



Setting up a salary sacrifice 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.

Employer-supported childcare can be offered as a benefit in addition to your employee's regular salary or as part of a salary sacrifice scheme. This resource contains information for employers about operating a salary sacrifice scheme. We also have resources specific to the type of salary sacrifice scheme you wish to operate. See **Setting up a childcare voucher scheme** and **Setting up directly-contracted childcare**.

What is a salary sacrifice scheme?

In a salary sacrifice scheme, the cash salary paid to your employee is reduced by the amount that you pay towards their childcare. This amount is referred to as the 'sacrifice'. You pay the sacrificed amount to your employee's childcare provider through a childcare voucher scheme, directly-contracted childcare, or a workplace nursery.

Will I save money by setting up a salary sacrifice scheme?

You can save money just by providing employer-supported childcare. Childcare vouchers and directly-contracted childcare, 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 from tax and National Insurance Contributions for employees. There are no exemptions limits for workplace nurseries, the full cost of the place is exempt.

The amount you save is affected by the rates of tax and National Insurance Contributions on your employee's salary. For example, you can save approximately £402 per year for an employee paying basic-rate taxes and requiring National Insurance Contributions of 13.8 per cent. With workplace nurseries, the savings can be much higher although the costs of financing this type of childcare facility need to be off-set against possible savings.

Can a salary sacrifice scheme affect my employee's benefits and working conditions?

Yes. Most employer-provided benefits, state benefits and tax credits are calculated on an employee's basic (taxable) salary. If an employee's salary has been reduced because of a sacrifice scheme, his/her benefits can be affected.

It is recommended that you calculate employer-benefits – such as pension contributions, redundancy payments,

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bonuses and pay increases – based on your employee’s salary before the sacrifice. This is referred to as the ‘notional’ salary. It is good practice for you to protect the benefits you provide.

Is there a maximum amount that can be sacrificed?

There is no limit to the amount you can pay for your employee’s childcare. However, when you offer the benefit through a childcare voucher scheme or directly-contracted childcare, 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 are 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.

In a salary sacrifice scheme you must ensure that your employee’s pay does not fall below the National Minimum Wage. This is currently £6.31 per hour for workers age 21-years-old and above.

How long does a salary sacrifice last?

A salary sacrifice does not have to run for a set period of time. However, within the contract amendment (see ‘What are my responsibilities in a salary sacrifice scheme?’ below), you may choose to set a time frame

for the salary sacrifice. In this case, your employee would not have an automatic right to revert back to their original salary within the contractual period.

If you have set a time frame for a salary sacrifice agreement, it is advisable to offer an earlier review in the event of ‘unexpected life changes’. These can be anything linked to birth, death and marriage. When setting up a salary sacrifice scheme, you should be clear about what changes in circumstances will qualify to end or amend a time-specific salary sacrifice agreement.

How can I set up a salary sacrifice scheme?

When you implement a salary sacrifice scheme, you will need to:

- Work with your human resources and legal team (or equivalent) to prepare a contract amendment or an additional contractual agreement for employees who choose to sacrifice their salary. Employees that are paid hourly must have an amendment made to their employment contract at every pay period. Amendments or agreements will need to state:
 - how you will pay for the childcare service (for example, vouchers, direct-contracting or workplace nursery);
 - the amount you will pay for the childcare service;
 - the equivalent reduction in your employee’s salary; and
 - the terms and conditions of the contract variation.
- Some voucher companies offer a

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package that provides you with templates and other documents to help you set-up a salary sacrifice scheme.

- Work out how the employer-support payment will be shown in your accounts. Be clear about the way the sacrifice is shown on the individual's payslip.
- Work closely with the HM Revenue and Customs office that handles your organisation's payroll to ensure that your salary sacrifice scheme is acceptable.

What are my responsibilities in a salary sacrifice scheme?

As an employer, you have a number of responsibilities when you offer a salary sacrifice scheme:

- You must provide your employees with a choice about whether to join a scheme or not. In order to make that choice, you should advise your employees about how taking a salary sacrifice will affect them. You can provide them with information such as our factsheet 'Help with childcare costs for working parents'.
- You must make an amendment to the employee's contract or sign an additional contractual agreement.
- You must ensure that your employee's cash pay does not fall below the National Minimum Wage. This is currently £6.31 per hour for workers aged 21-years old and above.
- You are required to ensure that the correct deductions of tax and National Insurance Contributions are made for every employee.

- You must keep the required records (see below).

Additionally, with all employer-supported childcare, you must ensure that:

- the scheme is made available to all employees in the location where the scheme operates;
- the support is used for registered childcare; and
- the employee's child qualifies for the support – a child qualifies up to 1 September following their 15th birthday, or if the child is disabled up to 1 September following their 16th birthday.

What records do I need to keep?

There are a number of records that HM Revenue and Customs requires you to keep when running a salary sacrifice scheme. Although you do not have to provide this evidence when you set up a scheme or while running it, you will need to keep these records in case they are requested.

Why is HM Revenue and Customs involved in salary sacrifice?

HM Revenue and Customs is interested in determining the correct tax and National Insurance Contributions due on an employee's salary. They cannot give advice on making contract amendments. It is good practice to advise your local tax office of your intentions to set up a salary sacrifice scheme in advance, but they will only review the tax calculations once the scheme is up and running.

Is there anything else that I need to know?

There are a few other things to know about when implementing a salary sacrifice scheme:

- Employer-supported childcare is a non-cash benefit. Direct cash payments made to an employee to cover their childcare costs do not qualify for the tax and National Insurance Contribution exemptions.
- 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/directly-contracted childcare. For more information see our factsheet for employers: 'Employer-supported childcare during maternity leave'.

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

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