



Setting up a childcare voucher scheme

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The Government has recently announced a new scheme for working parents to save money on their childcare through tax relief. This will be introduced in 2015 and will gradually replace employer supported childcare schemes. This information will be updated when further details are available.

Supporting your staff with their childcare needs can benefit both you and your employees. The benefits of employer-supported childcare can include better recruitment and retention of staff, reduced absenteeism, a more motivated workforce, as well as financial savings for you and your employees.

There are a number of ways in which you can support your employees. For example, you could:

- subsidise childcare costs;
- provide a workplace nursery;
- offer flexible working options; or
- provide information on childcare options.

What are childcare vouchers?

These are vouchers that you can offer to your employees to help with their childcare costs. They can be offered in addition to their existing pay, as a benefit-in-kind, or as part of a salary sacrifice scheme. If they are offered as part of a salary sacrifice scheme, the employee would have to agree to reduce their salary by the amount they receive in

childcare vouchers. For more information, see our factsheet 'Setting up a salary sacrifice scheme'.

How will I benefit by offering childcare vouchers?

As an employer, childcare vouchers will help you reduce some of your business costs, and your employees will make savings on their childcare costs. Childcare vouchers, up to a limit of £55 per week or £243 per month for basic rate tax-payers, are exempt from National Insurance Contributions for employers and exempt from tax and National Insurance Contributions for employees. You can save up to approximately £400 per year per employee.

If you implement a childcare voucher scheme, all employees who meet the eligibility requirements must be made aware of the scheme and allowed to join. If both parents are your employees, they are both eligible to receive vouchers.

What eligibility requirements are there for employees?

The requirements that your employees will need to meet in order to be eligible to join a scheme include:

- Employees must have an eligible child.

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Your employee is eligible to be a member of the scheme from the day their first child is born up to 1 September following their child's 15th birthday. If the child has a disability, your employee is eligible up to 1 September following the child's 16th birthday.

- Vouchers must only be used to pay for eligible childcare. Childcare vouchers qualify for tax and National Insurance Contribution exemptions when they are used to pay for registered childcare. Employees may start collecting vouchers from the day their child is born, but they can not be used until their child is enrolled in registered childcare.

How much will it cost and will it involve extra work?

You may decide to use a voucher company to administer a scheme on your behalf, or you may choose to self-administer the scheme in house. If you set up a self-administered childcare voucher scheme, you do not have to pay a voucher company for their services. However, using a voucher company may reduce the amount of marketing and administrative work which you are directly responsible for.

It's important to know that an employee is entitled to receive contractual non-cash benefits including employer-supported childcare while on maternity leave. Statutory Maternity Pay cannot be subject to salary sacrifice. In this case, as an employer, you are responsible for the cost of the vouchers. For more information see our factsheet for employers: 'Employer-supported childcare during maternity leave'.

Voucher schemes administered by a voucher company

If you offer vouchers through a salary sacrifice scheme, your costs will be the management fee you pay to the voucher company. These fees will vary and are often negotiable. Some voucher companies may charge a set rate, whilst others may charge a percentage of the overall value of childcare vouchers provided by you. This generally ranges from 5–8 per cent, although some companies may charge as little as 1.5 per cent.

The savings you make from reduced National Insurance Contributions usually exceed the management fee charged by the voucher company.

Generally, the voucher company will be responsible for the administration of the scheme, although you can often negotiate what you would like them to be responsible for and which elements you are happy to administer in-house. This will affect the management fee charged by the voucher company.

How much can an employee receive in vouchers?

There is no limit to the amount you can pay for your employee's childcare. However, there are limits to tax and National Insurance Contribution exemptions. Exemption limits depend on tax bands (see below).

- Basic rate tax-payers– Up to £55 per week of employer-supported childcare is exempt from tax and NIC.

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- Higher rate tax-payers- Up to £28 per week of employer-supported childcare is exempt from tax and NIC.
- Additional rate tax-payers- Up to £25 per week of employer-supported childcare is exempt from tax and NIC.

If the childcare vouchers you provide exceed the exemption limit, you will have to report this to HM Revenue and Customs. For example, if you provide an employee who is a basic rate tax-payer with £90 per week in childcare vouchers, £35 of those vouchers will be liable for tax and Class 1 (employer and employee) National Insurance Contributions and must be reported at the end of the year on form P11D or P9D. Amounts liable for National Insurance Contributions must be included in gross pay for Class 1 National Insurance Contribution purposes.

Self-administered voucher schemes

If you offer vouchers as part of a salary sacrifice scheme, your costs will be the staff time needed to manage the scheme. This includes time needed to:

- market the scheme;
- produce and provide the vouchers;
- pay the childcare providers; and
- keep records.

This work could typically be done by your human resources or finance departments (or the person responsible for this function within your organisation).

Some voucher companies offer a package that includes providing you with templates and other documents to help you set-up a self-administered scheme.

Anecdotally, self-administered schemes seem to work well for small employers.

Can all childcare providers accept childcare vouchers?

