



HM Revenue
& Customs

Employer Helpbook E18(2016)

How you can help your employees with childcare

For use from 1 October 2012

Updated from 6 September 2016

Includes guides on the tax and NICs treatment of:

- workplace nurseries
- other childcare premises
- childcare vouchers

This guide sets out HM Revenue & Customs (HMRC) approach in applying the legislation on providing employee childcare.

The guide itself has no binding force in law and does not affect any right of appeal by either party.

Help and guidance

You can get help and guidance from the following sources.

The internet

For help with your payroll, go to www.gov.uk/browse/employing-people/payroll

For wider interactive business help, go to www.gov.uk/starting-up-a-business

Webinars are a new way of learning about your payroll. Our presentations cover a wide range of topics. For more information,

go to www.gov.uk/government/collections/hmrc-webinars-email-alerts-and-videos

Any page printed from the online version of this helpbook is uncontrolled and may not be the latest version. We recommend that you always check you are referring to the latest online version.

Online services

For information and help using our Online Services, go to www.gov.uk/log-in-register-hmrc-online-services

For more help, contact the Online Services Helpdesk by:

- phone on 0300 200 3600
- textphone on 0300 200 3603
- overseas on +44 161 930 8445

Go to www.gov.uk/government/organisations/hm-revenue-customs/contact/online-services-helpdesk

Basic PAYE Tools

The Basic PAYE Tools is software that you download onto your computer. It will help you run your payroll throughout the year. It is designed for employers who have nine or fewer employees, and you can use it to calculate payroll deductions and then report payroll information online in real time. Basic PAYE Tools will:

- record your employees' details
- work out and record your employees' pay, tax, NICs and any Student Loan deductions every payday
- enable you to claim your NICs Employment Allowance (up to £2,000 per year off your secondary Class 1 NICs liability)
- generate the payroll data that you need to send to HMRC in real time, including starter and leaver information
- produce an Employer Payment Record that works out how much you need to pay HMRC
- contain calculators to help you to work out statutory payments such as Statutory Sick Pay and Statutory Maternity Pay

You can find more information about the Basic PAYE Tools at www.gov.uk/payroll-software

Employer helplines

- Employer for less than 3 years, phone 0300 200 3211.
- Employer for 3 years or more, phone 0300 200 3200.
- If you have a hearing or speech impairment and use a textphone, phone 0300 200 3212.

Please tell us your employer PAYE and Accounts Office references when you contact us. You will find them on correspondence from HMRC.

Employer helpbooks and forms

Helpbooks and forms are available to download.

Go to www.gov.uk/government/collections/payroll-publications-for-employers

Yr Iaith Gymraeg

I lawrlwytho ffurflenni a llyfrynnau cymorth Cymraeg, ewch i www.gov.uk/government/collections/ffurflenni-cthem#2 a dilyn y cysylltiad i Becyn y Cyflogwr. Os, yn eithriadol, nad oes gennych gysylltiad i'r rhyngwyd, cysylltwch â'r Ganolfan Gyswllt Cymraeg.

Forms and guidance in Braille, large print and audio

For details of employer forms and guidance in Braille, large print or audio, phone the Employer Orderline on 0300 123 1074 and ask to speak to the Customer Service Team.

Education services from the Digital Delivery Team

Find out more about our webinar programme at www.gov.uk/government/collections/hmrc-webinars-email-alerts-and-videos and why not take a look at our Youtube channel? You can view our video clips or listen to a recorded version of our webinars. Go to www.youtube.com/hmrcgovuk

Employer Bulletin online

Employer Bulletins contain information and news for employers. We publish these several times a year. Go to www.gov.uk/government/collections/hm-revenue-and-customs-employer-bulletin

Employer email alerts

We strongly recommend that you register to receive employer emails to prompt and direct you to:

- each new edition or news about the Basic PAYE Tools
- the Employer Bulletin
- important new information

To register, go to www.hmrc.gov.uk/payerti/forms-updates/forms-publications/register.htm

HM Revenue & Customs (HMRC)

If you have a query about your PAYE scheme:

- phone the Employer Helpline on 0300 200 3200
- write to:
National Insurance Contributions and Employer Office
HM Revenue and Customs
BX9 1BX
United Kingdom

Please tell us your employer PAYE and Accounts Office references when you contact us. You will find them on correspondence from HMRC.

