

# KiddiVouchers

Guide to Basic Earnings Assessments



Call us free on 0800 612 9015

[www.kiddivouchers.com](http://www.kiddivouchers.com)

Since 6th April 2011, employers have been required to conduct a “Basic Earnings Assessment” for new members of their Childcare Voucher scheme. As the scheme closed to new members on the 4th October 2018 the assessment is now only used at the beginning of each tax year for employees who initially joined the scheme after 6th April 2011, or who had a break of more than 52 weeks.

#### **A summary of the April 2011 changes**

- Up to 5th April 2011, all Childcare Voucher scheme members were eligible for tax and National Insurance relief on up to £55 a week (£243 a month) of Childcare Vouchers.
- Higher-rate taxpayers who signed up for Childcare Vouchers after 5th April 2011 can only receive tax and National Insurance relief on up to £28 a week (£124 a month) of Childcare Vouchers. Additional-rate taxpayers are only eligible for tax and NI relief on £25 a week of Childcare Vouchers (£110 a month).
- Scheme members who signed up before 6th April 2011 are unaffected by the change, as long as they stay in their current employment and do not have any breaks in their voucher order that last longer than 52 weeks.
- If an employee's earnings change during the tax year, their Childcare Vouchers will only be affected from the start of the next tax year.

#### **What this means for employers**

- HMRC requires employers to keep a record of their earnings assessments. We provide easy online facilities to help with maintaining these records.
- Employers continue to enjoy National Insurance savings in respect of every scheme member. Where employees' voucher orders are restricted by the new rules, employer NI savings will fall accordingly. However, with employer NI rates now 1% higher than pre-April 2011 levels, many employers are enjoying higher savings than before.



## Calculating each employee's voucher allowance

HMRC requires employers to conduct an earnings assessment to determine each employee's voucher allowance. The assessment consists of calculating each employee's 'relevant earnings' and then comparing the result to the tax band thresholds. This then determines whether they should be treated as a basic, higher or additional rate taxpayer for the purpose of their Childcare Vouchers.

The assessment of relevant earnings should include:

- Basic contractual pay
- Commission
- Contractual or guaranteed bonuses, including loyalty bonuses
- London weighting or other regional allowances
- Taxable benefits
- Shift allowances
- Skills allowances and market rate supplements
- Guaranteed overtime

There is no need to include:

- Performance-related or discretionary bonuses
- Non-guaranteed overtime payments
- Tax-exempt benefits such as pension contributions and payroll giving
- Expense allowances which are exempt from PAYE

Where Childcare Vouchers are provided by salary sacrifice, the earnings assessment should be based on post-sacrifice earnings. Similarly, the assessment should allow for other salary sacrifice arrangements such as pension schemes or company cars.

Once the employee's relevant earnings have been calculated, they need to be compared to the tax band thresholds.

## What are the tax band thresholds?

Relevant earnings	Maximum voucher allowance	
	Weekly	Monthly
Basic Rate	£55	£243
Higher Rate	£28	£124
Additional Rate	£25	£110

## Does the employee's personal allowance matter?

Different employees may have a different personal allowance, which is reflected in their tax code. In a change to their original guidance, HMRC does not generally require employers to use employees' individual personal allowances in the earnings assessment.

Instead, the standard personal allowance is used for any employees whose relevant earnings are below £150,000.

If an employee is eligible to receive a blind person's additional allowance, then this should be added to the standard allowance.



### **How is commission handled in the earnings assessment?**

Where employees receive commission as a contractual proportion of the income they generate for the business, this should be included in the earnings assessment. Discretionary bonus payments and other forms of non-contractual performance-related pay do not need to be included.

The commission figure should be based on the amount earned by the employee in similar circumstances, with the same employer, in the previous tax year. An average of the last two years' commission may be used if that is more beneficial for the employee.

In the first year or part-year of an employee becoming eligible for commission, there is no need for it to be taken into account in the earnings assessment.

In the second year of an employee receiving commission, the employee's commission from the previous tax year should be pro-rated to an annual figure and used in the employee's earnings assessment.

### **How is overtime handled in the earnings assessment?**

Where employees have a contractual right to receive overtime payments, whether or not the overtime is worked, these payments should be included in the earnings assessments.

Where overtime payments are not guaranteed they can be excluded from the assessment. For example, if the employee's overtime payments are conditional on them actually working overtime, then they can be excluded from the assessment even if the rate of overtime payment is contractually agreed.

### **How are shift allowances handled in the earnings assessment?**

Contractual or guaranteed shift allowances should be included in the earnings assessment.

Where employees work variable shifts, the actual amount of contractual shift allowance that they receive over the year may not be known at the time of the earnings assessment. In these cases, employers should include an estimate based on the amount the employee received in the previous year or the previous two years, in accordance with the approach used for commission payments.

Note that non-guaranteed overtime is not treated in the same way and employers are not required to include an estimate of non-guaranteed overtime in the earnings assessments.

### **How are employee share schemes handled?**

Contributions to employee share schemes should not be deducted in the earnings assessment.

