

Childcare Vouchers are changing. Here's what you need to know.

Mark Kingston - Today we are going to talk about childcare vouchers. This will probably be something that you have certainly heard of if you are a business owner and you have employees then you may or may not be familiar with this but to help us demystify both what childcare vouchers mean and the advantages that they bring but also how things are changing and that's the important bit I am delighted to welcome Chanelle Webb our business development manager for the payroll team to the Critchleys conversation.

Chanelle Webb - Thank you Mark

Mark Kingston - So Chanelle would you start off by just giving us in layman's terms a plotted history of the childcare system. What are childcare vouchers and how have both employers and employees benefited from them?

Chanelle Webb - Childcare vouchers are way for employees to have a deduction to the value of up to £243 deducted free of tax, free of national insurance from their wages and be paid directly through a third party to their childcare provider.

Mark Kingston - So for example, if I had a child in childcare and I was paying, let say £200 a month for that privilege

Chanelle Webb - Yes

Mark Kingston - Without childcare vouchers I would just have to pay the child carer those £200 a month

Chanelle Webb - Net from your wages

Mark Kingston - Net from my wages. So that is money I have earned, paid tax on and then I had paid off the childcare. Whereas through this salary sacrifice scheme you are explaining to me, I could have said to my employer, right take this off my wages, so I don't either income tax or national insurance on that. What sort of percentage saving is that?

Chanelle Webb - So depending on your earnings, the percentage would fluctuate, but you are talking of an average saving of around 32% of the £200

Mark Kingston - So there is a tax break of 32% on that money that is deducted and then it is paid via a system to the child carer or the nursery or whatever you are using for your childcare

Chanelle Webb - Yes

Mark Kingston - So that is pretty good deal obviously for you as an employee

Chanelle Webb - Yes

Mark Kingston - What was the advantage if any to the employer of offering these?

Chanelle Webb - They too had the national insurance saving

Mark Kingston - Employers national insurance

Chanelle Webb - So they saved 13.8% of the value of what was being deducted.

Mark Kingston - And it is obviously a nice benefit to be able to offer

Chanelle Webb - Yes, absolutely. It was a benefit they could offer and benefit from themselves.

Mark Kingston - Ok, so that's how things have been, and if you are listening to this and you are an employee and you have been through this system then hopefully you will have a good experience of this working out in your real life experience. We need to fast forward then to some changes that happened to the childcare voucher system, just take us through this story quickly.

Chanelle Webb - Ok, so when someone goes on maternity leave or any form of statutory leave apart from statutory sick pay, the employer would be liable to pay for the childcare vouchers. They couldn't deduct it from the employee if they were on that statutory payment and what that meant for the employee they had their childcare vouchers paid for them on their behalf, with no deduction

Mark Kingston - Ok, so I again, go back to this story if I am paying £200 a week, then I go off on, paternity leave or something for a period of time, or if I am mum I go off on maternity leave for a extended period of time, the employer couldn't take it off of my salary because I wasn't

Chanelle Webb - It was statutory

Mark Kingston - It was statutory, and therefore they would have to pay that £200 for me, so in effect I got totally free childcare for the period I was away on statutory leave

Chanelle Webb - Yes

Mark Kingston - Ok, which sounds pretty amazing for the employee

Chanelle Webb - Yes

Chanelle Webb - Not so much

Mark Kingston - For the employer. Buts that's also no longer the case now, because of some legislative changes, is that right?

Chanelle Webb - Yes that's correct, so March 2016, the employment appeal tribunal overturned the ruling which classed childcare vouchers as a non-cash benefit and changed it to a cash benefit which meant that it was part of your remuneration package so you would no longer be entitled it whilst on maternity leave which also meant the employer did not have to pay it whilst you were on, for example maternity leave.

