

Urgent warning for parents paying for childcare – you could miss out on £100s or £1,000s

There is more help available for working people paying for childcare than many realise. The places to start are free childcare for 3 and 4-year-olds and childcare tax credits. Yet there are two further schemes, that give help to parents who pay for childcare, and can be worth £1,000s – but one is closing to new entrants and you can't have both, so you have got an urgent decision to make.

Childcare here means any Ofsted approved (or equivalent) nursery, childminder, nanny, afterschool club or more. The two schemes are:

Tax-Free Childcare:

This new scheme started last April. Here you open an online, state-run, [Childcare Choices](#) account and for every 80p you put into it, the state adds 20p. You can put in up to £8,000 PER CHILD per year, so up to £2,000 can be added. It should be noted there have been many glitches and problems for people signing up for this.

Anyone whether employed or self-employed can get this as long as you earn the equivalent of 16 hours a week at the national living wage (£120/week), and not over £100,000. And if you're a couple, BOTH of you need to do this. So, if there's one stay-at-home parent you can't get this scheme.

Childcare Vouchers:

Anyone can get it as long as their employer offers it (so the self-employed are out) – even if only one of the parents in a couple is working. Here you do a salary sacrifice, so you agree to have your salary reduced, in exchange for your employer giving you the same amount back in childcare vouchers.

But the key is that there's no tax or national insurance on the vouchers. For example, give up £1,000 of salary, after tax and NI, for a basic-rate taxpayer, that's worth only £700ish in your pocket. In return, you get £1,000 of vouchers to pay for childcare, so you're £300 better off.

Yet childcare vouchers are closing to new-sign ups from 6 April – actually, it's far sooner as you need to receive a voucher before then, and it can take up to a month for your Employer's payroll to set it up.

If you're eligible for both you need to decide which one is best for you. The key thing to look at is the discount and the maximum gain. Vouchers give you a bigger saving pound for pound equivalent to a 32% (42% for higher rate taxpayers) discount, compared to just 20% for tax-free childcare. Yet you can get a lot more tax-free childcare – for a basic-rate taxpayer, it's £2,000 PER CHILD compared to just £930 PER PARENT (£624 for higher rate taxpayers) if you opt for vouchers. So parents with more children and higher childcare costs are better off with tax-free childcare as there's far more free cash available. Those with smaller childcare costs should sign up to vouchers as the discount is bigger.