

The tax and national insurance rules for employer supported childcare include a provision whereby the first £55 a week (£243 a month) of the cost of providing employees with vouchers for childcare is free of tax and national insurance.

What are the conditions?

- The childcare voucher scheme must be available to all employees
- The vouchers can only be used to pay for childcare that has been registered or approved
- The child qualifies up to 1 September following their 15th birthday (16th if disabled)
- The child must be a child of the employee or a child who lives with the employee, for whom he/she has parental responsibility

What is registered or approved childcare?

It includes:

- registered childminders, nurseries and playschemes
- out of hours clubs on school premises run by a school or local authority
- childcare schemes run by school governing bodies under the 'extended schools' scheme
- childcare in the child's own home provided by a person (not a relative) approved to care
- a domiciliary worker or nurse from a registered agency
- approved foster carers

Can the childcare ever be provided by a relative?

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.

Does the £55 exemption apply to each employee?

Yes, even if both parents work for the same employer.

Can the employer give £55 to the employee towards childcare costs?

No, the exemption does not apply to cash payments to the employee, paying bills on behalf of the employee, paying school fees or if the qualifying conditions are not met.

Can the employee use the vouchers against school fees?

No, 'childcare' is any form of care or supervision activity not provided in the course of the child's compulsory education. However, fees for care provided before compulsory education age or for activities eg music lessons that are not compulsory but provided by a qualified carer should be eligible.

Do the vouchers have to be used for the week following their issue?



Childcare Support for Employees

Technical Guidelines

No, the vouchers can be saved up and used as necessary, for example, to meet higher childcare costs during school holidays.

How is the voucher scheme operated?

The employer can produce and administer the vouchers and keep the relevant records to support the scheme; or a voucher provider company can be used to operate the scheme for which an administration charge will be made.

How are the vouchers given to the employees?

The vouchers can be offered as an additional benefit to employees as part of a flexible benefits package or as part of a salary sacrifice scheme. The voucher company, if used, will provide the employer with vouchers to distribute to employees who then use the vouchers to pay their childcare provider. The childcare provider will redeem the value of the voucher from the voucher company.

What is a salary sacrifice scheme?

Under this arrangement, the employee agrees to a reduction in taxable salary in return for childcare vouchers. Since the vouchers are free of tax and national insurance, the employer saves employer's national insurance and the employee saves tax and employee's national insurance.

Does this affect entitlement to Child or Working Tax Credits?

Yes it can. If the employees receive the vouchers through a salary sacrifice scheme, their earnings will be reduced and they may receive additional WTC. The vouchers cannot be claimed as childcare costs and so the childcare element of WTC may be reduced. It may also affect other salary related benefits. You should seek further advice on this.

Advice that stands the test of time

This is intended to provide a guide to current tax issues. It is not a substitute for technical advice. If you have any queries, please do not hesitate to contact us.