Mark Kingston - Ok. Now what you have anecdotally told me in some of your experience, I mean you have been in payroll now for a longer time

Chanelle Webb - 18 years

Mark Kingston - So you have seen many, many companies work with this or against it, is that there have often been a lack of clarity either on behalf of the business in terms of what they should or should not offer, and also on behalf of the employee in terms of what they did not did not have a right too, so as it stands I can see how if you have had a child, and had maternity leave in the past,

and benefited from childcare vouchers a year or two or three ago, and you thought, right I am having my next child, I am going off, I can expect for it to be the same, then you could be up for a nasty surprise.

Chanelle Webb - Absolutely, a mum or now, a dad going on parental leave, it could be quite a shock and when you are looking at putting another child into childcare so mum and baby can have some quality time and recuperate, they suddenly realise that actually their employers are not going to be paying their childcare vouchers and they have got to find an additional £243 a month, or more, when they are only on statutory pay.

Mark Kingston - Or presumably they choice to forgo their childcare and look after the other child or children perhaps at the very time when they need to be spending time with the new baby and recuperating.

Chanelle Webb - And I think that anybody knows if you have got more than one it changes it.

Mark Kingston - Ok, so, but the last time we wanted to say before we wrap up some of the implications particularly for business owners of this change, was that these changes from March 2016, which is quite a few months ago now, that itself is not the end of the story

Chanelle Webb - No

Mark Kingston - So just conclude the story for us quickly

Chanelle Webb - So as of April 2018, childcare vouchers under the current scheme is changing. It will no longer be available through your employer and so what that means they will have to apply, there is a new scheme coming out which is called tax free childcare, which is a new government scheme where for every pound you pay in, you will receive 20p back, so up to the valuate and benefit of £2,000. You have to apply for it online, and it is a government account, and you will have to manage that yourself.

Mark Kingston - So that is really important, because in the old system the childcare vouchers which is kind of coming to an end, some people are still able to use it, and you can still apply to be on it,

Chanelle Webb - Yes

Mark Kingston - Depending on your employer up until next April

Chanelle Webb - Yes

Mark Kingston - But where it was very much employer driven and all of the sort of technicalities that were managed by it, often a third party, where as this one, it is very much not done for you, it is do it yourself, which adds an additional level of compilation to people at a busy time, right

Chanelle Webb - Yes

Mark Kingston - And it is not necessarily, you not necessarily as well off under this new scheme as you would have been under the old one.

Chanelle Webb - No, so your childcare, to be better off under this new scheme, your childcare bill would have to be over £9,500 a year, it is only available for children under the age of 12, and it is also not, you don't have any of the savings for the national insurance, you are only getting the tax back on it.

Mark Kingston - So if we are speaking now to owners or leaders of small business, if you were to advise them on the best way to proceed as a result of all of these changes both that have happened and that are coming, what two or three things could they do in your wisdom of knowing how this works out, what you advise them to do?

Chanelle Webb - I would advise them to ensure that their policies are up to date and their employee handbooks, communicate with the staff, let them know about the changes going forward, if you do have childcare vouchers currently in place, I would advise you to promote it your staff quite actively, letting them know it is ending. Especially, you know if it's a double working family, they would be better off on that scheme, on the childcare scheme and also prepare people for the fact that it is coming to an end.

Mark Kingston - And there is little things, like if you opted out, if you are on childcare vouchers at the moment and you decided, alright I don't need them for six weeks for whatever reason, I am just going to stop them

Chanelle Webb - You would lose your entitlement

Mark Kingston - You would lose your entitlement. So there is also some short term advantages to keeping going. So you point was update your policies and handbooks so that it is clear, but actually double over your efforts to really be clear to your employees, these changes are happening and this is what it means for you and don't expect it to be like the old days.

Chanelle Webb - Yes, absolutely

Mark Kingston - So this is just one example of some of the complexities of the wonderful world of payroll, Chanelle. Thank you so much for coming in and demystifying it for us and I really look forward to having you back again to tackle something else very soon.

Chanelle Webb - Thank you, it was lovely

Mark Kingston - you soon

Chanelle Webb - Bye

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