



## Beginners Guide to Employer Supported Childcare

As an employer you are not obliged to provide employer-supported childcare to your employees. The decision to do so and the type of childcare provided is up to you. But it can be a very valuable benefit for your staff and has cost-saving opportunities for the employer and employee.

There are three types of childcare that you can provide ... which qualify for Income Tax and National Insurance Contributions (NICs) exemption:

- childcare vouchers
- directly contracted childcare
- workplace nurseries.

As with all things to do with the taxman, certain conditions need to be met for the childcare support to be either partly or completely exempt from Income Tax and NICs. If these conditions are not met, or if the employer helps pay for the employee's childcare in other ways, for example:

- pays cash to pay for childcare
- pays the childcare bill, or
- pays the child's school fees

then the employee will have to pay the full amount of Income Tax and NICs on the support.

### How much is it?

For Income Tax purposes employees are only entitled to one exempt amount of £55 per week (or £243 per month, or £2,916 per year) regardless of the number of jobs or employments they have. For NICs you can receive an exempt amount from more than one employer. Also, if both mother and father are provided with childcare vouchers, they are each entitled to an exempt amount of childcare vouchers.

### Childcare vouchers

There are several different providers of vouchers who operate on a commercial basis and most registered childcare providers are able to accept vouchers. The employee will not have to pay Income Tax or NICs on the first £55 per week, or £243 per month. However, if vouchers worth more than this are used, Income Tax and NICs will be charged on the remainder.

### Directly contracted childcare

Directly contracted childcare is where the employer arranges with a commercial childcare provider to provide childcare for its employees. Where this happens, the same limits of

£55 per week free of income tax and nic apply. However, if the employer pays more than £55 per week, the employee will have to pay Income Tax and NICs on the remainder.

Directly contracted childcare means that the employer may provide emergency childcare cover or pay for a place:

- in a nursery, or in a crèche, or in a play scheme
- in an after school club, or with a registered childcare provider or other approved child carer.



### Workplace nurseries

Some employers set up their own nurseries at the workplace or at another location and offer places to employees' children. Places at a workplace nursery are Income Tax or NICs free.

### How does it save everyone money?

A tangible cash saving can be made if the provision of childcare support is made in conjunction with a salary sacrifice scheme. The essence of a salary sacrifice scheme is that the employee formally accepts a lower wage (eg, lower by £55 per week) in exchange for the childcare support (of £55 per week). Thus the employer and employee swap being paid £55 as a wage for £55 being paid as childcare support.

The employer will save employer's nic on the wage no longer paid - currently of 12.8%. However, childcare voucher providers normally levy a administrative charge on the employer of around 10%.

The employee saves the income tax and nic they would otherwise pay on the £55 wage, currently of 31% for a basic rate taxpayer. Note that employees who pay tax at higher rates currently get tax relief at 41% or 51% depending



Is an independent firm of accountants, tax advisors and business advisors

114 High Street  
Cranfield  
MK43 0DG

Tel 01234 752566  
Tel 01908 616104  
Fax 01234 752577  
info@vowles.co.uk  
www.vowles.co.uk

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on their tax rate, but that this is due to change from April 2011 and be restricted to basic rate tax relief only.

**For example.** If John has a £20,000 salary and agrees with his employer to sacrifice £55 per week of wages in exchange for childcare support worth the same. Over the course of a year period John's gross pay will be reduced from £20,000 to £17,084 (£2,916 reduction), and his net pay reduced from £15,724 to £13,712 (£2,012 reduction). Instead of paying for £2,916 of childcare, John reduces his wage or pays £2,012 to his employer and therefore saves £904 pa in tax and nic! The employer's nic cost reduces from £1,827 to £1,455, a saving for the employer of £372.

## Tricks, Tips and Pitfalls

There are certain points to bear in mind.

- 1 Vouchers have an additional cost for the employer. Which means the employer makes a very much smaller cost saving. But it is just as effective for the employee.
- 2 Directly contracted childcare means that the employer has a contract directly with the childcare provider and is invoiced directly by the provider. This is very different to simply paying part or all of the employee's bills (which is the pitfall that some people fall into).
- 3 Childcare includes before and after school care, not just preschool or nursery care.
- 4 Operating a workplace nursery gives a higher level of tax free benefit-in-kind, but is actually quite an onerous thing to do.
- 5 Salary sacrifices have to be in writing and include certain specifics. Make sure you get the appropriate wording right.

## The Income Tax and NICs exemption conditions

The exemptions from Income Tax and NICs only apply if certain conditions are satisfied. In summary these are:

- the child must be a **qualifying child**
- the employee must have **parental responsibility** for the child, and
- the childcare must be **registered or approved**.

### The child will qualify:

- until 1 September following his or her 15th birthday, or
- until 1 September following his or her 16th birthday, if he or she is disabled.

**Parental responsibility** means that you have the same legal rights, duties, powers, responsibilities and authority as a parent for the child and the child's property. In essence the child must be:

- your child
- your stepchild, or
- a child who lives with you and for whom you have parental responsibility.

**Registered or Approved childcare** must be provided by a childcare provider under a Ministry of Defence accreditation

scheme abroad, or :

- A person registered under Part 3 of the Childcare Act 2006. This will include persons on the following registers operated by Ofsted
  - the Early Years Register
  - the general Childcare Register – compulsory part
  - the general Childcare Register – voluntary part.
- Schools – care provided by the governing body of a school is approved if it takes place
  - outside normal school hours (this means the normal hours of compulsory education adopted by the school as appropriate for the age of the child)
  - on school premises, or
  - on premises that are covered by the inspection of the whole school activity by Ofsted or the equivalent inspection body for certain independent schools.
- Other care providers – a domiciliary worker or nurse from an agency registered under the Domiciliary Care Agencies Regulations 2002 providing childcare in the child's home.

**However**, qualifying childcare does not include care provided by a relative of the child in the child's own home. This includes relatives who are registered or approved childcare providers. For these purposes a relative means a:

parent, or step-parent, or foster parent, or grandparent, aunt or uncle, or brother or sister, whether by blood, half blood, marriage or civil partnership.

Childcare provided by relatives can be qualifying childcare if **all** the following circumstances apply:

- the relative is a registered or approved childcare provider
- the care is provided away from the child's own home
- the care is provided to non-related children in addition to the related child or children.

**Caveat:** Tax legislation changes frequently, this guide is no substitute for proper professional advice and no responsibility or liability can be taken by Jonathan Vowles Chartered Accountants for any action or inaction taken as a result of reading it.

### We can help!

We can help you to organise and implement an employer supported childcare scheme. Just contact us on the numbers shown below.

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114 High Street  
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MK43 0DG  
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