

# 1. Childcare, tax credits and other help

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*Childcare, tax credits and other help* is one of a series of Child Poverty Action Group leaflets giving guidance to advisers and those working with families about aspects of the tax credit system of particular concern. Child Poverty Action Group promotes action for the prevention and relief of poverty among children and families with children.

## **Introduction**

There are two types of tax credit; *child tax credit* and *working tax credit*. You claim them together and may get either or both. Tax credits are administered by Her Majesty's Revenue and Customs (referred to as HMRC in this leaflet).

Tax credits are gradually being replaced by Universal credit. Universal credit is being introduced area by area, but is not due to be available everywhere until 2016. The process of transferring most people from tax credits to universal credit is planned to be completed by the end of 2017. Universal credit also includes support for childcare costs, although the details under which claims will be introduced for people with children are not yet available. You can still claim tax credits if you are not entitled to universal credit.

You may get:

- child tax credit if you are responsible for a child (or young person under 20 in full-time non-advanced education or approved training, also referred to as a child in this factsheet) whether or not you are in work;
- working tax credit if you are employed or self-employed. If you are responsible for a child or young person and you are single, or your partner is disabled or a carer, you must be working at least 16 hours a week. Couples with children claim tax credits jointly and can claim working tax credit if you are working 24 hours between you, and one works at least 16 hours. Some people without children are also eligible.

Tax credits are made up of various 'elements'. The amount you get depends on the elements appropriate to your circumstances. Working tax credit is made up of a basic element which is included in every claim, and either a couple or lone parent element. There is an extra element if you work at least 30 hours a week. Couples with a child can combine their hours to reach the 30 hours threshold. There are extra elements for disabled claimants.

### **Childcare element**

Working tax credit also includes a childcare element to help towards the cost of paying a registered or approved childcare provider for looking after your children. You may be entitled to the childcare element if:

- you are a lone parent and work at least 16 hours a week;
- you are part of a couple and you both work 16 hours or more a week; *or*
- you are part of a couple and one of you works at least 16 hours and the other is ill, disabled or a carer or in prison.

You cannot get help with childcare through tax credits if you are not working enough hours to qualify for working tax credit.

If you meet one of these conditions, you may also get extra help with rent or council tax through housing benefit or council tax reduction.

You cannot get help with childcare through tax credits if you are not responsible for the child. You do not have to be the child's parent, but you must be entitled to child tax credit for her/him.

### **What childcare is covered?**

The childcare element can cover childcare costs incurred and paid by the parent from birth until the age of 15, or 16 if the child is disabled.

Childcare costs are included until the last day of the week in which 1 September falls after the child's 15th or 16th birthday. A disabled child is one who gets disability living allowance or personal independence payment, or who has been certified blind.

Childcare must be provided by a registered provider, including:

- Ofsted registered childminder;
- pre or after school club (provided by the school) for children aged three to four, or out of school hours for children aged five to 15 (16 if disabled);
- childcare at home by childcare agency registered under the Domiciliary Care Agencies Regulations 2002, such as a sitter service or nanny agency.

It is the claimant's responsibility to make sure that the childcare provider is correctly registered – see *Further information and advice*.

Parents cannot claim for childcare provided in the child's home by the child's parent, grandparent, aunt, uncle, brother or sister, or a partner of any of these.

Childcare provided by a relative may qualify if the relative is a registered childcare provider and looks after the child somewhere other than the child's home. In practice, the childminder

must usually be looking after other children as well, to whom s/he is not related, in order to remain correctly registered.

## **Work**

Lone parents must be working at least 16 hours a week to qualify for the childcare element.

Couples must usually both be working at least 16 hours a week to qualify for the childcare element.

Couples can qualify for the childcare element if one is working at least 16 hours a week and the other is:

- *'incapacitated'* (see below);
- in hospital or in prison; or
- is entitled to carer's allowance.

