

Dawn Bowden MS

Minister for Children and Social Care

Welsh Government

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10 February 2026

Dear Minister,

**HMRC: Unexpected change to childminders' tax-free 'wear and tear' allowance**

I am writing to express our serious concern about the above, as we believe that this could have a significant adverse impact upon the sustainability of childminding businesses in Wales. If this were to happen, this could reduce much-needed capacity for childcare at a time when we are experiencing acute shortages of childcare and are working collectively to improve childminder retention and recruitment. While initially presenting as a taxation issue (and a reserved matter), we believe this should also be of concern to the Welsh Government given that childcare is a devolved matter and that this development could undermine joined-up national and local working which is underway.

An unexpected development arose shortly before Christmas when HMRC intimated they would be changing the tax-free 'wear and tear' allowance for childminders. Coram PACEY, who work across England and Wales, met with HMRC in January to explore this matter, which was becoming of increasing concern to childminders.

Ourselves, as Coram PACEY Cymru and the childminding associations in Scotland and Northern Ireland became even more concerned when HMRC officials confirmed that changes to the 'wear and tear' allowance have been driven by the introduction of a new category of childminder (for childminding on non-domestic premises) by the Department of Education in England; as you will be aware, this policy development has no legal or regulatory standing in Wales where childminding is not permitted on non-domestic premises. In addition, I understand that there has been no formal consultation in Wales on this change to the agreement and the tax-free allowance.

**Coram PACEY Cymru**, rhan o Grŵp Coram/part of the Coram Group

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## **Making Tax Digital**

As background, you may be aware that HMRC will be implementing the first phase of Making Tax Digital, the new online system for making quarterly tax returns, in April 2026. As self-employed small business owners, all childminders will be required to use this. This will present significant change and involve additional time for childminders to familiarise themselves with it.

As you are also aware, the childminding workforce in Wales has declined significantly over the past decade. The Independent Review of Childminding was published by Welsh Government in 2023. Work to take forward the recommendations has been slow on the crucial areas needed to impact positively on the sector to date and had no impact on the decline which continues at a rate of around 5% per year.

Many childminders, including those in disadvantaged areas, are facing closure due to rising operational costs, increased demands around regulatory requirements and inconsistent access to deliver funded provision. In addition, barriers to becoming a childminder, including costs associated with training and registration have prevented or deterred some individuals from becoming a childminder and therefore contributed to the low number of new childminder registrations.

As such, Coram PACEY, alongside colleagues in England, has been keen to positively influence the implementation of Making Tax Digital and to minimise the impact on childminders; and we have participated constructively in a range of activity over the last couple of years including participating meetings with HMRC and others, hosting webinars, commenting on supporting material and considering what resources we may be able to develop to support members.

Childminders are very concerned about the impact which Making Tax Digital may have on their workload and these concerns were compounded when HMRC unexpectedly announced changes to the childminders' tax-free 'wear and tear' allowance at this time.

### **Childminders' tax-free allowance for 'wear and tear'**

As background, an agreement with HMRC (since 1986) has recognised the unique and specific nature of childminding across the UK and the high level of 'wear and tear' experienced in childminding. This is due to childminding settings being based in homes, the number and ages of children cared for and childminding settings often also operating across different rooms, family areas of the house and gardens (unlike other forms of home-based businesses which have a more restricted footprint, footfall and less wear and tear). This has allowed childminders to declare 10% of their income as tax-free due to 'wear and tear' and this informed, childminding-specific approach has worked well.

Without warning, HMRC recently announced that childminders using Make Tax Digital will no longer be eligible for this allowance and must instead directly claim for all individual items which may qualify for 'wear and tear' against criteria instead of accessing this simple allowance - directly increasing the administrative burden for childminders, while potentially reducing the financial benefit to be derived.

We recognise that Making Tax Digital will be implemented on a phased basis and that only a small number of childminders will be affected in the first year (those with qualifying incomes of £50,000+), but the intention is to apply this approach for all childminders on a phased basis in subsequent years, with those on £30,000+ affected in 2027 and £20,000+ in 2028. Currently, it is not anticipated that those earning less than £20,000 will be required to use Making Tax Digital. However, some childminders have already been asking us if they should consider reducing their business model and income to avoid having to use the new system. If this were to happen, this could have the unintended consequence of further reducing capacity in the form of much-needed childminding places for children and families and some childminding businesses could render themselves unsustainable.

In parallel, HMRC have clearly advised that childminders not using Making Tax Digital (both those not yet doing so on a phased basis and those who will not be required to use it) will still be able to use the existing agreement for 'wear and tear'. This will create a two-tier system with differentials in the financial benefits which can be accessed. In which case, would it not have been fairer and safer to update the existing agreement for all childminders? In addition, it is unclear what impact assessments have been undertaken on the implementation of Making Tax Digital and, in particular, changes to the 'wear and tear' agreement on childminders. We have asked HMRC to share any work in this area, and also to provide detail of their consultation process (including who and in what form).

After meeting with HMRC, we were left with a sense that that this intended taxation change for childminders in Wales is fundamentally flawed and largely being driven - by a policy development in England which has no legal or regulatory standing in Wales; without adequate consultation; is ill-informed; rushed; risks increasing the administrative and financial burden on childminders; and undermining ongoing joined-up national and local activity to increase childminder retention and recruitment.

The results of a joint survey on the impact of the Making Tax Digital changes of over 4800 childminders across the UK, led by Coram PACEY, have just been published. Concerningly this showed that 56% of childminders from Wales who responded said they plan to leave the childminding workforce. These figures can't be ignored.

**We believe that the intended changes to the 'wear and tear' allowance must be urgently paused and that the 10% of income tax-free element/allowance for 'wear and tear' retained for all childminders; if this is not possible then the implementation of Making Tax Digital for childminders should be delayed. I would request that the Welsh Government looks into this issue as a matter of urgency.**

Kind regards



Claire Protheroe

Head of Contracts and Projects

Coram PACEY