

HOW TO SELF- ADMINISTER A CHILDCARE VOUCHER SCHEME

Daycare Trust Factsheet - for employers



Recruiting and retaining good staff is crucial for any employer and with parents representing almost 40% of the UK workforce, quality and affordable childcare is important to employers and employees alike. Employers that offer childcare support to employees see many benefits. There are a number of ways in which employers can support working parents; by subsidising childcare costs and/or providing workplace nurseries, flexible working options and information on childcare choices. This fact sheet highlights one of the ways in which employers can support employees with the costs of childcare – **childcare vouchers**.

1. What are childcare vouchers?

Childcare vouchers are one of the ways in which employers can assist their employees with the costs of childcare. From 6 April 2005 childcare vouchers (up to a limit of £50 a week, or £217 a month) are exempt from National Insurance Contributions (NIC) for employers, and from tax and NICs for employees – employers therefore reduce some of their business costs and employees make savings on their childcare costs. If you decide to enter into a Childcare Voucher scheme, you have to make it generally available to all employees where the scheme operates. The tax and NICs exemptions apply to benefits an employer gives to an employee, therefore unemployed and self-employed parents are not eligible. Each employed parent may claim the exemption. The child for whom the childcare voucher is provided is eligible up to 1 September following their 15th birthday, or 1 September following their 16th birthday if s/he is disabled.

NB: It is also possible to directly contract a childcare provider, bypassing a voucher system altogether. You can purchase a place/part place from a childcare provider, and then give that place/part place to your employee as a benefit in kind, thus qualifying for the tax and NICs exemptions on the first £50 a week supplied in this way. For more information, download Daycare Trust's Factsheet "**ESCC3 - for employers HOW TO DIRECTLY CONTRACT A CHILDCARE PROVIDER**" by following this link www.daycaretrust.org.uk/mod/filemanager/files/dir-contr_cc-provider_employers.pdf

2. How are childcare voucher schemes usually administered?

Most employers will contract with a childcare voucher company to administer the scheme for them – that way there is minimal administration for the employer. The employer negotiates a management fee to the voucher company for their service, however usually the savings made on NICs more than cover the cost of this fee. **You can, however, administer a childcare voucher scheme yourself, without using a childcare voucher company.**

3. How can I administer my own childcare voucher scheme, without using a Childcare Voucher company?

Childcare vouchers can be offered as a benefit-in-kind on top of existing pay, as part of a flexible benefits package, or most commonly as part of a **salary sacrifice** scheme. You can produce your own childcare vouchers. There is no model or template for what a childcare voucher should look like – but at a minimum it would be sensible to include your company logo, contact details, and the information that it is a childcare voucher. You distribute the vouchers to your staff accordingly, though you can post vouchers directly to the employee's home. Those employees then use the vouchers to 'pay' their childcare provider. The childcare provider will then redeem the value of the voucher directly from you. Payment to the childcare provider is usually made by direct payment into their bank account.

See **Section 8** of this document for the requirements you need to comply with, and the records you need to keep to satisfy the HMRC that your voucher scheme qualifies for tax and NICs exemptions.

4. What is salary sacrifice?

Salary sacrifice means that an employee formally agrees to a reduction to their taxable salary and instead receives that amount (equivalent to the reduction) in childcare vouchers. The value of the childcare vouchers is exempt from NICs for both employer and employee, and from tax for the employee. This means NIC savings of up to 12.8% for employers and up to 11% for employees, plus the savings employees make on not paying tax. The contract between employer and employee must be updated and a signed agreement incorporated to reflect the changes agreed within the salary sacrifice. Follow this link for more information on Salary Sacrifice: www.daycaretrust.org.uk/mod/fileman/files/Salary_Sacrifice_info.doc

5. How will we benefit as an employer by offering childcare vouchers?

Employers who provide support for their staff through childcare vouchers benefit in a number of ways including:

- NIC savings of up to 12.8% -- around £300 a year.
- Tax and NIC savings for employees – helping them with childcare costs.
- Demonstrates commitment to your staff and enhances your company image
- Improves staff motivation and morale, therefore increasing productivity
- Improves staff recruitment and retention
- Reduced absenteeism

6. What sort of childcare can they be used to pay for?

Childcare vouchers can be used to pay for any form of legal childcare, but the first £50 a week you receive in vouchers will only be tax and NICs exempt if it is used to pay for registered* or approved childcare.

This includes:

- Childminders, nurseries and playschemes registered by Ofsted.
- Out of hours clubs run by a school on the school premises or by a local authority.
- Childcare schemes run by approved providers. This link will take you to a list of the quality approval schemes used to approve childcare services under this category:
www.daycaretrust.org.uk/mod.php?mod=userpage&menu=1003&page_id=108
- An approved foster-carer (the care must be for a child who is not the foster carer's foster child)
- In England only, a childcarer who is approved by Ofsted to care for your child or children in your own home – these are childminders who have further qualified to become "home childcarers"
- In England only, a childcarer approved under the Childcare Approval Scheme (see end of document for information about the new Childcare Approval Scheme which will operate from April 2005).
- In England only, childcare given in the child's own home by a domiciliary worker or nurse from a registered agency who cares for the child or children.
- In Scotland only, childcare given in the child's own home by (or introduced through) childcare agencies, including sitter services and nanny agencies, which must be registered.

