcare element of Working Tax Credit is paid to the main carer alongside Child Tax Credit.

### What are my average weekly childcare costs?

The childcare element is paid for your average weekly childcare costs, so even if your childcare costs go up and down, you will receive the same amount each week or month. So that you are not overpaid or underpaid, it is important to note:

If you are eligible for Housing Benefit and Council Tax Reduction and meet the requirements for the childcare element of Working Tax Credit, you may be able to get more support for your childcare costs. Contact your local authority for further details.



- If you pay different amounts for the holidays and during term time, you will need to calculate the average amount you pay throughout the year. Add up the total amount you have paid for childcare over the past 52 weeks. Divide this amount by 52 to get your average weekly costs.
- When you are calculating the amount you pay, do not include any amount you receive in childcare vouchers, any amounts paid by your employer or that are paid by your local authority (for a free early education place, if applicable).

#### Do I need to tell HM Revenue and Customs if my circumstances change?

Some changes to your circumstances must be reported straight away, but there are others that you can choose whether or not to report. To make sure that you are not over- or underpaid tax credits, it is a good idea to report all changes to your circumstances within a month of them happening.

For the childcare element, you should tell the Tax Credit Office within 1 month if:

- your childcare costs go up or down by £10 per week for 4 weeks or more;
- your childcare is no longer registered;
- you change childcare providers, even if the cost is the same;
- you start to receive employer-supported childcare;
- there are any changes with your partner, family or household (for example, if your partner moves out);
- your working hours ( or your partners) go down to below 16 hours per week or you stop work;
- your income changes – for example you get a pay rise, do regular overtime, or your benefits change; or
- you change jobs.

For a full list of changes and when they must be reported, visit: [www.hmrc.gov.uk/taxcredits](http://www.hmrc.gov.uk/taxcredits)

Where can I get more information about the childcare element of Working Tax Credit?

To apply for the childcare element of Working Tax Credit call the Tax Credit Helpline on **0345 300 3900**. For more information, visit: [www.hmrc.gov.uk/taxcredits](http://www.hmrc.gov.uk/taxcredits)

#### What help is available through my employer?

Employer-supported childcare describes the help that is offered by employers to employees to help with childcare costs. Employers are not obliged by law to offer this support, so talk to your line manager/HR department to find out if they offer a scheme and what this includes.

The benefit of employer-supported childcare is that you save money by not paying tax and National Insurance Contributions on some/all of the amount you receive for childcare and your employer saves by not paying National Insurance Contributions on the same amount. The amount you save with employer-supported childcare depends on:

- the type of scheme your employer offers;
- whether it is offered instead of (salary sacrifice) or in addition to your salary (salary plus); and
- the rate of tax and National Insurance Contributions on your salary.



There are three types of financial help that your employer could offer:

- **Workplace childcare provision**

Some employers provide workplace or in-house childcare provision on their own premises (often referred to as workplace nurseries). Any workplace childcare provision must follow national registration and quality standards.

- **Employer-contracted or directly-contracted childcare**

Directly-contracted childcare is when your employer pays your childcare provider directly for some or all of your childcare. Once you have chosen a registered childcare provider, you and your employer will enter into a contract with the childcare provider agreeing on dates, amount, and method of payment.

- **Childcare vouchers**

Some employers administer the scheme themselves; others run a scheme through a childcare voucher company. You will either be supplied with childcare vouchers from your employer or the voucher company. You can use these to pay your childcare provider who will claim the value of the voucher from the voucher company or from your employer, usually by direct payment into their bank account.

### **How does employer-supported childcare save me money?**

If your employer provides a workplace nursery or holiday playscheme (and is wholly or partly responsible for financing and managing the provision) all of your costs for using this childcare are exempt from tax and National Insurance Contributions.

As an employee, you do not have pay tax and National Insurance Contributions on directly-contracted childcare or childcare vouchers up to a set amount per week. The savings you get depend on your tax band (see below).

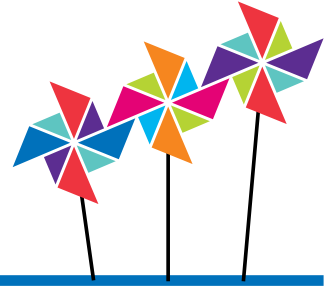
- Basic rate taxpayers - Up to £55 per week of employer-supported childcare are exempt from tax and NIC.
- Higher rate taxpayers - Up to £28 per week of employer-supported childcare is exempt from tax and NIC.
- Additional rate taxpayers - Up to £25 per week of employer-supported childcare is exempt from tax and NIC.

If you joined an employer-supported childcare scheme before 5 April 2011, you are able to enjoy a £55 per week exemption rate as long as you remain in the scheme, regardless of your tax band.

It should be noted that those who earn the national minimum wage (£6.31 from 1 Oct 2013 for those over 21) or who earn below the primary threshold for National Insurance Contributions (£109 per week for 2013/14) cannot benefit from employer-supported childcare.

