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Employers Helping Employees With Child Care Costs

Many employers wish to incentivise employees by helping them with child care costs. As a general rule the taxation and national insurance position would be that such costs met by an employer would be treated as a benefit in kind and would thus be subject to both Income Tax and National Insurance.

However, there are three types of employer supported child care which can be partly or wholly exempt from these tax charges provided certain detailed conditions are met. The first of these, and which normally only relates to large employers, is in respect of work place nurseries. It is also possible for an employer to directly contract child care with a provider and the third alternative is child care vouchers.

With regard to directly contracted child care, it must be available to all staff. It is interesting to note that with regard to this and also the child care vouchers that there is not considered to be a breach in respect of workers who earn on or near the National Minimum Wage and are unable to join an employer's scheme since to do so would take their pay below the National Minimum Wage.

For the directly contracted scheme a qualifying child is one up to the 1st of September following their 15th birthday or following their 16th birthday if they are disabled in any way.

The child must be the child or step-child of the employee or a child for whom the employee has parental responsibility.

To qualify for the exemption any child care provided by an employer or for which child care vouchers are used must be provided by a registered or approved entity.

For a directly contracted scheme the relief is limited to £55 per week and there are detailed conditions which have to be met. No tax free payment may be made, however, if no care is provided in any particular week. For example, if it is during a family holiday when the

child is with the parent. For child care vouchers the same limit applies or, as an alternative, there is a monthly exemption of £243.

The relief is limited per employer per employee. In other words if a mother has two children her employer can only contribute up to £55 per week, not up to £110. However, if the father also works for the same employer then the employer could contribute up to £55 per week for each employee. With effect from 6 April 2011 the tax relief is restricted to basic rate tax only for all new recipients of child care vouchers or directly contracted child care. The cap is therefore reduced to £28 for an employee who is paying tax at the higher rate of 40% and £22 for anyone paying at the top rate of 50%.

For those employers offering vouchers there is obviously an additional cost associated with the charges made by the company producing the vouchers. Any company can enter into a direct contract for the child care provider. The contract should state the name of the child and the name of the employee or director on whose behalf the cost is being met and the provider can then simply invoice the employer direct.

It is possible for employees to enter into salary sacrifice schemes with their employers, if an employer is not prepared to meet any or all of the cost. Care needs to be taken in relation to the National Minimum Wage aspect again.

The above is for general guidance only and no action should be taken without obtaining specific advice ■

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