

<http://www.daycaretrust.org.uk/> - Employer support for parents

### **What are childcare vouchers?**

Childcare vouchers are a means of paying for childcare – they are one of the ways in which employers can assist employees with childcare costs. From 6 April 2005, the first £50 a week supplied via childcare vouchers is exempt from tax and National Insurance Contributions (NIC) for employees, so they can help you to save money with your childcare fees.

### **How does a childcare voucher scheme work?**

Your employer will normally run a scheme with the help of a childcare voucher company and will pay that company an administration fee for their service. The voucher company will either supply you directly with your childcare vouchers or they will provide your employer with them, which they will distribute to staff accordingly. Employees in receipt of childcare vouchers can use them to 'pay' their childcare provider (see 'What sort of childcare can they be used to pay for?' below). The childcare provider will then redeem the value of the voucher from the childcare voucher company, usually by direct payment into their bank account.

### **How do childcare vouchers save me money?**

Childcare vouchers can be offered to you in addition to your cash salary but are more commonly offered as a "salary sacrifice". This means that you sacrifice a specific amount of your salary and instead receive that amount in childcare vouchers. From 6 April 2005 childcare vouchers (up to a limit of £50 a week, or £217 a month) are exempt from tax and National Insurance Contributions (NIC), so you will only pay tax and NIC on the reduced level of your salary. This effectively saves money on childcare costs. For a lower level tax-payer, this could save more than £800 a year on childcare costs, if you pay 40 per cent tax, you could save over £1,000 a year. Each employed parent can claim the exemptions, so a two-parent family could save more than £1600 (lower tax bracket) or £2000 (higher tax bracket).

### **What is a salary sacrifice?**

Salary sacrifice means that an employee formally (by a change in their contract) agrees to a reduction in their salary and instead receives that amount in childcare vouchers. (The first £50 per week of the value of the childcare vouchers is exempt from NIC and tax.)

The contract between employer and employee will need to be updated or a signed agreement included within it reflecting the salary sacrifice agreement. This should make clear the reduction in salary the employee has agreed to, the time length of the agreement and the amount they will receive in vouchers.

### **How much can I receive in vouchers?**

You can receive any amount in vouchers, but only the first £50 is free from tax and NICs. If you are involved in a Salary Sacrifice scheme, and receive the rest of your salary in vouchers, the only legal consideration is that your **cash** pay must not fall below the minimum wage.

### **What sort of childcare can they be used to pay for?**

Childcare vouchers can be used to pay for any form of legal childcare, but the first £50 a week you receive in vouchers will only be tax and NICs exempt if it is used to pay for registered\* or approved childcare. This can include:

- Childminders, nurseries and playschemes registered by Ofsted.
- Out of hours clubs run by a school on the school premises or by a local authority.

- Childcare schemes run by approved providers. This link will take you to a list of the quality approval schemes used to approve childcare services under this category:  
[www.daycaretrust.org.uk/mod.php?mod=userpage&menu=1003&page\\_id=108](http://www.daycaretrust.org.uk/mod.php?mod=userpage&menu=1003&page_id=108)
- An approved foster-carer (the care must be for a child who is not the foster carer's foster child)
- In England only, a childcarer who is approved by Ofsted to care for your child or children in your own home – these are childminders who have further qualified to become “home childcarers”
- In England only, a childcarer approved under the Childcare Approval Scheme (see end of document for information about the new Childcare Approval Scheme which will operate from April 2005).
- In England only, childcare given in the child's own home by a domiciliary worker or nurse from a registered agency.
- 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.

"NB: Childcare provided by a relative\*\*of the child is generally not eligible for help via the childcare element of the Working Tax credit or the tax and NICs exemptions on employer-supported childcare. The sole exception to this is the situation in which a relative has been registered or approved as a childminder, and happens to care for a related child, but whose primary or main paid childminding is for children to whom they are not related . In short being a paid childminder for the child to whom they are related is INCIDENTAL to their usual paid childminding. This care must be provided *outside* the child's own home."

