

Employee Benefits

Changes to Childcare Vouchers to take effect from April 2018

Employers have until April 2018 next year if they wish to provide their employees with access to the existing government backed tax-free childcare vouchers before the scheme changes.

What is the current childcare voucher system?

The current childcare vouchers scheme is available for parents with children up to 15 and is offered by employers through salary sacrifice. Employees can choose to give up some of their salary in exchange for childcare vouchers.

For example, an employee may choose to give up £1,000 of their salary, but after tax and national insurance has been accounted for, they are only losing £700 of their earnings. In return, they will receive £1,000 worth of vouchers to spend on childcare, making them £300 better off than they would have been by simply taking their salary.

How does it work?

To offer this benefit to staff, an employer will need to select a childcare voucher provider and then communicate with staff about the benefit. If an employee wishes to join the scheme, they will need to request to be enrolled and agree how much salary they wish to exchange for childcare vouchers. The maximum amount an employee can exchange is determined by the tax band to which they belong:

Basic rate tax payer	£243 per month
Higher rate tax payer	£124 per month
Additional rate tax payer	£110 per month

Why should an employer offer childcare vouchers?

Implementing this benefit offers a number of advantages to employers. The scheme can be set up for very little cost (there will be no cost to the employer for purchasing the vouchers) and it is straightforward to manage. Employers will also benefit from a saving on national insurance contributions. Employers pay national insurance tax on top of the salary they pay their employees. Therefore, because the amount of salary they are paying has gone down, so will their national insurance tax bill.

Introducing this benefit is a straightforward, low cost way to improve an employer's total reward offering and therefore potentially lead to an increase in staff retention. However, to use this current arrangement, employers must set up the scheme by April 2018.

What's changing?

The UK Government is attempting to simplify and streamline tax-free childcare. In order to achieve this, applications for childcare vouchers will close in April 2018, to be replaced by an alternative tax-free childcare scheme. Under the new arrangement, the Government will contribute 20% to the cost of childcare, with the maximum benefit set at £2,000 per year per child (or £4,000 if the child is disabled). The benefit is referred to as a "tax-free" arrangement because 20% is the current basic rate tax amount.

The new arrangement will work by the parent paying money into an account with a voucher provider, which the Government then tops up, e.g. if £80 is paid in, the Government will add £20.

To be eligible for this benefit, both parents, or one parent in a single parent household, must be in employment and earning between £120 per week and £100,000 per year. The child must be under 12 years old. With the current voucher arrangement, there were no earning restrictions and the benefit could continue under the child was 15.

How do these changes affect employers?

The new arrangement will not be a work place benefit – employees will be able to set up these arrangements individually and pay into them from their own bank account. Therefore, employers will lose the opportunity to improve their employee benefits offering by setting up these arrangements. It may also be that your employees will be worse off with the new arrangement – in particular if they earn over £100,000 per year or have children aged between 12 and 15.

However, it is important to note that if a current childcare voucher arrangement is set up before April 2018, then any employees that have enrolled into the scheme before that date can continue to benefit. Employers therefore have just over four months to set up the benefit and communicate with their employees about their opportunity to join the scheme. 3HR will be happy to assist you if you choose to implement such a scheme.

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