Ministry of Defence

Wraparound Childcare

Grossing Up

The effects of receiving Wraparound Childcare funding on Tax and National Insurance payments

February 2024

What is Grossing Up?

Payments made to reimburse Service personnel for the cost of Wraparound Childcare (WAC) 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 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.

Why is this needed?

The MOD is reimbursing Service personnel for their WAC 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 WAC funding payments that the SP receives with their pay.

The MOD WAC scheme 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 WAC costs. The extra amount paid will cover the extra tax and NI the Service person needs to pay because of the WAC funding they have claimed.

How does it work?

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

Claimants are to be aware that the Wraparound Childcare credit shown on their Statement of Earnings (payslip) will include the amount that they submitted in their WAC claim along with the 'grossed-up' amount.

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

Example

An example of Service personnel claiming WAC

The Service person:

- is a 20% taxpayer
- pays National Insurance at the 12% rate
- has a TFC account
- is registered for the WAC Scheme.

Step 1 – The parent receives the childcare invoice/ bill.

They receive an invoice from their childcare provider for £250.

Step 2 - Claiming the TFC (Tax-Free Childcare) allowance

The parent pays £200 from their bank account into their child's TFC account.

The government tops this up by £50 to take the total in the TFC account to £250. *(The government adds £2 for every £8 that the parent puts into their TFC account).*

Step 3 – The parent pays the provider

The parent pays the £250 to their childcare provider from their child's TFC account.

What Service personnel will see in their payslip

Their payslip for that month will show a WAC payment of £294.12.

This represents the £200.00 'WAC actual amount claimed,' plus an extra amount of £94.12 (rounded up to the nearest penny)

The £94.12 represents £58.82 to cover the tax liability and £35.29 to cover the NI resulting from the WAC payment.

Step 4 - Claiming the WAC 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 IN506030 (WAC Claim guide) available on Defence Childcare Information Page on defnet and Defence Connect. 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 date. Claims submitted after the payroll cut-off date will be paid the following month.

Service personnel can access the payroll cut-off dates on defnet..

Other Considerations

The Gross WAC payments will effectively increase the Service person's annual income by the same amount.

So, in the example, the Service person's annual income will have increased by £294.12. If they claim £200 WAC funding for 9 months of the year, then their annual income would increase by £2,647.08. This will be reflected in payslips 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 £50,000), 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 WAC funding pushes your individual income over £50,000 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 £50,000 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)]

When your only income is through your Armed Forces salary that WAC is paid in to, then tax and National Insurance will be worked out automatically based on salary. If you have additional income streams or have any doubt, then you should seek independent financial advice about declarations.

SP should be aware that WAC claims which miss the payroll cut-off date will be paid and grossed up in the following month's payslip. 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.