

Factsheet for parents

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 factsheets 'General help with childcare costs' and 'Help with childcare costs for parents moving into work', available to download from our website, www.daycaretrust.org.uk.

This factsheet includes information about:

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

Can I get financial help for any type of childcare?

Financial help for childcare is generally restricted to paying for childcare services that are 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 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 0845 300 3900 or by visiting www.hmrc.gov.uk/taxcredits.

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 lone 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 or in prison.
- 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/arrivals-uk.htm.

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 up to 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/calculator.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 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 the free early years 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 **must** tell the Tax Credit Office within **1 month** if:
 - your childcare costs go down by £10 per week for four 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); or
 - your (or your partner's) working hours go down to below 16 hours per week or you stop work.

It is also a good idea to tell the Tax Credit Office if:

- your childcare costs go up by more than £10 per week for four weeks or more;
- 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.

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

For more information or to apply for the childcare element call the Tax Credit Helpline on 0845 300 3900 or visit 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 employer-supported childcare;
- 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 with the help of a childcare voucher company. You will either be supplied with childcare vouchers from your employer or the voucher company.

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.

You can use these childcare vouchers 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 tax-payers- Up to £55 per week of employer-supported childcare are exempt from tax and NIC.
- Higher rate tax-payers- Up to £28 per week of employer-supported childcare is exempt from tax and NIC.
- Additional rate tax-payers- Up to £22 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 exemption rate as long as you remain in the scheme, regardless of your tax band.

It should be noted that those who earn below the tax bands (£144 per week in 2011/12) do not benefit from tax savings with employer-supported childcare. Those who earn below the primary threshold for National Insurance Contributions (£102 per week in 2011/12) do not benefit from National Insurance Contributions savings.

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?

No. The tax and National Insurance Contributions exemptions apply only to benefits an employer gives to an employee; therefore, if you are self-employed you are not eligible.

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.

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

Although HM Revenues 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 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 to childcare providers are available from most voucher companies. Alternatively you could ask them to email Daycare Trust for advice info@daycaretrust.org.uk

Help for employers

If you think you and other staff, as well as your employer, could benefit from the introduction of employer-supported childcare, it might be worth suggesting this to your line manager, your union, an employee representative or HR manager. Our factsheets for employers may be a useful introduction if your employer is not familiar with employer-supported childcare, download them from www.daycaretrust.org.uk/employers.

Salary sacrifice or salary plus

Childcare vouchers and employer-contracted childcare can be given as part of your salary (salary sacrifice) or in addition to it (salary plus):

Salary Plus

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

Salary Sacrifice

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

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 £5.93 per hour for workers aged 22 years and over. You cannot sacrifice any of your Statutory Sick Pay or Statutory Maternity Pay.

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.

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.

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', available from www.daycaretrust.org.uk.

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.

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.

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.

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?

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 employer-contracted childcare if:

- The vouchers are offered in addition to your regular salary; OR
- 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; 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.

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:

For more information, contact the Tax Credit Helpline on 0845 300 3900 or go to www.hmrc.gov.uk/childcare.

Daycare Trust is the National Childcare Campaign. We have been working since 1986 to promote high quality affordable childcare for all.

If you have any questions about the information provided in this factsheet, or other questions about childcare, email us at info@daycaretrust.org.uk. You can also access information on our website, www.daycaretrust.org.uk or www.payingforchildcare.org.uk.

The information in this factsheet relates to both England and Wales. Some information may vary between countries and this will be clearly highlighted in the relevant sections. However, much of the information will be relevant throughout the UK. For further information specific to Northern Ireland or Scotland contact your local information service. You can find contact details for your FIS by visiting www.daycaretrust.org.uk/parentinformation.

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.