



HM Revenue
& Customs

How to help your employees with childcare

E18(2008)
Employer Helpbook

Includes guides on the tax and NICs treatment of:

- workplace nurseries
- other childcare provision
- childcare vouchers

Use from 1 September 2008

Help and further guidance

Help and further guidance about tax and National Insurance contributions (NICs) is available from the following sources.

The Internet

Go to our website at www.hmrc.gov.uk/paye

Your Employer CD-ROM

Your Employer CD-ROM has most of the forms and guidance you will need to run your payroll throughout the year.

The CD-ROM has:

- a P11 Calculator that will work out and record your employees' tax, NICs and Student Loan deductions every pay day with a linked P32 record of deductions that works out what you need to pay us
- a range of other calculators that work out car and car fuel benefit, statutory payments and Student Loan deductions.

If you have used the P11 Calculator for all your employees during the year and have nine or less employees at 5 April you can send us your Employer Annual Return online.

There is also:

- a Learning Zone to help you understand payroll topics such as statutory payments, Student Loan deductions and PAYE Online
- a Payroll Basics section for new and less experienced employers explaining what to do when employing someone for the first time.

Employer helpbooks

Our employer helpbooks are designed to help you understand and operate PAYE, NICs and other payroll related matters.

The helpbooks are for guidance only, they are not comprehensive and have no legal force.

We also have many other leaflets and booklets that give further guidance, for example:

- CWG2(2009) *Employer Further Guide to PAYE and NICs*
- CWG5(2009) *Class 1A NICs on benefits in kind*
- 480(2009) *Expenses and Benefits - A tax guide*
- 490 *Employee travel - A tax and NICs guide for employers.*

You can view, download and order the full range of helpbooks, booklets and other forms and guidance from our website at www.hmrc.gov.uk/employers/emp-form.htm or from your Employer CD-ROM.

Or you can order copies from the Employer Orderline:

- by phone **08457 646 646**
- by fax **08702 406 406**.

Forms and guidance in Braille, larger print and audio

For details of employer forms and guidance in Braille, larger print or audio call the Employer Orderline on **08457 646 646** and ask to speak to the Customer Service Team.

Yr Iaith Gymraeg

Ffoniwch **0845 302 1489** i dderbyn fersiynau Cymraeg o ffurflenni a chanllawiau.

By phone - employer helplines

New employers and employers with less than three years payroll experience

New Employer Helpline
0845 60 70 143
Monday to Friday
08.00 - 20.00
Saturday and Sunday
08.00 - 17.00

Employers with more than three years payroll experience

Employer Helpline
08457 143 143
Monday to Friday
08.00 - 20.00
Saturday and Sunday
08.00 - 17.00

If you have a hearing or speech impairment, and use a textphone

0845 602 1380
(Only people with specialised equipment such as Minicom are able to use this service.)

A list of helplines and opening hours is available:

- on our website at www.hmrc.gov.uk/contactus/helplines.htm
- on your CD-ROM, and
- in your Employer Bulletin.

Your HM Revenue & Customs office

Your own HM Revenue & Customs (HMRC) office can also help you. All our office contact details are on our website at www.hmrc.gov.uk/local/employers/index.htm

Please tell us your employer reference which is on correspondence from your HMRC office.

In person

We can help you with many payroll topics, explaining:

- what you need to do
- the deadlines you need to meet
- the forms you need to fill in
- the records you need to keep.

This education is available through a range of workshops which are free of charge. Further information is available from our website at www.hmrc.gov.uk/bst or by calling the Advice Team on **0845 603 2691**.

Online Services

For information about our online services go to www.hmrc.gov.uk/online

For help and assistance using our online services contact the Online Services Helpdesk:

- email helpdesk@ir-efile.gov.uk
- phone **08456 055 999** open seven days a week
08.00 - 20.00.

