

Factsheet for parents

Help with childcare costs for working parents

This factsheet contains information for parents who are working or entering the workforce. It outlines how to access help with childcare costs and will sign post you to further sources of information.

There are other types of financial help available. For more information, see our factsheet *General help with childcare costs*.

This factsheet includes information on:

- financial help with childcare when returning to work;
- tax credits for working parents;
- employer-supported childcare; and,
- choosing between tax credits and employer-supported

Can I get financial help for any type of childcare?

Financial help for childcare is generally restricted to paying for childcare services that are registered. For more information, see our factsheet *What are my childcare options?*

I am returning to work. What help is available?

If you are returning to work after a year or more of unemployment and have been claiming income related benefits, you may be eligible for some additional financial support to help with your transition to work.

Job Grant

The Job Grant is a tax-free payment of £250. To qualify for the Job Grant you must:

- have been receiving a qualifying benefit for at least 26 weeks before moving into full-time work; and,
- be taking up full time work of at least 16 hours per week for a minimum of 5 weeks.

Contact your local Jobcentre Plus to find out if you are eligible. Contact **0800 055 6688** or see www.jobcentreplus.gov.uk for the contact details of your local office.

New Deal Programme

If you are participating in the New Deal Programme and you are starting a new job, there may be financial support available for you. Always speak to your advisor for information about what support is available and how to apply. This support can include help with paying a deposit for childcare, doing a work trial period, or obtaining an in-work credit. If you have joined the New Deal Programme and you are working 16 or more hours per week, your New Deal adviser will automatically advise you to claim Working Tax Credit. Other New Deal Programme support includes:

Childcare Subsidy

If you are participating in the New Deal for Lone Parents programme and work less than 16 hours per week, you may be able to access support through the Childcare Subsidy. The subsidy allows you to claim up to £87.50 per week for 1 child and up to £150 per week for 2 or more children. If you meet the criteria, you can claim the subsidy for up to 52 weeks.

Childcare Assist

Jobcentre Plus offers Childcare Assist to participants of the New Deal for Lone Parents and New Deal for Partners. This is funding that can cover childcare costs for the week before you start work. It can be up to £175 for 1 child and up to £300 for 2 or more children. In some areas, Jobcentre Plus offers Childcare Assist to all New Deal participants.

What help is available through the childcare element of Working Tax Credit?

You may be eligible for extra help with childcare costs through the childcare element of Working Tax Credit. The childcare element is intended to assist working parents with the cost of registered childcare. The amount of the childcare element that you receive will depend on your family income and circumstances. Many factors affect your entitlement, so it is recommended that you check your eligibility.

How much of my childcare costs does the childcare element cover?

The childcare element can cover up to 80 per cent of eligible childcare costs. Eligible childcare costs are set at £175 per week for 1 child and £300 per week for 2 or more children. For example, if you have 1 child in childcare you could receive up to a maximum of £140 per week (80 per cent of £175). With 2 or more children in childcare, you could receive up to £240 (80 per cent of £300) per week. The childcare element of Working Tax Credit is paid to the main carer alongside Child Tax Credit.

Am I eligible for the childcare element of Working Tax Credit?

To be eligible for the childcare element of Working Tax Credit:

- You must be in paid work 16 hours or more per week. If you have a partner, you must both work at least 16 hours per week or 1 partner must work at least 16 hours per week if the other is incapacitated, in hospital or in prison. You can work for more than one employer, be self-employed or work as a director of a limited company and qualify for the childcare element. If you are on maternity leave or sick leave from your normal paid work, you are considered to be in paid work.
- You must have the main responsibility for caring for a child or children.

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- You can claim the childcare element up to the first Saturday in September after your child's 15th birthday or up to the first Saturday in September after your child's 16th birthday if he/she is registered blind (or have been taken off the blind register within the last 28 weeks) or receive Disability Living Allowance.
- The childcare you use must be registered.
- Usually you must live in the UK to claim the childcare element; however, there are exceptions. For example, if you are a Crown Servant posted overseas.
- UK nationals (which means that you or your parents were born in the UK, you are a UK citizen or you hold a UK passport) and citizens of EEA countries who are working in the UK may qualify for the benefit. Some citizens of other countries may also qualify for the benefit. For example, family members of an EEA citizen may qualify. For more information, see the immigration/residency information on the HM Revenue and Customs website: www.hmrc.gov.uk/taxcredits/arrivals-uk.htm

What are my average weekly childcare costs?

The childcare element is paid for your average weekly childcare costs, so even if your childcare costs go up and down, you will receive the same amount each week or month. So that you are not overpaid or underpaid, it is important to note:

- If you pay different amounts for the holidays and during term time, you will need to calculate the average amount you pay throughout the year. Add up the total amount you have paid for childcare over the past 52 weeks. Divide this amount by 52 to get your average weekly costs.
- When you are calculating the amount you pay, do not include the amount you receive in childcare vouchers, any amounts paid by your employer or any amounts that are paid by your local authority (for the free early years place).