Your rights and obligations

'Your Charter' explains what you can expect from us and what we expect from you. For more information go to www.gov.uk/government/publications/your-charter

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Introduction

Employers may decide to help employees with their childcare. Under general rules the childcare would be chargeable to Income Tax and National Insurance contributions (NICs) as a benefit. However, three types of employer supported childcare can be partly or wholly exempt from these charges if the relevant conditions are met.

This helpbook aims to give an overview of these exemptions and qualifying conditions.

Employer supported childcare

Three types of employer supported childcare are included within the exemptions from Income Tax and National Insurance contributions (NICs). The amount that can be exempt depends on the type of support you provide to your employees. If you operate a childcare voucher scheme or provide directly contracted childcare, for those employees who join your scheme on or after 6 April 2011 you will have to carry out an assessment of the employee's earnings to work out the exempt amount.

You can find out more about the assessment of earnings and how to work out the exempt amount for your employees on our website. Go to www.gov.uk/government/publications/employer-supported-childcare

Workplace nurseries

Places allocated to the children of employees in workplace nurseries are completely exempt from tax and NICs if they meet certain conditions (see page 7).

This exemption also covers another employer's staff who work on your premises and use your childcare facility.

Directly contracted childcare (also known as other childcare)

There is a limited exemption if you help your employees by contracting directly with a commercial nursery or childminder to provide childcare, for example places that you have bought direct from a childminder or nursery. If your employee joined your scheme on or before 5 April 2011, the first £55 per week of the cost to you of providing the benefit will be exempt from tax and NICs. For employees who join your scheme on or after 6 April 2011, go to www.gov.uk/government/publications/employer-supported-childcare

There are a number of conditions which must also be met – these are set out on page 9.

Childcare vouchers

There is a limited exemption if you provide childcare vouchers which your employees can use to pay for qualifying childcare. If your employee joined your scheme on or before 5 April 2011 the first £55 per week will be exempt from tax and NICs.

For employees who join your scheme on or after 6 April 2011, go to www.gov.uk/government/publications/employer-supported-childcare

There are a number of conditions which must also be met – these are set out on page 9.

General conditions for employer supported childcare

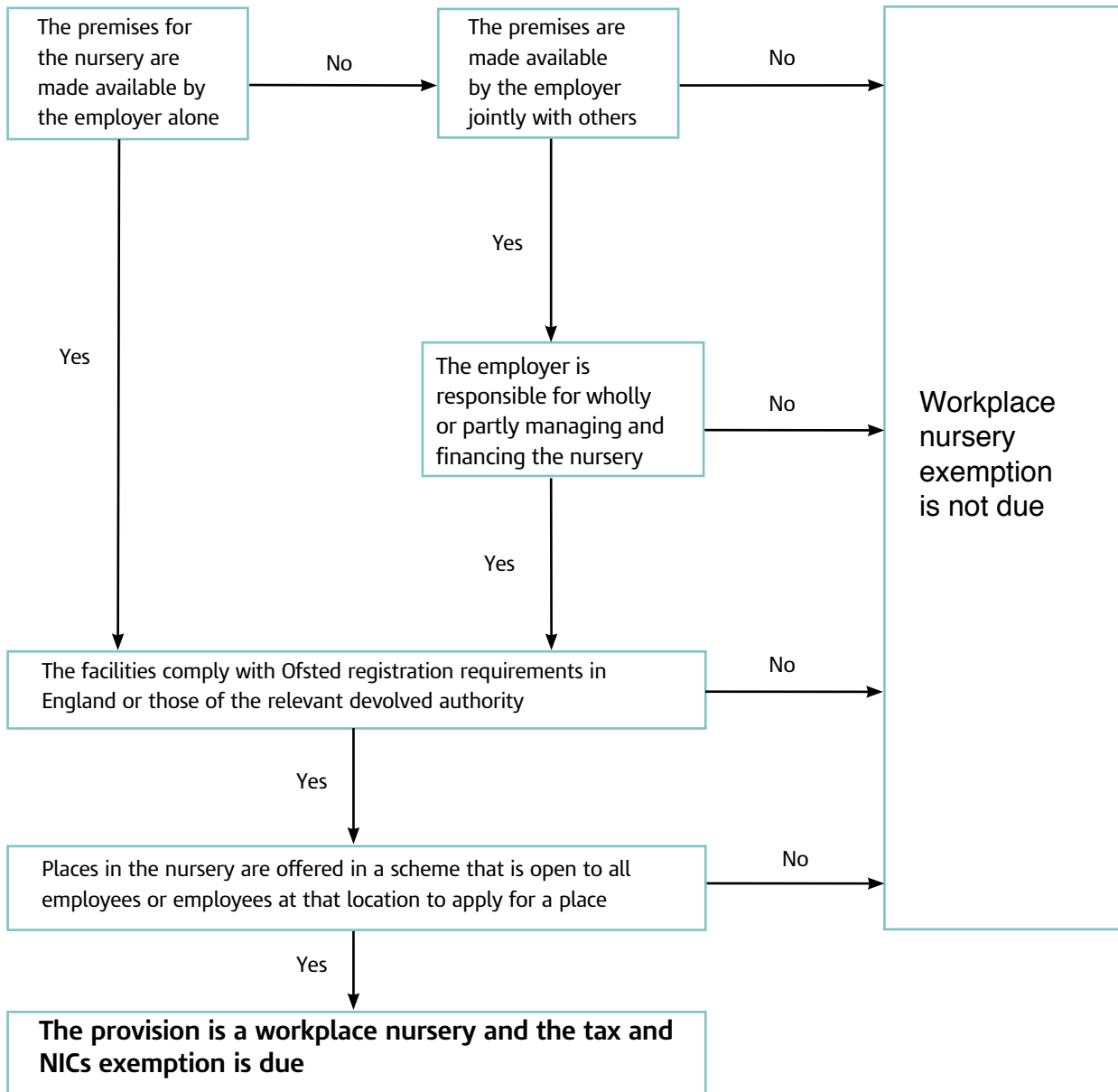
The following conditions relate to all childcare support provided by an employer. There are a number of conditions which must also be met – these are set out on page 9.

