



Childcare Tax and National Insurance Contributions from 6 April 2005 - employers' factsheet

The tax and National Insurance contributions (NICs) rules for employer-supported childcare are changing from 6 April 2005.

New exemptions are being introduced to encourage more employers, including those who have never done so before, to help their employees with their childcare responsibilities.

Childcare Vouchers

If you give your employees childcare vouchers, they are currently liable for tax on the cost to you of providing them but are free from both employers' and employees' NICs. From 6 April 2005, the first £50 a week of the cost of providing the vouchers to each employee will be free from both tax and NICs if the qualifying conditions are met.

These are:

- That your childcare voucher scheme is generally available to all of your employees where the scheme operates; and
- That your employees can only use the childcare vouchers to pay for childcare that has been registered or approved.

Other Childcare Support

If you provide childcare through a third party, from 6 April 2005 a new 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 and registered or approved childcare only 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. From 6 April 2005 this exemption is also being widened so that if you allow another employer's staff who work on your premises to use your childcare facility, they will also be able to benefit from the exemption.

Where can I find more information?

- The Inland Revenue website at www.inlandrevenue.gov.uk/childcare gives further information about tax and NICs and tax credits.
- Employers' Help Line **08457 143 143**
- Tax Credit Help Line
0845 300 3900 (Great Britain)
0845 603 2000 (Northern Ireland)

Full guidance will be provided on the 2005 Employers' CD-ROM.

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.inlandrevenue.gov.uk/specialist/salary_sacrifice.pdf

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

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

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

The exemption will 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 records will I need to keep?

If you provide childcare or childcare vouchers that meet the qualifying conditions for the exemptions you will only have to report the benefit for tax or NICs purposes on any excess over the exempt limit.

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 the Inland Revenue, if required). These records should include:

- Evidence that the scheme is offered to all staff where appropriate (e.g. the material used to promote your scheme or staff handbook);
- Details of the childcarer(s) used including their registration or approval numbers and when their registration or 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. Further advice can be obtained by contacting the Tax Credits helpline on **0845 300 3900** (Great Britain) or **0845 603 2000** (Northern Ireland).

What do I have to do if I already provide childcare vouchers to my staff?

You should make sure that the conditions are met for each employee for the tax and NICs exemption to apply after 6 April 2005. If you are not satisfied that the conditions are met you should:

- include the cost of the voucher(s) in the employees' gross pay for Class 1 NICs purposes, and
- account for the taxable benefit in 2005/06 on form P11D or P9D.

Some employees who currently use informal childcare may be able to ask their childcare provider to apply for approval before the new rules take effect. The Government will shortly announce details of the new childcare approval scheme.

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 school governing bodies under the 'extended schools' scheme
- 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
- in England only, childcare given in the child's own home by a person* approved to care for your child or children
- in England only, childcare given in the child's own home by a domiciliary worker or nurse* from a registered agency who cares for the child or children
- in Scotland only, childcare given in the child's own home by (or introduced through) childcare agencies*, including sitter services and nanny agencies, which must be registered
- approved foster carers (the care must be for a child who is not the foster carer's foster child).

* Childcare provided in the child's own home will not qualify if the person approved to give that childcare is a relative of the child.