Contents

	Page
Introduction	3
Employer supported childcare	4
Workplace nurseries	4
Directly contracted childcare (also known as other childcare)	4
General conditions for employer supported childcare	4
Does your workplace nursery qualify for exemption?	5
Directly contracted childcare and childcare vouchers	6
Childcare vouchers	6
Conditions	7
Qualifying childcare	8
Registered childcare	8
In England only	8
In Wales only	8
In Scotland only	8
In Northern Ireland only	8
Frequently asked questions	8-10
What does not count as 'qualifying childcare'?	8
How do employer-provided childcare benefits affect tax credits?	9
National Minimum Wage and statutory payments	9
What tax relief can employers get for helping their employees with childcare?	9
Is VAT chargeable on childcare or childcare vouchers?	10
Can our employees benefit from the workplace nursery exemption if my business is running a commercial nursery or creche?	10
How much is the exemption for childcare or childcare vouchers for employees who are paid monthly?	10
Where can I get more information and advice about how to help my employees with childcare?	10
Where can I get information about childcare in my area?	10
Help and advice	10

Introduction

Employers may decide to help employees with their childcare. Under general rules the childcare would be chargeable to tax and National Insurance contributions as a benefit. However, three types of employer supported childcare can be partly or wholly exempt from these charges if the relevant conditions are met.

This helpbook aims to give an overview of these exemptions and qualifying conditions.

Employer supported childcare

Three types of employer supported childcare are included within the exemptions from income tax and National Insurance.

Workplace nurseries

Places allocated to the children of employees in workplace nurseries are completely exempt from tax and National Insurance contributions if they meet certain conditions (see page 5).

Directly contracted childcare (also known as other childcare)

If you help your employees by contracting directly with a commercial nursery or childminder, for example places that you have bought direct from a childminder or nursery, the first £55 per week of the cost to you of providing the benefit will be exempt from tax and Class 1A NICs, as long as certain conditions are met (see page 6).

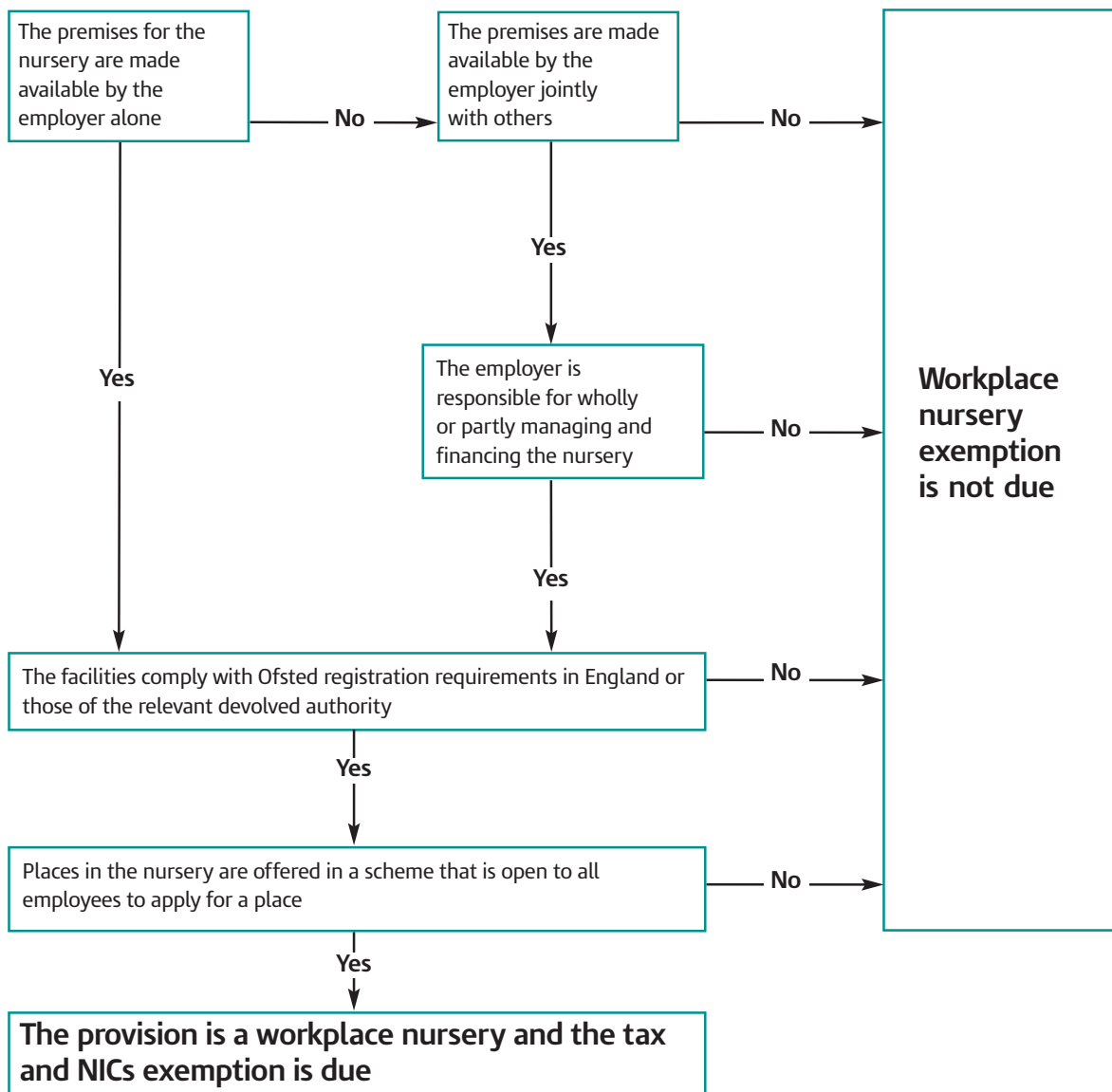
General conditions for employer supported childcare