Do I need to tell HM Revenue and Customs if my circumstances change?

You will need to contact the Tax Credit Helpline to tell them about certain changes in your situation as soon as possible in order to avoid being overpaid (or underpaid). The changes that you need to tell them about are:

Children – tell the Tax Credit Helpline if:

- you have another child;
- your childcare costs go up;
- your childcare costs go down by £10 for more than four weeks;
- your childcare is no longer registered;
- You change childcare providers, even if the cost is the same;
- your child leaves home;
- your child is over 16-years old and they leave full-time education or go to university;
- your child is employed and they start training that is provided by their employer; or,
- your child continues full-time education after 1 September following their 16th birthday.

Household, work and income – tell the Tax Credit Helpline if:

- there are any changes with your partner, family or household (for example, if your partner moves out);
- your working hours go down to less than 30 per week;
- your working hours go down to below 16 hours;
- you stop working;
- you have been on strike for more than 10 days; or,
- your income changes – for example you get a pay rise, do regular over time, or your benefits change.

Other changes – tell the Tax Credit Helpline if:

- any of your family are affected by a disability;
- you change your bank account;
- you change your address;
- you permanently leave the country;
- you leave the country for eight weeks or more; or,
- you lose the right to reside in the UK.

Where can I get more information about the childcare element of Working Tax Credit?

The HM Revenue and Custom website has a Tax Credit Calculator where you can get an idea of whether or not you qualify for help through tax credits. For more information or to apply for the childcare element call the Tax Credit Helpline on 0845 300 3900 or visit www.hmrc.gov.uk/taxcredits/calculator.htm.

What help is available through my employer?

Employer-supported childcare describes the help that is offered by employers to employees to help with childcare costs. Employers are not obliged by law to offer this support, so you may not be able to obtain help in this way.

There are three types of financial help that are available through your employer:

- workplace childcare provision;
- employer-contracted or directly-contracted childcare; or,
- childcare vouchers.

The benefit of employer-supported childcare is that you save on tax and National Insurance Contributions and your employer saves on National Insurance Contributions. The amount you save with employer-supported childcare depends on:

- the type of employer-supported childcare;
- whether it is offered instead of (salary sacrifice) or in addition to your salary (salary plus); and,
- the rate of tax and National Insurance Contributions on your salary.

Workplace childcare provision

Some employers provide workplace or in-house childcare provision on their own premises. If your employer provides a workplace nursery or holiday playscheme (and is wholly or partly responsible for financing and managing the provision) all of your costs for using this childcare are exempt from tax and National Insurance Contributions.

Employer-contracted or directly-contracted childcare

Employer-contracted childcare is when your employer directly contracts your childcare provider and pays for some or all of your childcare. The first £55 per week (£243 per month) paid for by your employer is exempt from tax and National Insurance Contributions. Employer-contracted childcare can be offered as a salary sacrifice or salary plus scheme (see below for details).

To qualify for employer-contracted childcare:

- You must live with and have parental responsibility for the child who will use the childcare.
- You must have an eligible child. A child qualifies up to 1 September following their 15th birthday or if the child is disabled up to 1 September following their 16th birthday. The number of children in the family makes no difference to the amount of the exemption.
- The childcare you use must be registered.

Once you have chosen a registered childcare provider, you and your employer will enter into a contract with the childcare provider agreeing on dates, amount, and method of payment.

Childcare vouchers

Childcare vouchers can be used to pay for childcare. Childcare vouchers can be offered as part of a salary sacrifice or salary plus scheme.

How do childcare voucher schemes work?

Some employers administer the scheme themselves; others run a scheme with the help of a childcare voucher company. You will either be supplied with childcare vouchers from your employer or the voucher company. You can then use childcare vouchers to pay your childcare provider who will claim the value of the voucher from the voucher company or from your employer, usually by direct payment into their bank account.

Many childcare voucher companies now use e-vouchers, issued through their website. You need to register your details on the website to be allocated a user ID. This allows you to access your account and your childcare vouchers electronically

Do childcare vouchers save me money?

As an employee, you do not have pay tax and National Insurance Contributions on childcare vouchers worth up to £55 per week (£243 per month). As a result, they may save you money on childcare costs. If you are a lower level tax-payer, you could save up to £904 per year (or £1,195 per year if you pay a higher rate of tax). If you have a partner, you can both join your employer's voucher scheme. So you may be eligible for twice the amount of savings.

