



Setting up directly-contracted childcare

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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 is directly-contracted childcare?

Directly-contracted childcare is where you pay a childcare provider for a place or part place on behalf of your employee. It can be offered to employees to help with their regular childcare arrangements. It also applies to any emergency or back-up childcare you provide for your employees. For example, you may choose to pay for a childcare place with a local nursery, that your

employees can use if their normal childcare arrangements fail.

You can offer directly-contracted childcare to your employees in addition to their existing pay or as part of a salary sacrifice scheme. In a salary sacrifice scheme, employees agree to reduce their salary by the equivalent amount provided by directly-contracted childcare. For more information about salary sacrifice, see **Setting up a salary sacrifice scheme**.

How will I benefit by offering directly-contracted childcare?

Directly-contracted childcare is exempt from National Insurance Contributions for employers and from tax and National Insurance Contributions for employees. See 'How much can I pay a childcare provider through directly-contracted childcare' below for more information about limits to the exemptions. As an employer, you can save up to approximately £400 per year per employee.

How do I qualify for these exemptions?

To qualify, you cannot just settle your employee's childcare bill at the end of the month or provide them with cash payments to help with their childcare costs. You must implement a directly-contracted childcare scheme that meets the requirements of HM Revenue and Customs (HMRC).

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

If you offer directly-contracted childcare as part of a salary sacrifice scheme, your only cost will be the staff time used to manage the scheme. This includes the time needed to market the scheme, draw up contracts with the childcare providers, pay childcare providers and maintain the necessary records.

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 directly-contracted childcare. For more information see our factsheet for employers: 'Employer-supported childcare during maternity leave'.

All employees who meet eligibility requirements must be made aware of the scheme and allowed to join. If you employ a couple, both parents are eligible to join the scheme.

Employees must use eligible childcare and have an eligible child. Eligible childcare is childcare that is registered. A child is eligible up to 1 September following their 15th birthday or up to 1 September following their 16th birthday if the child is disabled.

How much can I pay a childcare provider through directly-contracted childcare?

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.
- 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 you provide more than the exemption limit, you will have to report this to HMRC. For example, if you provide £90 per week for a basic rate tax-payer's childcare, £35 (the amount above the £55) will be liable for tax and Class 1 (employer and employee) National Insurance Contributions. Any amount above the exemption limit 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 Contributions purposes. Contact the HMRC's Employer Helpline on 0300 200 3200 for further information about this.

How can I set up a directly-contracted childcare scheme?

To set up a 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, if appropriate to your organisation) in the planning process to ensure that the arrangements and responsibilities that you decide on are realistic and efficient. If you are offering directly-contracted childcare through a salary sacrifice scheme, ensure that you follow the steps outlined in **Setting up a salary sacrifice scheme**.

- Market the scheme. You need to ensure that all staff are aware of the scheme in the workplace, meaning you need to publicise it. You can use posters in communal staff areas, letters/emails to staff, information in a staff handbook, your intranet or other methods to ensure that all eligible employees are aware of the scheme.
- Sign up eligible employees. Ensure that you have collected the information required for your records (see 'Record Keeping', below). You may choose to develop a form for this.
- Amend contracts. If you are offering directly-contracted childcare through a salary sacrifice scheme, you will need to amend your employees' contracts to reflect the variation in salary. See our factsheet: 'Setting up a salary sacrifice scheme' for further information about this.
- Contract with a childcare provider. You will need to make an agreement with the childcare provider that states you are purchasing a childcare place from them and providing it as a benefit to your employee. The agreement should include the employee's details as well as the amount and frequency of payments

to the childcare provider. This agreement can be a letter or a contract between you and the childcare provider.

- Pay the childcare provider. Payment to the childcare provider is usually made by BACS – a direct payment into their bank account. You will need to ensure that you set up systems that allow any childcare providers to be paid on time and for the correct amount and that ensures that payments can be identified by them.
- Keep records. You are responsible for ensuring that the correct deductions for tax and National Insurance Contributions are made and recorded. You are also responsible for keeping the appropriate records (see below) which are required by HMRC.

What type of records do I need to keep?

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

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

Childcare voucher schemes may allow your employees more flexibility. For example, as vouchers are not time limited, employees can save up vouchers 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 administrating a directly-contracted childcare scheme could be more cost effective for you. You effectively bypass

the voucher scheme by not having to set up an in-house scheme or paying a voucher company to do this for you. 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.

Requirements	Required records
<p>The childcare is eligible:</p> <p>The support is only used for registered childcare</p>	<p>Details of the childcare provider, including registration number</p>
<p>The child is eligible:</p> <p>The employee is the parent of the child or has parental responsibility for a child with whom she or he lives.</p> <p>The child's age.</p>	<p>Employee's declaration</p> <p>A record of the child's date of birth and indication if the child is disabled</p>
<p>The scheme is generally available to all employees.</p>	<p>The materials used to publicise the scheme, such as a poster, letter or staff handbook.</p> <p>A copy of the scheme rules.</p>
<p>You have contracted with a childcare provider.</p>	<p>Contract or letter of agreement with childcare provider.</p>

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