

Making the right choice - childcare vouchers or tax-free childcare account?

Tax-free childcare accounts will gradually replace childcare voucher schemes as no new schemes could be set up after 4 October 2018. Those within voucher schemes continue to be eligible until their child is aged 16, provided their employer is willing to continue operating the scheme.

Many organisations provided the vouchers by way of salary sacrifice and there were tax and NIC advantages for both employers and employees. Depending upon when they joined the voucher scheme, employees could be provided with vouchers worth up to £55 a week (£2,860 p.a.) free of tax and NICs.

However, with many employees working from home during the pandemic and with the move to hybrid working, many families have found that they are not using all of their vouchers and so are choosing to leave the scheme and use the Government's Tax-Free Childcare account instead. If you currently use a childcare voucher scheme and are thinking of switching, you can use the Government's childcare calculator to see which scheme is best for your current situation. One major difference between the two schemes is that Tax-Free Childcare accounts are available to the self-employed as well as to employees.

The Government's Tax-Free Childcare Accounts provide a 25% subsidy towards

the cost of childcare. The system operates by topping up savings of up to £8,000 per child by 25%, providing potentially an extra £2,000 from the Government to spend on qualifying childcare. The scheme generally applies to children under 12 and the account can be used to pay nursery fees, breakfast clubs, after-school clubs, and registered childminders.



To be eligible, the parent generally needs to be working and earning at least the National Minimum Wage or Living Wage for 16 hours a week on average. In a 3-month period, they need to earn at least £1,976 and will not be eligible if their (or their partner's) adjusted net income is more than £100,000 a year.

Please note that the two schemes are mutually exclusive, and employers must stop giving their employees childcare vouchers with income tax and NIC relief if the employee informs them that they've started using the Tax-Free Childcare scheme.

Published in the Wigan Observer 30th August 2022.