The following conditions relate to **all** childcare support provided by an employer:

- **Available to all staff** - the childcare support should be offered in a scheme in which all employees are eligible to participate.
- **Qualifying child** - a child qualifies up to 1 September following his or her 15th birthday, or 1 September following his or her 16th birthday if they are disabled. The child must be the child or stepchild of the employee or a child for whom the employee has parental responsibility.
- **Registered or approved childcare only** - to qualify for the exemption, any childcare provided by an employer or for which childcare vouchers are used must be registered or approved.

Does your workplace nursery qualify for exemption?

Use this flow chart to see if you are providing childcare that could qualify for the full tax and NICs exemption. Appendix 11 of booklet 480(2009) - *Expenses and benefits A tax guide* explains the rules in more detail.



Directly contracted childcare and childcare vouchers

Use these tables to check whether or not the childcare support you offer is a taxable benefit and liable for NICs.

Conditions apply to each of the exemptions. You will find further guidance in booklets:

- CWG2(2009) *Employer Further Guide to PAYE and NICs*
- CWG5(2009) *Class 1A NICs on benefits in kind*
- 480(2009) *Expenses and Benefits - A tax guide*

Tax and NICs are payable on:

- cash allowances
- settling your employee's childcare bill on their behalf
- paying school fees for your employee's child or on your employee's behalf
- childcare vouchers used for childcare that is not qualifying childcare
- childcare vouchers in excess of £55 a week (but only on the amount over £55)
- childcare provided by you (unless in a workplace nursery).

The following benefits are free of tax and NICs:

- first £55 a week of the cost of a place in a
 - nursery
 - creche
 - pre or after school club
 - registered childcare provider, or
 - other approved child carer
- first £55 a week of childcare vouchers used for qualifying childcare
- back-up childcare you provide (where the cost across all eligible employees does not exceed £55 a week each). For example, if you pay to keep a place free in a local nursery for use by your employees when their own childcare arrangements fall down.

Note: Remember that the £55 limit applies to each individual employee. Both parents can receive supported childcare if offered by his or her employer. The £55 limit is per employee - it is not based on the number of children in the employee's family. For employees paid monthly, the maximum exempt amount is £243 a month.

Childcare vouchers

Your options

You have two options when using childcare vouchers:

- 1 Voucher providers can operate childcare voucher schemes on behalf of employers. They will charge an administration fee for the service. However, you will remain responsible for the correct deduction of tax and payment of NICs even if you use these companies.
- 2 You can produce and administer childcare vouchers yourself as long as you make sure the conditions for tax and NICs exemption are met and you keep records to support your scheme.

