

# How to help your employees with childcare

E18(2006)  
Employer Helpbook

Includes guides on the tax and NICs treatment of;  
workplace nurseries  
other childcare provision  
childcare vouchers

## 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 [www.hmrc.gov.uk/employers](http://www.hmrc.gov.uk/employers)

### Your Employer CD-ROM

Most of the forms and guidance you will need are available to view or print from your CD-ROM. There are also forms you can complete and save on-screen.

Your CD-ROM contains the following calculators

- P45 calculator to check the P45 details of new employees
- P11 calculator that works out the amount of tax and NICs due.
- Car benefit and Car Fuel benefit calculator
- Collection of Student Loans calculator
- Statutory Payment calculators.

There is a Learning Zone to help you understand topics such as Statutory Payments and Student Loan deductions.

You will also find a Payroll Basics section designed to help new and less experienced employers understand what to do when employing someone for the first time.

### Employer Helpbooks

Our Employer Helpbooks will 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.

There are also other leaflets and booklets that give further guidance, for example:

- CWG2(2007), *Employer Further Guide to PAYE and NICs*
- CWG5(2007), *Class1A NICs on benefits in kind*
- 480(2007), *Expenses and Benefits - a tax guide.*

You can view, download and print the full range of Helpbooks, booklets and other forms and guidance from our website at [www.hmrc.gov.uk/employers](http://www.hmrc.gov.uk/employers) or your Employer CD-ROM.

Or you can order copies from the Employer Orderline

- from our website at [www.hmrc.gov.uk/employers/emp-form.htm](http://www.hmrc.gov.uk/employers/emp-form.htm)
- by fax 0870 240 6406
- by phone 0845 764 6646.

Forms and guidance in Braille, large print and audio

For details of employer forms and guidance in Braille, large print or audio call the Employer Orderline on 0845 764 6646 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

(We may record calls for quality and training purposes.)

New employers and employers with less than 3 years payroll experience	New Employer Helpline 0845 607 0143 Monday to Friday 08:00 -20:00 Saturday and Sunday 08:00 - 17:00
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Employers with more than 3 years payroll experience	Employer Helpline 0845 714 3143 Monday to Friday 08:00 - 20:00 Saturday and Sunday 08:00 - 17:00
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Employers who are deaf or hard of hearing	Textphone 0845 366 7805 (You must have specialised equipment such as Minicom to use this service).
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A list of Helplines and opening hours is available

- on our website at [www.hmrc.gov.uk/contactus/helplines.htm](http://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 office can also help you. All our office contact details are on our website at [www.hmrc.gov.uk/local/employers/index.htm](http://www.hmrc.gov.uk/local/employers/index.htm)

When contacting us please tell us your Employer reference. You will find it on correspondence from your HM Revenue & Customs office.

### In Person

We can offer you education and support on all aspects of your payroll 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.

We also have a range of workshops which are free of charge on many payroll topics.

You can get further information about the workshops from our website at [www.hmrc.gov.uk/bst](http://www.hmrc.gov.uk/bst), or you can call the

- New Employer Helpline on 0845 607 0143
- Employer Helpline on 0845 714 3143

### Online Services

For enquiries about our online services

- go to [www.hmrc.gov.uk/efiling/help](http://www.hmrc.gov.uk/efiling/help)
- email helpdesk @ [ir-efile.gov.uk](mailto:ir-efile.gov.uk)
- phone 0845 605 5999  
open 7 days a week 08:00 -20:00.

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## page Introduction

The Government has introduced exemptions to encourage more employers to help their employees, including those who have never done so before, with their childcare responsibilities.

This Helpbook aims to give an overview of the exemptions and qualifying conditions.

## An overview of employer-supported childcare

From 6 April 2005, there were some key changes to the following.

### Workplace Nurseries

Workplace nurseries are exempt from income tax and NICs if they meet certain conditions (see page 5).

This exemption also covers another employer's staff, who work on your premises and use your childcare facility, so that they can also benefit from this exemption.

### Directly contracted childcare (also known as other childcare)

If you help your employees by providing childcare, for example places that you have bought direct from a local childminder or nursery, the first £55 of the cost to you of providing the benefit will be exempt from income tax and Class 1A NIC, so long as certain conditions are met (see page 6). In 2005/06, the exempt amount was £50 per week. This was increased to £55 per week with effect from 6 April 2006.

### Childcare Vouchers

If you provide childcare vouchers the first £55 a week per employee will be exempt from income tax and Class 1 NICs so long as certain conditions are met (see page 6).

