Tax-free childcare: update

General Features

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The tax-free childcare roll-out completed on 14 February 2018. This article provides an update on the scheme and what it means for employer supported childcare schemes.

Following a small pilot that began in late 2016, the tax-free childcare (TFC) scheme started accepting claims from certain groups from 21 April 2017. Throughout 2017, the scheme gradually opened up to more claimants. From 15 January 2018, those whose youngest child was under 9 (or who turned 9 on 15 January 2018) were able to claim and from 14 February 2018 the scheme opened up to all remaining eligible families. This includes those responsible for a child until the last day of the week in which 1 September following their 11th birthday falls and those responsible for a disabled child until the last day of the week in which 1 September following their 16th birthday falls. However, even if someone is eligible to apply, they will only qualify for a top-up payment if they meet a number of conditions.

Under TFC, for each 80 pence that someone pays into their childcare account, the government will pay in 20 pence up to a maximum of £500 (£1,000 if the child is disabled). Government support is per three month entitlement period. This means that support of up to £2,000 per child per year is available, increasing to £4,000 per child if they are disabled.

TFC will eventually fully replace directly contracted childcare and childcare vouchers that are offered by employers. Workplace nurseries are not affected by the introduction of TFC. It is expected that legislation will be introduced that will close directly contracted childcare and childcare vouchers to new entrants from 6 April 2018. Those already claiming support through those schemes at that date should be able to continue as long as their employer continues to offer them. We will provide further updates once more details are known.

Some people will be better off moving from employer supported childcare to TFC, but others will be better staying with their employer's scheme. It depends on their own circumstances and the cost of their childcare. HMRC operate a website ' Childcare Choices' that explains the different childcare options and has a calculator that can help – however, caution should be exercised because this is very basic, and advice should be taken to ensure the decision is the right one. Similar better off calculations will also be needed for tax credit and universal credit claimants – as it is not possible to claim tax credits or universal credit (any amount not just the childcare elements) at the same time as TFC. Any successful application for TFC will result in the automatic termination of the tax credit or universal credit claim.

TFC is a 'digital by default' scheme such that the legislation requires a claim to be made by electronic means unless certain exceptions apply. Applications should be made via the GOV.UK website which uses a joint application service covering both TFC and the separate 30 hour free childcare scheme (which applies in England only). There is a childcare service helpline run by HMRC which is 0300 123 4097 (0300 123 9232 minicom) and the advisers on that line have confirmed they can take claims over the phone for people unable to transact online.

All TFC related legislation is available via our website for advisers. We have also published a policy section that provides background information and documents. A guidance section is also available that provides more detailed information about how the scheme works. You can sign up for our newsletter which contains the latest alerts.