Income received from employee share schemes can be excluded from the assessment.

### **How are pension scheme contributions handled?**

Where an employee is a member of a salary sacrifice pension scheme, their post-sacrifice salary should be used in the earnings assessment. No further adjustments are needed in respect of the pension contributions which the employer makes on their behalf.

Where an employee's pension contributions are not managed through salary sacrifice, the contributions should be deducted in the earnings assessment.

If the employee's pension contributions are taken from net pay (with tax relief being added on later by the pension provider), then the net contributions should be deducted in the earnings assessment.

If the employee's pension contributions are taken from gross pay, then the gross contributions should be deducted in the earnings assessment.

AVCs should be treated in the same way.

### **What about income from other employments?**

Income which an employee receives from other jobs or investments should not be taken into account. This means that some higher-rate taxpayers may be treated as basic-rate taxpayers for their Childcare Vouchers.

### **Can employers base the earnings assessments on last year's P60?**

HMRC requires employers to base the earnings assessment on expected earnings. It is not permissible to base the assessment on the previous year's P60 or to base it on the employee's tax code.



### **Which employees are treated as pre-April 2011 members?**

To be treated as a pre-April 2011 member, the employee must have:

1. Applied to join the scheme before 6th April 2011, and
2. Had their application accepted by their employer before 6th April 2011, and
3. Had an eligible child before 6th April 2011.

The above criteria are most easily satisfied where an employee ordered their vouchers before 6th April 2011 and their child was already born. There is no requirement for employees to have actually started to receive their Childcare Vouchers before 6th April 2011.

On rare occasions, employers may be able to claim that they accepted an application before 6th April 2011 even if the voucher order was not then formally in place. In these cases, we will treat an employee as a pre-April 2011 joiner on receipt of written permission from their employer.

### **Is a full earnings assessment required for every scheme member?**

An earnings assessment is required for all post April 2011 scheme members at the start of each tax year.

Where an employee's pay grade is such that their contractual pay and benefits cannot exceed the basic-rate threshold, it is enough for employers to record that they have checked the pay grade.

The most complex assessments will arise for employees who earn close to the higher-rate threshold or close to the additional rate (45% tax) threshold.

Employers should keep a record of each earnings assessment. We provide easy online facilities to help employers comply with this HMRC requirement.

### **Can employers just declare Childcare Vouchers on their P11D instead of conducting the earnings assessments?**

No, HMRC requires employers to conduct the earnings assessments so that as many employees as possible receive the correct amount of vouchers throughout the year.

### **Can employers choose to allow employees to order a higher amount of Childcare Vouchers, with tax and National Insurance being payable on the excess amount?**

Yes, but this is not generally advisable as it may expose employers to a risk of higher claims during maternity leave.

Instead, we offer a facility for employees to purchase additional vouchers from us direct, free of any administration charge.

Where employees are allowed to order a higher amount of vouchers, the National Insurance should be accounted for within the relevant pay period. Employers typically accommodate this by declaring the excess vouchers on the employee's payslip.

Strictly speaking, the tax liability should be declared on the employee's P60 rather than being accounted for during the pay period. However, where employers find it easier to account for both the tax and National Insurance through the payslip, HMRC will accept this approach.

### **Are employees allowed to perform a self-assessment of their expected earnings?**

HMRC has decided that the responsibility for the earnings assessment ultimately lies with the employer.

However, we collect information from employees during the voucher ordering process, in order to conduct a preliminary assessment. Employers can then approve or override this preliminary assessment at their convenience, before the vouchers are issued to the employee.

### **What happens if an employee's earnings assessment is wrong?**

Any errors will need to be corrected via the employee's P11D at the end of the tax year.

If the initial assessment was correct but the employee's pay has since changed, there is no need for a correction to be made on their P11D.

If an employee was correctly assessed as being a higher-rate taxpayer but has since experienced a reduction of earnings, they are not permitted to reclaim their lost tax relief. Changes in earnings will only affect their Childcare Voucher allowance from the start of the next tax year.

### **How does maternity leave affect the earnings assessment?**

If an employee is due to go on maternity leave and the start date of the maternity leave has been agreed by the time the earnings assessment is due, the assessment should be based on the actual pay she is expected to receive, including any statutory or non-statutory maternity pay.

### **What happens at the start of the tax year?**

All post-April 2011 scheme members must have an earnings assessment at the start of each tax year. This applies to all active scheme members and to any employees who are taking a break from Childcare Vouchers but who have received vouchers in the last 52 weeks.

No one can rejoin the scheme after a break of more than 52 weeks.

Employers may find it difficult to conduct the earnings assessments in the short time period between the start of the tax year and the April payroll processing. It may help to run an estimate of the annual earnings assessments during March, with adjustments then being made at the start of the tax year where appropriate.

### **What happens when employers transfer from one Childcare Voucher provider to another?**

Employers can choose to move from one Childcare Voucher provider to another without affecting their employees' eligibility to receive Childcare Vouchers.

Any employee who maintains a continuous voucher order or who has a break of no more than 52 weeks from the scheme will continue to be treated as an existing scheme member.

