



Tax Efficient Childcare Provision

Since 2005 the government has supported parents by allowing certain childcare costs to be met by employers, allowing families to choose the childcare that suits them whilst saving Tax and National Insurance.

As an employee of your own Limited Company you are entitled to receive support for childcare as long as the qualifying conditions are met:-

- The childcare is provided by a registered or approved provider;
- The child is:
 - a child or stepchild of you the employee at whose expense, either in full or in part, the child is maintained; or
 - resident with you the employee and for whom you the employee has parental responsibility
- A child qualifies up to 1 September after their 15th birthday (or 1 September after their 16th birthday if they are disabled); and
- You offer the support to all of your employees - so if your partner is company secretary they too can receive childcare support for the relevant child

How much can I receive free from tax?

Depending on the level of the relevant earnings, for the tax year 2014-2015, tax relief is available on the following tax rates as follows:

	Basic rate tax payer	Higher rate tax payer	Additional rate tax payer
Weekly	£55	£28	£22
Monthly	£243	£124	£97
Yearly	£2915	£1484	£1166

Any amounts paid in excess of these allowances through the Limited company will be deemed to be a benefit in kind and

additional Income Tax would be payable by the employee.

For the purposes of the childcare assessment, relevant earnings are currently defined as your basic salary. The assessment does not include Dividends. This anomaly means that even if you are a Higher Rate tax payer due to your dividend income you will still qualify for the higher amount of £55 per week.

The assessment of income remains valid for the remainder of the relevant tax year. A new assessment should be carried out annually.

Childcare by direct arrangement with the childcare provider.

This is the most straightforward way to provide childcare support to your employees particularly where there are few employees. The contract to purchase the services is between you and the third party childcare provider.

Whatever amount you decide to provide, the arrangement you make with the childcare provider must show that your company is responsible for buying that amount of childcare. The exemption will not apply if you are simply paying or helping to pay your employee's own childcare bill. Under these arrangements it will be your Limited Company, and not the employee, who is contracting for part of the childcare. An example of an employer's letter to a childcare provider is shown below:

Henry the Cat Day Nursery
1 Nursery Hill
London

Dear sir,

I agree to purchase childcare from you to the value of £55 per

week from 6 September 2006. I intend to give the childcare as a benefit to my employee John Smith for use by his daughter, Jane. This agreement may be amended or cancelled if John leaves my employment.

Yours faithfully,

A Jones
Jones' Hardware Ltd

If you choose to buy childcare direct from a third party as a tax and NICs-free benefit you must keep a record to show that the conditions for the exemption are met. This need be no more than your child's name and date of birth and the child carer's registration or approval number. If the child carer is approved in England you will need to know when the approval is due to expire and make sure that you don't continue to apply the exemption if the approval lapses.

