Ministry of Defence

Wraparound Childcare
Grossing Up

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

Autumn 2022

What is grossing up?

From Autumn term 2022 payments made to reimburse Service Personnel (SP) for the cost of WAC (Wraparound Childcare) will be subject to PAYE (pay as you earn) tax and Class 1 National Insurance (NI).

For WAC to be free to SP (within capped rates), 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 SP are encouraged to seek individual financial advice on this prior to participating in the WAC scheme.

Why is this needed?

The MOD is reimbursing SP for their WAC costs, and this is called a ‘taxable benefit’ by HMRC (Her Majesty’s Revenue and Customs). It is effectively extra income and so HMRC will charge income tax on the WAC allowance 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 SP 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 SP needs to pay as a result of the WAC allowance they have claimed.

How does it work?

SP will receive WAC allowance payments five working days after submitting a claim.

JPA will automatically ‘gross up’ these WAC allowance 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 allowance payment.

Example

An example of a Service personnel claiming WAC

The Service personnel (SP):

- is a 20% taxpayer
- pays national insurance at the 12% rate (plus 1.25% in 2022/23 to cover health and social care, total 13.25%)
- has a TFC account
- and is registered for the WAC Scheme.

Step 1 - Claiming the WAC allowance

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

They input their invoice details into the online claims calculator (available from early September 2022) and submit a WAC claim for £200 via JPA iExpenses. This will be paid within five working days of being submitted.

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

They pay £200 from their bank account into their 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 SP puts into their TFC account).*

Step 3 – Pay the provider

They pay the £250 to their childcare provider from their TFC account.

What they will see in their payslip

Their payslip for that month will show a ‘Grossed Up’ WAC Allowance payment of £299.63.

This represents the £200.00 ‘WAC actual amount claimed,’ plus an extra amount of £99.63.

The £99.63 represents £59.93 to cover the tax liability and £39.70 to cover the NI liability (including the 2022/23 health and social care increase) resulting from the WAC payment.

Other Considerations

The Gross WAC payments will effectively increase the Service personnel's (SP) annual income by the same amount.

So, in the example, the SP's annual income will have increased by £299.63. If he/she claims £200 WAC Allowance for 9 months of the year, then his/her annual income would increase by £2,696.67. 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).

It will be important for Service personnel to anticipate this ahead of making WAC claims to ensure that they are making the most financially advantageous decision for themselves.

Claiming WAC funding is not compulsory. Service personnel should read the 'Grossing up' and 'Tax-Free childcare – Salary Sacrifice information' available on the Discover my Benefits 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 changes.