### **How do I qualify for directly-contracted childcare/ childcare vouchers?**

- You must live with and have parental responsibility for the child who will use the childcare.
- You must have an 'eligible' child: A child qualifies up to 1 September following their 15th birthday; or if the child is disabled, up to 1 September following their 16th birthday. The number of children in the family makes no difference to the amount of the exemption.
- The childcare you use must be registered.



**Can my partner receive directly-contracted childcare/childcare vouchers if I'm already receiving them?**

Yes. Each employed parent using registered childcare may claim the exemption. If both you and your partner are employed, you are both eligible to receive directly-contracted childcare/vouchers – even if you work for the same employer.

**Can I benefit from an employer-supported childcare scheme if I am self-employed?**

You should seek professional advice from an accountant and HM Revenue and Customs helpline on **0845 714 3143**.

In general the rule is that if you are on PAYE you can enter into a salary sacrifice scheme, but if you are on self assessment you cannot. This means the majority of self-employed people cannot benefit from salary sacrifice schemes. However, for company directors or partners who receive a gross salary, the situation can be more complex and you should seek advice.

**Do I have to use the vouchers that I receive straight away?**

No. You can save up childcare vouchers and use them at specific times of the year, such as during school holidays. You can also start to receive childcare vouchers from the day your child is born and save them until you use registered childcare. However, some vouchers are time limited – check with your scheme administrator.

Many childcare voucher companies use e-vouchers, issued through their website. You need to register your details on the website to be allocated a user ID. This allows you to access your account and your childcare vouchers electronically.

**Can I get a refund from my employer for vouchers I do not use?**

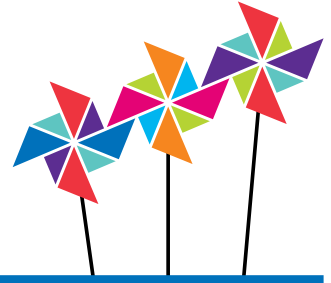
Although HM Revenue and Customs (HMRC) allows vouchers to be refunded, employers may choose not to allow it. If your employer does agree to refund childcare vouchers, HMRC requires that they are refunded through Pay As You Earn. Usually, only vouchers which were issued in the current tax year are refundable. However, if your employer wishes to refund vouchers from a previous tax year, they may be able to upon writing to the tax office to explain the circumstances.

**How much can I receive in directly-contracted childcare/childcare vouchers?**

You can receive any amount, but there are weekly limits on the amount that is free from tax and National Insurance Contributions (see 'How does employer-supported childcare save me money?').

**Can all childcare providers accept payment through childcare vouchers?**

Yes, as long as they are registered with Ofsted or Care and Social Services Inspectorate Wales and have a bank account. It does not cost the childcare provider anything to receive payment through childcare vouchers; however, not all childcare providers choose to accept vouchers and they do not have to by law. Check with your childcare provider first before joining a voucher scheme. If your childcare provider has any concerns or questions, information packs explaining the scheme are available from most voucher companies.



## Salary sacrifice or salary plus

Childcare vouchers can be given as part of your salary (salary sacrifice) or in addition (salary plus)

### What do I need to do in order to join a salary sacrifice scheme?

To join a salary sacrifice scheme you have to formally (by a change to your employment contract) agree to a reduction in your salary and instead receive that amount in childcare vouchers. As you are agreeing to a reduction in your taxable salary, your contract must be amended or you must have a signed agreement that describes the salary sacrifice agreement. Included in this should be:

- the amount you will receive in directly-contracted childcare/childcare vouchers; and
- the reduction in salary you have agreed to.

### Can anyone agree to a salary sacrifice scheme?

If you are involved in a salary sacrifice scheme, and receive some of your salary in vouchers, your employer must make sure that your cash pay does not fall below the minimum wage, currently £6.31 per hour for workers aged 21 years and over. You cannot sacrifice any of your Statutory Sick Pay or Statutory Maternity Pay.

#### Salary Plus

Childcare vouchers are given on top of your existing salary. This is more beneficial for you: you benefit from the savings on your childcare costs as well as the exemptions on your tax and National Insurance contributions. This option costs your employer more.

### How will I be affected by a salary sacrifice?

Joining a salary sacrifice scheme may affect your entitlement to benefits and tax credits. Employer-supported childcare can be an incentive for some employees, but before you commit to joining a scheme that involves salary sacrifice, it is important to be aware of how it might affect your overall financial situation. In some cases the benefits of employer-supported childcare are likely to outweigh any negative effects, but you must be able to make a decision based on your own circumstances.

### Do I have to join a salary sacrifice scheme?

If your employer operates a salary sacrifice scheme for childcare, you must be given a choice of joining the scheme. In order to make that choice, your employer is required to provide you with information about the implications of taking a salary sacrifice.

#### Salary sacrifice

In this option you agree to give up a portion of your salary which is paid to you in childcare vouchers or directly to your childcare provider. This amount is exempt from Tax and NICs up to £55 per week for basic rate tax payers.

### Effects of salary sacrifice on employment benefits

Employment benefits, such as Statutory Maternity Pay (SMP) and Statutory Sick Pay, are based on your average earnings over a fixed period. Any amount that you receive in childcare vouchers will not be counted as part of your earnings when calculating these employment benefits. These benefits are based on your sacrificed salary.

