

tax-efficient form of remuneration

"Vouchers up to a value of £55 per week (£243 per month) are free of income tax and National Insurance contributions. As such, they are a **tax-efficient form of remuneration** for those parents paying for childcare for young children."

Childcare vouchers – why are they of interest to both employers and employees?

Childcare vouchers were introduced by the Government in April 2005. Vouchers up to a value of £55 per week (£243 per month) are free of income tax and National Insurance contributions. As such, they are a tax-efficient form of remuneration for those parents paying for childcare for young children.

The tax advantage is only available to employed individuals. However, even for self-employed individuals, childcare vouchers could be provided to another member of the family who is employed in the business.

Who is likely to benefit?

Higher rate taxpayers will benefit the most, but there are substantial benefits for basic rate taxpayers. However, care is required where the family is receiving tax credits, based on childcare payments. For those individuals, it may not be beneficial to receive childcare vouchers. There are various calculators on the H M Revenue & Customs (HMRC) website (www.hmrc.gov.uk) which can be used to assess whether or not a childcare voucher scheme would be beneficial to the individual concerned.

How does the childcare voucher scheme work?

There are two stages: the employer needs to set up an HMRC-approved salary sacrifice arrangement – which can also be used for other employee benefits, see below – and contract with a provider of childcare vouchers.

The first stage in setting up a childcare voucher scheme is for the employer concerned to enter into a salary sacrifice arrangement. This is a common and simple approach which enables employees to give up part of their salary and then in return, the employer provides them with childcare vouchers. There are some procedural issues to comply with, but it is not difficult to put a scheme in place. The salary sacrifice arrangement is not only of benefit to the employees, as the employer will also save employers' National Insurance on the value of the childcare vouchers provided.

It is possible to provide childcare vouchers to only one employee and indeed, such an approach is quite common for small employers. However, what is important is that the scheme must be offered to all the employees.

Childcare voucher providers

It is straightforward to set up a childcare voucher scheme. To do this, it is necessary to select a childcare voucher provider and there are a number of these available. The childcare voucher provider charges a fee to the employer based on the face value of the vouchers provided. Charges vary between childcare voucher providers but will typically be between 1% and 3% of the face value of the childcare vouchers. Even allowing for the other administrative costs in running a childcare voucher scheme, there is still a significant saving compared to the employer's National Insurance that would otherwise have been paid. In addition, staff recruitment and retention benefits should arise to the employer through the offering of a tax efficient remuneration package. By choosing a good childcare voucher provider, it should be possible to minimise the administrative grief for the employer concerned.

cycle to work?

"These schemes have become popular in the last few years..."

Other Salary Sacrifice Schemes

This factsheet focuses on providing childcare vouchers by means of the Salary Sacrifice arrangement. It is also possible to provide other tax efficient benefits in kind to staff by means of the Salary Sacrifice arrangement. The most commonly used examples are as follows:

- **Cycle to work scheme** – these schemes have become popular in the last few years and enable bicycles to be provided on loan to employees under the benefit in kind exemption relating to travelling to work by means of a bicycle. They work well for those employees who travel to work by bicycle and in particular those who are both higher rate tax payers and spend a substantial sum on the purchase of a bicycle.
- **Pension Contributions** – traditionally salary sacrifice schemes are common for those wishing to make additional pension contributions. The advantage of the arrangement is the national insurance saving. Using such arrangements the employer agrees to make a larger pension contribution than the salary being given up so that a substantial part of the employers national insurance saving is passed back to the employee. This arrangement can work particularly well for those employees close to retirement.
- **Use of Company Assets** – where company assets such as computers or other electronic equipment are provided to employees to use at home primarily for the purpose of the employer's business, no tax charge is incurred for incidental private use made by the employee. This can be an attractive idea for many employers and employees.

Work Place Nurseries

In addition to childcare vouchers there are also special tax breaks for those employers that wish to provide work place nurseries. If you are considering such an approach then you should take specific tax advice before putting a scheme in place.

Menu-based approach to reward

It is efficient for the employer and attractive to employees when the several different benefits are offered on a menu from which the employee chooses.

Winter Rule's 5 key points

- Employees can reduce personal tax costs by receiving up to £55 per week of their salary in the form of childcare vouchers.
- Employers providing childcare vouchers save employers National Insurance on the value of vouchers provided to employees.
- A voucher provider is required to run the scheme; typically the cost of such schemes for the employer is between 1% and 3% of the voucher value.
- Other salary sacrifice schemes are available that can also be tax-efficient for both employees and employers including cycle to work and pension contribution schemes.
- In overview the schemes in this factsheet provide employees with more take home "value" at a lower tax cost often to both the employee and employer.

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