



Changes to Childcare Vouchers

A new scheme, *Tax-Free Childcare*, will replace existing voucher schemes in Autumn 2015. If you already receive childcare vouchers, you can continue to receive these until your child reaches 15. However, if you move jobs you will no longer be able to participate in a childcare voucher scheme but instead will be able to move to the new Tax-Free Childcare scheme.

Eligibility for Tax-Free Childcare

Tax-Free Childcare will be open to single parents/couples who work 8+ hours a week (including the self-employed) who pay for Ofsted-registered childcare for a child under the age of 12 (or 16 if the child is disabled). It has far greater reach than the current childcare vouchers scheme, which is only available if you are employed and your employer offers it.

Under *Tax-Free Childcare*, eligible families will get 20% off their yearly childcare costs paid for by the Government. This could mean payments of up to £2,000 per child (the scheme assumes a maximum of £10,000/year childcare costs per child).

Eligibility is similar to the current childcare vouchers scheme, however if the household has two parents, both need to work more than eight hours a week to qualify, and the same if you're a single parent. This is different from the current voucher scheme where help can be claimed even if only one of two parents is employed.

There are income limits in the new scheme. People must earn between £2,420 and £150,000 for a single parent, and between £4,840 and £300,000 where both parents work. So higher-rate taxpayers qualify for the same amount of government help as lower earners. This differs from the current scheme where higher rate taxpayers can only claim a reduced amount.



Parents who receive support through tax credits or, later, the universal credit will not be able to use the vouchers. Instead the government will meet 85% of the costs of childcare for parents on universal credit, provided that both parents are working and earn more than the personal tax allowance.

The current childcare voucher scheme

The current voucher scheme allows parents to sacrifice part of their salary in exchange for childcare vouchers. In effect, this means they are paying for part of their childcare tax-free. The vouchers are worth up to £55 a week, or £243 a month. The saving in tax and national insurance contributions adds up to £933 a year, and because both parents can claim, the total saving can be almost £2,000 a year (basic rate tax payers). Under the new scheme some parents can claim more. A working couple with one child will be £134 a year better off if they spend the maximum £10,000, while a working couple with three children will be £5,375 better off. A single parent with two children can claim £3,067 more a year.

If you are part of a working couple with one child paying around £5,000 a year for childcare, you will be worse off under the new scheme, because you can only claim 20% of your costs, or £1,000 a year. If you have two children, and spend £5,000 on each you will be better off. These figures are based on parents paying basic rate tax.

Existing childcare voucher schemes will continue for those already using it, but will be closed to new entrants after August 2015. Parents who use childcare vouchers can switch to the new scheme, but they won't be able to take advantage of both.

Here's how the schemes compare:



Childcare vouchers vs Tax-Free Childcare		
	Current childcare vouchers scheme	Proposed scheme
Official name	Employer Supported Childcare.	Tax-Free Childcare.
What do you get?	Depending on salary and when you joined, EACH PARENT can buy a max £243 vouchers/month from pre-tax and NI income. For a basic taxpayer, max annual gain is £930.	You pay money to a childcare provider and for each 80p you give, the Government will add 20p, up to the annual £2,000 limit/child.
Who qualifies?	Only available from employers that choose to offer the scheme. Not for self-employed.	Working single parents earning less than £150,000/year or couples (both must work) earning less than £300,000 collectively. Includes self-employed but excludes those already getting tax credits or universal credit.
What age can your child be?	Up to the first Saturday following 1 September after child's 15th birthday (or 16th birthday if registered blind or getting Disability Living Allowance).	It's for children up to 12 and disabled children under the age of 16.
When does it start?	Already in place. From Autumn 2015, if existing recipients change employer, they will no longer be eligible for vouchers.	It's proposed to start after the next general election, in autumn 2015.
How many eligible?	450,000 currently claim.	1.9 million families.