



Childcare Vouchers

Historically it was possible for employers to offer childcare vouchers to their employees but there were no government incentives to encourage their use.

Employers who want to retain and recruit the best staff need to consider offering such benefits.

For employees who were in receipt of vouchers before 6th April 2011 the first £55 per week (£243 per month) of the cost of providing the vouchers to each qualifying employee has been free from both tax and national insurance.

For new recipients from 6th April 2011 the tax reliefs are restricted for 40% and 50% taxpayers so that the value of the relief is the same for all.

The employer has to establish whether the employee is likely to be a 20%, 40% or 50% taxpayer. Those who fall into to 20% bracket may receive £55 per week of childcare vouchers tax and NI free, those in the 40% bracket may receive £28 per week and those in the 50% bracket £22 per week.



Conditions

The conditions are broadly:

- That the childcare voucher scheme is generally available to all employees or generally those at a particular location
- That the employees can only use the childcare vouchers to pay for childcare that has been registered or approved
- To qualify, the employee must be the parent of the child or have parental responsibility for a child who lives with them. The child will qualify:
 - ◇ Up to the 1st September following his/her 15th birthday or
 - ◇ If the child is disabled, up to 1st September following his/her 16th birthday
- Every employee with a qualifying child is entitled to the £55/28/22 a week exemption. The vouchers can therefore be made available to both parents either by a single or by different employers. The number of children in the family makes no difference
- Childcare benefits can be offered in addition to the existing pay or under a salary sacrifice arrangement. If under the latter, they are cost neutral as a specific amount of salary is converted into childcare vouchers. It is however necessary to make sure that the sacrifice is effective for tax/national insurance purposes
- Salary sacrifice arrangements are effective when the contractual right to pay cash has been reduced. For that to happen two conditions have to be met:
 - ◇ The potential future remuneration must be given up before it is treated as received for tax or national insurance purposes and
 - ◇ The true construction of the revised contractual arrangement between employer and employee must be that the employee is entitled to lower cash remuneration and a benefit



Conditions continued

- Salary sacrifice must not reduce an employees cash pay below the national minimum wage
- If the employee elects to take childcare vouchers, they should be aware that their entitlement to tax credits will be affected.
- If the childcare benefits are taken up under a salary sacrifice arrangement, then the employee needs to be aware that their gross salary will be reduced for all purposes and this could affect their entitlement to other benefits such as state pension, statutory maternity pay and statutory sick pay
- The vouchers can be in paper form or electronic and there are several specialist providers who can deal with providing these, alternatively the vouchers can be provided internally. Records will need to be

kept to confirm that the qualifying conditions have been met, but again the specialist provider can assist with this.



Further Information

For further advice and assistance on the tax and national insurance savings of childcare vouchers please contact **Kate Crawford** on **01225 785520** or by email on kate.crawford@monahans.co.uk

For help with amendments to contracts of employment following salary sacrifice, contact **Peta Fry** on **01793 818300** or by e-mail on peta.fry@monahans.co.uk