*\*childcare services which have been registered and inspected by Ofsted (England only), the Care Standards Inspectorate for Wales, the Scottish Commission for the Regulation of Care and the Health and Social Services Trust in Northern Ireland*

*\*\*A relative of the child means a parent, grandparent, aunt, uncle, brother or sister --whether by blood, half blood, marriage, or affinity.*

### **Can all childcare providers accept payment through childcare vouchers?**

Yes, as long as they have a bank account. In order to receive the childcare voucher reimbursements the childcare provider will need to register their details with the childcare voucher company. This is usually a record of contact details, registration number where appropriate and bank account details. There is no cost to the childcare provider in receiving payment through childcare vouchers. Information packs explaining childcare voucher to childcare providers are available from most voucher companies, should your childcare provider have any concerns.

Some childcare providers may already be registered with the voucher company if, for example they have previously or are currently receiving payment though childcare vouchers from another parent.

### **At what age does a child cease to qualify for the exemptions through this kind of support?**

A child qualifies up to 1 September following their 15<sup>th</sup> birthday or 1 September following their 16<sup>th</sup> birthday if they are disabled.

### **What are the next steps?**

If you think you and other staff, as well as your employer could benefit through the introduction of a childcare voucher scheme, it is worthwhile putting the suggestion forward through your line manager, your union, an employee representative or HR manager. Daycare Trust's childcare vouchers factsheet for employers may be a useful introduction if your employer is not familiar with voucher schemes. Follow this link to our voucher factsheet for employers:

[www.daycaretrust.org.uk/mod.php?mod=userpage&menu=1003&page\\_id=109](http://www.daycaretrust.org.uk/mod.php?mod=userpage&menu=1003&page_id=109)

Perhaps you could order information packs from several childcare voucher companies, which will explain the benefits and procedures for their schemes in more detail.

### **WHAT SHOULD YOU BE AWARE OF**

Childcare vouchers are a way of effectively decreasing your childcare costs, however, it is important that you are aware of all the features of and effects of a salary sacrifice scheme.

### Period of contract:

When you sign up to a childcare voucher salary sacrifice scheme you will generally be required to do so for a fixed period of time (often one year) after which your agreement can be reviewed. You will be asked to sign a contractual change confirming that you agree to sacrifice part of your salary in return for childcare vouchers. This means that (within the period covered by the agreement) you do not have an automatic right to stop receiving childcare vouchers and revert back to receiving your full salary. Most schemes/employers will offer an earlier review of your agreement in the event of an unexpected life change, which is anything linked to birth, death and marriage. You and your employer should be clear before you enter into an agreement under which circumstances you will be able to leave the scheme.

### Child Tax Credit and Working Tax Credit:

The Child Tax Credit (CTC) offers parents support with general family costs, and is available to nine in ten families. Working Tax Credit (WTC) supports those on lower incomes and working parents may be eligible for additional help towards registered childcare costs. The amount of help parents receive will depend on a number of factors including their income, the size of their family and the amount they pay in childcare.

The receipt of childcare vouchers through a salary sacrifice scheme can affect parents' entitlements to these tax credits in a couple of ways. As your average earnings will effectively be reduced, you could receive a higher payment through the WTC. However, the value you receive in childcare vouchers from your employer cannot be declared as childcare costs when calculations are made for your entitlement to the childcare element of WTC. This is to ensure that you are not claiming for the same assistance with childcare twice. ***The childcare element of WTC may therefore be reduced.***

Parents are advised to find out what level of support they could be entitled to through the CTC and WTC before they sign up to a childcare voucher salary sacrifice scheme. In some instances parents may be financially better off opting to receive help through the WTC rather than through their employers childcare voucher scheme.

### How do I know whether I would be better off with Tax Credits, or with a voucher scheme?

The following bullet points provide a *rough* guide as to whether you would get more help from Tax Credits, or from employer-supported childcare, but you should also make sure that you check your individual situation carefully before you decide which benefit is better for you.

- You will always benefit from taking a tax and NICs-free voucher if it is offered in addition to your salary.
- Generally, if you are getting £545 or less a year in total from Tax Credits, you will be better off using vouchers.
- Generally, if you are getting more than £545 a year in total from Tax Credits, you will not gain from claiming the tax and NICs exemptions -- unless you are a higher rate tax payer.
- Generally, if an employee's childcare costs are more than £175 a week for one child, or £300 a week for two or more children, they will benefit from taking childcare vouchers to pay for the amount by which their childcare costs exceed those limits.

