

# KiddiVouchers

## Payroll Guidance

What you need to know  
about your employee's  
childcare vouchers



Call us free on 0800 612 4395  
[www.kiddivouchers.com](http://www.kiddivouchers.com)

# Welcome to **KiddiVouchers**

## We're here to help

KiddiVouchers schemes have been designed to minimise administration for employers. We are happy to answer any queries which arise and we will provide you with updates if there are any changes to childcare voucher legislation.

Meanwhile, this leaflet provides an overview of the current childcare voucher rules and answers common questions about payroll processing.

If you have any queries, please contact us at [info@kiddivouchers.com](mailto:info@kiddivouchers.com) or phone 0800 612 4395.

## HMRC approval for your childcare voucher scheme

Although there is no legal requirement for you to seek HMRC approval for your childcare voucher scheme, we recommend that you do so for your own peace of mind. You can download a letter for the HMRC Clearances Team from your online KiddiVouchers account, or ask your KiddiVouchers account manager for a copy. We suggest that you enclose a copy of our terms and conditions and your scheme rules, which can both be printed from your online account.

HMRC may also ask to see a copy of one of your employee's salary sacrifice agreements and a copy of a payslip before and after they started to receive childcare vouchers. You can print your employees' salary sacrifice agreements from your online KiddiVouchers account once they have ordered their vouchers.

## How we notify you of your employees' voucher orders

We will email you an invoice and a detailed scheme statement twenty days before your employees' vouchers are due, unless you have agreed different arrangements with us. If your employees are paid weekly, we'll invoice for four weeks of vouchers at a time.

Your scheme statement will show each employee's name, payroll reference and voucher order. We'll highlight any new scheme members, anyone who's changed their voucher order and any scheme leavers.

You can view up-to-date details of your scheme members at any time by logging into your online KiddiVouchers account. On request, we will also send you an automatic notification by email each time an employee joins your scheme or changes their voucher order.



## How to process your employees' voucher orders

Using the information provided on your scheme statement, you need to reduce each employee's gross pay by the amount of vouchers they are due to receive. You should not deduct the administration fee or VAT from your employees' pay.

We recommend that you continue to show each employee's full pre-sacrifice pay on their payslip. Their childcare vouchers should ideally be shown as a negative entry in the salary column. If your payroll software is unable to accommodate this, the childcare vouchers can be shown as a deduction from salary.

## How childcare vouchers interact with other employee benefits

We recommend that you keep a record of each employee's full pay and that you use this for calculating any non-statutory employee benefits. If you intend to base any benefits on post-sacrifice salary, please inform us so that we can update your scheme rules. You may need to contact your pension scheme trustees to confirm that pension benefits will be based on full pay.

## Meeting National Minimum Wage requirements

Under HMRC rules, it is not permissible for childcare vouchers to reduce pay below the National Minimum Wage. If an employee requests a voucher amount which takes their pay below the NMW, you should restrict their voucher order.

On request, we will perform NMW screening when your employees place their voucher order. However, as employees' earnings may fluctuate, it remains your responsibility to perform ongoing checks.

You may also want to ensure that employees' post-sacrifice pay remains at or above the Lower Earnings Limit. Employees earning less than this amount cease to have entitlement to some state benefits.

You can override voucher orders in your online account, or by phone or email. We will contact the relevant employees to explain why an override has been applied.

## Salary sacrifice agreements

Many employers choose to use electronic salary sacrifice agreements and, in our experience, HMRC routinely accept the use of electronically signed agreements.

HMRC occasionally audit childcare voucher schemes and they typically consider employees' payslips to be the main source of evidence that the scheme is operating via salary sacrifice. However, if you are showing childcare vouchers as a deduction on payslips, rather than as a reduction in salary, HMRC may require alternative evidence of the salary sacrifice. If you feel that a physically signed salary sacrifice agreement provides stronger evidence than an electronic version, we can help by requiring your employees to sign their agreements. Please contact your KiddiVouchers account manager if you would like more guidance.

# Managing the April 2011 changes

## A summary of the changes

Up to 5<sup>th</sup> 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 sign up for childcare vouchers after 5<sup>th</sup> 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 eligible for tax and National Insurance relief on £22 a week (£97 a month) of childcare vouchers.

Scheme members who signed up before 6<sup>th</sup> April 2011 are unaffected by the change, as long as they stay in their current employment and ensure any breaks in their voucher order last no longer than 52 weeks.

All new scheme members need to have their earnings estimated when they join the scheme and at the start of each tax year. Their eligible childcare voucher allowance is recalculated at the start of each tax year.

## What the change means for employers

Employers need to establish a process for checking their scheme members' earnings when they join the scheme and at the start of each tax year. To help with this, we provide preliminary earnings screening and highlight which scheme members are likely to need an earnings assessment.

HMRC requires employers to keep a record of their earning assessments. We provide easy online facilities to help with maintaining these records.

When you receive your regular scheme statements, you should verify our preliminary earnings screening for any new members. You can mark the assessment as verified in your online account or, if you prefer, you can keep a hard copy record of your assessments.

We provide both an online earnings assessment calculator and hard copy calculation templates, so you can choose which method you prefer.