"NB: Childcare provided by a relative** of the child is generally not eligible for help via the childcare element of the Working Tax credit or the tax and NICs exemptions on employer-supported childcare. The sole exception to this is the situation in which a relative has been registered or approved as a childminder, and happens to care for a related child, but whose primary or main paid childminding is for children to whom they are not related. In short being a paid childminder for the child to whom they are related is INCIDENTAL to their usual paid childminding. This care must be provided *outside* the child's own home."

**childcare services which have been registered and inspected by Ofsted (England only), the Care Standards Inspectorate for Wales, the Scottish Commission for the Regulation of Care and the Health and Social Services Trust in Northern Ireland*

***A relative of the child means a parent, grandparent, aunt, uncle, brother or sister --whether by blood, half blood, marriage, or affinity.*

7. Can all childcare providers accept childcare vouchers?

Yes, as long as the provider has a bank account. In order to receive the reimbursed value of a childcare voucher, childcare providers will need to register their details with the childcare voucher company. This is usually a record of contact details, registration number where appropriate, and bank account details if the voucher company intend to make payments directly into the bank account of the carer. There is no cost to

the childcare provider in receiving payment through childcare vouchers. Information packs that explain the voucher processes for childcare providers are available from most voucher companies.

8. What requirements do I need to comply with, and what records do I need to keep, in order for the childcare support I provide to qualify for the tax and NICs exemptions?

The liability for correct deductions of tax and NICs resides at all times with you, as the employer. The HMRC will want you to be able to prove that the criteria laid down for exemptions have been met, so you should comply with the following requirements, and collecting the following evidence.

Requirement	Record of evidence
<p>The childcare is eligible:</p> <ul style="list-style-type: none"> ● The employer support is only used for registered or approved childcare. See section 5 of this factsheet for the definition of registered or approved childcare. ● Employees participating in the childcare voucher scheme must inform the employer of any changes in the registration or approval status of the childcare. 	<ul style="list-style-type: none"> ● Details of the childcarer(s), including registration or approval numbers. ● Written agreement between the employer and the employee/a copy of the scheme rules that includes a requirement for employees to notify you of any change in circumstances in relation to the child or childcare <ul style="list-style-type: none"> ◆ A note of when the childcare provider's approval is due to expire.
<p>The child is eligible:</p> <ul style="list-style-type: none"> ● The employee is the parent of the child or has parental responsibility for a child with whom s/he lives. ● The child's age (see section 1 for the age of an eligible child). 	<ul style="list-style-type: none"> ● Employee's declaration. ● A record of the child's date of birth, indicating, where appropriate, if the child is disabled.
<p>The scheme is generally available to all employees</p>	<p>The materials used to publicise the scheme, for example a poster, a letter circulated to all staff or the staff handbook.</p>
<p>The individual's contract of employment has been amended (the key evidence the HMRC will use to check whether a Salary Sacrifice scheme is genuine) to entitle the employee to a reduced cash salary and a benefit.</p>	<p>The contract amendment.</p>
<p>That the contract amendment has taken effect.</p>	<p>Pay slip.</p>
<p>A benefit has been provided.</p>	<p>A copy of the scheme rules.</p>
<p>Shaded items: this evidence is only required if there has been a salary sacrifice</p>	

For more information from the HMRC on the kinds of regulations you need to comply with, and the records you need to keep, look at page 7 of the HMRC's booklet **E18: How You Can Help Your Employees with Childcare**: www.hmrc.gov.uk/helpsheets/e18.pdf

What should you be aware of:

Childcare vouchers are a great incentive for your employees, but before staff commit to entering a childcare voucher scheme involving salary sacrifice, it is important to make them aware of all the features of salary sacrifice and how it might affect their overall financial position. In most instances the benefits of childcare vouchers are likely to outweigh any negative effects, but employees must be able to make an informed decision based on their own circumstances.

Period of contract:

When an employee agrees to sacrifice part of their salary for childcare vouchers, the contract of employment will need to be amended or an additional contractual agreement will need to be signed. This agreement will usually be for a set period of time, usually for one year, after which the agreement can be reviewed. The employee does not have an automatic right to revert back to their original salary within the contractual period. Many employers and schemes will however, offer an earlier review of the agreement in the event of "unexpected life changes", which is anything linked to birth, death and marriage. Employers should be clear on what change in circumstances they might consider.

Terms and conditions of employment:

Adverse effects from using salary sacrifice can arise because many other employer-provided benefits are calculated on the basic salary, for example, overtime, sick pay, shift allowances, on-call time, uniform allowances and employer's maternity pay. Best practice is to maintain the link with the full or "notional" salary value, allowing employers to ensure that any salary based enhancements are based on the salary before the sacrifice. It is good practice for employers to protect the benefits they provide.

