

## Costs

This factsheet is designed to explain the criteria under which childcare costs can be paid direct from your limited company account and qualify as tax/NIC exempt payments.

There are two ways in which childcare costs can be paid from the company account, via a voucher scheme or via a direct agreement with the childcare provider both are explained below:

### Voucher Scheme

This is where you purchase vouchers from a childcare voucher scheme (Busy Bees, KiddiVouchers, to name a couple but other providers are available) and provide these to your employee(s). The employee then uses them to pay for childcare at a registered provider and the childcare provider claims the fees back from the voucher provider. Generally there is an admin fee of around 2-5% of the face value of the voucher, charged by the voucher provider to cover their costs.

### Direct Agreement

This is where your company agrees directly with a registered childcare provider to purchase childcare for your employee. A simple letter of agreement between your company and the childcare provider is all that is needed here, stating the amount that your company agrees to purchase on behalf of the employee. A sample letter can be found at the end of this factsheet.

Generally the voucher scheme is easier for the employee to use; however, there are additional costs involved due to the admin fees charged. Remember, whichever option you choose, the costs have to be paid direct from the company bank account.



### How do you qualify for a childcare scheme?

#### To qualify the following conditions must be met:

- The childcare vouchers can only be used at registered or approved childcare providers
- The child or stepchild must live with you
- The child or stepchild for whose maintenance you contribute (either in full or in part) is yours
- The child qualifies, up to 1st September after their 15th birthday (16th birthday if they are disabled) and
- The childcarer must not be related to your child, even if they are registered or approved, unless they run a childcare business and look after other children that they are not related to.

#### The following payments by your company are NOT covered by the tax and NIC exemptions (detailed below):

- Cash payments to employees to assist with childcare costs
- Paying employee childcare bills on their behalf i.e. invoices in the employee's name not the company name
- Payment of school fees and
- The provision of childcare vouchers if the qualifying provisions are not met.

#### Registered and approved childcare includes:

- Registered childminders, nurseries and play schemes
- Out-of-hours clubs on school premises run by a school or local authority and
- Childcare schemes run by approved providers.

#### You will need to keep records that the qualifying conditions have been met, such as:

- Name and date of birth of the child
- Details of the childcarer used including their registration or approval number and
- The date the approval is due to expire.

## How much childcare can be provided to your employee(s)?

Your limited company (the employer) can pay whatever it likes in respect of the employee's childcare; however, there are various tax implications of this if certain limits are breached so it is generally advisable to stick to the tax/NIC exempt limits as detailed below, along with meeting the qualifying criteria above.

The amount of childcare that can be paid by the company for an employee and qualify for tax relief depends on a number of factors, the main one being when the employee joined the company childcare scheme.

### Prior to 6th April 2011

If the employee was in the scheme before 6th April 2011 and continues to be in the scheme then the amount of childcare that can be provided free of tax and NIC is £55 per week or £243 per month.

### On or after 6th April 2011

However, if the employee joins the scheme on or after 6th April 2011 then the level that can be paid depends on their basic earnings in that employment as relief is restricted for high rate and additional rate tax payers.



## The Basic Earnings Assessment

### When does the employer have to carry out the basic earnings assessment?

From 6th April 2011 the basic earnings assessment should be carried out when an employee first joins an employer's scheme and then annually at the start of the tax year, the assessment then remains valid for the whole of the tax year. The calculation cannot be deferred until later in the year when final information on taxable benefits provided to the employee is reported on form P11D as it is an assessment made on the information available at the start of the tax year; likewise, it cannot simply be based on the previous year's earnings. This assessment must be completed by the employer and not the employee.

### Earnings and benefits to be included in the basic earnings assessment:

- Basic pay
- Contractual or guaranteed bonuses
- London weighting or other regional allowances
- Taxable benefits and
- Shift allowances.

### The following are excluded from the assessment:

- Performance related or discretionary bonuses
- Overtime payments and
- Tax exempt benefits i.e. pension contributions.

HMRC's employer's guidance does not mention dividends anywhere so it seems that dividends are excluded from the assessment, after all, dividends are not a form of remuneration.

If the employee's earnings change during the tax year (after the assessment has taken place) then this does not affect the current year's allowance for childcare, but it may mean that in future years the amount of childcare that can be provided tax/NIC free reduces because the assessment has to be done at the start of each tax year.

If the employee commences employment part way through the tax year their earnings have to be assessed based on the estimated earnings they will receive through this employment alone (previous earnings do not need to be taken into account) and 'annualised' i.e. if an employee joins half way through the tax year (exactly 6 months left to run) and is assessed to earn £26,000 to the end of the tax year their annualised earnings for the childcare assessment would be £52,000 (£26,000 divided by 6 multiplied by 12).

## What happens if the employer gets the basic earnings assessment wrong?

If the employer has based the assessment on the best available information at the time the assessment is carried out, then it will be valid for a full twelve month period until the next assessment is carried out. Any exempt figure used as a result of this assessment will be treated by HMRC as correct for P11D purposes.

If the employer gets the initial assessment incorrect due to a failure to use relevant available information and the employee has received a level of relief they were not entitled to, HMRC can assess for any additional tax that is payable. An employer can also report the additional benefit paid by submitting a form P11D.

## Basic earnings assessment record keeping requirements

Employers must keep a record of the basic earnings assessment calculation. These records do not need to be sent to HMRC but must be available for inspection if required in the course of any compliance activity by HMRC.

## Standard directly contracted childcare letter:

**XYZ Consulting Limited**  
**23 High Street, Anytown, AT12 1AB**

Dear Sir

We agree to purchase childcare from you to the value of £55 per week from 4th September 2011. We intend to give the childcare as a benefit to our employee, Fred Bloggs for use by his son, Tom.

This agreement may be amended or cancelled if Fred Bloggs leaves the employment of XYZ Consulting Limited.

Yours faithfully

John Smith  
Director

HMRC does not stipulate the format of these records, but they must contain sufficient information to show how the individual's basic earnings assessment has been calculated. Checking the information will form part of HMRC's normal employer compliance work.

## Tax/NIC exempt amounts

So, you have completed your basic earnings assessment on the employee, how much can you provide under the tax/NIC exemption? This depends on the outcome of the assessment and whether you assess the employee to be a basic rate, higher rate or additional rate tax payer. The limits are set out below:

	<b>Basic rate</b>	<b>Higher rate</b>	<b>Additional rate</b>
<b>Weekly</b>	£55	£28	£22
<b>Monthly</b>	£243	£124	£97
<b>Annual</b>	£2,915	£1,484	£1,166

If you are in doubt of the level of childcare that can be provided please contact your account controller for further details.

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