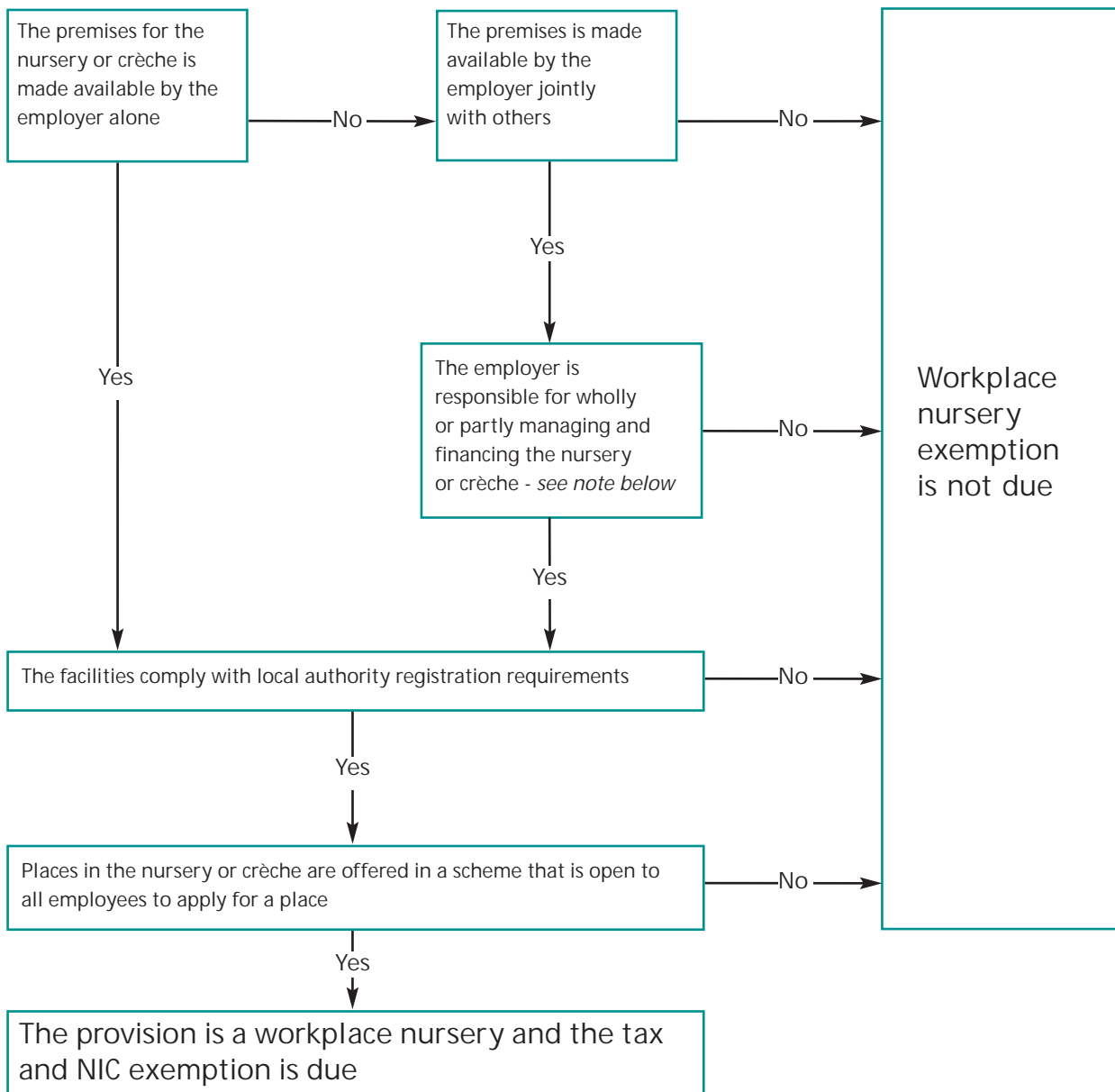
### General conditions for employer-supported childcare

The following conditions relate to all childcare support provided by an employer (see page 7).

- Available to all staff - the childcare support should be offered in a scheme to which all employees are eligible to apply.
- Qualifying child - a child qualifies up to 1 September following their 15th birthday, or 1 September following their 16th birthday if they are disabled and 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 12 of Booklet 480 "Expenses and benefits. A tax guide" ([www.hmrc.gov.uk/guidance/480.pdf](http://www.hmrc.gov.uk/guidance/480.pdf)) explains the rules in more detail.



### Note

Guidance on 'financing and 'managing' can be found in the Employment Income Manual at EIM21925 ([www.hmrc.gov.uk/manuals/eimanual/EIM21925.htm](http://www.hmrc.gov.uk/manuals/eimanual/EIM21925.htm))

## Directly contracted childcare

Use this table 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 480(2006), CWG2(2006) and CWG5(2006).