Effects of Salary Sacrifice on work-related benefits

The amount employees receive in childcare vouchers will not count as part of work-related payments such as Statutory Maternity Pay (SMP) and Statutory Sick Pay (SSP), which are based on an employee's average earnings over a fixed period. As above, best practice for employers is to maintain the link with the full or "notional" salary for SMP and SSP – though (as employers) you would only be able to claim back the statutory amount for both benefits. In the case of SMP, if the notional salary is not to be the reference point, as pregnancy is a "life-changing event" it should be possible to review the employee's amended contractual arrangements (which permitted the original salary sacrifice). If the employee wants to, she should be able to leave the scheme before working the eight weeks period on which her SMP will be based and thus ensure it will not be affected.

Effects of Salary Sacrifice on contribution- and earnings-related benefits

Contribution-based benefits are calculated according to the level of National Insurance Contributions (NIC) paid by an individual. An individual's eligibility for contribution-based benefits may be affected by their participation in a childcare voucher salary sacrifice scheme, as their NICs will decrease. Examples of some benefits that may be affected include Jobseekers' Allowance, Incapacity Benefit and the State Pension. Earnings-related benefits such as Maternity Allowance and the State Second Pension are based on an individual's income and do not take into account the amount received in childcare vouchers as income, therefore reducing the rate of these benefits.

More information on the effects of salary sacrifice:

More information on the effects of childcare vouchers schemes and salary sacrifice may have on employees' work-related payments and benefits is available on line from the HMRC – http://www.hmrc.gov.uk/specialist/salary_sacrifice.pdf

Effects on Child Tax Credit and Working Tax Credit:

The Child Tax Credit (CTC) offers financial support with general family costs. Working Tax Credit (WTC) supports those on lower incomes and working parents may be eligible for additional help towards registered

childcare costs. The amount of help parents receive will depend on a number of factors including their income, the size of their family and the amount they pay in childcare. The receipt of childcare vouchers through a salary sacrifice scheme can affect parents' entitlements to these tax credits in two main ways. Where employees' average earnings have effectively been reduced, they could receive a higher payment through the WTC. However, the value received in childcare vouchers from an employer, cannot be considered as childcare costs when calculations are made for their entitlement to the childcare element of WTC. (Essentially because you cannot claim twice for the same benefit). The childcare element of WTC may therefore be reduced. It is advisable for parents to find out what level of support they could be entitled to through the CTC and WTC before they sign up to a childcare voucher salary sacrifice scheme. In some instances parents may be financially better off opting to receive help through the WTC rather than through their employer's childcare voucher scheme.

How can I tell whether an employee would be better off with Tax Credits, or with a voucher scheme?

The following bullet points provide a *rough* guide as to whether someone would get more help from Tax Credits, or from employer-supported childcare, but each individual situation should be checked carefully before deciding which benefit is better for an employee.

- Employees will always benefit from taking a tax and NICs-free voucher if it is offered on top of their salary.
- Generally, if employees are getting £545 or less a year in total from Tax Credits, they will be better off using vouchers.
- Generally, if an employee is getting more than £545 a year in total from Tax Credits, they will not gain from claiming the tax and NICs exemptions - unless they are a higher rate tax payer.
- Generally, if an employee's childcare costs are more than £175 a week for one child, or £300 a week for two or more children, they will benefit from taking childcare vouchers to pay for the amount by which their childcare costs exceed those limits.

For more information on Child Tax Credit and Working Tax Credit contact the Tax Credit helpline on 0845 300 3900 or visit www.hmrc.gov.uk/childcare/taxcredits-guidance.htm

How much can employees receive in vouchers?

There is no limit on the amount you can give employees in vouchers – however *only the first £50* qualifies for NICs exemptions for employers, and tax and NICs exemptions for employees. The only legal consideration is (if you operate Salary Sacrifice) that the employee's cash pay must not fall below the national minimum wage (NMW). An employee can "save up" childcare vouchers, and use them at times of the year when they have more need for childcare (e.g. school holidays).

Childcare Approval Scheme

This is a new scheme for approving forms of childcare not previously able to be registered (and thus not able to qualify for help through Tax Credits, and for tax and NICs breaks on employer-supported childcare). This scheme enables carers caring for a child in the child's own home (such as nannies), or caring for children over 7 on other domestic premises (such as childminders) to become "approved" by showing that they have certain qualifications. The scheme is voluntary. For more information about the Childcare Approval Scheme, ring the helpline: 0845 7678 111 or visit: www.childcareapprovalscheme.co.uk

NB: From 6 April 2005 there are three key changes in the administration of Childcare Vouchers

- If you have a voucher system, the scheme must be generally available to all employees where the scheme applies (before 6 April 2005 employers could supply vouchers to sections of the workforce in a workplace).
- The first £50 supplied in Childcare Vouchers is free from tax, as well as National Insurance Contributions (NICs) for the employee, and free from NICs for the employer (before 6/04/05 an unlimited amount supplied in Childcare Vouchers was free from NICs for both employers and employees, but not from tax).
- Vouchers can be used to pay for all forms of legal childcare, but after 6 April 2005 will not qualify for the tax and NICs exemptions on the first £50 supplied unless they are used to pay for **registered** or **approved** childcare (before 6/04/05 childcare vouchers qualified for NICs exemptions when they were used to pay for any form of legal childcare).