Childcare vouchers given last minute reprieve

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The Government have announced that the tax and National Insurance (NI) relief offered through childcare vouchers will remain available to new applicants for a further six months

It had previously been announced in the 2016 Budget that, from 6 April 2018, childcare vouchers would be closed to new entrants and replaced by the new Tax Free Childcare (TFC) scheme. This would broadly mean that:

If parents were not already signed up and in receipt of childcare vouchers by the relevant date, they would not be able to benefit from the associated income tax and NI benefits.

Employees already receiving childcare vouchers could continue to receive them as long as their employer ran the scheme, or until they changed employer.

However, in a House of Commons debate on 13 March 2018, the Government announced that this deadline will be extended for a further six months. As a result, the cut-off date for new applicants to benefit from the tax and NI relief through childcare vouchers has now moved to 4 October 2018.

We understand that, provided parents receive a voucher in one of the 52 tax weeks ending on 4 October, they can continue benefiting from the tax and NI relief after that date as long as their employer continues to offer the scheme and they have a gap of no more than 52 tax weeks between vouchers.

HMRC have confirmed that this six-month extension also applies to directly-contracted childcare provided by employers, which will also eventually be replaced by TFC. Workplace nurseries are not affected by the introduction of TFC.

The general rule is that parents can either claim childcare vouchers or TFC, not both. While some people will be better off under TFC, others will benefit more from childcare vouchers. Individuals need to check their own position carefully, as whether they qualify for either scheme and how much help they can get depends on a number of factors including hours worked, income, number of children and the amount of childcare costs.

In their press release following the announcement of the six-month extension, LITRG highlighted the difficulties parents face in working out which childcare scheme is best for them.

Alongside childcare vouchers and TFC, childcare help is also provided through the tax credit and universal credit systems. In some cases, making an application for one scheme can end financial support under another and so parents already getting either tax credits or universal credit (whether or not it includes any childcare support) need to ensure they check their position carefully before making any applications.

The Childcare Choices website offers a calculator to help people make these choices, however it does not include universal credit and it may not give accurate answers for those with more complex circumstances such as variable childcare costs. LITRG recommend that people to contact a local advice agency for help to make sure they make the best decision based on their own circumstances.

In their press release the ATT highlighted that the six-month extension gives employers more time to consider childcare vouchers. Childcare vouchers may be preferable to TFC from an employer perspective–where vouchers are provided under salary sacrifice there will be a Class I secondary NI saving of 13.8 per cent of the salary surrendered. By contrast, TFC provides no NI savings for employers or employees. However, unlike TFC, childcare voucher schemes have to be run by an employer, which does give rise to some extra administration and costs.

The ATT recommend that employers who are in a position to do so use the extra time given to consider the implications of the alternatives of childcare vouchers and TFC for both themselves and their employees.