Conditions

Use this table to check:

- the conditions for the tax and NICs exemption; and
- what records you need to keep in order to show that the exemption is due.

Condition	Description	Records you need to keep
The scheme is generally available to all employees	<p>For any of your employees to qualify for the exemption, you should provide childcare vouchers in a scheme that is:</p> <ul style="list-style-type: none"> • open to all of your employees, or • open to all of your employees based at the location where the scheme operates. <p>This means that you should not exclude any employees from your scheme, for example on the grounds of:</p> <ul style="list-style-type: none"> • gender • seniority or position • level of pay • length of service • absence due to maternity leave. <p>But, this does not mean that all employees have to participate.</p> <p>For example, employees who cannot or choose not to participate may be those:</p> <ul style="list-style-type: none"> • without children in qualifying childcare or whose children are over the qualifying age limit • whose benefit from the childcare element of Working Tax Credit is greater than the saving in tax and NICs from vouchers. 	<p>You will need to keep:</p> <ul style="list-style-type: none"> • a copy of the letter or poster used to advertise your scheme to your staff, and • your staff handbook where this includes details of eligibility.
The child is a qualifying child	<p>The child for whom the childcare voucher is provided must be:</p> <ul style="list-style-type: none"> • a child of the employee, or • a child who lives with the employee for whom he or she has parental responsibility. <p>A child is a qualifying child:</p> <ul style="list-style-type: none"> • up to 1 September following their 15th birthday • up to 1 September following their 16th birthday if they are disabled. 	<p>You will need to keep:</p> <ul style="list-style-type: none"> • a record of the child's date of birth indicating, where appropriate, if the child is disabled. • A note of the relationship between the child and your employee if the employee is not the child's parent.
The childcare is registered or approved	<p>The exemption applies in the tax week in which you provide the childcare vouchers to your employees. You must be satisfied at that point that the vouchers will only be used to pay for registered childcare (see page 8 for what is meant by the term 'registered').</p> <p><i>Note: Your employees do not need to use the vouchers in the week or month they are provided and can save them, for example, to meet higher childcare costs during school holidays.</i></p>	<p>You will need to keep:</p> <ul style="list-style-type: none"> • a copy of your scheme rules that includes a requirement for employees to notify you of any change in circumstances in relation to the child or childcare. • a record of the childcare provider's name and, if applicable, registration number or approval number. • a note of when, if applicable, the childcare provider's registration or approval is due to expire. <p><i>Note: You may want to remind your employees to check their carer's registration or approval status in good time before entitlement to exemption expires.</i></p>

Qualifying childcare

The exemptions from income tax and NICs for employer supported childcare only apply when qualifying childcare is provided. Qualifying childcare is defined as 'registered or approved care'. You need to be certain that the childcare you provide or the childcare obtained by your employees with the vouchers you give is registered or approved care.

Registered childcare

Childcare provided away from the child's home must be registered:

- in England and Wales for children up to and including age seven years
- in Scotland for children up to and including age 16
- in Northern Ireland for children up to and including age 12.

Registered childcare within the United Kingdom consists of:

In **England** only:

- A person registered under Part 3 of the Childcare Act 2006. This will include persons on the following registers operated by Ofsted
 - The Early Years Register
 - The General Childcare Register - compulsory part
 - The General Childcare Register - voluntary part.
- Schools - care provided by the governing body of a school is approved if it takes place
 - outside normal school hours (this means the normal hours of compulsory education adopted by the school as appropriate for the age of the child)
 - on school premises, or
 - on premises that are covered by the inspection of the whole school activity by Ofsted or the equivalent inspection board for certain independent schools.
- Other care providers
 - A domiciliary worker or nurse from an agency registered under the Domiciliary Care Agencies Regulations 2002 providing childcare in the child's home.
 - A person approved in accordance with the Tax Credits (Approval of Child Care Providers) Scheme 2005 to provide care in the child's home or on other domestic premises.