If you have only a small number of employees with children, you may find that this is the easiest method of providing employer-supported childcare.

### Tax and NICs payable

- 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 unapproved childcare
- Childcare vouchers in excess of £55 a week (but only on the amount over £55)
- Unapproved childcare you provide.

### Tax and NICs free

- First £55 a week of the cost of a place in a nursery, crèche, play scheme, registered childminder, after school club or other approved childcarer that you buy directly for the benefit of your employee or employees.
- First £55 a week of childcare vouchers used for registered or approved 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.

*Tip: Remember that 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 an employer-supported childcare benefit-in-kind.*

## Childcare vouchers

### Your options

You 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 for the service.
- 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.

However you decide to provide childcare vouchers, you will remain responsible for the correct deduction of tax and payment of NICs even if you choose to use a childcare voucher provider.

## Conditions

Use this chart 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
<p>The scheme is generally available to all employees</p>	<p>For any of your employees to qualify for the exemption the childcare voucher scheme must be</p> <ul style="list-style-type: none"> <li>• open to all of your employees, or</li> <li>• open to all of your employees based at the location where the scheme operates.</li> </ul> <p>This means that you should not exclude any employees or groups of employees from your scheme, for example on the grounds of:</p> <ul style="list-style-type: none"> <li>• gender</li> <li>• seniority or position</li> <li>• level of pay</li> <li>• length of service</li> </ul> <p>But it does not mean that all employees have to participate. For example, employees who cannot participate may be those:</p> <ul style="list-style-type: none"> <li>• without children in qualifying childcare</li> <li>• not earning sufficient salary to participate</li> <li>• who already benefit from Working Tax Credit</li> <li>• who choose not to participate</li> </ul>	<ul style="list-style-type: none"> <li>• A copy of the letter or poster used to advertise your scheme to your staff, or</li> <li>• Your staff handbook where this includes details of eligibility.</li> </ul>
<p>The child is a qualifying child</p>	<ul style="list-style-type: none"> <li>• The child for whom the childcare voucher is provided must be a child of the employee or a child who lives with the employee and for whom he or she has parental responsibility.</li> <li>• A child qualifies up to 1 September following their 15th birthday or 1 September following their 16th birthday if he or she is disabled.</li> </ul>	<ul style="list-style-type: none"> <li>• A record of the child's date of birth, indicating, where appropriate, if the child is disabled.</li> <li>• A note of the relationship between the child and your employee if they are not the child's parent.</li> </ul>
<p>The childcare is registered or approved</p>	<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 childcare that is registered or approved.</p> <p>See page 8 for what is meant by 'registered' and 'approved' childcare. Please see the Registered and approved childcare flowchart <a href="http://www.hmrc.gov.uk/childcare/reg-app-childcare-chart.pdf">http://www.hmrc.gov.uk/childcare/reg-app-childcare-chart.pdf</a></p> <p><b>Note</b> 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 holiday periods.</p>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• A record of the childcare provider's name and registration or approval number.</li> <li>• A note of when the childcare provider's approval is due to expire.</li> </ul> <p>(Tip: you might want to remind your employees to check their carer's approval status on a regular basis.)</p>

## Registered childcare

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

- In England and Wales for children up to and including 7 years.
- In Scotland for children up to and including age 16.
- In Northern Ireland for children up to including 12.

A registered childminder, nursery or childcare scheme is one that is registered in:

- England by OFSTED or the Commission for Social Care Inspection (formerly the National Care Standards Commission) – [www.ofsted.gov.uk](http://www.ofsted.gov.uk)
- Wales by the National Assembly for Wales (through the Care Standards Inspectorate for Wales) – [www.wales.gov.uk/csiw](http://www.wales.gov.uk/csiw).
- Scotland by the Scottish Commission for the Regulation for Care – [www.carecommission.com](http://www.carecommission.com).
- Northern Ireland, by a Health and Social Services Trust – [www.dhsspsni.gov.uk/index/dhssps\\_links.htm](http://www.dhsspsni.gov.uk/index/dhssps_links.htm).

## Approved childcare

There are two types of approved child carer:

Where the care is provided in the child's home or solely for children aged 8 and over on other domestic premises, the care is approved through the Childcare Approval Scheme administered by Nestor Primecare Services Ltd on behalf of the Department for Education and Skills (DfES). Their website [www.childcareapprovalscheme.co.uk](http://www.childcareapprovalscheme.co.uk) or Helpline - 0845 7678 111 can give you further information. This scheme applies to England only.

