

Q14: How do I enter Childcare Vouchers?

If you give your employees approved Childcare Vouchers, the first £55 a week (£243 per month) is free from both tax and NIC's. (You need to check the Inland Revenue's tax free limits yourself - they may have changed since this FAQ booklet was written in February 2007.)

Many employers set up a **Salary Sacrifice** scheme to enable their employees to benefit from this tax exemption. For the Inland Revenue to accept a salary sacrifice scheme, it is important that:

- the employer buys the vouchers, **and**
- the employee's Contract of Employment **must** be varied to reflect the new lower pay.

There are examples of successful and unsuccessful salary sacrifice schemes on the Inland Revenue's website hmrc.gov.uk. It is beyond the scope of our hotline or this FAQ booklet to give advice on what will be allowable. However, the Revenue will want to see the before and after payslips to confirm that:

- they reflect the new lower salary
- the change has not been applied retrospectively.

Example: Below is a sample payslip for an e'ee who had previously been earning £2,225 per month gross **before** opting to join your company's Childcare Voucher scheme of £225 per month.

Run monthly payroll		8 Feb 07	
Employee code <S1		06/07 Month 11 (1 month)	
Salary Sacrifice			
Gross pay items:			
Salary	2225.00	National insurance	-198.55
		Tax	-375.59
After tax items:			
NET PAY			1650.86
Cash			
This gross	Gross YTD	Tax YTD	E'eer NI
2225.00	2225.00	375.59	231.04
		NI code	Tax code
		A	503LM1

Diagram 1: Sample payslip before Childcare Vouchers

Assuming that the qualifying conditions have been met, you change the employee's Contract of Employment to show her revised cash entitlement of £2,000 a month (or annual equivalent) and change the employee's SUPERPAY payslip in one of two ways.

Vouchers shown as text only

You change her pay to be Salary £2000 and enter (Vouchers 225) as a text item with a value of zero. The brackets round the text and value are important. 0.00 is shown on the payslip screen but is blank on the printed payslip.

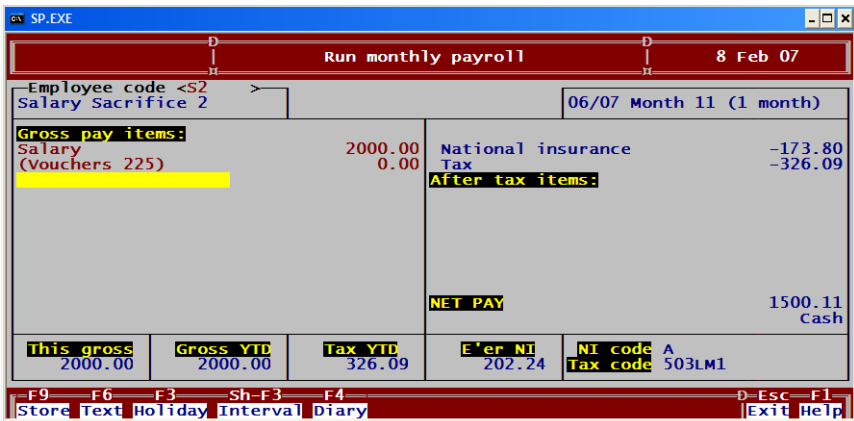


Diagram 2: Childcare Vouchers entered as a text item

This is the same employee for the same pay period, and you can see that by 'sacrificing' £225 gross pay, she gets £225 vouchers for £150.75 less Net Pay. It also saves the employer E'er NI on £225.

Vouchers shown as a value on screen, but not added to taxable or NI'able pay on payslip

You enter Vouchers as a Payslip Heading with no flags (if you still want percentage pension deducted from £2225 leave the P flag).

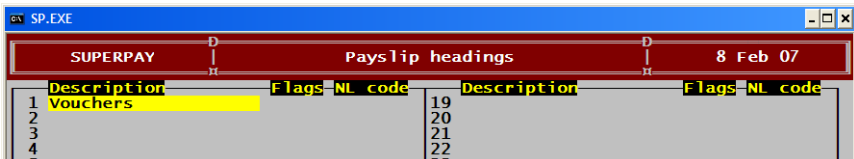


Diagram 3: Adding Vouchers Payslip Heading

Then on the employee's record change her Salary from £2225 to £2000 and enter (in this case) *1 225 as a gross pay item and enter Voucher/no cash - 225 as an after tax item. Her payslip screen will then look as follows:

Run monthly payroll		8 Feb 07	
Employee code <S3> Salary Sacrifice 3	Using last run's data	06/07 Month 11 (1 month)	
Gross pay items:			
Salary	2000.00	National insurance	-173.80
Vouchers	225.00	Tax	-326.09
		After tax items:	
		Voucher/no cash	-225.00
		NET PAY	1500.11
		Cash	
This gross 2225.00	Gross YTD 2225.00	Tax YTD 326.09	E'er NI 202.24
		NI code A	Tax code 503LM1

Diagram 4: Childcare Vouchers entered as a Payslip Heading

Having two lines for the Vouchers looks more contrived than having the Vouchers as Text only - see above. As you can see the screen shows THIS GROSS as £2225. However, the payslip (shown below) shows the Taxable Gross as £2000 (the £225 is not added to the gross). In theory, this should be sufficient to satisfy the Inland Revenue's rules on Salary Sacrifice. You would need to check this with your local Inland Revenue Inspector.

SUPERPAY		Employee records		8 Feb 07	
Employee code <S3 Salary Sacrifice 3			06/07 Month 11 (1 month)		
Salary	2000.00	National insurance	-173.80		
Vouchers	225.00	Tax	-326.09		
			After tax items:		
			Voucher/no cash	-225.00	
			NET PAY	1500.11	
			Cash		
This gross	2000.00	Gross YTD	2000.00	Tax YTD	326.09
		E'er NI	202.24	NI code	A
		Tax code	503LM1		
F10 Print		F4 Sample	F8 PSlip	PgDn NextScr	PgUp PrevScr
				D-Esc	F1 Help

Diagram 5: Sample payslip with Childcare Vouchers added as a Payslip Heading

Please note: The Inland Revenue does not approve Salary Sacrifice schemes in advance so it is important that you take your own advice about how to set up your own Salary Sacrifice scheme.