It should be noted that those who earn below the tax bands (£124.50 per week in 2009/10) do not benefit from tax savings with employer-supported childcare. Those who earn below the primary threshold for National Insurance Contributions (£95 per week in 2008/9) do not benefit from National Insurance Contributions savings.

How do I qualify for childcare vouchers?

- You must live with and have parental responsibility for the child who will use the childcare.
- You must have an 'eligible' child: A child qualifies up to 1 September following their 15th birthday; or if the child is disabled, up to 1 September following their 16th birthday. The number of children in the family makes no difference to the amount of the exemption.
- The childcare you use must be registered.

Can my partner receive childcare vouchers if I'm already receiving them?

Yes. Each employed parent using registered childcare may claim the exemption. If both you and your partner are employed, you are both eligible to receive vouchers – even if you work for the same employer.

Can I benefit from a childcare voucher scheme if I am self-employed?

No. The tax and National Insurance Contributions exemptions apply only to benefits an employer gives to an employee; therefore, if you are self-employed you are not eligible.

Do I have to use the vouchers that I receive straight away?

No. You can save up childcare vouchers and use them at specific times of the year, such as during school holidays.

How much can I receive in vouchers?

You can receive any amount in vouchers, but only the first £55 per week is free from tax and National Insurance Contributions. If you join a salary sacrifice scheme and receive a reduction in your salary, your cash pay must not fall below the minimum wage, currently £5.73 per hour (main rate).

Can all childcare providers accept payment through childcare vouchers?

Yes, as long as they have a bank account. It does not cost the childcare provider anything to receive payment through childcare vouchers; however, not all childcare providers choose to accept vouchers and they do not have to by law. Check with your childcare provider first before joining a voucher scheme. If your childcare provider has any concerns or questions, information packs explaining the scheme to childcare providers are available from most voucher companies. Alternatively you could ask them to call the Daycare Trust Information Line on 0845 872 6251

Salary sacrifice or salary plus

Childcare vouchers and employer-contracted childcare can be given as part of your salary (salary sacrifice) or in addition to it (salary plus):

Salary Plus

Childcare vouchers are given on top of your existing salary. This is the more beneficial option for you: you benefit from the savings on your childcare costs as well as tax and NICs exemptions. This option costs more for your employer.

Salary Sacrifice

In this option, you agree to give up a portion of your salary which is paid to you in vouchers or paid directly to the childcare provider. This amount is exempt from tax and NICs up to £55 per week.

What do I need to do in order to join a salary sacrifice scheme?

To join a salary sacrifice scheme you have to formally (by a change to your employment contract) agree to a reduction in your salary and instead receive that amount in childcare vouchers. As you formally agree to a reduction in your taxable salary, your contract must be

amended or you must have a signed agreement that describes the salary sacrifice agreement. Included in this should be:

- the amount you will receive in vouchers; and
- the reduction in salary you have agreed to.

Can anyone agree to a salary sacrifice scheme?

If you are involved in a salary sacrifice scheme, and receive some of your salary in vouchers, your employer must make sure that your cash pay does not fall below the minimum wage, currently £5.73 per hour for workers aged 22 years or over. You cannot sacrifice any of your Statutory Sick Pay or Statutory Maternity Pay.

How will I be affected by a salary sacrifice?

Joining a salary sacrifice scheme may affect your entitlement to benefits and tax credits.

Employer-supported childcare can be an incentive for some employees, but before you commit to joining a scheme that involves salary sacrifice it is important to be aware of how it might affect your overall financial situation. In some cases the benefits of employer-supported childcare are likely to outweigh any negative effects, but you must be able to make a decision based on your own circumstances.

Effects of salary sacrifice on terms and conditions of employment

There are many employer-provided benefits that are calculated on your salary such as your employer's pension, overtime, sick pay, shift allowances, on-call time, uniform allowances and contractual maternity pay. While employers are not required by law to maintain your notional salary, it is good practice for your employer to protect the benefits that they provide for you by basing them on your notional salary or your salary rate before the sacrifice. It is up to your employer whether you keep a notional salary.

Effects of salary sacrifice on contribution- and earnings-related benefits

Contribution-based benefits such as Jobseeker's Allowance, Employment Support Allowance/Incapacity Benefit and the State Pension are calculated according to the level of National Insurance Contributions you pay. Your entitlement to contribution-based benefits may be affected by your participation in a salary sacrifice scheme, as your National Insurance Contributions will decrease.

Earnings-related benefits such as Maternity Allowance and the State Second Pension are based on your income. Your entitlement to earnings-related benefits may be affected by your participation in a salary sacrifice scheme, as the amount received in childcare vouchers will not be taken into account when calculating income.

