

Payroll

Childcare Costs Overview

Employees and employers are exempt from both Tax and NICs on childcare that is: -

1. Provided in an employer operated nursery (workplace nursery). No limit on value.
2. Paid by the employer directly or provided under a childcare voucher scheme. Limited to £55 per week (£238 per month).

The £55 limit applies to each individual employee. It is not affected by the number of children in the employee's family or whether one or two parents receive childcare benefit-in-kind.

There are two conditions that must apply: -

1. Available to all staff.
2. Provided by registered or approved carers (i.e. relatives and guardians do not qualify).

Children qualify up to 1st September following their 15th birthday.

Implementation

Employers may decide to offer childcare support in addition to normal salary or alternatively, may operate a 'salary sacrifice' scheme, whereby the employee formally agrees to give up part of their salary in exchange for childcare assistance. In the case of salary sacrifice both the employer and the employee will benefit from significant tax and NIC savings. The savings are the same whether the employer pays the carer directly or via a childcare voucher scheme.

Employers have two options when using childcare vouchers: -

1. Voucher provider companies can operate childcare voucher schemes on behalf of employers. They will charge an administration fee of about 5%.
2. Employers can produce and administer childcare vouchers themselves. A sample voucher is provided by Help Accountants.

Vouchers are given to the employee who in turn gives them to the childcare provider. The childcare provider then returns the voucher to the voucher provider (3rd party or the company) and claims the cash.

Where the employer chooses a salary sacrifice scheme then this can be managed via the payroll system. The salary sacrifice is shown as a “No-Tax No-NI deduction”.

Please Note

This scheme changed on 6th April 2005. Prior to this, employers offering a voucher scheme were exempt from NICs but not tax. There was no limit to the contribution and therefore, whilst the legislative changes introduced on the 6th April 2005 benefit the majority of working parents, there may be some instances where the employee is worse off under the new scheme (i.e. those receiving vouchers substantially in excess of £55).

Additional information can be found at

<http://www.hmrc.gov.uk/helpsheets/e18.pdf>

“How you can help your employees with childcare”