For example: nannies or childminders

A similar scheme exists in Northern Ireland, but this covers only childcare provided in the child's own home. Contact your local Health and Social Services Trust or visit [www.childcarechoices.n-i.nhs.uk](http://www.childcarechoices.n-i.nhs.uk)

Where day care is provided for children aged eight and over, the care is approved through the *Over 7s Quality Assurance Scheme* by an organisation accredited by DfES to approve childcare providers who meet the quality requirements of the organisation's scheme.

Each organisation operates their own scheme. For a list of currently accredited organisations see Childcare: registered and approved childcare flowchart for further details.

<http://www.hmrc.gov.uk/childcare/reg-app-childcare-chart.pdf>

## What counts as registered or approved childcare?

Registered or approved childcare can include:

- 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
- in England only, childcare given in the child's own home by a person approved to care for the child or children
- in England only, childcare given away from the child's own home by a person approved to care for the child or children aged 8 or over
- in England and Wales 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)
- In Northern Ireland childcare in a child's home up to the age of 16

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. Relative means a parent, grandparent, aunt or uncle, brother or sister (whether by blood, half-blood, marriage or affinity) and includes step-parents and civil partners and foster parents.

## How to find out if a child carer is currently registered or approved

Registered childcare

by phone: 0845 601 4771

or on the internet at

[www.ofsted.gov.uk](http://www.ofsted.gov.uk) (England);

[www.wales.gov.uk/csiw](http://www.wales.gov.uk/csiw) (Wales);

[www.carecommission.com](http://www.carecommission.com) (Scotland); and

[www.dhsspsni.gov.uk/index/dhssps\\_links.htm](http://www.dhsspsni.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 child carer's last registration certificate.

Approved Childcare

Nestor Primecare Services Limited (responsible for approved childcare) by phoning 0845 7678 111 (calls charged at local rates) or at the internet at [www.childcareapprovalscheme.co.uk](http://www.childcareapprovalscheme.co.uk)

Northern Ireland only: childcare provided in the child's home at [www.childcarechoices.n-i.nhs.uk](http://www.childcarechoices.n-i.nhs.uk)

## How do employer-supported 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. Nine out of 10 families are eligible for this support.

Working Tax Credit (WTC) is for people who are employed or self-employed who 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 when there is no cash alternatives. This is because your employee benefits from the whole cost of the childcare given.

If childcare help is provided instead of a cash pay rise it is important that the employee considers their tax credit position as they 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 HMRC website [www.hmrc.gov.uk/childcare](http://www.hmrc.gov.uk/childcare).

Providing childcare or childcare vouchers can help your employees when given instead of normal salary (often known as salary sacrifice). This help is limited to the tax and NICs savings the employee makes. This may benefit your employee when:

- they receive Child Tax Credit only or no tax credit
- their 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 entitled in two ways:

- Their income for tax credits purposes will reduce by the amount of pay they have given up in return for the benefit
- Their eligible childcare costs for tax credit purposes will reduce as it must only include costs the parent(s) pay themselves – the amount you pay directly or through childcare vouchers is not included

You should encourage your employee to compare their current tax credit award with the award they would receive with the tax and NICs savings gained by participating in your scheme. To do this they 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).

*Tip: HM Revenue & Customs Tax Credit calculator works out entitlement from the date of the enquiry to the next 5 April.*

### Step 2

Check their tax credit entitlement based on what their lower family income will be. For example their original pay less the amount of cash they have given up in return for the childcare vouchers or childcare benefit.

This calculation should also use their lower childcare costs. For example their 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 is likely to 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 and it is their choice to participate in your childcare support scheme if they are eligible to do so.

If you offer a childcare benefit or childcare vouchers to your employees in return for a reduction in their cash pay you must never reduce their cash pay below the National Minimum Wage rates.

## 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 or play scheme 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 or play scheme.

Many items used in a workplace nursery or play scheme 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 to hold a nursery or play scheme.

If your trade is in the industrial sector, the capital costs of providing premises for a workplace nursery, or play scheme, 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 or play schemes 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 or play scheme 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 and childcare in an appropriately registered crèche, play group or nursery 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 my 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 I pay monthly?

£243 per month

## Help and advice

You can get help and advice on the details of these conditions and the allowances from your HM Revenue & Customs office or professional adviser.

## 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](http://www.daycaretrust.org.uk) or you can contact them on 020 7840 3350.

In Northern Ireland, Employer For Childcare is registered charity and not-for-profit organisation which offers advice to working parents and parents who are considering returning to work. Information is available on their website at [www.employersforchildcare.org](http://www.employersforchildcare.org) or 0800 028 3008

## 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](http://www.childcarelink.gov.uk), it may also be worth contacting your local authority and [www.direct.gov.uk](http://www.direct.gov.uk) includes a search facility for finding childcare.

In Northern Ireland, the information can be accessed at [www.childcareni.com](http://www.childcareni.com)