For more information on Child Tax Credit and Working Tax Credit contact the Tax Credit helpline on 0845 300 3900 or visit [www.hmrc.gov.uk/childcare/taxcredits-guidance.htm](http://www.hmrc.gov.uk/childcare/taxcredits-guidance.htm)

### Work related payments:

Some payments made to you by your employer are based on your average earnings and the amount that you substitute to receive in vouchers is **not** included as part of your average earnings when work related payments are made. However, Childcare Vouchers can be classed as Notional Pay, which means that most employers do not let your benefits become affected.

*Statutory Maternity Pay (SMP) and Statutory Sick Pay (SSP)* – calculations made for SMP and SSP are based on your average earnings excluding the amount you receive in vouchers – meaning the rates of SMP and SSP you receive may be reduced. As above, best practice for employers is to maintain the link with the full or “notional” salary for SMP and SSP – though the employer would only be able to claim back the statutory amount for both benefits. In the case of SMP, if the notional salary

is not to be the reference point, as pregnancy is a "life-changing event" it should be possible to review your amended contractual arrangements (which permitted the original salary sacrifice). If you want to, you should be able to leave the scheme before working the eight weeks period on which her SMP will be based and thus ensure it will not be affected.

If your average weekly earnings excluding the amount you receive in vouchers falls below the Lower Earnings Limit (LEL), which is currently £82 a week, you will not be entitled to SMP or SSP, but may be entitled to Maternity Allowance and Incapacity Benefit respectively.

*Speak to your employer about how salary sacrifice could affect these and other work related payments before you sign up to a childcare voucher scheme.*

### Contribution-based benefits:

Your entitlement to some benefits is calculated according to the level of National Insurance Contributions (NIC) you have made. Should you sign up to a childcare voucher salary sacrifice scheme, your NIC will be reduced, which in turn could reduce your entitlement in the future to some of the following contribution-based benefits.

*Incapacity Benefit* – If your earnings fall below the LEL (£4615 per annum) you may not be entitled to receive Incapacity Benefit. In this instance you would need to claim Income Support.

*Jobseekers Allowance (contribution based)* – If your earnings fall below the LEL or if your NIC have been reduced to a lower amount, you could become ineligible to receive the contribution-based Jobseekers Allowance. In this instance you would need to make a claim under income-based Job Seekers Allowance.

*State Pension* – on your retirement, the amount you receive through your State Pension could be reduced if you have not paid NICs or if these have been paid at a lower level.

### Earnings related benefit:

Certain benefits are calculated according to your earnings and any sacrifice you have made in your earnings in respect of childcare vouchers will **not** be included in these calculations.

*Maternity Allowance (MA)* – If your earnings remain above the Lower Earnings Limit (LEL) you will be entitled to the full rate of MA (£100 per week for 26 weeks). If your earnings fall below the LEL you will be entitled to a lower rate of the MA (90% of your average earnings), or should your earnings fall below £30 per week, you will lose your entitlement to MA.

*The State Second Pension* – This forms part of the state pension and your level of pay will affect the amount you receive.

### Childcare Approval Scheme – to operate from April 2005

This is a new scheme for approving forms of childcare not previously able to be registered (and thus not able to qualify for help through Tax Credits, and for tax and NICs breaks on employer-supported childcare). This scheme enables carers caring for a child in the child's own home (such as nannies), or caring for children over 7 on other domestic premises (such as childminders) to become "approved" by showing that they have certain qualifications. The scheme is voluntary. Childcarers can apply for approval from 4 January 2005, although no approval will be effective before 6 April 2005, when the scheme starts. For more information about the Childcare Approval Scheme, ring the helpline: 0845 7678 111 or visit: [www.childcareapprovalscheme.co.uk](http://www.childcareapprovalscheme.co.uk)

### NB: There have been three key changes in the administration of Childcare Vouchers (from April 2005)

- If your employer has a voucher system, the scheme must be generally available to all employees where the scheme applies (before 6 April 2005 employers could supply vouchers to sections of the workforce in a workplace).
- The first £50 supplied in Childcare Vouchers is free from tax, as well as National Insurance Contributions (NICs) for the employee, and free from NICs for the employer (before 6/04/05 an unlimited amount supplied in Childcare Vouchers was free from NICs for both employers and employees, but not from tax).
- Vouchers can be used to pay for all forms of legal childcare, but after 6 April 2005 will not qualify for the tax and NICs exemptions on the first £50 supplied unless they are used to pay for **registered**

or **approved** childcare (before 6/04/05 childcare vouchers qualified for NICs exemptions when they were used to to pay for any form of legal childcare).

