



Childcare Vouchers – A guide

Childcare vouchers are a way for working parents to get help with the costs of childcare. They are issued through your employer, although not all employers offer them. The major benefit of using vouchers is that each parent is able to pay their childcare provider up to £55 a week which is free from tax and national insurance contributions. This may not sound like much but can equate to around a thousand pounds in savings over the year, and that is just for a single parent paying a basic rate of tax! This guide has been designed to give parents in-depth knowledge on all the aspects of childcare vouchers, so that you can make an educated decision on whether they would help you to save money on your childcare costs.

Childcare vouchers are not just for babies and can be used to pay for the care of children up to the age of 15 (until 1 September following their 15th birthday) or 16 if your child is disabled (until 1 September following their 16th birthday).

How does a childcare voucher scheme work?

Your employer would sign up to a childcare voucher company and will pay that company an administration fee for their service. The voucher company will either supply you directly with your childcare vouchers or they will provide your employer with them, which they will distribute to staff accordingly. Employees in receipt of childcare vouchers can use them to 'pay' their childcare provider. The childcare provider will then redeem the value of the voucher from the childcare voucher company, usually by direct payment into a bank account.

How do childcare vouchers save me money?

Childcare vouchers can be offered to you in addition to your cash salary but are more commonly offered as a "salary sacrifice". This means that you sacrifice a specific amount of your salary and instead receive that amount in childcare vouchers. You may pay any amount in vouchers, however only £55 per week, or £243 a month would be exempt from Tax and National Insurance Contributions (NIC). You will only pay tax and NIC on the reduced level of your salary. This means that if you choose to use vouchers for the maximum available tax and NIC benefits of £55 per week, you would save between £962 - £1,195 per year, depending on your tax band and salary level. As your employer does not pay National Insurance on the vouchers provided to you, your employer is also in line to save hundreds of pounds a year! See the table below:

<u>Tax and National Insurance savings for using Childcare Vouchers</u>	
<u>Employee Status</u>	<u>Potential Annual Savings*</u>
Individual Parent (basic rate** taxpayer)	£962
Two Parents (both basic rate taxpayers)	£1,924
Individual Parent (higher rate*** taxpayer)	£1,195
Two Parents (both higher rate taxpayers)	£2,390

* The savings above are based on a parent using the maximum voucher value of £55 per week for a whole year. The exact amount a parent can save depends on individual circumstances
Figures correct for budget as from April 2008.

** Basic rate = 20% tax on earnings £0-£36,000

*** Higher rate = 40% tax on earnings over £36,000



From April 2011, tax relief will only be available on the basic lower rate of tax at 20 per cent, meaning there will only be 1 level of support for everyone. Higher rate tax payers, who currently receive the tax relief at 40 per cent, will continue to do so until 2015. From April 2011, any new entrants to employer-supported childcare schemes will only receive the tax relief from vouchers at the 20 per cent rate, even if they are higher rate tax payers. Basic rate taxpayers currently save up to £904 per year and higher rate taxpayers save up to £1,195 per year.

What is a salary sacrifice?

A salary sacrifice agreement means that an employee formally (by a change in their contract) consents to a reduction in their salary and instead receives that amount in childcare vouchers. The contract between employer and employee will need to be updated or a signed agreement included within, to reflect the salary sacrifice agreement. This should make clear the reduction in salary the employee has agreed to, the length of time of the agreement and the amount they will receive in vouchers.

How much can I receive in vouchers?

You can receive any amount in vouchers, but only the first £55 is free from tax and NICs. If you are involved in a salary sacrifice scheme the only legal consideration is that your reduced income must not fall below the minimum wage of £90 per week.

Because the savings are per person and not per child, both parents can take childcare vouchers so if you have a wife, husband or partner who also works for an employer that operates a scheme, you could double your household savings.

What if my employer does not run a childcare voucher scheme?

Not all employers run, or are even aware of, childcare voucher schemes. Many of the larger companies such as banks and multinational companies do run the schemes, and research indicates that, increasingly, employers are prepared to consider them. The first thing to do would be to make sure your company is not already running a voucher scheme. Check with your Human Resources / Personnel Department to see if your employer does. If not, you could ask if they would like to consider setting one up. Show them this leaflet and specifically the table below and make them aware of the savings that both you and they would be in line to make, which may persuade them to set one up for you and for other working parents within the company.