**'Incapacitated'** includes getting one of the following benefits:

- attendance allowance
- disability living allowance
- personal independence payment
- incapacity benefit
- severe disablement allowance
- contributory employment and support allowance (ESA) for at least 28 weeks (including periods on statutory sick pay or on credits after ESA has ended)
- housing benefit with a disability premium, or childcare earnings disregard due to other partner's limited capability for work
- constant attendance allowance
- armed forces independence payment

There are some situations when you can still get the childcare element even though you are not currently working.

If you have stopped work, you can still get the childcare element during the four-week run-on after stopping work.

The childcare element is still payable for 39 weeks of statutory maternity, paternity or adoption leave (and in some other situations).

The childcare element is payable for the first 28 weeks off sick. After 28 weeks it is payable for a couple if one is incapacitated and the other working 16 hours or more per week.

## **Claiming help with childcare**

If you are already getting tax credits, you should claim the childcare element within one month of starting to pay childcare costs. Only one month backdating is possible so if you delay you will lose out on help with childcare costs. Phone the Tax Credit Helpline or write to HMRC.

If you are not already getting tax credits, you should complete a claim form. This includes a section for the childcare element. Claims can be made by completing a tax credit claim form

(TC 600). In some cases, claims can be made at a Jobcentre Plus office and assessed more quickly – for example if you have been claiming income support or jobseeker’s allowance and are now starting work.

In either case you should provide contact details for the childcare provider, the childcare provider’s registration number and details of the average weekly childcare costs paid. You should work out the average weekly cost and put this figure in the claim form. See below for how to do this.

### **How much is the childcare element**

Working tax credit never covers childcare costs in full. There is always a shortfall of at least 30% that the parent must pay.

The most help that you can get with childcare costs is 70% of the actual weekly cost up to £175 if you have one eligible child, or £300 if you have 2 or more eligible children. The maximum payable is therefore 70% of £175 (£122.50) if you have 1 eligible child, and 70% of £300 (£210) if you have 2 or more eligible children.

The amount you get may appear to be less than the maximum because working tax credit is means-tested and therefore the amount actually paid will depend on the level of earnings and other income. You might not actually receive the working tax credit if your income is too high, but you may be entitled to additional child tax credit when childcare costs are included in the overall calculation.

### **Average weekly cost of childcare**

If the childcare costs do not vary, the average weekly cost is just the weekly cost you pay. To convert a monthly payment, multiply by 12 and divide by 52.

However, the amount you pay for childcare may vary during the year. For example you may pay more or less during school holidays. The childcare element is based on an average over the year. If costs vary, work out the average weekly costs by adding the last 52 weeks before the claim and dividing by 52. If the costs are paid monthly, add the last 12 months and divide by 52. Round up the result to the nearest pound.

#### **Example**

Joan’s son Curtis has been going to an after-school club every week during school terms for the last 2 years. Joan pays £50 a week during school terms (36 weeks) and has no childcare costs during school holidays. The average weekly charge is:

last 52 weeks  $36 \times £50 = £1,800$

divided by 52 = £34.62

Round this up to £35. This is the average weekly cost.

If there is insufficient information to establish the cost, HMRC calculates the weekly charge using any method which in its opinion is reasonable. If you have just entered into an agreement to pay for childcare, you can estimate the costs of the average weekly charge.

If you only pay childcare costs for a short period of time, for example during the school holidays, you can ask for your weekly charge to be averaged and paid over that fixed period rather than over a year

## **Reporting changes of circumstances**

It is your responsibility, not the childcare provider's, to report a change of circumstance, including changes to your childcare provision. The childcare provider will not be responsible for any tax credit overpayment or penalty arising because you have not reported a change. This does not mean that childcare providers have no responsibilities. If HMRC asks childcare providers for information about your childcare usage and cost then the childcare provider must supply it.

