

Government childcare scheme – tax-free top-up

Working parents can receive a tax-free top up from the Government to help with their childcare costs. The top up is worth £500 every three months (£2,000 a year). A higher top-up of £4,000 a year (£1,000 every three months) is available where the child is disabled.

To receive the top-up, eligible parents must open an account online. The Government will provide a top-up of £2 for every £8 deposited by the parents, up to the above limits. The money in the account is then used to pay for childcare with a registered provider.

Who is eligible?

To qualify for tax-free childcare, the claimant (and their partner if they have one) should be in work, on sick leave or annual leave or on parental, maternity, paternity or adoption leave. The scheme is open to both the employed and the self-employed. However, earnings conditions apply.

The claimant (and their partner if they have one) must earn a minimum of £131.36 per week on average (which is equivalent to 16 hours at the National Living Wage of £8.21 per hour for 2019/20 for people age 25 and over). This equates to £1,707.68 over three months. This limit does not apply to a self-employed person who started their business within the previous three months.

There is also an earnings cap – tax-free childcare is not available where the claimant or their partner has ‘adjusted net income’ of more than £100,000. This is broadly taxable income before personal allowances, less items such as gift aid.

The child

Tax-free childcare is available for a child who is 11 or under and who lives with the claimant. Eligibility ceases on 1 September following their 11th birthday. A disabled child remains eligible until they are 17.

Using tax-free childcare

Tax-free childcare can be used to pay for childcare that is approved childcare. This includes childminders, nurseries, nannies, after school clubs, playschemes and home care agencies. The childcare provider must sign up to the scheme.

Interaction with tax-credit and Universal Credit

Tax-free childcare is not available at the same time as working tax credit, child tax credit or universal credit. The childcare calculator is available on the Gov.uk website at www.gov.uk/tax-free-childcare.

Employer-supported childcare and childcare vouchers

Similarly, an employee cannot benefit from both the tax-free top-up under the Government scheme and the tax exemption for employer-provided childcare vouchers or employer-supported care. Again, what is the best option will depend on personal circumstances. An employee within an employer scheme must tell their employer they have applied for tax-free childcare within 90 days of making the application.

How to apply

Applications for tax-free childcare can be made online at www.gov.uk/apply-for-tax-free-childcare.