<u>National Insurance savings for employers participating in a childcare voucher scheme</u>	
<u>Number of Employees in the Scheme</u>	<u>Annual employer Savings</u>
1	Up to £373
10	Up to £3,730
20	Up to £7,460
50	Up to £18,650
100	Up to £37,300



What sort of childcare can they be used to pay for?

Childcare vouchers can currently be used to pay for any legal form of childcare, but the first £55 a week you receive in vouchers will only be tax and NIC exempt if it is used to pay for registered or approved childcare. This includes:

- Day nurseries
- Registered childminders
- Playgroups
- Before and after-school clubs
- Holiday playschemes
- Nannies or other Childcarers registered on the voluntary Ofsted Childcare Register (vOCR)

Can all childcare providers accept payment through childcare vouchers?

Yes, as long as they have a bank account. In order to receive the childcare voucher reimbursements the childcare provider will need to register their details with the childcare voucher company. This is usually a record of contact details, registration number where appropriate and bank details. There is no cost to the childcare provider in receiving payment through childcare vouchers. Information packs explaining childcare vouchers to childcare providers are available from most voucher companies, should your childcare provider have any concerns.

What you should be aware of:

Childcare vouchers are a way of effectively decreasing your childcare costs, however, it is important that you are aware of all the features of and effects of a salary sacrifice scheme.

Period of contract:

When you sign up to a childcare voucher scheme, you will generally be required to do so for a fixed period of time (often one year) after which your agreement can be reviewed. You will be asked to consent to a contractual change confirming that you agree to sacrifice part of your salary in return for childcare vouchers. This means that (within the period covered by the agreement) you do not have an automatic right to stop receiving childcare vouchers and revert back to receiving your full salary. Most schemes/employers will offer an earlier review of your agreement in the event of an unexpected life change, which is anything linked to birth, death and marriage. In other extreme circumstances your employer can ask their Tax Office if you may leave the scheme, but you should discuss this with your employer prior to signing an agreement.

Another thing to note is that if your employer is already running a voucher system, by law the scheme must be generally available to all employees where the scheme is applied.

Child Tax Credit and Working Tax Credit:

The Child Tax Credit (CTC) offers parents support with general family costs, and is available to nine in ten families. Working Tax Credit (WTC) supports those on lower incomes and working parents may be eligible for additional help towards registered childcare costs. The amount of help parents receive will depend on a number of factors including their income, the size of their family and the amount they pay in childcare.

The receipt of childcare vouchers through a salary sacrifice can affect parents' entitlements to these tax credits in a couple of ways. As your average earnings will effectively be reduced, you could receive a higher payment through the WTC. However, the money sacrificed from your salary and received in childcare vouchers from your employer cannot be declared as childcare costs when calculations are made for your entitlement to the childcare element of WTC. This is to ensure that you are not claiming for the same assistance with childcare twice. ***The childcare element of WTC may therefore be reduced.***



Parents are advised to find out what level of support they could be entitled to through the CTC and WTC before they sign up to a childcare voucher salary sacrifice scheme. In some instances parents may be financially better off opting to receive help through the WTC rather than through their employers childcare voucher scheme – see below for guidance and for websites that will do a calculation for you.

How do I know whether I would be better off with Tax Credits, or with a voucher scheme?

The following points provide a *rough* guide as to whether you would be financially better off using Tax Credits or childcare vouchers, but there are exceptions and it is always worth doing a detailed calculation including all of your circumstances to get the best picture.

- You will always benefit from using childcare vouchers if they are offered in addition to your salary (i.e. not as a salary sacrifice).
- Generally, if you are getting £545 or less a year in total from Tax Credits, you will be better off using vouchers.
- Generally, if you are getting more than £545 a year in total from Tax Credits, you will not gain from claiming the tax and NIC exemptions from childcare vouchers - unless you are a higher rate tax payer.