If average weekly childcare costs go down by £10 a week or more, there is a 4-week run-on period during which the childcare element remains the same before HMRC takes the change into account. Similarly if childcare costs stop altogether, there is a 4-week run-on period (unless your childcare costs were calculated over a fixed period, for example over the school holidays). You must tell HMRC within one month of the date childcare costs went down or the date you became aware of the change if that was later (although if you pay a fixed weekly charge and this has gone down, you should have one month from the end of the 4-week run-on period). If you do not tell them within this time limit, HMRC can impose a penalty of up to £300. The best advice is to notify HMRC as soon as possible to avoid any overpayment or penalty.

If average weekly childcare costs go up by £10 a week or more for 4 weeks in a row, the childcare element goes up from the first week in which the costs increase, so long as you tell HMRC within one month. Only one month backdating of an increase in childcare costs is possible.

To check if the average weekly childcare costs have changed by £10 or more, you need to work out a new average.

- If costs are paid weekly at a fixed rate, use the new weekly rate. If they vary, add the anticipated charge for the next 52 weeks and divide by 52.
- If costs are paid monthly at a fixed rate, multiply by 12 and divide by 52. If they vary, add the anticipated charge for the next 12 months and divide by 52.
- Otherwise, HMRC estimates the new charge using any reasonable method based on information you provide.

**Example**

*Curtis starts to go to a breakfast club at school as well as his after-school club. The breakfast club costs £20 a week during term times (36 weeks). The after-school club still costs £50 a week during term times.*

**Charge before change (after-school club – see Example above) = £35 a week**

**Charge after change  $£50 + £20 \times 36 \div 52 = £49$**

You should also remember to tell HMRC if you or your partner stops working for 16 hours or more a week as this might stop not just the childcare element but the whole working tax credit entitlement. If you stop working, you are entitled to a 4-week run-on of working tax credit, including the childcare element.

If you are still working but your partner has stopped, you are entitled to a four-week run-on of the childcare element, after which it will cease unless your partner is in work again, incapacitated or entitled to carer's allowance, or in hospital or in prison.

## **Free early learning and childcare place for 3 & 4 year olds**

Local authorities are under a duty to secure a pre-school education place for all three and four-year-olds whose parents want one.

Currently, every three and four-year-old in England is entitled to 570 hours of free early education or childcare a year. This is commonly taken as 15 hours each week for 38 weeks of the year. Generally, entitlement begins from the start of the term following the 3<sup>rd</sup> birthday and continues until the child starts school. Free early education and childcare is also available some for 2 year olds for 10 – 15 hours a week, principally those whose parent or guardian is in receipt of a qualifying benefit such as income support, income-based jobseekers allowance, income-related employment and support allowance, or CTC or WTC with annual income of £16,190 a year or less ( a child for whom disability living allowance is paid will also qualify).

Not all childcare services offer funded pre-school education places. Local authorities are in charge of commissioning places and centres must be working in partnership with them. Working tax credit cannot include an amount that is covered by this free provision. If you are paying for separate or additional childcare, you can include these childcare costs.

## **Childcare vouchers**

Some employers offer childcare vouchers as a salary sacrifice scheme, instead of cash pay. You cannot get tax credits childcare element for the part of the childcare costs covered by the vouchers. The most help you can get is 70% of the childcare costs still to pay once the amount of the voucher is taken off (subject to the maximum level as explained above).

If you are offered the choice of cash or vouchers you can use the childcare calculator on HMRC's website (<http://www.hmrc.gov.uk/calcs/ccin.htm> ) to help work out if you are better off. You should also seek advice to check the results. Lower earners, in particular people who get child tax credit at more than the family element of £545 a year, are not usually better off choosing vouchers instead of cash.

## **Other help with childcare**

If your childcare place is free or subsidised through another scheme such as Sure Start, you can still claim the childcare element of tax credits but only for any remaining costs that you actually have to pay yourself. So the most help you could get is 70% of the subsidised cost.

