

Childcare Tax and National Insurance Contributions - employers' factsheet

The tax and National Insurance contributions (NICs) rules for employer-supported childcare changed on 6 April 2005.

New exemptions were introduced to encourage more employers, including those who have never done so before, to help their employees with their childcare responsibilities. This factsheet provides an overview of the new rules for employers.

Childcare vouchers

If you give your employees childcare vouchers, the first £50 a week is free from both tax and NICs if the qualifying conditions are met. Any associated childcare voucher administration costs you pay are also exempt. The qualifying conditions are that

- your employees can only use the childcare vouchers to pay for childcare that has been registered or approved
- the child is
 - a child or stepchild of the employee at whose expense, either in full or in part, the child is maintained, or
 - resident with the employee and for whom the employee has parental responsibility.

A child qualifies up to 1 September after their 15th birthday (or 1st September after their 16th birthday if they are disabled), and

- your childcare voucher scheme is generally available to all of your employees where the scheme operates.

Childcare from a third party

If you provide childcare through a third party, a tax and NICs exemption similar to the one for childcare vouchers will apply. The first £50 a week of the cost of the childcare you provide will be exempt from tax and NICs and the same conditions that the scheme is generally available, for a qualifying child and for registered or approved childcare will apply.

Workplace Nurseries

If you provide childcare in a nursery or play scheme on your premises (or on premises you provide jointly with others that you are wholly or partly responsible for financing and managing) no tax or NICs is due on the benefit to your employees. This exemption also applies if you allow another employer's staff to use your childcare facility, if those employees work on your premises.

Where can I find more information?

- HM Revenue & Customs website at www.hmrc.gov.uk/childcare gives further information about tax and NICs and tax credits.
- Employers 2005 CD-ROM
- Employers Helpline **08457 143 143**
- Tax Credit Helpline
0845 300 3900 (Great Britain)
0845 603 2000 (Northern Ireland)

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Frequently Asked questions

Can I offer childcare or childcare vouchers under a salary sacrifice arrangement or does this have to be in addition to existing pay?

How you decide to offer childcare benefits is up to you, but you will need to make sure that any salary sacrifice arrangements that you set up are effective for tax and NICs purposes.

For further information you can

- contact the Employers Helpline or
- visit www.hmrc.gov.uk/childcare.

Is the £50 a week exemption available to every employee or is it limited to each family?

Every employee is entitled to the £50 a week exempt limit if the qualifying conditions are met.

What forms of support are not covered by the tax and NICs exemptions?

The exemption does not extend to

- cash payments to an employee to help with their childcare costs
- paying an employee's childcare bills on their behalf
- payment of school fees
- the provision of childcare or childcare vouchers if the qualifying conditions are not met.

What reporting requirements are there?

If you provide childcare or childcare vouchers that meet the qualifying conditions for the exemptions you will not have to report the benefit for tax or NICs purposes unless the benefit exceeds the exempt limit. If, for example, you provide qualifying childcare vouchers of £70 a week, £20 a week will be liable for tax and Class 1 (employer and employee) NICs. Taxable amounts must be entered on form P11D or P9D at the end of the year. Vouchers liable for NICs must be included in gross pay for Class 1 NICs purposes.

What records do I need to keep?

You will need to keep records that the qualifying conditions have been met. (You can arrange for a voucher company to keep these records for you but you will be responsible for producing them to HMRC, if required.) These records should include

- evidence that the scheme is offered to all staff where appropriate (eg the material used to promote your scheme or staff handbook)
- details of the child using the childcare, for example their name and date of birth
- details of the childcarers used including their registration or approval numbers and, if appropriate, when their approval expires, and
- evidence that your employees participating in childcare voucher schemes are required to inform you of any changes in the registration or approval status or their childcarer.

How much can my employees save if I provide childcare or childcare vouchers?

This will depend on the level of earnings, the type of support offered and whether you offer help in addition to normal salary or by your employees giving up some of their salary in return for the childcare or childcare vouchers.

Could offering childcare or childcare vouchers affect my employees' entitlement to tax credits?

Yes. Childcare costs that you meet directly or through vouchers cannot be taken into account for tax credit purposes. If you reduce your employees' cash pay this may also affect their entitlement. Your employees should understand how their entitlement will be affected before participating in your scheme. Guidance for employees is available on our website at www.hmrc.gov.uk/childcare/taxcredits-guidance.htm

What do I have to do if my employee's childcare is no longer registered or approved?

If you are not satisfied that the conditions are met you should

- include the cost of any vouchers in the employees' gross pay for Class 1 NICs purposes
- account for the taxable benefit on form P11D or P9D
- where you have provided childcare through a third party, account for the taxable benefit on form P11D or P9D and pay Class 1A NICs in the normal way.

Do employer-provided childcare benefits and childcare vouchers count towards the National Minimum Wage (NMW)?

No. Childcare or childcare vouchers provided in return for a reduction in cash pay (a salary sacrifice) cannot take pay below NMW rates.

What counts as registered or approved childcare?

Registered and approved childcare includes

- registered childminders, nurseries and play schemes
- out-of-hours clubs on school premises run by a school or local authority
- childcare schemes run by approved providers, for example, an out-of-school hours scheme or a provider approved under a Ministry of Defence accreditation scheme
- childcare given in the child's home that has been approved under a Government scheme (except where the care is provided by a relative of the child).

This list only covers the main forms of qualifying childcare and you are advised to check our website for more details on childcare regulation in each devolved administration.