- **Available to all staff** – the childcare support should be offered in a scheme in which all employees are eligible to participate. The ‘available to all’ condition for childcare vouchers and directly contracted childcare is not breached where workers who earn on or near the National Minimum Wage (NMW) are unable to join an employer’s scheme due to the requirement to safeguard payment of the NMW in full. However, childcare support for workplace nurseries must be offered in a scheme in which all employees are eligible to participate, including workers with earnings at or near the NMW.
- **Qualifying child** – a child qualifies up to 1 September following their 15th birthday, or 1 September following their 16th birthday, if they are disabled. The child must be the child or stepchild of the employee or a child for whom the employee has parental responsibility.
- **Registered or approved childcare only** – to qualify for the exemption, any childcare provided by an employer or for which childcare vouchers are used must be registered or approved.

Does your workplace nursery qualify for exemption?

Use this flow chart to see if you are providing childcare that could qualify for the full tax and NICs exemption. Appendix 11 of booklet 480 'Expenses and benefits – A tax guide' explains the rules in more detail.

Go to www.gov.uk/government/publications/480-expenses-and-benefits-a-tax-guide



Directly contracted childcare and childcare vouchers

Use this table to check whether or not the childcare support you offer is a taxable benefit and liable for NICs.

Tax and NICs are payable on:

- cash allowances
- settling your employee's childcare bill on their behalf
- paying school fees for your employee's child or on your employee's behalf
- childcare vouchers used for childcare that is not qualifying childcare
- childcare vouchers or directly contracted childcare in excess of the relevant amount for that employee
- childcare provided by you (unless in a workplace nursery)

The following benefits are free of tax and NICs

- The provision of directly contracted childcare up to the relevant exempt amount per employee.
- Childcare vouchers used for qualifying childcare up to the relevant exempt amount per employee.
- Backup childcare you provide (where the cost does not exceed the relevant exempt amount per employee). For example, if you pay to keep a place free in a local nursery for use by your employees when their own childcare arrangements fall down.

Note: Remember that for the limited exemptions the exempt amount applies to each individual employee. Both parents can receive employer supported childcare if offered by their employer even for the same child. The exempt amount is per employee not per child and the employee is only entitled to a single exempt amount.

Childcare vouchers

Your options

You have two options if you choose to offer childcare vouchers.

