

# CHILDCARE VOUCHERS - Information

If you pay for childcare, using special vouchers saves many parents £1,000s a year in tax. If you're not taking advantage, check them out as a matter of urgency.

They're a special government scheme operated through employers that allow you to pay for childcare from your PRE-tax salary. It might not sound a big deal, but the impact can be huge.

## How childcare vouchers work

Childcare vouchers can save many parents with kids aged up to 15 over £1,000 a year on childcare. Frustratingly it is only available via employers, but many large and small companies take part.

The key is they enable you to pay for childcare out of your PRE-TAX and National Insurance income. While this doesn't sound much, the benefit is huge.

### It works by 'salary sacrifice'

A few very generous employers will simply give you the vouchers on top of your normal salary, but most will ask you to do what's called a 'salary sacrifice', which works something like this (basic rate tax example)...

**You give up £1,000 of salary  
but after tax & NI that's only worth £700ish in your pocket.**

**In return you get £1,000 of vouchers  
so you're £300 per grand better off.**

For an accurate figure of savings look at calculators on [Accor Services @ www.childcarevouchers.co.uk/parents/helpandsupport/pages/default.aspx](http://www.childcarevouchers.co.uk/parents/helpandsupport/pages/default.aspx) or [Computershare Voucher Services @ www.computersharevoucherservices.com/parents/Pages/how-much-can-i-save.aspx](http://www.computersharevoucherservices.com/parents/Pages/how-much-can-i-save.aspx)

Of course, once you no longer need to pay for childcare, you should ensure you get your full salary back (we've never heard of this being a problem, but it's worth checking).

## How many vouchers can you buy?

Basic rate tax payers (and higher/top rate payers who joined before 5 April 2011) can pay for up to £243 of childcare with vouchers each month (£55/week). This is PER PARENT so two working parents could get £486 a month of vouchers.

From 6 Apr 2011 new joiners paying higher or top rate tax had their allowance dropped so that all tax payers have roughly the same maximum tax gain. The new limits are:

**Basic (20%) Taxpayer.** £55/week vouchers, max annual gain £920.

**Higher (40%) Taxpayer.** £28/week voucher, max annual gain £610.

**Top (50%) Taxpayer.** £22/week voucher, max annual gain £590.

The number of children you have doesn't impact this, the limits are the same whether you've one child or an entire Brady Bunch.

Vouchers aren't specific to each child and have a long expiry date, so if you know you're going to have higher childcare costs in the near future get the maximum allowance now.

Also many providers will let you backdate vouchers up to six months, although your child must be born for you to be able to sign up. Check your individual provider's procedures first.

## What counts as childcare?

The vouchers cover childcare up to 1 September after your child's 15th birthday (16th if they are disabled).

### The provider must be regulated

They are usable by any Ofsted registered nursery.

### Further help with childcare costs

There are other schemes in place to help with childcare costs, including tax credits, holiday provision, and, from September 2010, at least 15 hours a week free childcare (to be spread over at least three days) for all three and four year olds for up to two years before they reach school starting age (term time only).

## Where to get vouchers from?

Any parent, or those with parental responsibility for a child living with them, is eligible for the vouchers. Yet sadly, to get them, your employer must run a scheme. Follow these steps:

- **Ask your employer if it runs a childcare voucher scheme.**

Check with your Human Resources / Personnel department to see if yours does. Most big employers, such as Lloyds, Barclays and Sony offer the schemes. Many NHS Trusts and Ministry of Defence departments do too and since 2006 teachers have also been able to use the scheme.

Sadly, if you're a sole trader you're not eligible, as you're not classed as an employer.

- **What if your employer doesn't offer a scheme?**

Providing childcare vouchers shouldn't cost your employer any money. In fact, as they don't pay national insurance on the vouchers, it actually *makes* them serious profit - £100s per employee! So try and persuade them; perhaps chat to other parents and go as a group to request the facility, even printing out this article to show them.

Firms can offer voucher schemes one of two ways, either by operating the scheme themselves or by using one of the many voucher companies to do all the admin for them. The fee for this should be less than the firm gains in national insurance, so they'll still profit.

Many of these companies will also contact your employer for you upon request.

## **Warning!** Vouchers can cost you



While many people can save by using vouchers there's one little and one big warning.

### **Technically you earn less...**

If to get vouchers you need to sacrifice some of your salary, this can have an impact on other elements of your finances that depend on how much you earn - such as pension contributions, maternity pay and more.

This is only likely to be a minor issue for most and easily overcome by the gain from vouchers, but is worth being aware of.

### **A major impact on childcare tax credits...**

Though the name's confusing, tax credits are simply a type of benefit you get put into your bank account.

Yet it can be a massive amount of cash, the average payout for those eligible is likely to be around £61 a week, that's over £3,000 a year.

The problem is for a substantial number of people with kids (depending on how many) getting childcare vouchers *reduces* your eligibility for tax credits; overall leaving you out of pocket.

This is because the amount of tax credit you get depends on how much you pay IN CASH (ie not vouchers) for childcare. Here's a simplified example...

*The Jones are entitled to 70% of their childcare costs in tax credits.*

*Pay £100 in cash a week - they get £70 of tax credits.*

*Pay £50 in cash and £50 in vouchers (which they had to buy) and they're only entitled to 70% of £50 paid in cash, which is £35 of tax credits.*