



Ministry
of Defence

Grossing Up

The effects on Tax and National Insurance payments of receiving the Primary School Aged Childcare Overseas (PSACO) allowance.



What is Grossing Up?

Payments made to reimburse Service personnel for the cost of before and after school childcare will be subject to PAYE (Pay As You Earn) tax and Class 1 National Insurance (NI).

Defence will compensate tax and NI payments made through an established process known as 'Grossing Up.' This takes account of the additional liability on the further benefit to the Service person of having their tax paid for them.

This process can have a knock-on effect on an individual's tax allowances and brackets, e.g., the extra payments may push individuals at the cusp of tax brackets into the higher one.

All Service personnel are encouraged to seek independent financial advice on this prior to participating in the WAC scheme (PSACO is the final phase of the WAC scheme).

Why is this needed?

The MOD is reimbursing Service personnel for their before and after school childcare costs, and this is called a 'taxable benefit' by HMRC (His Majesty's Revenue and Customs). It is effectively extra income and so HMRC will charge Income Tax on the childcare allowance payments that the SP receives with their pay.

The MOD will make provision for this by paying this additional tax liability (along with the additional NI liability) so that the Service person does not have to. They will do this by 'grossing up' or 'paying more than actually claimed' for before and after school childcare costs. The extra amount paid will cover the extra tax and NI the Service person needs to pay because of the childcare allowance they have claimed.

Grossing Up is applied in the month that the claim is submitted, and the rate applied will depend on the tax threshold the claimant is in at that time. It cannot be adjusted at a later date if circumstances change.

How does it work?

JPA will automatically 'gross up' before and after school childcare payments so that they include the 'actual amount' claimed, along with an 'extra amount' to cover the additional tax and NI due from the allowance payment.

The PSACO allowance credit shown on Statements of Earnings will include the amount submitted in the PSACO claim along with the 'grossed-up' amount. PSACO payments are paid at the end of the month with salary (if submitted and approved prior to payroll cut-off).

This is to ensure that Income Tax and National Insurance implications are applied correctly, this will not affect the amount of PSACO allowance that Service personnel are paid as the MOD will uplift the credit made to take the increased deductions into account.

Examples

Step 1 - The parent receives a childcare invoice/ bill for £200

Step 2 - The parent pays the £200 invoice total in full to the provider

Step 3 - Claiming the PSACO allowance

The Service parent builds their claim in the 'My child allowance: WAC' area of JPA. Guidance on how to submit a claim can be found in SSUG IN506046 (PSACO Claim guide) available on Defence Childcare Information Page on [defnet](#) and [Defence Connect](#).

Example 1

The Service person:

- is a 20% taxpayer
- pays National Insurance at the 8% rate
- is registered for the PSACO Scheme.

The pay statement for the SP in example 1 will show:

- a PSACO payment of £277.78
- This represents the £200.00 PSACO actual amount claimed, plus an extra amount of £77.78
- The £77.78 represents £55.56 to cover the tax liability and £22.22 to cover the NI resulting from the PSACO payment

Example 2

The Service person:

- is a 40% taxpayer
- pays National Insurance at the 2% rate
- is registered for the PSACO Scheme

The pay statement for the SP in example 2 will show:

- a PSACO payment of £344.83
- This represents the £200.00 PSACO actual amount claimed, plus an extra amount of £144.83
- The £144.83 represents £137.93 to cover the tax liability and £6.90 to cover the NI resulting from the PSACO payment.

Claims are paid at the end of the month with salary. Service personnel need to be aware that this is dependent on the payroll cut-off dates. Claims submitted after the payroll cut-off date will be paid the following month.

Service personnel can access the payroll cut-off dates via the [JPA Portal](#) on defnet.

Other Considerations

The grossed-up payments will effectively increase the Service person's annual income by the same amount.

In example1, the Service person's monthly income will have increased by £277.78. If they claim £200 PSACO Allowance for 9 months of the year, then their annual income would increase by £2,500.02. This will be reflected in pay statements and the end of year P60.

Effects on tax brackets and other allowances

Where income is increased, it is possible that some SP may move to a higher tax bracket, or may find that future Universal Credit, means tested tax credits (e.g. Child Tax Credits), Child Maintenance Service awards, Child Benefit payments (if they reach High Income Child Benefit Tax Charge level, currently £60,000), the rate of repayment on Student Loans etc. are affected.

If pushed into a higher tax bracket, the rate of tax paid on second incomes such as pension, dividend, or rental income etc. may be affected since these are taxed at the highest rate (i.e., the personal tax-free allowance and basic rate taxation etc. will be set against MOD employment income).

Child Benefit

If claiming the PSACO Allowance pushes your individual income over £60,000 AND you or your partner get Child Benefit, you may have to pay the High-Income Child Benefit Charge.

If your income is over the £60,000 threshold. You can choose to either:

- Receive Child Benefit payments and pay any tax charge at the end of each tax year (Service personnel should be aware that for this option they would have to file a Self-Assessment Tax Return each year).
- Opt out of receiving Child Benefit payments and not pay the tax charge.

SP can find out more about the High-Income Child Benefit Charge at [High Income Child Benefit Charge: Overview - GOV.UK \(www.gov.uk\)](https://www.gov.uk/guidance/high-income-child-benefit-charge)

Tax-return declarations

The PSACO Allowance is paid in to your Armed Forces salary. If your salary is your only income, then tax and NI will be calculated automatically. If you have additional income streams or have any doubt, then you should seek independent financial advice about declarations.

SP should be aware that PSACO claims which miss the payroll cut-off date will be paid and grossed up in the following month's pay statement. SP may need to consider this when submitting claims in March, as claims submitted after the payroll cut-off date in March (paid in April) will be treated as income in the following tax year.