This applies even if the employee enters into a revised salary sacrifice agreement through the new Childcare Voucher provider.

HMRC recommends that employers keep a list of all employees who are treated as pre-April 2011 joiners and who received Childcare Vouchers in the year leading up to the scheme transfer. This list should then be used to verify which employees can be treated as pre-April 2011 joiners when they transfer to the new provider.

When employers transfer to KiddiVouchers, we ask their employees to confirm whether they joined the scheme before 6th April 2011. This information is then used in our preliminary earnings assessments and highlighted on the scheme statement for the employer to verify.

### **What happens if an employee goes on secondment?**

If an employee moves to a new employer, even for a short secondment, they will be subject to the new legislation.

### **What happens if employees have a break from vouchers?**

Pre April-2011 members can take limited breaks of up to 52 weeks from the scheme without losing their protected status.

### **How are TUPE transfers handled?**

If an employee moves to a new employer then they are not permitted to rejoin the scheme unless the change of employer is due to a merger, business reorganisation, TUPE transfer or COSOP transfer, the employee's rights under their original scheme are protected.

## How we help to minimise your administration

### Keeping voucher ordering easy

Parents are asked to provide basic earnings details when they order their vouchers. We use this information to conduct a preliminary assessment of their eligibility, to avoid delays in the voucher ordering process.

The employee's salary sacrifice agreement will give you permission to override the voucher order as necessary following a more detailed earnings check.

### Making it easy for employers to tell us about their earnings assessments

Employers can tell us about assessments on a case-by-case basis through their online account or by providing us with a data file. We then ensure ongoing voucher orders are within the tax exempt allowance.

### Helping employees to protect their Childcare Voucher savings

We encourage employees to maintain a continuous voucher order rather than taking a break from the scheme and remind them to rejoin the scheme within the 52 weeks or they cannot rejoin.

### Answering those difficult questions

We are in regular contact with HMRC and we're happy to approach them on your behalf. We provide all our clients with updates on a regular basis.

## If you're not yet using KiddiVouchers...

Switching to KiddiVouchers is easy. We provide a fully-managed service as standard, including working closely with you to ensure a smooth scheme transfer. We can create accounts automatically for your existing scheme members and we'll even offer to pre-order their vouchers, all at no extra charge.

Call us on 0800 612 9015 to find out what makes KiddiVouchers different.

## Any questions?

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**Please call us free on 0800 612 9015  
or email [info@kiddivouchers.com](mailto:info@kiddivouchers.com).**



## Sample Earnings Assessment Form

Employee's name

NI number

Payroll number

Financial year

### Basic contractual salary

- If part-time, enter actual part-time salary
- For mid-year joiners, enter an annual figure
- Allow for any known pay rises or planned changes in hours

### Add contractual allowances:

Commission

- Use the lower of last year's commission or an average of the last two years
- Pro-rate part-year figures up to a full year
- Ignore commission in the first year of an employee receiving it

Contractual bonuses

- Include any bonuses which are guaranteed and not dependent on performance

Regional weighting

Shift allowances

- Include any guaranteed allowances
- Include an estimate of any shift allowances which are contractual but not guaranteed
- For estimates, use the lower of last year's figure or the average of the last two years

Guaranteed overtime

- Include any guaranteed overtime payments
- Ignore overtime which is at a contractual rate but not guaranteed

Other contractual allowances

- Eg skills allowance or market rate supplement

### Add taxable benefits:

Company car

- Add the cash equivalent value

Healthcare benefits

Taxable flexible benefits

- Only include if the flex allowance is not already taken into account in the employee's salary figure above

Other

- Childcare Vouchers in excess of the tax-exempt allowance should be recorded here

### Deduct:

Employee's pension scheme contributions

- Deduct the amount by which the pension contributions reduce the employee's declared taxable earnings
- Also include AVCs

Payroll giving

Salary sacrifice arrangements

- Deduct the amount by which employee's salary will be reduced
- Only make a deduction if the employee's salary figure above does not already reflect the salary sacrifice

- Childcare Vouchers

- Pension (salary sacrifice scheme)

- Cycle to work

- Other

### Total relevant earnings

- Basic salary plus allowances and benefits, less the above deductions

### Tax band thresholds

Select the earnings band which applies to this employee, to determine the amount of Childcare Vouchers which they are entitled to receive.

Relevant earnings	Maximum voucher allowance		
	Weekly	Monthly	
Up to £50,000	£55	£243	<input type="checkbox"/>
£50,001 to £150,000	£28	£124	<input type="checkbox"/>
£150,001 or more	£25	£110	<input type="checkbox"/>

Please note: Scottish tax payers who earn between £43,431 and £50,000 and pay 41% tax are treated as Basic Rate for the purposes of Childcare Vouchers and can have up to £243 p/m

### Notes/action points

- If the employee has selected a lower voucher order than they are allowed, notify KiddiVouchers so a higher order can be offered
- If the employee has selected a higher voucher order than they are allowed, notify KiddiVouchers to override the voucher order

Date of assessment

Completed by:

Checked by: