

CHANGES TO EMPLOYER SUPPORTED CHILDCARE FROM APRIL 2011

GUIDANCE FOR EMPLOYEES AND PARENTS

Introduction

From April 2011 there will be changes to Employer Supported Childcare that will affect some employees.

If you decide to join your employers scheme on or after 6th April 2011 the amount of tax you can save will be limited to the equivalent of the basic rate. To do this, your employer will have to carry out an annual basic earnings assessment of your employment income. Find out more in the section below on Basic Earnings Assessment and how your employer will work out the level of your basic employment income to determine what level of exempt childcare related employment income you are entitled to receive for the tax year.

The purpose of these changes is to make the amount of tax saving the same for all employees regardless of the rate of tax that is paid on employment income.

The changes outlined below will only apply to you if you join your employer's scheme from 6th April 2011. If you have already joined your employer's scheme on or before 5th April 2011 you will not be affected by these changes unless you leave the scheme or your employment.

These changes only apply to childcare voucher schemes and directly contracted childcare. There are no changes with regard to workplace nurseries.

Why are these changes being made?

The changes are being made so that the amount of tax you save when you receive childcare vouchers from your employer is the same regardless of what rate of tax you pay on your employment income. At present if you are a higher earner you receive a greater amount of tax saving than those who pay tax at the basic rate.

These changes will mean that all recipients of childcare vouchers or directly contracted childcare receive the same level of income tax exemption, which is approximately £11 per week.

Who will be affected by these changes?

The changes will only affect you if you join your employer's scheme on or after 6 April 2011.

Tax savings for higher and additional rate taxpayers

If you join your employer's scheme on or before 5th April 2011 you will not be affected by the changes. You will retain the current level of tax savings until you leave your employer's scheme or are no longer eligible to participate – for example if your children no longer receive qualifying childcare. The changes will only affect you if you join your employer's scheme or if you move to a different employer's scheme on or after 6 April 2011.

What is the basic earnings assessment? When and how is it calculated?

Your employer will be required to carry out an assessment of your basic employment income based on the following information that your employer will have.

- Basic pay as stated in the employee's contract of employment.
- Contractual or guaranteed bonuses.
- London weighting or other regional allowances.
- Taxable benefits.
- Shift allowances.

The assessment does not need to include the following:

- Performance related or discretionary bonuses.
- Overtime payments.
- Benefits that are exempt from tax such as pension contributions, employee share schemes and payroll charitable donations.

If your employer's scheme is offered on a salary sacrifice basis then it is the post salary sacrifice wage or salary that is used for the assessment of basic earnings. Your employer does not need to make an assessment for any employees who already participate in its scheme on or before 5 April 2011.

What are 'salary sacrifice' and 'salary plus' arrangements?

Salary sacrifice is where you agree to forego some of your salary, usually in exchange for an employer-provided benefit. This is a change to the conditions of your contract of employment.

A salary plus arrangement is where your employer provides a benefit in addition to your normal salary.

How much can I receive free from tax?

These are the amounts that you can receive from your employer as exempt income in the form of childcare vouchers or directly contracted childcare from 6th April 2011. These amounts apply only to those employees who join on or after that date and have been subject to a basic earnings assessment. If you have already joined your employer's scheme on or before 5th April 2011 you can continue to receive up to the amount shown below for basic rate taxpayers.

	Basic rate	Higher rate	Additional rate
Weekly	£55	£28	£22
Monthly	£243	£124	£97
Annual	£2915	£1484	£1166

Changes to employment earnings during the year

Your employer should assess your employment income at the beginning of the tax year or when you first apply to join the scheme. This will fix what level of exempt income you are entitled to receive for that tax year. If your pay changes during the course of the year this may mean that the amount of exempt income you will be entitled to receive in relation to employer-supported childcare will change from the start of the following tax year when your employer carries out another basic earnings assessment.

If you change the number of hours that you work and this would place you in a different tax band for your employment income, the basic earnings assessment carried out at the start of the tax year will remain valid until the next assessment takes place. Your employer will only carry out an earnings assessment once per year.

What if I disagree with my employer's basic earnings assessment?

If you disagree with your employer's assessment of your earnings you should discuss this with your employer and ask for an explanation of the basis of the calculation.

What happens if I receive more than the exempt amount of vouchers from my employer?

If your employer provides you with childcare vouchers in addition to the amount that is exempt (after having carried out a basic earnings assessment)

he will have to notify HMRC of the taxable benefit represented by the additional vouchers over and above the exempt limit using the normal procedure - a P11D

Changing jobs

If your new employer offers support with childcare and you wish to join their scheme, you will be treated as a new joiner. Your entitlement will depend on the level of your basic employment earnings in your new job. There are no special arrangements for people who regularly change employment.

Will I still be treated as a new joiner if my former and new employer use the same childcare voucher provider?

Yes – you will be treated as a new joiner by your new employer.

Leaving employment

Childcare vouchers relate to specific pay periods - they are not aggregated over the course of a year. There is no entitlement to claim additional tax relief in cases where your level of earnings over the course of a year is reduced due to cessation of employment or if you have not received childcare vouchers for each pay period within a tax year.

How will these changes affect my National Insurance contributions (NICs)?

The amount of NICs you save will depend on the value of the childcare vouchers that you receive from your employer. If you are subject to the revised rules and are only entitled to receive a reduced value of tax and NICs free childcare vouchers, this will affect the level of NICs that you can save.

For basic rate taxpayers the NICs saving is based on 12% of the value of the exempt vouchers. For higher rate and additional rate taxpayers, the NICs saving is based on 2% of the value of the exempt vouchers.

If you participate in your employer's scheme on or before 5th April 2011 you will retain the current level of savings.

Workplace Nurseries

The changes don't affect workplace nursery provision at all.

Can I join my employer's scheme before my child is born?

No – you must be a parent or have parental responsibility for a child at the time you join your employer's scheme.

Changing the amount of the voucher

You can alter the amount of the childcare voucher you receive. This will not affect the rate of tax relief that you can receive. The maximum exempt amounts are shown in the table above.

Temporary cessation of childcare vouchers

You can ask to stop receiving childcare vouchers temporarily whilst remaining within your employer's scheme – for example, if you only work during school term time and do not need childcare vouchers during school holidays. Your employer does not have to treat you as a new joiner when you start to receive childcare vouchers again. Providing the overall period in which you stop receiving childcare support does not exceed a period of twelve months you can remain as an existing member of your employer's scheme

This also applies if you are on maternity leave, long-term sick leave, or wish to take a career break providing the total length of absence does not exceed a period of twelve months.

My employer doesn't offer help with childcare costs – do they have to provide it?

Employer-supported childcare schemes are voluntary arrangements. The Government supports these initiatives with the tax and NICs reliefs that are available, but it is up to the employer to decide whether or not to offer support with childcare to its employees.

Why don't self-employed people get help with childcare costs through vouchers?

Employer-supported childcare is not available for the self-employed. However, people who are self-employed can benefit from other forms of Government support with childcare costs. These include free part-time nursery places for three and four year olds, and this provision is being extended to more two year olds. The childcare element of the Working Tax Credit also offers help for working families on low and moderate incomes, including those who are self-employed.

Further guidance is available on the HMRC website here:

<http://www.hmrc.gov.uk/taxcredits/start/who-qualifies/children/childcare-costs.htm>

How do childcare vouchers affect my tax credits?

If you get employer-supported childcare, your childcare costs for the purposes of the childcare element of Working Tax Credit are reduced by the value of childcare support you get. This applies even if you receive childcare support in return for a reduction in your pay.

Your entitlement to tax credits may also be affected if your salary has been reduced under salary sacrifice.

If you are unsure if you will benefit from childcare vouchers, because of the effect it might have on your tax credits, you should discuss this with your employer or voucher provider before you join their voucher scheme. Further guidance (including an on-line calculator) on how childcare vouchers can affect your tax credits entitlement is available on the HMRC website:
<http://www.hmrc.gov.uk/calcs/ccin.htm>