In **Wales** only:

- a childcare provider registered by the National Assembly for Wales (through the Care Standards Inspectorate for Wales)
- out-of-school-hours childcare, provided by a school on the school premises, or by a Local Authority
- a person approved under the Approval of Child Care Providers (Wales) Scheme 2007 providing childcare in the child's home or if several children are being looked after, in the home of one of the children
- a domiciliary worker or nurse from an agency registered under the Domiciliary Care Agencies (Wales) Regulations 2004 providing childcare in the child's home.

In **Scotland** only:

- a childcare provider registered by the Scottish Commission for the Regulation of Care
- out-of-school-hours childcare clubs registered by the Scottish Commission for the Regulation of Care
- childcare provided in a child's home by, or introduced through, childcare agencies, sitter services and nanny agencies which are required to be registered.

In **Northern Ireland** only:

- childcare registered by a Health and Social Services Trust
- out-of-school-hours childcare, provided by a school on the school premises, or by an Education and Library Board
- a person approved under the Tax Credits (Approval of Home Child Care Providers) Scheme (Northern Ireland) 2006 providing childcare in a child's home.

Frequently Asked Questions

What does not count as 'qualifying childcare'?

Qualifying childcare does not include care provided by a relative of the child in the child's own home. This includes relatives who are registered or approved childcare providers. For these purposes a relative means:

- parent
- step-parent
- foster parent
- grandparent
- aunt or uncle
- brother or sister

whether by blood, half blood, marriage or civil partnership.

Childcare provided by relatives can be qualifying childcare in the following circumstances:

- the relative is a registered or approved childcare provider, and
- the care is provided away from the child's own home, and
- the care is provided to non-related children in addition to the related child or children.

You can find out if a child carer is currently registered:

- by phoning the Ofsted Helpline (England only) **0845 601 4471**
- or online at
 - www.ofsted.gov.uk (England)
 - www.wales.gov.uk/csiw (Wales)
 - www.carecommission.com (Scotland), and
 - www.dhssni.gov.uk/index/dhssps_links.htm (Northern Ireland)

You will need to quote the Unique Reference Number (URN) for registered childcare. This number will appear on the childcare provider's last registration certificate.

You can find out if childcare is approved at:

- The Childcare Approval Scheme at www.childcareapprovalscheme.co.uk (England only)
- Childcare provided in the child's home at www.childcarechoices.n-i.nhs.uk (Northern Ireland only)

How do employer-provided childcare benefits affect tax credits?

Tax credits help families on low to middle incomes. There are two tax credits:

- **Child Tax Credit (CTC)** is for people who are responsible for at least one child or qualifying young person. Most families are eligible for this support.
- **Working Tax Credit (WTC)** is for people who are employed or self-employed and usually work 16 hours or more a week. The childcare element provides help of up to 80% of qualifying childcare costs up to £175 per week for one child or £300 per week for two or more children.

Giving a childcare benefit or childcare vouchers to your employees can affect their entitlement to tax credits. This is because these benefits are not counted as income for tax credit purposes (even if they are provided through salary sacrifice).

Providing childcare and childcare vouchers will usually help your employees when given in addition to your employee's normal salary and where there is no cash alternative. This is because your employee benefits from the whole cost of the childcare given.

If childcare support is provided instead of a cash pay rise it is important that the employee considers their tax credit position as he or she may be better off taking the pay rise. There is further information on the interaction of tax credits and tax and NICs exemption for employer supported childcare on our website www.hmrc.gov.uk/childcare

When childcare vouchers are given instead of normal salary (often known as salary sacrifice), the help is limited to the tax and NICs savings the employee makes. This would only benefit your employee when:

- he or she is receiving Child Tax Credit only or no tax credit
- his or her childcare costs exceed the limit for Working Tax Credit.

It is important to remember that, if you offer your employees childcare support instead of pay by means of a salary sacrifice, this could affect their tax credit entitlement in two ways:

- 1 Their income for tax credits purposes will reduce by the amount of pay they have given up in return for the benefit.
- 2 Their eligible childcare costs for tax credit purposes will reduce as the costs are the only amounts the parent(s) pay themselves - the amount you pay directly or through childcare vouchers is not counted as part of the cost.