Effects of salary sacrifice on employment benefits

Employment benefits, such as Statutory Maternity Pay (SMP) and Statutory Sick Pay, are based on your average earnings over a fixed period. Any amount that you receive in childcare vouchers will not be counted as part of your earnings when calculating these employment benefits. These benefits are based on your sacrificed salary.

If you are pregnant, it should be possible to leave the salary sacrifice scheme. If you leave the scheme before the eight-week qualifying period, your SMP would not be affected by your salary sacrifice. If you do not leave the scheme your SMP will be based on your sacrificed salary. You will still be able to receive childcare vouchers while you are on maternity leave and your SMP cannot be subject to a salary sacrifice. In this case, your employer is responsible for paying for the vouchers. Be aware that there may be exceptions: see our factsheet *Childcare during maternity leave*.

Effects of salary sacrifice on student loan repayments

Salary Sacrifice may have an effect on student loan repayments. These are only activated above a set amount of earnings and if the earnings are lowered the repayment may not need to be made.

Do I have to join a salary sacrifice scheme?

If your employer operates a salary sacrifice scheme for childcare, you must be given a choice to join the scheme. In order to make that choice, your employer is required to provide you with information about the implications of taking a salary sacrifice.

Can I leave a salary sacrifice scheme?

You can leave a salary sacrifice scheme at any time. You must notify your employer if you wish to do so. However, when you originally join a salary sacrifice scheme, your employer

may require that you do so for a set period of time. As salary sacrifice is a contractual agreement, you are bound by this agreement. But, many employers will offer an earlier review of the agreement as a result of unexpected life changes. If your employer does require you to sign on to a salary sacrifice scheme for a set period of time, you and your employer should be clear about what change in circumstances might be considered.

Am I better off accepting the childcare element of Working Tax Credit or employer-supported childcare?

The following information provides general guidelines for determining whether you would benefit more from tax credits or employer-supported childcare. You should always seek independent advice before making a decision to ensure that you make the best choice.

Can I accept the childcare element of Working Tax Credit and employer-supported childcare?

In most cases, entitlement to the childcare element of Working Tax Credit will be affected by joining a salary sacrifice scheme:

- If your average earnings have been reduced by a salary sacrifice, you could receive a higher payment through Working Tax Credit.
- The value of childcare vouchers or employer-contracted childcare cannot be considered as childcare costs when calculations are made for your entitlement to the childcare element of Working Tax Credit. Therefore, the amount you are entitled to receive through the childcare element of Working Tax Credit will be reduced (essentially because you cannot claim twice for the same costs).

When is it better to accept employer-supported childcare?

In general, it is better to accept childcare vouchers or employer-contracted childcare if:

- The vouchers are offered in addition to your regular salary; OR,
- Your eligible childcare costs are more than £175 per week if you have 1 child or £300 per week if you have 2 or more children; OR,
- You are receiving Child Tax Credits at the family element (£545 per year or £1090 per year if you have a baby aged under 1) or less and you have eligible childcare costs.

When is it better to accept the childcare element of the Working Tax Credit?

In general, it is better to use the tax credits if:

- You are receiving Child Tax Credits of more than £545 per year (or £1090 per year if you have a baby aged under 1) and you have eligible childcare costs; AND,
- Your eligible childcare costs are no more than £175 per week if you have 1 child or £300 per week if you have 2 or more children.

For more information, contact HM Revenue and Customs on 0845 300 3900 or go to www.hmrc.gov.uk/childcare

HM Revenue and Customs have created a tool, called the Childcare Indicator, to help you decide whether you would be better off receiving tax credits or taking childcare vouchers from your employer to help you with your childcare costs. This Indicator is available on their website: www.hmrc.gov.uk/calcs/ccin.htm

What are the next steps?

If you think you and other staff, as well as your employer, could benefit from the introduction of employer-supported childcare, it might be worth suggesting this to your line manager, your union, an employee representative or HR manager. Our factsheets for employers may be a useful introduction if your employer is not familiar with employer-supported childcare. These are available on our website in the 'Information for Employers' section. You can also ask your employer to call Daycare Trust for more information.

Daycare Trust is the National Childcare Campaign. We have been working since 1986 to promote high quality affordable childcare for all.

If you have any questions about the information provided in this factsheet, or other questions about childcare, Daycare Trust's Information Line is available on **0845 872 6251**, alternatively you can email info@daycaretrust.org.uk. You can also access information on our website, www.daycaretrust.org.uk or www.payingforchildcare.org.uk.

The information in this factsheet refers to childcare in England. However, much of the information will be relevant throughout the UK. For further information specific to your area, contact your local information service in Northern Ireland, Scotland, or Wales via ChildcareLink on 0800 234 6346, www.childcarelink.gov.uk.

The information contained in this factsheet provides general information only and was accurate at the time of publication. This information is not to be taken as legal advice. You are advised to seek independent advice if you need further assistance.