

How you can help your employees with childcare

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

Use from 6 April 2005

Help

We can help you

By telephone

(Calls may be recorded for quality and training purposes.)

- New employers (*less than 3 years*) **0845 60 70 143**
open Mon – Fri, 8am-8pm and Sat – Sun,
8am – 5pm.
- More experienced employers **0845 7 143 143**
open Mon – Fri, 8am-8pm and Sat – Sun,
8am – 5pm.
- Deaf or hard of
hearing employers *Textphone* **0845 602 1380**

For a list of helplines and opening hours, see your *Employer's Bulletin*.

In person

We have specially trained Business Support Teams covering all parts of the country to help you understand

- what records to keep
- what returns to make
- when to send us information.

The Business Support Team offers a range of workshops on many of the topics relevant to employers. These workshops are available at locations nationwide.

For more information on these workshops and other ways in which the Business Support Team can help either

- log on to our website at www.inlandrevenue.gov.uk/bst or
- call the New Employer's Helpline on **0845 60 70 143** and ask for details of your local Business Support Team.

At your local Inland Revenue office

Your local Inland Revenue office can also help you. To contact them, look under 'Inland Revenue' in your phone book. Write the telephone number below for future use.

Please tell us your reference, which you can find on all correspondence from your Inland Revenue office.

If your enquiry is about one of your employees, please also tell us their National Insurance number.

By Internet

Log on to the employer's website at www.inlandrevenue.gov.uk/employers

Further guidance

Employer's Help Books

There is a number of Employer's Help Books designed to help you operate straightforward PAYE, NICs and other payroll related matters.

The Help Books are for guidance only.

They are not comprehensive and they have no legal force.

We also have a number of other booklets that give further guidance, for example

- *Employer's Further Guide to PAYE and NICs, CWG2(2005)*
- *Class 1A NICs on benefits in kind, CWG5(2005)*
- *Expenses and Benefits – a tax guide, 480(2005)*

You can view the full range of these booklets, and other forms and guidance on

- the Internet at www.inlandrevenue.gov.uk/employers
- the Employer's CD-ROM.

or you can

- download them from the Internet at www.inlandrevenue.gov.uk/employers
- print them from the CD-ROM*

Forms and guidance in Braille, large print or audio

We have a range of services for people with disabilities, including leaflets in Braille, audio and large print. For details, please ask at your local Inland Revenue office or Enquiry Centre.

Yr Iaith Gymraeg

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

**The CD-ROM contains simple online guides with interactive features designed to help the newcomer to payroll.*

Calculators have been built in to help speed up your calculations of

- *Pay Adjustment and PAYE*
- *NICs contracted-out and not contracted-out*
- *Car benefit and Car Fuel benefit*
- *Student Loans*
- *Statutory Sick Pay*
- *Statutory Maternity Pay.*

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Introduction

The Government is introducing new exemptions from 6 April 2005 to encourage more employers to help their employees with their childcare responsibilities.

This Help Book aims to give an overview of the new exemptions and qualifying conditions.

What's New?

The key changes from 6 April 2005 are:

Workplace Nurseries

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

This exemption is being extended to allow another employer's staff, who work on your premises, and use your childcare facility to benefit from this exemption.

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 £50 a week of the cost to you of providing the benefit will be exempt from tax (see page 6).

The £50 a week exemption limit will also apply to Class 1A NICs.

Childcare Vouchers

If you provide childcare vouchers, the first £50 a week per employee will be exempt from tax (see page 6).

The £50 a week exemption limit will also apply to Class 1 NICs.

