

## **CHILDCARE VOUCHERS – A WIN-WIN FOR EMPLOYERS AND EMPLOYEES**

### **What are childcare vouchers?**

Childcare vouchers are a means by which employers can help their employees with childcare costs. They are widely recognised as one of the most practical, cost-effective ways an employer can support staff with family responsibilities.

Since 2005 the Government has allowed tax and NI exemptions for employees and NI exemptions for employers, provided certain conditions are met, which make the scheme particularly attractive to both employees and employers.

The Scottish Government has recently launched a campaign to get more employers in Scotland to offer childcare vouchers. This is part of its commitment to help parents have accessible, affordable and flexible childcare. But it is also a way of stimulating the local economy by allowing parents to get out to work and earn and, in turn, boosting the wider economy by increasing the spending power of working parents.

Helping working parents stay at work and contribute to the economy is in everyone's best interests. That's why the Scottish Government is working in partnership with a range of organisations to promote greater awareness of the benefits of the scheme among Scottish employers and employees.

### **What's in it for employers?**

NI savings mean that employers can save up to £370 pa per employee, making the administration of the scheme in most cases cost-neutral. This makes childcare vouchers a particularly attractive benefit employers can offer to staff, especially in these difficult economic times.

Other benefits to employers include lower absenteeism, reduced staff turnover, increased productivity, higher return-to-work rates after maternity leave, and better staff morale.

Childcare vouchers are simple, quick and easy to use. Many employers administer them themselves but others use voucher providers to operate the scheme on their behalf, for an administration fee.

Childcare vouchers are not just for large companies. In some ways they are even more valuable for small and medium sized enterprises whose productivity can be seriously affected if a key member of staff leaves or fails to come back after maternity leave. The low level of administration makes vouchers a practical option for businesses which do not have the back up of a full HR team.

While the Government does not advocate its use, many employers offer childcare vouchers as a “salary sacrifice”, whereby an employee agrees to a reduction in his/her taxable salary and receives the equivalent in childcare vouchers.

### **What’s in it for employees?**

For employees, there is a significant financial benefit. Vouchers on the first £55 per week, or £243 per month are exempt from tax and NICs. Depending on the level of income tax paid, employees can save up to £ 1,196 pa.

It isn’t just working mothers that can use vouchers. Fathers can use them too (as can adoptive parents), doubling the amount that can be saved each year.

Vouchers are not just for pre-school children. Parents with children up to the age of 16 qualify. Vouchers can also be used for a wide range of childcare support, including out-of-hours clubs, childminders, holiday schemes, provided the provider is registered with the Scottish Commission for the Regulation of Care.

Vouchers do not have to be used in the week or month they are provided, but can be saved up for use later, for example in school holidays.

### **What are the drawbacks?**

Recent changes to the 1975 Sex Discrimination Act and Maternal and Paternal Leave Regulations mean that employers will be required to provide non-cash benefits, including childcare vouchers, to employees during their additional maternity leave, in addition to the current requirement to provide them during ordinary maternity leave, even if the employee has no salary available to sacrifice. Against this, employers should bear in mind the longer-term benefits of employer-supported childcare, such as better recruitment and retention of staff, reduced absenteeism and a more motivated workforce.

Employees on the national minimum wage cannot take childcare vouchers as part of a salary sacrifice scheme, because that would bring their salary below the minimum wage. Also it may not be in the interests of some parents who receive tax credits to take childcare vouchers as it could affect their entitlement to tax credits.

A consequence of salary sacrifice is that it can reduce entitlement to a range of statutory payments which are related to the level of pay.

**For more information**

Further information about the childcare voucher scheme can be found on the HM Revenue and Customs website:

<http://www.hmrc.gov.uk/leaflets/ir115.pdf>

<http://www.hmrc.gov.uk/helpsheets/e18.pdf>

General advice on salary sacrifice and its impact can be found at:

[http://www.hmrc.gov.uk/specialist/salary\\_sacrifice.pdf](http://www.hmrc.gov.uk/specialist/salary_sacrifice.pdf)

If you want more information about the Scottish Government's childcare vouchers campaign please contact Patricia Scotland at the address below. Patricia would be happy to come to talk to your organisation about childcare vouchers if you would find that helpful.

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