COVID-19: Funds in childcare schemes: changes of circumstances

General Features

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The Low Incomes Tax Reform Group (LITRG) explains some points to take into account if taxpayers are thinking about accessing funds saved in childcare schemes.

Schools and nurseries have been closed due to the coronavirus pandemic. This has meant that childcare arrangements for many have changed. One consequence of this might be for people to ask whether or not they can get money back out of tax-incentivised childcare savings schemes.

Tax-free childcare

Help towards childcare costs can be obtained through'a tax-free childcare'(TFC) account. Money paid into TFC accounts attracts (subject to certain conditions) a government top-up. The account holder then makes payments to their childcare provider from the account.

TFC account holders are free to withdraw any money they have put into the account, but they should be made aware that any such amount withdrawn will be deducted from the total sum in the account that attracts the 'government top-up' payment.

If the amount withdrawn has already had the TFC top-up, then the account holder will have to repay to HMRC the value of the top-up that corresponds to the amount of the withdrawal. For example, for every £8 withdrawn (that is not used to pay a childcare provider), HMRC will take back the government's £2 contribution.

Support can be obtained via the HMRC's'Childcare Service helpline (0300 123 4097).

Childcare vouchers (Employer-supported childcare)

Employees within employer-supported childcare schemes are often part of a salary-sacrifice arrangement through which they agree to take less salary in exchange for childcare vouchers (or directly contracted childcare).

LITRG understands that it is usually not possible to get a refund on any excess childcare vouchers unless the employer allows it and adjustments would need to be made for the tax and NI savings given. Affected employees would need to speak to their childcare voucher company and employer to find out what is possible.

HMRC's guidance says:

'HMRC agrees that COVID-19 counts as a life event that could warrant changes to salary sacrifice arrangements, if the relevant employment contract is updated accordingly.'

Note the requirement to ensure the change is properly documented. Employees can ask to stop their salary sacrifice/receiving childcare vouchers or directly contracted childcare through their employer's scheme'temporarily without having to leave the scheme, providing they restart taking vouchers (or workplace nursery option) within 52 weeks.

Such a temporary break from the employer's scheme must not last more than 52 weeks, otherwise the employee will not be able to rejoin and may need to look for'other types of support'towards their childcare costs. The employee could, however, remain within the scheme and reduce the vouchers they are claiming to a minimal amount to avoid this issue. A reduced salary sacrifice and childcare vouchers claim might also be appropriate if, for example, employees are having to pay a retention fee to avoid losing their childcare place when childcare settings reopen.

For those who have been furloughed under the Coronavirus Job Retention Scheme, it is understood from HMRC guidance on GOV.UK (see Work out 80% of your employees' wages to claim through the Coronavirus Job Retention Scheme and Check if your employer can use the Coronavirus Job Retention Scheme: how much you'll get) that if an employee (a full-time or part-time regular salaried employee) switched out of a salary sacrifice scheme **on or before 19 March 2020**, the reinstated higher salary will form the basis of the calculation of the amount that employers can claim under that scheme.

It is our understanding that if an employee reduces their childcare vouchers (and consequent salary sacrifice) after 19 March, this will not affect their salary calculation under the Job Retention Scheme.