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Wraparound Childcare

Tax-Free Childcare (TFC) & Salary Sacrifice information

**January 2025**

**Sub-title or short context to document**

## An active Tax-Free Childcare (TFC) account must be in place for each child that you want to claim Wraparound Childcare (WAC) funding for.

### The WAC policy

WAC policy states that a valid and active TFC account must be in place for each child that Service personnel want to claim WAC funding for. 2022DIN01-079 Defence Wraparound Childcare Allowance, available on on [defnet](https://modgovuk.sharepoint.com/teams/310794/) and [Defence Connect](https://jive.defencegateway.mod.uk/groups/wraparound-childcare-portal)

To make an informed decision, HMRC produced a[childcare calculator](https://www.gov.uk/childcare-calculator?utm_source=childcarechoices&utm_medium=microsite)(www),which enables parents to find out which scheme suits them best.

Families can only be part of one scheme at a time. **Parents cannot be part of a salary sacrifice (childcare voucher scheme) and have a TFC account.** 

The criteria for TFC accounts and salary sacrifice accounts are different. Parents are responsible for deciding which scheme is best for their own circumstances.

### What is a Tax-Free Childcare (TFC) account?

TFC is an existing Government scheme where the Government contributes £2 for every £8 that parents pay into their account.

During the eligibility check for TFC, HMRC (His Majesty’s Revenue and Customs); will confirm the salary of the applicant, the partner employment details, the age of the children and that the provider is accredited.

Families must confirm their child(ren)’s TFC accounts every 3 months in line with HMRC requirements. If they fail to do this, their TFC account will become inactive, and they will lose their eligibility to claim WAC.

### Salary Sacrifice Childcare Voucher Schemes\*

Salary sacrifice schemes closed to new joiners in October 2018. Parents cannot open a new salary sacrifice account or re-open an old one once it is closed.

If they choose to leave a salary sacrifice scheme for any reason (including to claim WAC funding) they cannot re-join. Before leaving a salary sacrifice scheme and joining TFC, they should consider the possible impact of this action on their individual circumstances and seek additional information and

independent financial advice, as necessary.

If parents decide to leave their salary sacrifice scheme, they will need to contact their voucher company to find out how long they can retain any unused vouchers. Salary sacrifice vouchers can be used alongside WAC funding to pay for holiday childcare. (WAC funding covers term-time only).

*\*Salary sacrifice schemes could be Armed Forces Childcare Voucher Scheme (AFCVS) or a scheme run by a partner’s employer. Sodexo is one company that many Service personnel use, however other salary sacrifice providers are available.*

### Further details about TFC accounts

Tax-Free Childcare supports eligible working parents with the costs of childcare across the UK. The government contributes up to £2,000 per child, per year (eligibility ceases on 1 September after their 11th birthday), and £4,000 per child, per year, for children who are in receipt of disability allowances (until 1 September after their 16th birthday).

**You cannot claim Tax-Free Childcare if you get tax credits, Universal credit, a childcare bursary or grant, or childcare vouchers**.

Some families who currently use childcare vouchers could be better off on TFC, please see the examples in this document.

### How to open a TFC account

* Opening a TFC account takes around 20 minutes. Details of how to open an account can be found at [GOV.UK](https://www.gov.uk/get-tax-free-childcare) (www).
* The TFC account can be opened by either parent, it does not need to be opened by the Serving parent.
* Each child will have their own unique TFC payment reference number starting with 1100…
* TFC accounts can be opened from birth if the eligibility criteria are met.
* HMRC have produced a [Guidance zone](https://www.childcarechoices.gov.uk/guidance-and-resources/guidance-zone) (www), which includes a page of frequently asked questions relating to TFC.
* You can find further information about TFC and other childcare options at [Childcare Choices](https://www.childcarechoices.gov.uk/) (www).
* Information for your provider about how to sign up for TFC is available on the [Childcare Choices website](https://www.childcarechoices.gov.uk/providers/) (www).

HMRC have produced a ‘How to apply for TFC’ guide, available on the Defence Childcare Information Page on [defnet](https://modgovuk.sharepoint.com/teams/310794/) or [Defence Connect](https://jive.defencegateway.mod.uk/groups/wraparound-childcare-portal)

**To claim WAC UK funding**, your provider must be in the UK and accept TFC payments. You must pay your provider from your TFC account.

**To claim WAC Overseas funding**, if using Defence Children Services providers, you must pay your provider from your TFC account. If using a host nation provider within the European Economic Area & Switzerland, you must pay your provider directly and submit a claim for a manual TFC top up. Guidance on submitting a manual TFC top up can be found in [2022DIN01-102-Tax-Free Childcare (TFC) Scheme for eligible working parents (Service personnel).docx (sharepoint.com)](https://modgovuk.sharepoint.com/:w:/r/sites/DINs/_layouts/15/Doc.aspx?sourcedoc=%7BAF5335B7-63EB-412C-9289-DD9A8AB96729%7D&file=2022DIN01-102-Tax-Free%20Childcare%20(TFC)%20Scheme%20for%20eligible%20working%20parents%20(Service%20personnel).docx&action=default&mobileredirect=true&DefaultItemOpen=1)

# Examples

These Tax-Free Childcare (TFC)case studies are provided by HMRC. These are fictional case studies and represent different situations to support parents making a choice whether they will be better off on TFC, or salary sacrifice vouchers.