Students may be entitled to working tax credit if working at least 16 hours a week as well as studying. If you are part of a couple, you must both be working 16 hours a week in order to qualify for the childcare element, unless the non-working partner is incapacitated or a carer. If you qualify for a student childcare grant which is paid directly to your childcare provider, you should only claim the tax credits childcare element for any remaining costs that you pay yourself. If you qualify for a childcare grant that is paid directly to you, this is disregarded as income for tax credits purposes. You should still report this to the Tax Credits Helpline or in writing, and you may wish to argue that you should still qualify for the childcare element on the full childcare costs as incurred and paid by you. HMRC may view this differently and it may be necessary to appeal about the amount of childcare costs included in your award.

## **Universal credit and childcare costs**

Tax credits are gradually being replaced by universal credit. You can still claim tax credits if you are not entitled to universal credit. You can claim universal credit once it has been introduced in your area and you satisfy the rules. The government intend to begin to allow universal credit claims from people with children but the details are not currently available. Universal credit can include an amount to help with registered childcare costs for working parents, to replace the childcare element of working tax credit (WTC). The main rules for universal credit are:

- There is no 16 hour rule, so any work will qualify as long as the amount of childcare is not considered excessive in relation to how many hours worked.
- Couples can get help with childcare costs if both work, or if one works and the other has limited capability for work, or is a carer or is temporarily absent.
- The government has stated the amount of childcare costs covered (currently 70 per cent up to a maximum of £532.29 a month for one child and £912.50 a month for two or more children) will be increased to 85 per cent of the actual costs, within limits.
- Childcare costs may be claimed up to a month before starting work if the claimant has been offered a job, to allow a settling in period for the child.
- Childcare costs can include deposits, retainer fees or advance costs, (but universal credit is paid in arrears).
- Childcare costs cannot include amounts covered by other support, met by the employer or someone else.
- Childcare costs can continue for up to a month after stopping work, to allow a chance to find another job without losing the childcare place.
- Childcare costs must be reported on a monthly basis, and if not reported by the end of the month following the one in which they are incurred, no help is available.
- Claim and reporting of changes (including childcare costs) must usually be made online.
- Payment is made by one monthly payment into the claimant's account to include money for the adult, children, housing costs and childcare costs.

## **New voucher scheme**

In the Budget 2014, the government announced more details of a new UK scheme to support working families with childcare costs, to be introduced from autumn 2015.

The new scheme will benefit families on middle to higher incomes, as it includes those with individual earnings up to £150,000 a year and will not be available to families in receipt of working tax credit or universal credit. The government will pay 20% of registered childcare costs up to a maximum of £2,000 a year per child under the age of 12.

## Further information and advice

### Child Poverty Action Group

0207 833 4627 advice line for advisers on benefits and tax credits,  
Monday to Friday 10am to noon and 2pm to 4pm

**Email:** [advice@cpag.org.uk](mailto:advice@cpag.org.uk)

enquiries that are specifically about child benefit, tax credits or any other HMRC-administered benefits

**Website:** [www.cpag.org.uk/tax-credits](http://www.cpag.org.uk/tax-credits)

*for more tax credit factsheets from CPAG*

CPAG publishes the *Welfare Benefits and Tax Credits Handbook*, a comprehensive guide to benefits and tax credits for claimants and advisers.

CPAG's advice line is only for advisers. If you are having problems with your own tax credit or benefit claim and are in need of advice you should contact your citizens advice bureau or other local welfare rights service.

### HM Revenue and Customs

Tax Credit Helpline 0345 300 3900  
(textphone 0345 300 3909)

**Website:** [www.hmrc.gov.uk](http://www.hmrc.gov.uk)

### Ofsted

Telephone 0800 123 1231  
e-mail: [enquiries@ofsted.gov.uk](mailto:enquiries@ofsted.gov.uk)

**Website:** [www.ofsted.gov.uk](http://www.ofsted.gov.uk)

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