**These are Voucher Organisations Daycare Trust has received contact information for. If you are a voucher company not listed here, please contact us on 020 7840 3350, [info@daycaretrust.org.uk](mailto:info@daycaretrust.org.uk) to give us your details.**

#### **Sodexo Pass Ltd**

*(has a special scheme, **Childcare Choice**, aimed specifically at small businesses)*

Unit 5, Albany Business Park

Frimley Road

Camberley, Surrey

GU16 7 QR

Tel: 01276 687000

Web: [www.sodexhopass.co.uk](http://www.sodexhopass.co.uk)

#### **Accor Services**

*(welcomes small businesses, as well as large)*

50 Vauxhall Bridge Road

London

SW1V 2RS

Tel: 020 7834 6666

Web: [www.accorservices.co.uk](http://www.accorservices.co.uk)

#### **Busy Bees Childcare Vouchers**

*(welcomes small businesses, as well as large)*

Trent Park

Eastern Avenue

Lichfield

Staffs WS13 6RR

Tel: 0871 733 7500/08000 430 860

Email: [vouchers@busybees.com](mailto:vouchers@busybees.com)

Web: [www.busybees.com](http://www.busybees.com)

#### **Kidsunlimited**

*(welcomes small businesses, as well as large)*

Westhead

10 West Street

Alderley Edge, Cheshire

SK9 7EG

Tel: 0800 0326 777

Web: [www.kidsunlimited.co.uk](http://www.kidsunlimited.co.uk)

#### **Leapfrog Childcare Vouchers**

Leapfrog Day Nurseries

Central Office, Second Avenue

Centrum 100, Burton upon Trent

Staffordshire DE14 2WF

Tel: 0800 783 7624

Web: [www.leapfrogdaynurseries.co.uk](http://www.leapfrogdaynurseries.co.uk)

#### **Imagine Co-operative Childcare Vouchers**

*(welcomes small businesses, as well as large)*  
Oxford, Swindon and Gloucester Co-operative Society

New Barclay House

234 Botley Road

Oxford OX2 OHP

Tel: 01865 256 232

Email: [sales@imagine.coop](mailto:sales@imagine.coop);

[childcarevouchers@imagine.coop](mailto:childcarevouchers@imagine.coop)

Web: [www.childcarevouchers.coop](http://www.childcarevouchers.coop)

#### **Allsave Limited**

*(welcomes small businesses, as well as large)*

Brackenwood House

Kimbell Road

Basingstoke

Hampshire

RG22 4AT

Tel: 01256 339100

[www.allsaveuk.com](http://www.allsaveuk.com)

[info@allsaveuk.com](mailto:info@allsaveuk.com)

#### **Childcare Options Ltd**

*(welcomes small businesses, as well as large)*

Hazel Grove Primary

Chapel Street

Hazel Grove

Stockport, SK7 4JF

Tel: 0161 483 2209

Web: [www.vouchers4kids.com](http://www.vouchers4kids.com)

#### **Children's Information Service Swindon**

*(welcomes small businesses, as well as large)*

6-7 Theatre Square

Swindon

Wiltshire

SN1 1QN

Helpline: 01793 541786

Web: [www.cisswindon.co.uk](http://www.cisswindon.co.uk)

#### **Care 4**

Pennyroyal Court

Station Road, Tring, Herts

HP23 5QZ

Tel: 01442 829400

[www.care-4.co.uk](http://www.care-4.co.uk)

#### **Family Matters**

*(welcomes small businesses, as well as large)*

42 Wilbury Villas

Hove, East Sussex

BN3 2GD

Tel: 01273 777515

Web: [www.familymatters.co.uk](http://www.familymatters.co.uk)

#### **Fair Care**

*(welcomes small businesses, as well as large)*

1 Farnham Road

Guildford

GU2 4RG

Tel: 0870 777 0711

Email: [info@faircare.co.uk](mailto:info@faircare.co.uk)

Web: [www.faircare.co.uk](http://www.faircare.co.uk)