If you are pregnant, it should be possible to leave the salary sacrifice scheme. If you leave the scheme before the eight-week qualifying period, your SMP would not be affected by your salary sacrifice. If you do not leave the scheme your SMP will be based on your sacrificed salary. You will still be able to receive childcare vouchers while you are on maternity leave and your SMP cannot be subject to a salary sacrifice. In this case, your employer is responsible for paying for the vouchers. Be aware that there may be exceptions: see our factsheet 'Childcare during maternity leave'.

### Effects of salary sacrifice on terms and conditions of employment

There are many employer-provided benefits that are calculated on your salary, such as your employer's pension, overtime, sick pay, shift allowances, on-call time, uniform allowances and contractual maternity pay. Although employers are not required to by law, it is good practice for them to protect the benefits that they provide for you by basing them on your notional salary (the salary you would have been paid before the sacrifice).

### Effects of salary sacrifice on student loan repayments

Salary Sacrifice may have an effect on student loan repayments. These are only activated above a set amount of earnings and if the earnings are lowered the repayment may not need to be made.

### Effects of salary sacrifice on contribution- and earnings-related benefits

Contribution-based benefits, such as Jobseeker's Allowance, Employment Support Allowance/Incapacity Benefit and the State Pension, are calculated according to the level of National Insurance Contributions you pay. Your entitlement to contribution-based benefits may be affected by your participation in a salary sacrifice scheme, as your National Insurance Contributions will be lower.

Earnings-related benefits such as Maternity Allowance and the State Second Pension are based on your income. Your entitlement to earnings-related benefits may be affected by your participation in a salary sacrifice scheme, as the amount received in childcare vouchers will not be taken into account when calculating income.

### Can I leave a salary sacrifice scheme?

You can leave a salary sacrifice scheme at any time. You must notify your employer if you wish to do so. However, when you first join a salary sacrifice scheme, your employer may require that you do so for a set period of time. As salary sacrifice is a contractual agreement, you are bound by this agreement. But, many employers will offer an earlier review of the agreement as a result of unexpected life changes. If your employer does require you to sign up to a salary sacrifice scheme for a set period of time, you and your employer should be clear about what change in circumstances might be considered.

For more information about employer-supported childcare, visit: [www.hmrc.gov.uk/childcare](http://www.hmrc.gov.uk/childcare)

### Am I better off accepting the childcare element of Working Tax Credit or employer-supported childcare?

The following information provides general guidelines for determining whether you would benefit more from tax credits or employer-supported childcare. You should always seek independent advice before making a decision to ensure that you make the best choice.





### Can I claim both the childcare element of Working Tax Credit and employer-supported childcare?

- If your eligible childcare costs are more than £175 per week if you have 1 child or £300 per week if you have 2 or more children AND you have a low income, you may be able to claim both. In most cases, entitlement to the childcare element of Working Tax Credit will be affected by joining a salary sacrifice scheme;
- If your average earnings have been reduced by a salary sacrifice, you could receive a higher payment through Working Tax Credit.
- The value of childcare vouchers or employer-contracted childcare cannot be considered as childcare costs when calculations are made for your entitlement to the childcare element of Working Tax Credit. Therefore, the amount you are entitled to receive through the childcare element of Working Tax Credit will be reduced (essentially because you cannot claim twice for the same costs).

### When is it better to accept employer-supported childcare?

In general, it is better to accept childcare vouchers or directly-contracted childcare if:

- The vouchers are offered in addition to your regular salary; OR
- You are receiving Child Tax Credit at the family element (£545 per year) or less and you have eligible childcare costs.

### When is it better to accept the childcare element of the Working Tax Credit?

In general, it is better to use tax credits if:

- You are receiving Child Tax Credit of more than £545 per year and you have eligible childcare costs; AND,
- Your eligible childcare costs are no more than £175 per week if you have 1 child or £300 per week if you have 2 or more children.

For more information, contact the Tax Credit Helpline on **0345 300 3900** or go to: [www.hmrc.gov.uk/childcare](http://www.hmrc.gov.uk/childcare)

HM Revenue and Customs have created a tool to help you decide whether you would be better off receiving tax credits or taking childcare vouchers from your employer to help you with your childcare costs. This tool is available on their website:

[www.hmrc.gov.uk/calcs/ccin.htm](http://www.hmrc.gov.uk/calcs/ccin.htm)

The Family and Childcare Trust is the charity created from a merger of Daycare Trust and the Family and Parenting Institute. Together we bring over 40 years of experience in campaigning and research into family life and childcare.

The information in this factsheet refers to family benefits in England and Wales. For further information specific to Northern Ireland or Scotland, contact your local Family Information Service (FIS). Find details of your local FIS by visiting: [www.familyandchildcaretrust.org/findyourfis](http://www.familyandchildcaretrust.org/findyourfis) or by searching in your phone book.

This factsheet provides general information only and was accurate at the time of publication. The information is not to be taken as legal advice. You are advised to seek independent advice if you need further assistance.

[www.familyandchildcaretrust.org](http://www.familyandchildcaretrust.org)  
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