



Childcare Vouchers
New Legislation

From
April 2011

fideliti
CHILDCARE
VOUCHERS

“From 6th April 2011 the government have proposed to change childcare voucher legislation for higher rate-tax payers. Under the new rules of the scheme higher rate tax payers will only be eligible to receive £28 per week in childcare vouchers. Basic rate tax payers will still be eligible to receive the maximum allowance of £55 per week.”

Key Points

- Existing scheme members and people who join the scheme before April 6th 2011 will be unaffected by the change (irrespective of their tax band) providing they stay with their existing employer and maintain a continuous voucher order.
- High rate tax payers (40%) who join the scheme from April 6th 2011 will only be eligible to receive £28 per week in childcare vouchers.
- Additional rate tax payers (50%) who join the scheme from April 6th 2011 will only be eligible to receive £22 per week in childcare vouchers.
- Basic rate tax payers who join the scheme from April 6th 2011 will be unaffected by the change.
- All employees joining the scheme from April 6th 2011 will have an earnings assessment by their employer in order to calculate their childcare voucher entitlement. The assessment will need to be repeated at the start of each tax year.

Information for Employers

- Employers will be required at the beginning of each tax year and as new employees register on to the scheme to estimate the level of basic employment earnings that new scheme members are likely to receive during that year. Overtime payments and bonuses can be ignored but guaranteed bonuses must be included.
- If the childcare vouchers are provided via a salary sacrifice scheme then the earnings assessment will be based on post sacrifice earnings. For the 2010 – 2011 tax year, new scheme members whose estimated earnings exceed £43,875 will be affected by the new legislation.
- If an employee's earnings change during the year the employee is still only entitled to receive the amount of vouchers agreed at the assessment they received at the start of the tax year or when they joined the scheme. The amount of vouchers the employee is entitled to receive can only be changed from the start of the next tax year. This rule applies equally to salaries that have increased or decreased for whatever reason. However, if the employer gets the initial assessment wrong then the employer should inform HMRC of the taxable benefit using the normal procedure – P11D.
- We are awaiting confirmation about scheme members who register for the scheme prior to 6th April 2011 but whose first salary deduction is in April 2011. Based on initial discussions with HMRC it is expected that these employees will be able to take the full £243 per month allowance as long as evidence is held that the agreement was signed prior to 6th April 2011.
- Employers currently save up to £373 a year in National Insurance contributions per employee on the scheme. After the new legislation takes place this saving will be reduced to a maximum £190 a year per new scheme member whose entitlement has been restricted to £28 per week. In light of this it would be beneficial for employers to prepare for the changeover by encouraging their employees to sign up to the scheme before the April 6th 2011 deadline. To assist in this matter Fideliti will be providing extra marketing material to try to ensure maximum take-up before the deadline.

Technical Guidance

Current technical guidance can be found by following the link: www.hmrc.gov.uk/employers/employersupportedchildcare.pdf

Further technical guidance can be obtained by emailing: pa.harris@hmrc.gsi.gov.uk

More information is expected following the Comprehensive Spending Review which takes place towards the end of October 2010. Fideliti will of course keep all of its customers informed as new information becomes available.

Contact Us

If you require any further information or have any concerns, please do not hesitate to contact us by: emailing enquiries@fideliti.co.uk or by calling us on our freephone number 0800 288 8727.

Why are the changes taking place?

At present, higher rate taxpayers benefit from double the amount of income tax relief that basic rate taxpayers receive - and individuals who are paying the new 50% tax rate from April 2010 will benefit even more. HMRC are introducing these reforms so that all recipients of directly supported childcare and childcare vouchers receive approximately the same level of income tax exemption of £11 per week.

Existing Scheme Members

Existing scheme members and employees who sign up before 6th April 2011 will remain unaffected by the changes provided that they remain with the same employer and they maintain a continuous voucher order. In the event of an employee wanting to take a break from the scheme it may be advisable for them to temporarily reduce their voucher requirement to a nominal amount to maintain continuity on the scheme. Clarification is being sought on this issue.