- 1 Voucher providers can operate childcare voucher schemes on behalf of employers. They will charge an administration fee for the service. However, you will remain responsible for the correct deduction of tax and payment of NICs even if you use these companies.
- 2 You can produce and administer childcare vouchers yourself as long as you make sure the conditions for tax and NICs exemption are met and you keep records to support your scheme.

Conditions

Use this table to check:

- the conditions for tax and NICs exemption
- what records you need to keep to show that the exemption is due

Condition	Description	Records you need to keep
<p>The scheme is generally available to all employees</p>	<p>For any of your employees to qualify for the exemption, you should provide childcare vouchers in a scheme that is:</p> <ul style="list-style-type: none"> • open to all of your employees, or • open to all of your employees based at the location where the scheme operates <p>This means that you should not exclude any employees from your scheme, for example on the grounds of:</p> <ul style="list-style-type: none"> • gender • seniority or position • level of pay • length of service <p>But, this does not mean that all employees have to participate.</p> <p>For example, employees who cannot or choose not to participate may be those:</p> <ul style="list-style-type: none"> • without children in qualifying childcare or whose children are over the qualifying age limit • whose benefit from the childcare element of Working Tax Credit is greater than the saving in tax and NICs from vouchers 	<p>You will need to keep:</p> <ul style="list-style-type: none"> • a copy of the letter or poster used to advertise your scheme to your staff, or • your staff handbook where this includes details of eligibility
<p>The child is a qualifying child</p>	<p>The child for whom the childcare voucher is provided must be:</p> <ul style="list-style-type: none"> • a child or stepchild of the employee, or • a child who lives with the employee for whom he or she has parental responsibility <p>A child is a qualifying child up to:</p> <ul style="list-style-type: none"> • 1 September following their 15th birthday • 1 September following their 16th birthday, if they are disabled 	<p>You will need to keep:</p> <ul style="list-style-type: none"> • a record of the child's date of birth, indicating where appropriate if the child is disabled • a note of the relationship between the child and your employee if the employee is not the child's parent
<p>The childcare is registered or approved</p>	<p>The exemption applies in the tax week in which you provide the childcare vouchers to your employees. You must be satisfied at that point that the vouchers will only be used to pay for registered childcare (see page 10 for what is meant by the term 'registered').</p> <p>Note: Your employees do not need to use the vouchers in the week or month they are provided and can save them, for example, to meet higher childcare costs during school holidays.</p>	<p>You will need to keep:</p> <ul style="list-style-type: none"> • a copy of your scheme rules that includes a requirement for employees to notify you of any change in circumstances in relation to the child or childcare • a record of the childcare provider's name and, if applicable, registration number or approval number • a note of when, if applicable, the childcare provider's registration or approval is due to expire <p>Note: You may want to remind your employees to check their carer's registration or approval status in good time before entitlement to exemption expires.</p>

Qualifying childcare

The exemptions from Income Tax and NICs for employer supported childcare only apply when qualifying childcare is provided. You need to be certain that the childcare you provide or the childcare your employees obtain is registered or approved care.

Registered childcare

Qualifying childcare includes care approved under a Ministry of Defence accreditation scheme abroad.

Registered childcare within the UK consists of the following.

In England only

- A person registered under Part 3 of the Childcare Act 2006. This will include persons on the following registers operated by Ofsted
 - The Early Years Register
 - The General Childcare Register – compulsory part
 - The General Childcare Register – voluntary part.
- Schools – care provided by the governing body of a school is approved if it takes place
 - outside normal school hours (this means the normal hours of compulsory education adopted by the school as appropriate for the age of the child)
 - on school premises, or
 - on premises that are covered by the inspection of the whole school activity by Ofsted or the equivalent inspection board for certain independent schools.
- Other care providers – a domiciliary worker or nurse from an agency registered under the Domiciliary Care Agencies Regulations 2002 providing childcare in the child's home.

In Wales only

- A childcare provider registered in accordance with Part 2 of the Children and Families (Wales) Measure 2010.
- Out-of-school-hours childcare, provided by a school on the school premises, or by a local authority.
- A person approved under the Approval of Child Care Providers (Wales) Scheme 2007 providing childcare in the child's home or if several children are being looked after, in the home of one of the children.
- A domiciliary worker or nurse from an agency registered under the Domiciliary Care Agencies (Wales) Regulations 2004 providing childcare in the child's home.
- A foster parent in relation to a child other than one whom the foster parent is fostering but only in those cases where due to the age of the child the care provided does not fall within the first and third bullets in this section.

