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United Kingdom – New Childcare Tax Provisions to Help Millions of Families

by Mike Eckes, Steve Wade,
and Rachel Beecroft, KPMG
LLP, London (KPMG LLP in the
United Kingdom is a KPMG
International member firm)

A new tax-free childcare scheme was announced¹ by the U.K. government on 18 March 2014, in advance of the 2014 Budget Statement. The proposals announced contain changes as compared to what had been articulated in the Autumn Statement² in response to the consultation³.

The new scheme will be introduced from autumn 2015 and will be phased in over a period of seven years. Eligible families with children under five will stand to benefit when the scheme is rolled out. A change from the original proposal has children under 12 being included in the first year.

Why This Matters

From announcements made both in the 2013 Budget and from the documents published with the 2013 Autumn Statement, it has become clear that the U.K. government believes that the costs associated with childcare act as a “significant disincentive to work.” A scheme to provide tax relief on childcare costs to assist with this burden will be introduced.

If subject to taxation in the U.K., taxpayers who are parents with children – including those who are on international assignment in or outside of the U.K. – will benefit from this “simplified scheme” in terms of their childcare costs. The aim is to enable such parents with children to work rather than to claim benefits. It is designed to help middle- and low-income families, but will not be available to assist high earners.

This measures will potentially affect employees working outside the U.K. whose families remain living in the U.K. and where the spouse also works. There are also potential consequences for employers in terms of administering the scheme for their employees and employers will need to consider how the scheme could operate where individuals are not working and potentially not paid from the United Kingdom.

Background

Initial plans to assist families with the costs of childcare by giving basic rate tax relief on a proportion of the costs of childcare were announced in the 2013 Budget⁴ and a consultation on the design and operation of that scheme was launched. Further details on the scheme and on how the relief would operate were announced in the Autumn Statement.

New Childcare Scheme Features

In order to be eligible for the scheme:

- Families will have to have both parents in work (and the one parent in the case of lone parent families).
- Each parent must earn a minimum of £50 per week or £605 per quarter.
- Each parent must earn less than £150,000 a year (this includes income from all sources).
- The family must not be receiving support through tax credits or, once introduced, Universal Credit.

The family will receive relief of 20 percent of their yearly childcare costs up to a maximum of £10,000 per child (equivalent to relief of £2,000). This represents an increase from the original proposal of £6,000 per child or £1,200. The £50 per week earnings requirement does not apply to the self-employed.

Key Features of the Scheme

- Parents will be required to open an online childcare account for each child and make payments into these accounts to meet their childcare costs. These payments will then be topped up by the government.
- For every 80p families pay in, the government will put in 20p up to an annual maximum for each child of £2,000.
- The scheme will have quarterly qualifying periods and when a family qualifies for a quarter they will continue to get relief for that quarter, even if their circumstances change.
- Every quarter the family will have to reconfirm they expect to continue to qualify for the next quarter.
- Employers may wish to be involved with the scheme on a voluntary basis. They will be able to take either an “information role” (solely providing information about the scheme) or a “payment role” (making payments directly to the employee’s childcare account).
- Parents will be able to use the vouchers for any Ofsted-regulated childcare in England and the equivalent bodies in Scotland, Wales, and Northern Ireland.

Next Steps

The legislation to enact the proposed changes has not yet been published. The legislation is expected to be published on 27 March 2014.

KPMG Note

KPMG welcomes the increase in value of the childcare allowance announced yesterday. The measures announced introduce a substantial relief for working parents, could encourage employment, and may remove the barriers that serve to restrict the talent pipeline that Britain's businesses need to succeed.

The question that remains is how far employers and their staff will go to ensure this scheme works? People tend to perform better when they feel supported by their employers, so the extent to which employers back the program will be a key measure of its success

Footnotes:

- 1 See: <https://www.gov.uk/government/news/millions-of-parents-to-get-help-with-childcare-costs> .
- 2 For prior coverage of the Autumn Statement, see [Flash International Executive Alert 2013-161](#), 6 December 2013.
- 3 See:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/293084/PU1607_Tax_free_Childcare_response.pdf .
- 4 See [Flash International Executive Alert 2013-052](#), 21 March 2013, p. 5.

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The information contained in this newsletter was submitted by the KPMG International member firm in the United Kingdom. The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

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