You should encourage your employee to compare their current tax credit award with the reduced award they would receive plus the tax and NICs savings gained by participating in your scheme. To do this the employee will need to follow these steps:

Step 1

Check their current tax credit entitlement. This will be based on their family income and qualifying childcare costs before participating in your scheme.

Note: The HMRC Tax Credit calculator works out entitlement from the date of the enquiry to the next 5 April.

Step 2

Check the family's tax credit entitlement based on what the lower family income will be. For example, compare the original pay, less the amount of cash that has been given up in return for the childcare vouchers or childcare benefit.

This calculation should also take account of the lower childcare costs. For example, the qualifying childcare costs, less the amount met by you either directly or with vouchers.

Step 3

Calculate their tax and NICs saving on taking the childcare benefit or childcare vouchers instead of cash pay.

Step 4

If the award from Step 2 plus the savings calculated in Step 3 is greater than the award from Step 1, your employee will benefit from your childcare benefit or childcare voucher scheme.

Remember that your employees don't have to tell you about their tax credit entitlement or family income. It is their choice to participate in your childcare support scheme if they are eligible to do so.

National Minimum Wage and statutory payments

If you offer a childcare benefit or childcare vouchers to your employees in return for a reduction in their cash pay, they cannot sacrifice their cash pay below the National Minimum Wage rates. Nor can you reduce any statutory pay, for example, Statutory Maternity Pay (SMP) or Statutory Sick Pay (SSP) for any form of employer supported childcare provided by you for the same period.

What tax relief can employers get for helping their employees with childcare?

- 1 You can claim tax relief for the **day-to-day costs** of providing or subsidising childcare.

Day-to-day costs include:

- giving an employee cash allowance for childcare
- paying the fees of a nursery, childminder or nanny on behalf of an employee
- the running costs of a workplace nursery for employees' children. For example
 - rent
 - rates
 - heating and lighting
 - staff wages
 - food
 - play equipment with a short life.

These costs are **all** deductible when working out your profits for tax purposes.

- 2 You may qualify for **capital allowances** on the cost of equipment for a nursery.

Many items used in a workplace nursery may qualify for capital allowances including:

- furniture
- equipment used for heating, washing and cooking
- more durable items of play equipment.

- 3 You may also qualify for tax relief for the **capital costs** of providing premises for a nursery.

If your trade is in the industrial sector, the capital costs of providing premises for a workplace nursery may qualify for industrial buildings allowance. This allowance is given over a 25 year period, normally at a rate of 4% a year, from the date the building is first used.

Nurseries in certain hotels may also qualify for industrial buildings allowance.

New and unused business premises of all types in an Enterprise Zone qualify for a 100% initial allowance. This means the cost of providing nursery premises can normally qualify for tax relief straightaway.

Helpsheet IR222 *How to calculate your taxable profits* provides you with more information.

Is VAT chargeable on childcare or childcare vouchers?

VAT is paid on supplies of goods or services in the UK by way of business. In the case of vouchers, generally no supply of services takes place until the vouchers are redeemed towards the cost of qualifying childcare. Childcare is exempt from VAT.

Any VAT incurred by businesses on voucher administration fees is subject to normal rules on the recovery of input tax.

Can our employees benefit from the workplace nursery exemption if my business is running a commercial nursery or crèche?

Yes, employers running a commercial nursery or crèche can provide free or discounted childcare for employees and no tax or NICs is due. However, this is provided the child using the care is a qualifying child (see page 4) and the conditions for the nursery are met (see page 5).

How much is the exemption for childcare or childcare vouchers for employees who are paid monthly?

£243 a month

Where can I get more information and advice about how to help my employees with childcare?

The Daycare Trust (national childcare charity) offers advice to employers about how to help parents with childcare. Information is available on their website at www.daycaretrust.org.uk or you can contact them on **020 7840 3350**.

Where can I get information about childcare in my area?

You can find childcare by area on Sure Start's Childcare Link website. The address is www.childcarelink.gov.uk The Direct Gov website (www.direct.gov.uk) includes a search facility for finding childcare. Your local authority can also help you find registered childcare.

Help and advice

You can get help and advice on the details of these conditions and the allowances from your Tax Office or professional adviser.