In Scotland only

- A childcare provider registered by the Scottish Commission for the Regulation of Care.
- Out-of-school-hours childcare clubs registered by the Scottish Commission for the Regulation of Care.
- Childcare provided in the child's home by, or introduced through, childcare agencies, sitter services and nanny agencies which are required to be registered.

In Northern Ireland only

- Child-minding or day care in accordance with Part XI of the Children (Northern Ireland) Order 1995.
- Out-of-school-hours childcare, provided by a school on the school premises, or by an Education and Library Board.
- A person approved under the Tax Credits (Approval of Home Child Care Providers) Scheme (Northern Ireland) 2006 providing childcare in a child's home.
- A foster parent in relation to a child other than one whom the foster parent is fostering but only in those cases where due to the age of the child the care provided does not fall within the first and third bullet points in this section.

What does not count as 'qualifying childcare'?

Qualifying childcare does not include care provided by a relative of the child in the child's own home. This includes relatives who are registered or approved childcare providers. For these purposes a relative means a:

- parent
- step-parent
- foster parent
- grandparent
- aunt or uncle
- brother or sister

whether by blood, half blood, marriage or civil partnership

Childcare provided by relatives can be qualifying childcare if **all** the following circumstances apply:

- the relative is a registered or approved childcare provider
- the care is provided away from the child's own home
- the care is provided to non-related children in addition to the related child or children

For information and advice on the regulation and registration of childcare in the UK please contact:

- **in England** -
Ofsted (The Office for Standards in Education, Children's Services and Skills)
– www.gov.uk/government/organisations/ofsted
- **in Wales**
The Care and Social Services Inspectorate Wales
– www.gov.wales/statistics-and-research/service-settings-places-regulated-cssiw/?lang=en
- **in Scotland**
The Care Inspectorate
– www.gov.uk/day-nurseries-scotland
- **in Northern Ireland**
The Department of Health, Social Services and Public Safety
– www.gov.uk/government/organisations/department-of-health-social-services-and-public-safety

How do employer-provided childcare benefits affect tax credits?

Tax credits help families on low to middle incomes. There are 2 tax credits.

- **Child Tax Credit (CTC)** is for people who are responsible for at least 1 child or qualifying young person. Most families are eligible for this support.
- **Working Tax Credit (WTC)** is for people who are employed or self-employed and usually work 16 hours or more a week. The childcare element provides help of up to 70% of qualifying childcare costs up to £175 per week for 1 child or £300 per week for 2 or more children.

Giving a childcare benefit or childcare vouchers to your employees can affect their entitlement to tax credits. This is because these benefits are not counted as income for tax credit purposes (even if they are provided through salary sacrifice).

Providing childcare and childcare vouchers will usually help your employees when given in addition to your employee's normal salary and where there is no cash alternative. This is because your employee benefits from the whole cost of the childcare given.

If childcare support is provided instead of a cash pay rise it is important that the employee thinks about their tax credit position as they may be better off taking the pay rise. There is more information on the interaction of tax credits and tax and NICs exemption for employer supported childcare on our website. Go to www.gov.uk/government/publications/paying-for-childcare-getting-help-from-your-employer-leaflet-ir115

When childcare vouchers are given instead of normal salary (often known as salary sacrifice) the help is limited to the tax and NICs savings the employee makes. This would only benefit your employee when:

- they are receiving Child Tax Credit only or no tax credits
- their childcare costs exceed the limit for Working Tax Credit

If you have employees who are receiving tax credits and want to know whether they would be better off with childcare vouchers, please refer them to the online calculator at www.gov.uk/childcare-vouchers-better-off-calculator

It is important to remember that, if you offer your employees childcare support instead of pay by means of a salary sacrifice, this could affect their tax credits entitlement in two ways.

- 1 Their income for tax credit purposes will reduce by the amount of pay they have given up in return for the benefit.
- 2 Their eligible childcare costs for tax credit purposes will reduce as the costs are the only amounts the parent(s) pay themselves — the amount you pay directly or through childcare vouchers is not counted as part of the cost.