Childcare vouchers do not cost anything for childcare providers, so as long as they have a bank account, they can receive vouchers. However, childcare providers are not obliged to accept vouchers, so it is important that employees ensure that their childcare provider will accept vouchers prior to agreeing to joining a scheme. You might want to provide an information pack for childcare providers which explains your voucher scheme, many voucher companies offer this.

How can I set up a childcare voucher scheme?

If you choose to use a voucher company, they will normally provide you with the childcare vouchers, which you can then distribute to staff accordingly, although some may post vouchers directly to the employee's home. Some voucher companies use electronic vouchers or 'e-vouchers', which serve the same purpose. Employees can then use the vouchers to pay their childcare provider. The childcare provider will then redeem the value of the voucher directly from the childcare voucher company, and the voucher company would invoice you.

To administer your own childcare voucher scheme, you will need to:

- **Determine how the scheme will work.**
It is important to involve different staff groups (including the management team, human resources, payroll managers or administrators, and employee or union representatives) in the planning process to ensure that the arrangements

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and responsibilities that you agree to are realistic and efficient for you as an employer. If you are offering the vouchers through a salary sacrifice scheme, ensure that you follow the steps outlined in **Setting up a salary sacrifice scheme**.

- **Market the scheme.** You can use posters, letters, a staff handbook, or other methods to ensure that all eligible employees are made aware of the scheme.
- **Sign-up eligible employees.** Ensure that you have collected the required information. You may choose to develop a form for this.
- **Collect childcare provider details** (once a childcare provider has been chosen by the parent). Ensure that you have collected the required information. You may choose to develop a form for this. Collect the provider's bank account details if you intend to make payments directly into their bank account.
- **Produce your childcare vouchers.** There is no template for a childcare voucher. But, it should state that it is a childcare voucher and include your company logo and contact details. You may also want to include a reference number and the amount of the voucher. Alternatively, you could choose to issue electronic vouchers, which serve the same purpose.
- **Distribute the vouchers.** You can distribute the vouchers to your employees at work or you may send them to the employee's home address. Your employee can then use the voucher to pay their childcare provider.
- **Pay the childcare provider.** The childcare

provider will redeem the voucher directly from you. Payment to the childcare provider is usually made by direct payment into their bank account.

- **Keep records.** You are responsible for ensuring that the correct tax and National Insurance Contributions are made. You are also responsible for keeping the appropriate records (see below).

What type of records do I need to keep?

HM Revenue and Customs require you to keep certain records in order to qualify for tax and National Insurance Contributions exemptions. You do not have to provide this evidence when you set up a scheme or while running it. However, if requested by HM Revenue and Customs, you will need to be able to provide evidence that the criteria for exemptions have been met. The table over the page shows the records you need to keep.

After you have set up the scheme, you can choose to contact HMRC to confirm the tax treatment of the scheme for reassurance.

Should I set up a childcare voucher or directly-contracted childcare scheme?

Directly-contracted childcare is another type of employer-supported childcare where you pay a childcare provider directly for a place or part place on behalf of your employee. It also runs as a salary sacrifice scheme. For more information, see our factsheet, 'Setting up a directly-contracted childcare.'

Childcare voucher schemes may allow your employees more flexibility than directly-contracted childcare. For example, as

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Requirements	Required records
<p>The childcare is eligible:</p> <ul style="list-style-type: none">the support is only used for registered childcare; andemployees participating in the childcare voucher scheme must inform you of any changes in the registration or approval status of the childcare they are using	<p>The childcare is eligible:</p> <ul style="list-style-type: none">details of the childcare provider, including registration numberwritten agreement between you and the employee or a copy of the scheme rules that includes a requirement for employees to notify you of any change in circumstances in relation to the child or childcare
<p>The child is eligible:</p> <ul style="list-style-type: none">the employee is the parent of the child or has parental responsibility for a child with whom they live; andthe child's age.	<p>The child is eligible:</p> <ul style="list-style-type: none">employee's declaration; anda record of the child's date of birth and indication if the child is disabled.
<p>The scheme is generally available to all employees</p>	<p>The scheme is generally available to all employees</p> <ul style="list-style-type: none">the materials used to publicise the scheme, such as a poster, letter or staff handbook.a copy of the scheme rules

vouchers are not time limited, employees can save them up for the times when their childcare costs increase, for example during school holidays.

Although there may be less flexibility for your employees, as a fixed amount is paid per week/month for the childcare used in that period, the cost of administration of the scheme could be less if you offer directly-contracted childcare. This is because you will not need to set up a voucher system yourself or pay a voucher company for their services. Therefore, if you only have a few employees who want support for their childcare, directly-contracting childcare might be the

most appropriate option for you.

Can employees request refunds for vouchers they do not use?

Although HM Revenues and Customs (HMRC) allows vouchers to be refunded, you may choose not to allow this. If you do agree to refund childcare vouchers, HMRC requires that they are refunded through Pay As You Earn. Usually, only vouchers which were issued in the current tax year are refundable. However, if you wish to refund vouchers from a previous tax year, you may be able to upon writing to the tax office to explain the circumstances.

The content of this module has been written to inform and guide member organisations, and should not be taken as advice specific to your organisation