We recommend that you set aside some time in early March to perform the annual earnings assessments, so that any changes can take effect from your employees' April voucher orders. If employees have a change in earnings between the assessment date and their April voucher order, an adjustment should be made to allow for this.



## How to perform an earnings assessment

The earnings 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.

For full details of what to include in the employee's 'relevant earnings', please refer to our separate April 2011 guidance leaflet. There are specific rules for handling commission, shift allowances, bonuses and taxable benefits, so it is not enough to simply base your assessment on the employee's tax code.

Where childcare vouchers are provided by salary sacrifice, the earnings assessment should be based on post-sacrifice earnings.

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

## What are the 2011/2012 tax band thresholds?

The table below shows the maximum tax-free voucher order for each earnings band.

Relevant earnings	Maximum weekly voucher order	Maximum monthly voucher order
Less than £42,475	£55	£243
£42,475 to £150,000	£28	£124
£150,000 or more	£22	£97
Pre-6th April 2011 scheme member	£55	£243

## How does the earnings assessment work for mid-year joiners?

Earnings assessments are based on an estimate of earnings for the whole tax year. If an employee joins your scheme partway through the year, the earnings assessment should still be based on the pay which they are expected to earn over the whole year.

However, if an employee joins your organisation partway through the year, the earnings assessment should be based on the pay which you expect them to earn from your organisation, pro-rated to an annual figure.

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

Pre-April 2011 members can take limited breaks from the scheme without losing their protected status. The regulations state that if there is a continuous period of 52 weeks during which vouchers have not been provided for the employee, then they must be treated as a new member when they reactivate their voucher order.

## What happens if an employee goes on secondment?

If an employee leaves your employment to move to a new employer, even for a short secondment, they will be subject to the new legislation. If the employee subsequently rejoins their original scheme, they must be treated as a new scheme member.

When employees reactivate a voucher order after a break, we will ask them to confirm whether they have remained in continuous employment with you.

## How are TUPE transfers handled?

If an employee moves to a new employer then they are normally treated as a post-April 2011 scheme member. However, if 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.

If an employee moves to a new employer but remains within the same group of companies, they will normally still be treated as a new scheme member.

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

If a higher-rate taxpayer was incorrectly assessed as being a basic-rate taxpayer, then any vouchers in excess of £124 a month should be declared on their P11d.

However, 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 incorrectly assessed as being a higher-rate taxpayer then, if the error is identified before the end of the tax year, they may be able to catch up on any additional vouchers to which they are entitled.

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.

# Managing maternity leave

## How maternity leave affects the earnings assessments

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.

If an employee joins the scheme whilst on maternity leave or on returning from maternity leave, the earnings assessment should be based on her actual expected pay over the whole tax year, including any statutory or non-statutory maternity pay.

This means that some employees who would ordinarily be higher-rate taxpayers may be treated as basic-rate taxpayers during the tax year(s) in which their maternity leave falls.

## Providing vouchers during maternity leave and sick leave

Employees are not allowed to sacrifice statutory payments, such as statutory sick pay or statutory maternity pay. If your policy is to pay more than the statutory amounts, your employees can sacrifice the difference between their total pay and their statutory entitlement. During long periods of absence, the amount available to sacrifice may change each pay period.

If an employee's voucher request would reduce their pay below any statutory payments to which they are entitled, you may be able to override their voucher order. However in some circumstances you may be required to continue to provide their childcare vouchers without a corresponding reduction in pay.

For further detail about statutory payments, please download the maternity guidance booklet from your online account.



# Other useful things to know

## Reporting your childcare vouchers to HMRC

As long as your employees' voucher orders stay within the tax-free allowances, there is no need for you to report the vouchers on your P11d or P35 year-end forms.

If you allow your employees to order more than the tax-free allowance, you should report the excess vouchers on year-end forms for tax purposes. However, employee National Insurance on the excess vouchers should be accounted for in the pay period in which they are provided.

## Offering your scheme to all employees

In order for your scheme to enjoy tax and National Insurance relief, it should normally be made available to all relevant employees at any site where the scheme is offered. However, following an exemption which was introduced in April 2011, there is no need to promote your scheme to employees who are affected by National Minimum Wage restrictions.

## How childcare vouchers affect your VAT calculations

With effect from January 2012, employee benefits which are provided through salary sacrifice are considered by HMRC to be a sale of goods or services by an employer to their employees.

Childcare vouchers are exempt from VAT, so childcare voucher schemes are largely unaffected by this. However, the change means that some employers will no longer be able to reclaim the VAT on their childcare voucher scheme administration fees. For some employers, there may also be an impact on the proportion of VAT which can be reclaimed on general business overheads.

In many cases, employers will be able to continue to reclaim their VAT in full. However, the new rules may increase the administration involved in their VAT calculations. For further details, please refer to our separate VAT guide.

## Any questions?

Please feel free to contact your KiddiVouchers account manager at [info@kiddivouchers.com](mailto:info@kiddivouchers.com) or by phone on 0800 612 4395.

We are in regular contact with HMRC and can normally respond quickly to technical questions.

