CHILDCARE VOUCHERS & SALARY SACRIFICE
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From 5th April 2005 in an effort to reduce the costs of childcare for working parents or legal guardians the Chancellor has announced that employers can provide childcare vouchers up to a value of £50 per week free from tax and national insurance contributions.

To take advantage of this tax beneficial offer the employee formally agrees to give up part of their salary in exchange for the vouchers – this is known as salary sacrifice. Their employer also needs to have negotiated and implemented a voucher scheme with an appropriate provider.

This is a positive move that will encourage employers to provide assistance with childcare costs and mutual tax savings. The average employee, for instance, can save up to £850 per year by not paying 11% national insurance contribution and standard rate tax on the vouchers. Employees paying higher rate tax can save over £1,000 per year.

Any scheme that is implemented needs to be open to all employees not just to specific staff groups. Both parents who are working can claim the benefit on the same child. Some employers, however, may restrict the eligibility for childcare vouchers to providing them for only children under 5.

The salary sacrifice scheme operates by the employer deducting an agreed amount from the employee's earnings, which is then passed to the voucher company. Vouchers are then issued either to the employer to distribute to staff or direct to the employee to pay the registered childcare provider. There is no limit to the amount of childcare vouchers that can be issued but anything over £50 per week will be subject to national and tax deductions.

Registered childcare providers can include day nurseries (private, community or local authority), workplace nurseries, childminders, pre-school playgroups, nursery schools, out of school clubs and holiday clubs.

Unregistered child carers, such as nannies, will not be able to take part in the voucher scheme unless they become approved through a new voluntary approval scheme, which the government is currently setting up. They will be required to produce an enhanced Criminal Records Bureau (CRB) check, show an understanding of childcare by, at the bare minimum, attending an induction course on caring and hold a valid paediatric first aid certificate.

The carer or organisation responsible for childcare needs to be registered with the administering voucher company cost-free. They will provide their contact details, registration number and bank account details. The voucher company will then pay them directly into their bank account on receipt of the redeemed vouchers.

Most schemes are currently paper-based, but some are internet-based or e-voucher schemes. The administration charges are picked up by the employee's company.

Committing to salary sacrifice is a variation of terms and conditions which requires the implementation of the appropriate consultation and agreement procedure. The contract is then updated or a separate agreement signed reflecting the change. The reduction in salary the employee has agreed to, the amount they should receive in vouchers and the time length should all be clearly detailed in such an agreement.

In general the period signed up to is usually one year and should employees wish to stop receiving vouchers and revert back to their usual salary or increase the value of vouchers received during this time, they may not have an automatic right to do so; this will depend on the clauses in the agreement. It may be possible to include a clause relating to an earlier review in case of a lifestyle change linked to birth, death or marriage.

Before entering into a salary sacrifice scheme for childcare vouchers, employees should be wary if receiving child tax credit and working tax credit. Also statutory maternity pay and statutory sick pay is based on average earnings and substitution of the corresponding value in childcare vouchers is not included. Employees should consult with their employer and/or tax office to fully understand the implications.

A further concern is whether under a salary sacrifice scheme the employee's salary is treated as being net (excluding the value of the vouchers) or gross (including the value of the vouchers) for the purpose of employment conditions. This has implications for calculating pay awards and bonuses, pension and redundancy awards and possibly starting pay on promotion. The government is currently consulting over this issue and will provide guidance.

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