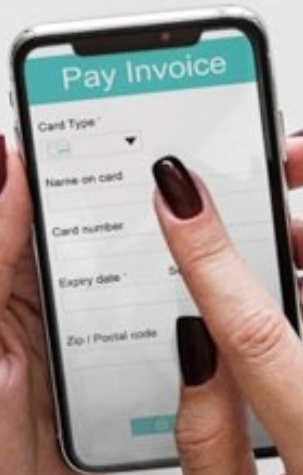


Employer supported childcare

Employment Tax Factsheet | www.rousepartners.co.uk/factsheets



Business Company

Bill to: Curatorus Aucupe LTD
456 Pellemasque, Alquet
2W Rt - 3UD, 9999
987-654-321

No.	Description	Quantity	Am.
1234	Id rutrum	2	248
2567	Sed interdum odio	5	855.7
0034	Pellentesque	8	594.67
0460	Mecenas molestie	3	492.74
4729	Integer varius nisi	4	356.40
4930	Quisque luctus turpis	7	400.00
4893		3	456.00

Comment
Sed interdum odio, per faucibus imperdiet
Aenean placerat nulla, sed tristique turpis
Duis egestas quam ac nulla efficitur.

Subtotal	Tax Rate	4500.45
Tax	8.78%	740.87
Other		
TOTAL Due		5241.32

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An overview of the latest changes and developments.

Employment supported childcare

Employer Supported Childcare (ESC), commonly by way of childcare voucher, is for many employers and employees a tax and national insurance efficient perk. We consider the implications of this type of benefit on the employer and employee.

If you would like to discuss how we can assist you, please contact us on 01494 675321 or by email at info@rousepartners.co.uk

Background

ESC, which allows a limited tax and NIC exemption for employer-contracted childcare and employer-provided childcare vouchers, has been very popular with both employers and employees alike. However ESC closed to new members from 4 October 2018. The government has introduced Tax-Free Childcare which is available to employees and the self employed.

Salary sacrifice

Many employers use these childcare exemptions as part of salary sacrifice arrangements; for example, the employee gives up pay, which is taxable and NIC-able, in return for childcare vouchers, which are not. This may save tax and NIC for the employee and NIC for the employer. Such arrangements can be attractive; however care needs to be taken when implementing a scheme to ensure that it is set up correctly. Also, for those on low rates of pay, such arrangements may not be appropriate.

How much childcare can be provided tax and NIC free?

The limit on the amount of exempt income associated with childcare vouchers and employer-contracted childcare for employees is determined by reviewing the estimated earnings and taxable benefits of the employee. Where the level of estimated earnings and taxable benefits:

- ▶ is equal to or below the equivalent of the sum of personal allowances and the basic rate limit for the year, the employee will be entitled to relief on £55 exempt income for each qualifying week

- ▶ exceeds the equivalent of the sum of personal allowances and the basic rate limit for the year as above, but falls below the limit at which tax becomes payable at the 45% rate limit for the year, the employee is entitled to relief on £28 exempt income for each qualifying week.
- ▶ exceeds the equivalent of the additional tax rate limit for the year, the employee is entitled to relief on £25 exempt income for each qualifying week.

For those who joined the employer's scheme prior to 6 April 2011 the weekly limit is £55 a week regardless of earnings and benefits.

Similar rules apply for NIC purposes.

Further details

The employer has to estimate the employee's tax position each year as the amount of exempt income they can receive may change throughout their period of employment.

If the ESC exceeds the amount of exempt income per week the excess will be a benefit in kind and subject to Class 1A NICs. However, with vouchers, although any excess is also a benefit in kind it is subject to Class 1 NICs via the payroll. As the tax and NIC issues are complex many employers limit their employees' entitlement to a maximum of the exempt limit.

The exempt limit applies to the full face value, rather than the cost, of providing a childcare voucher, which would normally include an administration fee.

An employee is only entitled to one exempt amount even if care is provided for more than one child but it does not matter that another person may also be entitled to an exempt amount in respect of the same child.

Determining basic earnings

To identify the rate of tax an individual employee pays in any one tax year, an employer needs to carry out a 'basic earnings assessment' for any employees. Employers who offer or provide employer childcare are required, at the beginning of the relevant tax year, to estimate the 'employment income amount' that the employee is likely to receive during that year.

This is basically the contractual salary and benefits package (not discretionary bonuses or overtime) less the personal allowance if appropriate.

Employers must keep a record of the basic earnings assessment. These records do not need to be sent to HMRC but must be available for inspection by HMRC if required.

The employer must re-estimate the 'employment income amount' for each tax year.

Closure of ESC to new entrants

HMRC has confirmed that employees must have joined an ESC scheme and had the necessary changes made to their salary on or before 4 October 2018. Applying to the scheme before the deadline is not sufficient as an applicant needs to have had the necessary changes made to their salary by the deadline in order to benefit from the income tax and NICs exemption.

Employers who continue to offer ESC to new entrants after 4 October need to deduct income tax and NICs on any vouchers given and pay employer NICs after this date.

Gaps in payment

An employee can ask to stop receiving childcare vouchers temporarily whilst staying in the employer's scheme; for example, if an employee only works during school term time and doesn't need the vouchers during the school holidays. Basically, as long as the gap in providing the vouchers doesn't exceed 12 months the employee can still be classed as an existing member of the employer's scheme.

This also applies to employees who are on maternity leave, sick leave and those who wish to take a career break, provided that the total length of absence does not exceed 12 months.

How we can help

If you would like to discuss a childcare in further detail, please do not hesitate to contact us on our contact details above.

Trusted advice, *imaginative solutions.*

It's the old adage that all accountants are the same, but ask yourself this; what kind of service would most add value to your personal or business position? In our opinion, the quality of advice and service is what separates a good accountant from a great one. This is where Rouse Partners can make a difference for you.

Our award-winning team make it their business to get to know you and your specific needs. Whether your goal is to grow your business, increase your personal wealth or improve your work-life balance, by understanding your challenges, we will address them together.

We also know how important it is for you to have a team that you can rely on for timely advice and reassurance. At Rouse, our people are our most important asset and we will select team members who offer an optimum mix of experience, specialism and knowhow. From your Partner, to your Tax Advisor, each team member will be accessible to you or your team and be proactive in seeking solutions.

At the heart of our way of working is a determination to think differently, to challenge the 'status quo' and to ask 'what if?'. Whether you are facing a complex tax, accounting or management situation, we are ready to find a solution.

Contact us today to discuss how we can support your personal or business tax needs:

t: 01494 675321

e: info@rousepartners.co.uk

Accountancy

Audit

Tax

Business advice

Corporate finance

Company secretarial

Outsourcing

Payroll

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International services



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