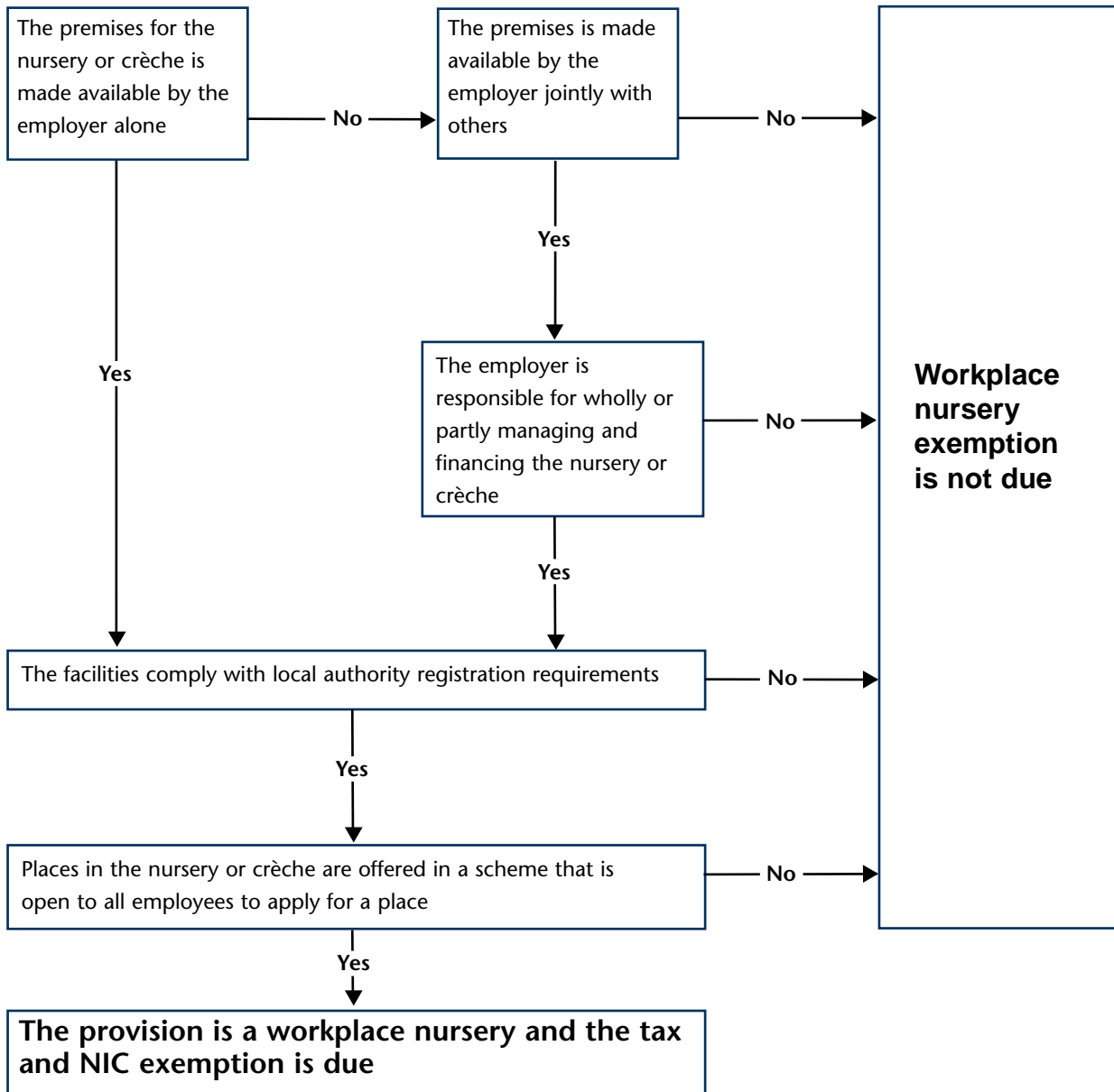
New conditions

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

- **Availability to all staff** – the child care support should be offered in a scheme to which all employees are eligible to apply.
- **Qualifying age of the child** – A child qualifies up to 1st September following their 15th birthday, or 1st September following their 16th birthday if they are disabled.
- **Registered or approved childcare only** – to qualify for the new 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 explains the rules in more detail.



Other childcare

Use this chart 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(2005), CWG2(2005) and CWG5(2005).

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 £50 a week (but only on the amount over £50)
- Unapproved childcare you provide.

Tax and NICs free

- First £50 a week of the cost of a place in a nursery, crèche, play scheme, registered childminder, after school club or other approved child carer that you buy directly for the benefit of your employees
- First £50 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 £50 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 £50 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 a 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.

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.

New 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
The scheme is generally available to all employees	<p>For any of your employees to qualify for the exemption the childcare voucher scheme must be</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 or groups of 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 <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"> • without children in qualifying childcare • not earning sufficient salary to participate in a salary sacrifice scheme • who already benefit from Working Tax Credit • who choose not to participate • who are on a waiting list for a childcare place 	<ul style="list-style-type: none"> • A copy of the letter or poster used to advertise your scheme to your staff, or • Your staff handbook where this includes details of eligibility.
The child is a qualifying child	<ul style="list-style-type: none"> • 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. • A child qualifies up to 1 September following their 15th birthday or 1 September following their 16th birthday if he or she is disabled. 	<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 they are 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 childcare that is registered or approved.</p> <p>See page 8 for what is meant by 'registered' and 'approved' childcare.</p> <p>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 holiday periods.</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 registration or approval number. • A note of when the childcare provider's approval is due to expire.

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 Social Care Inspection Commission
- Wales by the National Assembly for Wales (through the Care Standards Inspectorate for Wales).
- Scotland by the Scottish Commission for the Regulation for Care.
- Northern Ireland, by a Health and Social Services Trust.

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 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, any childcare, including out-of-school care, regulated by the Care Commission
- 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 even if the relative is registered or approved.

**Childcare provided away from the child's own home will not qualify if the person approved to give the care is related to the child and does not also look after unrelated child(ren).

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

Approved childcare

Approved childcare in England is childcare approved by a body acting under the authority of the Secretary of State.

- Childcare providers who are eligible to apply for approval in England include:
- Childminders who are not required to register
- Nannies or au-pairs

To find out if a child carer is registered or approved contact:

In England

OFSTED

by phoning 0845 601 4771
or on the internet at www.ofsted.gov.uk
quoting the Unique Reference Number (URN) for registered childcare. This number will appear on the child carer's last registration certificate.

Nestor Primecare Services Limited (responsible for approved childcare) by phoning 0845 7678 111 (calls charged at local rates) or on the internet at www.surestart.gov.uk/childcareapproval

In Scotland

The Care Commission

by phoning 01382 207200
All childcare in Scotland listed under www.childcarelink.gov.uk is registered care.

In Northern Ireland

Your local Health and Social Services Trust.
Contact details are at www.dhsspsni.gov.uk/links.asp

In Wales

The Care Standards Inspectorate for Wales

by phoning 01443 848450
by e-mail csiw_national_office@wales.gsi.gov.uk
online at www.wales.gov.uk/csiw

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. 9 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 from April 2005 of up to 70% of qualifying childcare costs up to £175 per week for one child or £300 per week for two or more children. From April 2006 the maximum share of eligible costs will rise to 80%

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.

Providing childcare and childcare vouchers will **normally** help your employees when given **in addition** to your employee's normal salary. This is because your employee benefits from the whole cost of the childcare given.

Providing childcare or childcare vouchers **can** help your employees when given **instead** of normal salary. 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, this could affect their tax credit entitled 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 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: The Inland Revenue Tax Credit calculator (www.taxcredits.inlandrevenue.gov.uk/) 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.

Further guidance is available at www.inlandrevenue.gov.uk/childcare.

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 **capital allowances** on the cost 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?

£217 per month

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.

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