

Tax-free childcare update

Introduction

HMRC have recently run a campaign to remind people that they could be missing out on up to £2,000 per child, per year, towards the cost of childcare.



How it will work

Working parents and guardians may be eligible to receive government top-ups of £2 for every £8 that they pay into a tax-free childcare account, up to a maximum of £2,000 per child (or £4,000 for disabled children), although there is an overall maximum limit of £10,000.

The scheme is open to all working parents across the UK with children under 12, or under 17 if disabled.

Under the scheme, the parent/guardian opens an online account via the government's Childcare Choices website and decides how much to pay in and how often. The flexible nature of the accounts mean that accountholders can pay in more in some months, and less at other times, depending on how much they have spare to invest. The account holder's circumstances are re-confirmed online every three months. Money can be withdrawn at any time but the government contribution will be lost.

Again, the flexible nature of tax-free childcare allows anyone to pay into the account, including grandparents,

other family members or employers.

Qualification for government contributions

To qualify for the government contribution, account holders will usually have to be in work, expecting to earn at least the National Minimum Wage (NMW) or National Living Wage (NLW) for 16 hours a week on average, over the next 3 months. This currently equates to at least £1,707.68, which is equivalent to the NLW for people over 25.

Where an individual is not working, they may still be eligible for tax-free childcare if their partner is working, and they receive Incapacity Benefit, Severe Disablement Allowance, Carer's Allowance or Employment and Support Allowance. It is also possible to apply where the claimant is starting or re-starting work within the next 31 days.

Self-employed people who do not expect to make enough profit in the next three months can use an average of how much they expect to make over the current tax year. Additionally, the earnings limit does not apply to self-employed individuals who started their business less than twelve months ago.

Where the individual, or their partner, has an 'adjusted net income' over £100,000 in the current tax year they will not be eligible for tax-free childcare.

Broadly, 'adjusted net income' is total taxable income before any personal allowances and minus certain payments, such as those made under Gift Aid. It is also worth noting that the £100,000 limit includes any expected bonuses.

It is not possible to receive tax-free childcare at the same time as claiming Working Tax Credit, Child Tax Credit, Universal Credit (UC) or childcare vouchers. Which scheme the individual is better off with depends on their situation. The Childcare Choices website includes a childcare calculator for parents to compare all the government's childcare schemes on offer and check which works best for their families, including the 30-hour free childcare offer, tax-free childcare or universal credit.

Employer-provided childcare

Tax-free childcare effectively replaces HMRC's employer-supported childcare scheme. However, parents who joined an employer-childcare voucher scheme before 4 October 2018 have the option of remaining in that scheme for as long as the employer offers it, or for as long as they stay with the employer. The employer-provided voucher scheme closed to new entrants from 4 October 2018.

Where an individual decides to switch from childcare vouchers or directly contracted childcare, they must tell their employer within 90 days of applying for tax-free childcare.

Finally, with regards to UC, HMRC recommend that the claimant waits until a decision on a tax-free childcare application is received before cancelling a UC claim.

Information to readers

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Recommendation

Anyone who pays for childcare would be wise to check their eligibility for tax-free childcare as they could be missing out on considerable financial support.

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