

Paying for childcare

Getting help from your employer

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If you are working and pay for childcare, your employer may be able to help you with some of your childcare costs. This is often known as employer-supported childcare.

Introduction

This leaflet tells you:

- about the different types of childcare support that your employer may offer you
- how you could benefit from Income Tax and National Insurance exemptions
- about some of the terms that your employer may use, and
- about the information your childcare provider will need from you.

Employers are not required by law to provide employer-supported childcare to their employees. The decision to do so, and the type of employer-supported childcare provided, is up to your employer.

If your employer doesn't currently offer employer-supported childcare they may find this leaflet useful. Go to www.hmrc.gov.uk/childcare for more information.

There are three types of childcare support that your employer could provide which qualify for Income Tax and National Insurance contributions (NICs) exemptions:

- childcare vouchers
- directly contracted childcare
- workplace nurseries.

If certain conditions are met, see page 8, the childcare support provided by your employer is either partly or completely exempt from Income Tax and NICs.

If the conditions are not met, or if your employer helps you pay for your childcare in other ways, for example:

- pays you cash to pay for childcare
- pays the childcare bill, or
- pays the child's school fees

you will have to pay the full amount of Income Tax and NICs on this support.

Childcare vouchers

Your employer can provide you with childcare vouchers which can be used towards the cost of qualifying childcare. Childcare vouchers enable you to choose your own childcare provider. Your childcare provider must be registered with the relevant authorities in your part of the UK to be a provider of qualifying childcare. Please see the section on registered childcare later in this leaflet.

The amount you can receive in childcare vouchers without having to pay tax or NICs will depend on when you joined your employer's scheme and on the level of pay you receive from your employer.

If you joined your employer's scheme on or before 5 April 2011 you can get up to £55 each week, or £243 each month free of tax and NICs. If you joined your employer's scheme on or after 6 April 2011 you can still get up to £55 each week free of tax and NICs if your employment earnings are not more than the higher rate threshold. If your earnings are more than the higher or additional rate thresholds then the amount you can get free of tax and NICs is reduced.

The amount for higher rate earners is £28 each week or £124 each month and for additional rate earners the amount is £22 each week or £97 each month. From 6 April 2013 the exempt amount for additional rate earners will be £25 each week or £110 each month

For tax purposes you are only entitled to receive up to the relevant exempt amount shown above regardless of the number of jobs or employments you may have. For NICs you can receive an exempt amount from more than one employer. If both you or

your partner are provided with childcare vouchers you are each entitled to an exempt amount of childcare vouchers.

If your employer provides you with childcare vouchers above these amounts you will have to pay tax and NICs on the additional amount.

You may get paper or electronic vouchers directly from your employer or your employer may ask a childcare voucher provider to provide them directly to you. Your employer will tell you which form of voucher (paper or electronic) that they will make available to you or if you can choose.

You do not have to use childcare vouchers in the week or month they are provided. If you do not wish to use the vouchers immediately you can save them up to use later. For example, your childcare costs may be more than usual during school holidays, and you may want to use them then.

Information your childcare provider will need

If you decide to get childcare vouchers, check that your childcare provider will accept them. If the care provider will accept them, and you have a choice of paper or electronic vouchers, ask which the carer would prefer. Your employer or your employer's voucher provider will normally be able to answer any questions that your childcare provider has. It is possible that the childcare provider already accepts voucher payments from the voucher provider chosen by your employer.

Your childcare provider will need to make an arrangement with your employer or your employer's voucher provider to receive payment. This is normally a simple process which your employer will tell you about.

If the voucher doesn't cover the whole cost of the childcare, agree with your childcare provider how you will pay for the extra costs.

Things to remember

You will only receive Income Tax and NICs exempt vouchers after you have formally agreed with your employer to join a childcare voucher scheme.

When you first join a voucher scheme, it may take some time to set up. You may find that the cash element of your salary has been reduced before you receive your vouchers. If you think that you should have started to get vouchers, or you don't get

vouchers when you expect to, contact your employer or the voucher provider as soon as possible. You will find a helpline number or contact details on the information pack which will normally have been sent to you by the voucher provider when you first joined the scheme.

When you pay for some of your childcare with vouchers, it may take some time for your childcare provider to be paid by your employer or the voucher provider. Because of this, you may need to authorise payment before your childcare payment is due. Usually five working days is enough but this will depend on the particular voucher scheme. Contact your employer or the voucher provider for more information.

If you use electronic childcare vouchers, the scheme may allow you to authorise payment to the childcare provider on a monthly or other basis. You need to authorise this payment to make sure your childcare provider is paid. If you forget, then your childcare provider may ask you to make up the shortfall in some other way.

Unused childcare vouchers

Childcare vouchers are a non-cash benefit. This means they cannot be exchanged for cash by your employer or childcare provider. If you have unused tax and NICs exempt childcare vouchers when you leave your employer's scheme or you no longer need childcare, you should return the vouchers to your employer. If you receive a payment on returning the vouchers, your employer should treat these amounts as pay which will be subject to tax and NICs in the normal way.

Directly contracted childcare

Directly contracted childcare is where your employer arranges with a commercial childcare provider to provide childcare to you. The same exempt amounts apply to directly contracted childcare as they do for childcare vouchers. This means your employer can pay a childcare provider up to these amounts and you will not have to pay Income Tax or NICs. But, if your employer pays more for your directly contracted childcare, you will have to pay Income Tax and NICs on the additional amount.

These limits apply to each individual employee, but if both you and your partner get childcare vouchers you are each entitled to an exempt amount.

Examples of directly contracted childcare

Your employer may provide emergency childcare cover or pay for a place:

- in a nursery
- in a crèche
- in a playscheme
- in an after school club, or
- with a registered childcare provider or other approved child carer.

If your employer offers you both childcare vouchers and directly contracted childcare

If your employer offers you both childcare vouchers and directly contracted childcare, for example, childcare vouchers and access to emergency childcare, the maximum exemption from Income Tax and NICs is the same as for childcare vouchers alone - there is no additional exempt amount.

Workplace nurseries

Some employers set up their own nurseries at the workplace or at another location and offer places to employees' children. If your child has a place at a workplace nursery, you will not have to pay any Income Tax or NICs on this benefit.

Employer-supported childcare and the effect on your salary

The effect on your salary depends on how your employer chooses to offer childcare vouchers, directly contracted childcare or a workplace nursery.

In addition to your pay

Your employer may offer childcare support on top of the pay you already get. If this is the case then you will not have to pay any more Income Tax or NICs as long as certain conditions are met.

As a reduction in your pay

Your employer may ask you to give up your right to part of your pay in return for providing childcare support. This is a private matter between employer and employee. It is not required by the Income Tax and NICs rules. The arrangement is commonly known as salary sacrifice. A salary sacrifice comes about where you enter

Flexible benefit package

into a legally binding agreement with your employer to change the terms and conditions of your employment contract relating to pay. Any changes to your cash earnings could affect your entitlement to tax credits and statutory benefits such as Statutory Sick Pay (SSP) and Statutory Maternity Pay (SMP) because of the way these are calculated.

For more information about salary sacrifice go to www.hmrc.gov.uk/specialist/salary_sacrifice.htm

If your employer offers you a flexible benefit package, employer-supported childcare may be an option.

Employer-supported childcare and tax credits

If you get employer-supported childcare, your childcare costs for the purposes of the childcare element of Working Tax Credit are reduced by the value of childcare support you get. This applies even if you receive childcare support in return for a reduction in your pay.

Your entitlement to tax credits may also be affected if your salary has been reduced under salary sacrifice.

If you are unsure if you will benefit from childcare vouchers, because of the effect it might have on your tax credits, you should discuss this with your employer or voucher provider **before** you join their voucher scheme.

If you are receiving tax credits and want to know whether you would be better off with childcare vouchers, please go to the online calculator at www.hmrc.gov.uk/calcs/ccin.htm

For advice on tax credits:

- go to www.hmrc.gov.uk/taxcredits or
- phone the Tax Credit Helpline **0845 300 3900** (textphone **0845 300 3909**). For our opening hours go to www.hmrc.gov.uk or phone us.

Employer-supported childcare and Statutory Maternity Pay/Statutory Sick Pay

Statutory Maternity Pay (SMP) and Statutory Sick Pay (SSP) are based on your average earnings over a fixed period before you receive them.

If you have agreed with your employer to give up some of your pay in return for childcare support, your average earnings will be based on your cash salary only, and will not include the value of the childcare support you receive.

This means that the amount of SMP and SSP you could receive may be reduced. Ask your employer for more information if you think this might affect you.

Information your employer may ask you for

Your employer has overall responsibility for making sure the conditions for the Income Tax and NICs exemptions are met. To help them do this, they may ask you for information. For example:

- the child's date of birth
- if the child is disabled
- your relationship to the child, if you are not the parent
- your childcare provider's name and registration or approval number
- if applicable, the date your childcare provider's registration expires (if registered with Ofsted your childcare provider must renew his or her registration on a yearly basis).

You must let your employer know if you become aware that your childcare provider is no longer registered or approved, or there are other changes in your childcare arrangements. For example, if you are no longer responsible for the child or children.

The tax and NICs exemption conditions

The exemptions from Income Tax and NICs only apply if certain conditions are satisfied. In summary these are:

- the child must be a **qualifying child**
- you must have **parental responsibility** for the child, and
- the childcare must be **registered or approved**.

Qualifying child

The child will qualify:

- until 1 September following his or her 15th birthday, or
- until 1 September following his or her 16th birthday, if he or she is disabled.

Your employer or voucher provider may ask you for the child's date of birth, or if the child is disabled.

Parental responsibility

The child must be:

- your child
- your stepchild, or
- a child who lives with you and for whom you have parental responsibility.

Parental responsibility means that you have the same legal rights, duties, powers, responsibilities and authority as a parent for the child and the child's property.

But unlike entitlement to the childcare element of Working Tax Credit, if you are a parent of the child, the child doesn't have to live with you.

If you are not the parent but you have parental responsibility for the child, you must live with the child.

What is registered or approved childcare?

To qualify for the Income Tax and NICs exemptions the childcare must be provided by one of the following.

- A childcare provider approved under the Ministry of Defence accreditation scheme abroad.

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 body 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 bullet points 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 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 bullet points in this section.

Childcare provided by a relative

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.

Who can I contact about registered childcare?

You can contact the following organisations to find out about registered childcare in your part of the UK:

In England

- OFSTED (Office for Standards in Education, Children's Services and Skills)
 - go to www.ofsted.gov.uk
 - phone **08456 40 40 40**

In Wales

- Care and Social Services Inspectorate Wales
 - go to www.wales.gov.uk
 - phone **0845 010 3300** (English)
or **0845 010 4400** (Welsh)

In Scotland

- The Care Inspectorate
 - go to www.careinspectorate.com
 - phone **0845 600 9527**

In Northern Ireland

- Contact the children's centre in your local Health and Social Services Trust or
- go to www.nidirect.gov.uk/childcare

Finding childcare

Your local authority may be able to help you find childcare in your area. You can find your local authority:

- in *The Phone Book* under 'Local Government', or
- go to **www.direct.gov.uk**

For more information

For more information about Income Tax and NICs on employer-supported childcare, go to **www.hmrc.gov.uk/childcare**

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.hmrc.gov.uk/charter**

Customers with particular needs

We have a range of services for people with disabilities, including guidance in Braille, audio and large print. Most of our forms are also available in large print. Please contact us on any of our phone helplines if you need these services.

These notes are for guidance only and reflect the position at the time of writing. They do not affect any right of appeal.

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