

Back-to-basics guide to Childcare Vouchers

Following recent changes to the Childcare Voucher scheme, here is a short guide to its key features. Whether you are a parent, an employer or a childcare provider, remember you can call our Family Benefits Advice Service on 0800 028 3008 if you have any queries.

1. Who is eligible for Childcare Vouchers?

On 4 October 2018 the Childcare Voucher scheme **closed to new entrants**. Employers who do not currently have a Childcare Voucher scheme are no longer able to set one up. If an employer did already have a scheme in place, they can no longer accept new entrants.

Parents who had joined the scheme before it closed, will remain eligible provided they:

- joined the scheme prior to 4 October 2018
- make at least one salary sacrifice (more than £0) within each 52 week period
- do not leave the scheme in order to use Tax-Free Childcare, and
- do not change employer.

Childcare Vouchers can be claimed for a qualifying child until 1 September after their 15th birthday, or 1 September after their 16th birthday if they have a disability.

2. What can Childcare Vouchers be used for?

Childcare Vouchers can be used to pay for all forms of **registered childcare** including afterschool clubs, breakfast clubs, crèches, nurseries, playgroups, childminders and registered summer schemes. Registered childcare means the provider is registered with the appropriate body depending on where in the UK they are, and meets the requirements of the relevant national standards.

3. How much can parents pay into their Childcare Voucher account?

The maximum amount employees can salary sacrifice into their Childcare Voucher account depends on their tax band. This is based on income after a Basic Earnings Assessment completed by their employer:

- **Basic rate taxpayer:** up to £55 per week, £243 per month, £2,916 per year.
- **Higher rate taxpayer:** up to £28 per week, £124 a month. £1,488 per year.
- **Additional rate taxpayer:** up to £25 per week, £110 a month, £1,320 per year.

For Childcare Voucher purposes the tax band a parent falls into depends on their income after a Basic Earnings Assessment has been conducted. This requires the employer to deduct from the employee's gross salary the employee's personal tax allowance, the value of the Childcare Vouchers for a basic rate tax payer over a year (£2,916), and any employee pension contributions.

All employees using Childcare Vouchers are subject to a Basic Earnings Assessment, upon opting in and at the start of each tax year, which determines the level at which they can sacrifice.

Update in relation to National Minimum Wage

Previously parents could not avail of Childcare Vouchers in cases where the salary sacrifice would bring their hourly rate below the National Living Wage / National Minimum Wage. However, new rules mean that this is no longer the case. From April 2020 employers offering salary sacrifice and deductions schemes will no longer be fined if the scheme brings payment below the National Minimum Wage rate. This includes salary sacrifice Childcare Voucher schemes.

The waiver is subject to strict criteria – including that the worker has opted into the scheme and not been forced into it by their employer and has received the correct benefit as a result of the deduction.

4. Can the salary sacrifice amount be changed?

Employees can typically change their salary sacrifice amount between different pay periods (some employers apply restrictions, allowing this to only happen at set times of the year). They can reduce it, even to zero, and remain in the scheme **as long as they make at least one salary sacrifice (more than £0) within a rolling 52 week period.**

Employees should notify their employer that they want to change their salary sacrifice amount before the employer processes their pay for that period. Employees should check with their employer when payroll is processed, as this can be as much as a month in advance.

Anyone who joined Childcare Vouchers by sacrificing only a small amount, for example £1, should review their payments when they know what their childcare costs are likely to be, to benefit fully from the savings.

5. Is it possible to temporarily opt out of Childcare Vouchers?

Employees can opt out of the scheme temporarily, for example when on maternity leave or a career break. They should use the online portal or contact their employer and follow their set procedure for opting out. Employees may opt back in at any time, subject to their employer's policy, provided they do so within 52 weeks of their last salary sacrifice. **If an employee opts out for more than 52 consecutive weeks they will be treated as having left and will not be able to opt back in.**

6. How do Childcare Vouchers affect Statutory Maternity Pay (SMP)?

Some employers calculate SMP based on gross salary after the value of the Childcare Vouchers has been deducted. If this is applicable, for any employees who are already

receiving Childcare Vouchers we advise that, where possible, they opt out temporarily during the 8 weeks prior to the 15th week before the baby is due. This is referred to as your 'relevant period' and is when SMP is normally calculated and will enable the employer to calculate the SMP based on the employee's full gross salary. Employees cannot salary sacrifice from SMP.

7. Can Childcare Vouchers be backdated?

At the employer's discretion, parents may be able to backdate their Childcare Vouchers. This allows them to retrospectively claim their full entitlement for the tax year if, for example, they have been salary sacrificing less than their full allowance per month. This is permitted by HMRC. The employee does not have to have incurred qualifying childcare costs, but they must have had parental responsibility throughout the period for which Childcare Vouchers are being issued.

Example: A basic rate taxpayer has been sacrificing £200 per month from April to January totalling £2,400 per year. They could, if eligible, sacrifice the additional £516 over the next two months in addition to their £200 regular monthly sacrifice.

8. Can Childcare Vouchers be used alongside Tax Credits or Universal Credit?

In certain circumstances it can be financially beneficial for your household to spread the cost of childcare between Tax Credits or Universal Credit and Childcare Vouchers. We would encourage parents to seek advice from our Family Benefits Advice Service if they are considering this.

9. What if a parent wants to leave Childcare Vouchers to use Tax-Free Childcare?

To leave Childcare Vouchers to join Tax-Free Childcare an employee must notify their employer in writing (there is no set format, notification can be by email), and will not be able to re-join Childcare Vouchers.

We recommend employers keep a record of these for future reference, as the parents will not be able to re-join the scheme.

Parents should contact the Family Benefits Advice Service before leaving Childcare Vouchers, to ensure they make the right decision for their family.

Family Benefits Advice Service

If you have any questions about Childcare Vouchers which are not answered here, or would like personalised advice, please get in touch with us on Freephone 0800 028 3008 (Monday to Friday) or email hello@employersforchildcare.org – our trained advisors will be happy to help.