**Example 1: Family with children aged 2 and 6 years old.**

David and Sarah have two children, Oliver aged 6 and Amelia aged 2. Sarah is employed and receives childcare vouchers through her work via salary sacrifice. David is self-employed.

Oliver goes full time to an afterschool club at £62.42 per week for 38 weeks a year and a holiday club for 6 weeks of the year (£973.32 total). His annual childcare costs are £3,345.28. Amelia is full time at a nursery for 48 weeks a year (£255.47 a week) with an annual cost of £12,262.56. For both children, this makes an annual total of £15,607.84.

As a higher rate taxpayer, Sarah receives a total of £1488 in tax exempt childcare vouchers per year, saving **£625** in tax and NICs. David is self-employed so cannot receive tax exempt childcare vouchers via salary sacrifice.\*

On Tax-Free Childcare (TFC), David and Sarah receive the full £2000 top up (£500 a quarter) for Amelia's care and £669 for Oliver’s care (per annum). Total top up is **£2669**

**This family would be better off financially on TFC.**

**Example 2: Family with children aged 6 and 10 years old**

Tarun and Ameena have two girls (Gita and Heema) aged 6 and 10. Tarun receives vouchers via salary sacrifice. As a higher rate taxpayer, he receives £1488 in tax exempt childcare vouchers per year, saving **£625** in tax and NICs.\* Ameena works as a hairdresser, but her employer does not offer a childcare voucher scheme.

Both Gita and Heema go to an afterschool club for 38 weeks of the year (£55.10 for Heema, £46.10 a week for Gita who receives a 15% sibling discount). They also attend a holiday club for 7 weeks of the year (£130 per week for Heema and £78 a week for Gita due to a 40% sibling discount).

Their total childcare costs are £5301.60 annually.

On TFC, Tarun and Ameena can receive a top up of **£1060** or 20% of the total.

**This family would be better off financially on TFC.**

**\***Figures based on monthly payments, weekly payments are slightly less at £1484 and £623.

**Example 3: Family with children aged 6, 3 and 1 years old**

Chris and Chee have 3 children: Grace, Ethan, and Alice, ages 1, 3 and 6 respectively. Chris is self-employed so is not able to receive tax exempt childcare vouchers via salary sacrifice and Chee is a basic rate taxpayer able to receive £2916 of tax-exempt childcare vouchers via salary sacrifice per year, saving **£933** in tax and NICs.\*\*

Grace and Ethan are both full time at nursery and Alice goes to an after-school club.

A full-time nursery place for Grace costs £251.35 a week or £12,064 a year. Ethan is 3 so benefits from the 30 hours scheme. For 38 weeks of the year, Chris and Chee only pay for 20 of the 50 hours he is in nursery but for the remaining 10, they have to pay full price. His care totals £6,139.84. Alice goes to an after-school club for 38 weeks of the year (£53.83 a week) and goes to a holiday club for 7 weeks of the year at a price of £153.82 per week. Her care costs a total of £3,122.28.

Total childcare costs per year for all three children are £21,326.12 a year.

Using TFC, Chris and Chee can receive up to **£3852** a year to help pay with childcare. This is equivalent to 20% of Ethan and Alice’s care and £2000 of Grace’s care.

**This family would be better off financially on TFC.**

\*\* based on 21/22 rates.

**Further guidance:**

Assuming both parents are working and are basic rate (BR) taxpayers, if one parent is in a salary sacrifice scheme, they can get max £933 saving per year. Using the childcare calculator, for TFC to be a worse option they would need to be spending £89 pw (£89x52=£4628 per year) or less on childcare for children aged 4-11 years old.

If both parents are higher rate (HR) taxpayers and one is in a salary sacrifice scheme, they can get max £625 saving per year. Using the childcare calculator, for TFC to be a worse option they would need to be spending £60 pw (£60x52=£3120 per year) or less on childcare for children aged 4-11 years old.

If both parents are in a salary sacrifice childcare voucher scheme both can get the saving, so the “worse off” with TFC amounts would increase. Salary sacrifice schemes are per parent, TFC is per child.

This guidance doesn’t take into account children younger than 4 or older than 11 years old.

**Note: Unless otherwise stated, it is assumed that a year’s worth of childcare is 48 weeks. Defence will only cover wraparound childcare costs up to the capped rate for 39 weeks of the year (term time only).**

Claiming WAC funding is not compulsory. Service personnel should read the WAC information [available on the Discover my Benefits](https://discovermybenefits.mod.gov.uk/)website to make an informed decision about what is best for their family.

Like all government policies, WAC is subject to review, and its terms are subject to alteration. Appropriate notice will be given of any such change.

Further information about how to claim WAC funding, can be found in the ‘How to claim WAC UK’ and ‘How to claim WAC Overseas’ documents available on the Defence Childcare Information Page on [defnet](https://modgovuk.sharepoint.com/teams/310794/) or [Defence Connect](https://jive.defencegateway.mod.uk/groups/wraparound-childcare-portal).

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