



Employer Supported Childcare

www.baldwinsaccountants.co.uk | t: 0845 894 8966 | e: info@baldwinandco.co.uk

Employer supported childcare, commonly by way of childcare voucher, is for many employers and employees a tax and national insurance efficient perk. We consider the implications of this type of benefit on the employer and employee.

Background

The workplace nurseries exemption was introduced many years ago. This exempts from tax and NIC the provision to an employee of a place in a nursery at the workplace or in a facility wholly or partly financed and managed by the employer.

Whilst these sorts of arrangements are not that common, the later introduction of a limited tax and NIC exemption for employer-contracted childcare and employer-provided childcare vouchers has been very popular with both employers and employees alike.

Salary sacrifice

Many employers use these childcare exemptions as part of salary sacrifice arrangements; for example, the employee gives up pay, which is taxable and NIC-able, in return for childcare vouchers, which are not. This may save tax and NIC for the employee and NIC for the employer. Such arrangements can be attractive; however care needs to be taken when implementing a scheme to ensure that it is set up correctly. Also, for those on low rates of pay, such arrangements may not be appropriate.

How much childcare can be provided tax and NIC free?

This depends on when the employee joined the employer's scheme. For those who joined the employer's scheme prior to 6 April 2011 the limit is currently £55 a week.

If the employer-contracted care exceeds £55 per week the excess will be a benefit in kind and subject to Class 1A NIC. However, with vouchers, although any excess is also a benefit in kind it is subject to Class 1 NIC via the payroll. As the tax and NIC issues are complex many employers limit their employees' potential entitlement to a maximum of the exempt limit (currently £55 a week).

The exempt limit applies to the full face value, rather than the cost, of providing a childcare voucher, which would normally include an administration fee.

An employee is only entitled to one exempt amount even if care is provided for more than one child but it does not matter that another person may also be entitled to an exempt amount in respect of the same child. As always, there are various conditions to meet but these rules have led to many employers providing such care, particularly childcare vouchers, to their employees.

What about those who join a scheme from 6 April 2011 onwards?

The limit on the amount of exempt income associated with childcare vouchers and employer-contracted childcare for employees joining an employer's scheme will be restricted in cases where an employee's earnings and taxable benefits are liable to tax at the higher or additional rate.

Anyone already in a scheme before 6 April 2011 is not affected by these changes as long as they remain within the same scheme.

What do employers have to do?

To identify the rate of tax an individual employee pays in any one tax year, an employer needs to carry out a 'basic earnings assessment' for any employee who joins an employer-provided childcare scheme on or after 6 April 2011.

Employers who offer or provide employer childcare are required, at the beginning of the relevant tax year, to estimate the 'employment income amount' that the employee is likely to receive during that year.

This is basically the contractual salary and benefits package (not discretionary bonuses or overtime) less the personal allowance if appropriate.

Employers must keep a record of the basic earnings assessment. These records do not need to be sent to HMRC but must be available for inspection by HMRC if required.

The employer must re-estimate the 'employment income amount' for each tax year.

What is the position for the employee?

For 2016/17, the personal allowance for most employees is £11,000 and the basic rate limit will be £32,000, a combined figure of £43,000. The higher rate limit is £150,000.

If the level of estimated earnings and taxable benefits is equal to or below the equivalent of the sum of personal allowances and the basic rate limit for the year (£43,000 as explained above), the employee will be entitled to relief on £55 exempt income for each qualifying week.

If the level of estimated earnings and taxable benefits exceed the equivalent of the sum of personal allowances and the basic rate limit for the year (£43,000 as above) but falls below the limit at which tax becomes payable at the 45% rate limit for the year (currently £150,000), the employee is entitled to relief on £28 exempt income for each qualifying week.

If the level of estimated earnings and taxable benefits exceed the equivalent of the additional tax rate limit for the year (currently £150,000), the employee is entitled to relief on £25 exempt income for each qualifying week.

Similar rules apply for NIC purposes.

As the employer has to estimate the employee's tax position each year, the amount of exempt income they can receive may change throughout their period of employment.

New starters

The rules are modified where employees join the scheme part way through a tax year. In that case, the earnings review has to be carried out at the point of joining. Basically, the joining employee's salary and taxable benefits need to be pro-rated upwards to estimate the notional annual earnings figure for the employee.

Gaps in payment

An employee can ask to stop receiving childcare vouchers temporarily whilst staying in the employer's scheme; for example, if an employee only works during school term time and doesn't need the vouchers during the school holidays. Basically, as long as the gap in providing the vouchers doesn't exceed 12 months the employee can still be classed as an existing member of the employer's scheme.

This also applies to employees who are on maternity leave, sick leave and those who wish to take a career break, provided that the total length of absence does not exceed 12 months.

Further information

HMRC have provided many questions and answers on their website to help both employees and employers and these can be viewed at <https://www.gov.uk/government/publications/employer-supported-childcare>

New Tax-Free Childcare scheme

The government plans to introduce new tax incentives for childcare.

The relief will be 20% of the costs of childcare up to a total of childcare costs of £10,000 per child per year. The scheme will therefore be worth a maximum of £2,000 per child (£4,000 for a disabled child). All children under 12 within the first year of the scheme will be eligible (up to 17 for children with disabilities).

To qualify for Tax-Free Childcare all parents in the household must:

- meet a minimum income level based on working 16 hours per week at the National Living Wage
- each earn less than £100,000 a year, and
- not already be receiving support through Tax Credits or Universal Credit.

Online account

It is proposed that parents register with the government and open an online account. The scheme will be delivered by HMRC in partnership with National Savings and Investments, the scheme's account provider. The government will then 'top up' payments into this account at a rate of 20p for every 80p that families pay in.

Self-employed

Self-employed parents will be able to get support with childcare costs using the Tax-Free Childcare scheme, unlike the current employer supported childcare scheme. To support newly self-employed parents, the government is introducing a 'start-up' period. During this period a newly self-employed parent will not have to earn the minimum income level.

When will this be introduced?

The government has announced it will introduce Tax-Free Childcare in early 2017. Parents will be able to apply for all their children at the same time, when their youngest child becomes eligible. All eligible parents will be able to join the scheme by the end of 2017.

Childcare providers

In September and October 2016 HMRC wrote to regulated and approved childcare providers across the UK, asking them to sign up online for Tax-Free Childcare.

Only childcare providers registered with a regulator can receive Tax-Free Childcare payments.

How does this relate to employer supported childcare?

The existing scheme, Employer Supported Childcare, will remain open to new entrants until April 2018 to support the transition between the schemes. When the new scheme is introduced it will continue to be available for current members if they wish to remain in it or they can switch to the new scheme.

How we can help

If you would like to discuss setting up a childcare scheme in further detail, please do not hesitate to