Furthermore, there are some very useful online calculators which you can use which will determine whether or not you would be better off with vouchers or tax credits, or a combination of the two. You can use either of the following links for these calculations:

accorestimator.opp-links.org.uk - and click on Savings calculator at the top.

www.hmrc.gov.uk/calcs/ccin.htm - and use the 'Childcare Indicator'.

If you would prefer to do a calculation over the phone, you can call the tax credits helpline on 0845 300 3900.

Implications on maternity and sick pay

Some payments made to you by your employer are based on your average earnings and the amount that you substitute to receive in vouchers is **not** included as part of your average earnings when work related payments are made. However, Childcare Vouchers can be classed as Notional Pay, which means that most employers do not let your benefits become affected.

Statutory Maternity Pay (SMP) and Statutory Sick Pay (SSP) - calculations made for SMP and SSP are based on your average earnings excluding the amount you receive in vouchers, meaning the rates of SMP and SSP you receive may be reduced. However, as pregnancy is a "life-changing event" it should be possible to review your amended contractual arrangements (which permitted the original salary sacrifice) and you should be able to leave the scheme before working the eight week period on which your SMP will be based - and thus ensure it will not be affected.

Speak to your employer about how salary sacrifice could affect these and other work related payments before you sign up to a childcare voucher scheme. It would be wise to check with your employer if any other Occupational Schemes you may be part of, for example a work pension, is classed as notional pay or otherwise.

Implications on contribution-based benefits

Your entitlement to some benefits is calculated according to the level of National Insurance Contributions (NIC) you have made. Should you sign up to a childcare voucher salary sacrifice scheme, your NIC will be reduced, which in turn could reduce your entitlement in the future to some of the following contribution-based benefits:



Incapacity Benefit: If your earnings fall below the LEL (£4770 per annum from April 2008 or £90 a week) you may not be entitled to receive Incapacity Benefit. In this instance you would need to claim Income Support.

Jobseekers Allowance (contribution based): If your earnings fall below the LEL or if your NICs have been reduced to a lower amount, you could become ineligible to receive the contribution-based Jobseekers Allowance. In this instance you would instead have to make a claim under income-based Jobseekers Allowance.

State Pension: On retirement, the amount you receive through your State Pension could be reduced if you have not paid enough NICs. If earning below the minimum wage check if Home Responsibilities Protection would apply if you are getting child benefit. This could also affect your state second (top-up) pension if you are not in an employer's pension scheme. Speak to a benefits advisor or your employer for further clarification.

Other useful contacts:

- ✓ **The Daycare Trust** – a national charity which aims to provide quality affordable childcare for all.
Address: 21 St. George's Street, London, SE1 6ES
Tel: 020 7940 7510. Website: www.daycaretrust.org.uk
- ✓ **Her Majesties Revenue & Customs (HMRC)** – can provide full guidelines regarding 'salary sacrifice' schemes. Tax credit calculations, information and advice is available by calling the tax credits Helpline on 0845 300 3900. Website: www.hmrc.gov.uk/childcare
- ✓ **Working Families** – a charity which can provide practical help and produces a number of detailed publications to aid working families. Telephone advice line: 0800 013 0313. Website: <http://www.workingfamilies.org.uk>
- ✓ **Worksmart** – an arm of the Trade Union Council, Worksmart can provide publications and advice via their Helpline on a wide range on employment rights information. A whole section of their website is dedicated to explaining childcare vouchers, see:
http://www.worksmart.org.uk/money/childcare_vouchers Telephone: 0870 600 4882
- ✓ **Ofsted** – The registering body for Childcare in England. To ensure that your childcare provider is registered. Telephone: 08456 40 40 40. Website: www.ofsted.gov.uk

Contact details of some companies who can offer childcare voucher packages (there are many other companies also offering these services):

Voucher Provider	Telephone Number	Website
Sodexo Pass Ltd	01276 687 000	www.sodexo.co.uk
Leapfrog Childcare Vouchers	0800 783 7624	www.leapfrogvouchers.com
Accor Services	0845 330 4406	www.childcarevouchers.co.uk
Kidsunlimited	0845 365 2900	www.kidsunlimited.co.uk
Computershare Voucher Services	0845 002 1111	www.computersharevoucherservices.com