

Tax-free childcare

Parents with children under the age of 12 can now take advantage of the Government's tax-free childcare scheme and open an account online and receive a tax-free Government top-up. The scheme was originally launched last April for under twos and access has gradually been widened. It was extended to children under 9 in January and to children under 12 from 14 February 2018.

How does it work?

Parents can open an account online into which they can deposit money. They can then use it to pay their childcare costs for a child under 12 or a disabled child under 17. For every £8 deposited in the account, the Government adds a tax-free top up of £2. The maximum tax-free top-up that can be received each tax year is £2,000 per child (or £4,000 where the child is disabled).

Who qualifies?

To be eligible to open an account, the parent and his or her partner (if they have one) must be over 21 and expect to earn on average £120 per week. The earnings condition does not apply in the first year of self-employment. This is equivalent to 16 hours at the National Living Wage. The scheme is open to the self-employed, as well as to employees. However, if either the parent or their partner earns more than £100,000, they are not eligible for the help.

Parents may still qualify for tax-free childcare if they are not working because they are on maternity, paternity, or adoption leave, or if they are not able to work because they are disabled or have caring responsibilities and receive carers' allowance, employment and support allowance, incapacity benefit or severe disablement benefit.

Eligible childcare

The top-up is only available to fund childcare for an eligible child. This is a child who is under 12, or under 17 if disabled, who usually lives with the applicant.

The money in the account can be used to pay for a range of regulated childcare, such as nurseries, childminders, after-school clubs, and holiday clubs. However, it cannot be used to pay for unregulated childcare, such as that provided by a relative.

But a word of caution – the money in the account can only be used to pay a childcare provider if the provider is signed up to the Tax-Free Childcare scheme. This is something to check with your provider.

Example

Rebecca and her husband Joe both work and both earn more than £120 per week. Neither earns more than £100,000. They have two children aged 2 and 4, who attend a nursery. The nursery is regulated and signed up to tax-free childcare.

Rebecca opens a tax-free childcare account online. She makes regular deposits into the account totalling £16,000 a year. She qualifies for the maximum top up of £2,000 per child – a total tax-free top-up of £4,000. She is able to use the account to pay her nursery fees.

Interaction with other forms of help

A person cannot benefit from tax-free childcare at the same time as receiving childcare vouchers or support with childcare costs from their employer. Where a person is in an employer scheme, they

can choose whether to remain in that scheme or leave the scheme and sign up for a tax-free childcare account instead.

Tax-free childcare is available if the parent receives tax credits for childcare or universal credit for childcare. However, it can be used in conjunction with the 15 hours free childcare and 30 hours free childcare schemes.

Where a person is eligible for more than one form of help with childcare costs, they should crunch the numbers to see which option is best for them.