You should encourage your employee to compare their current tax credits award with the reduced award they would receive plus the tax and NICs savings gained by participating in your scheme. To do this the employee will need to follow these steps.

Step 1

Check their current tax credits entitlement. This will be based on their family income and qualifying childcare costs before participating in your scheme.

Note: HMRC's tax credits calculator works out entitlement from the date of the enquiry to the next 5 April.

Step 2

Check the family's tax credits entitlement based on what the lower family income will be. That is, compare the original pay, less the amount of cash that has been given up in return for the childcare vouchers or childcare benefit.

This calculation should also take account of the lower childcare costs. That is the qualifying childcare costs, less the amount met by you either directly or with vouchers.

Step 3

Calculate their tax and NICs saving on taking the childcare benefit or childcare vouchers instead of cash pay.

Step 4

If the award from Step 2 plus the savings calculated in Step 3 is greater than the award from Step 1, your employee will benefit from your childcare benefit or childcare voucher scheme.

Remember that your employees don't have to tell you about their entitlement or family income. It is their choice to participate in your childcare support scheme if they are eligible to do so.

National Minimum Wage and statutory payments

If you offer a childcare benefit or childcare vouchers to your employees in return for a reduction in their cash pay, they cannot sacrifice their cash pay below the NMW rates. Nor can you reduce any statutory pay, for example Statutory Maternity Pay (SMP), or Statutory Sick Pay (SSP) for any form of employer supported childcare provided by you for the same period.

What tax relief can employers get for helping their employees with childcare?

1 You can claim tax relief for the day-to-day costs of providing or subsidising childcare.

Day-to-day costs include:

- giving employees cash allowances for childcare
- paying the fees of a nursery, childminder or nanny on behalf of an employee
- the running costs of a workplace nursery for employees' children, for example
 - rent
 - rates
 - heating and lighting
 - staff wages
 - food
 - play equipment with a short life

These costs are **all** deductible when working out your profits for tax purposes.

2 You may qualify for capital allowances on the cost of equipment for a nursery.

Many items used in a workplace nursery may qualify for capital allowances including:

- furniture
- equipment used for heating, washing and cooking
- more durable items of play equipment

3 You may also qualify for tax relief for the capital costs of providing premises for a nursery.

Up until 31 March 2011 if your trade was in the industrial sector, the capital costs of providing premises for a workplace nursery may have qualified for Industrial Buildings Allowance. This allowance was normally given at a rate of 4% a year, from the date the building was first used.

Nurseries in certain hotels may also have qualified for Industrial Buildings Allowance.

This allowance was gradually phased out between 1 April 2008 and 31 March 2011 and no relief is due for any periods falling after 31 March 2011.

Up until 31 March 2011 new and unused business premises of all types in an Enterprise Zone qualified for a 100% initial allowance. This means the cost of providing nursery premises could normally qualify for tax relief straightaway. This relief was withdrawn on 31 March 2011.

Frequently asked questions

Is VAT chargeable on childcare or childcare vouchers?

VAT is paid on supplies of goods or services in the UK by way of business. In the case of vouchers, generally no supply of services takes place until the vouchers are redeemed towards the cost of qualifying childcare. Childcare is exempt from VAT.

Any VAT incurred by businesses on voucher administration fees is subject to normal rules on the recovery of input tax.

Can our employees benefit from the workplace nursery exemption if my business is running a commercial nursery or crèche?

Yes, employers running a commercial nursery or crèche can provide free or discounted childcare for employees and no tax or NICs is due. However, this is provided the child using the care is a qualifying child (see page 6) and the conditions for the nursery are met (see page 7).

Help and advice

You can get help and advice on the details of these conditions and the allowances from us or a professional adviser.

Where can I get more information and advice about how to help my employees with childcare?

The Daycare Trust (national childcare charity) offers advice to employers about how to help parents with childcare. Information is available on their website.

Go to findyourfis.daycaretrust.org.uk/kb5/findyourfis/home.page

Where can I get information about childcare in my area?

The Directgov website includes a search facility for finding childcare, go to www.gov.uk

Your local authority can also help you find registered childcare.

These notes are for guidance only and reflect the position at the time of writing. They do not affect the right of appeal. Any subsequent amendments to these notes can be found at **GOV.UK**

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