



Employer Provided Childcare Vouchers – Basic Earning Assessment

Ceridian User Guide

Version 1.2, April 2011



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Ceridian Information Guide

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Introduction

HMRC (Her Majesty's Revenue and Customs) have issued new guidance to employers on the administration of child care schemes such as the provision of free child care vouchers.

From 6th April 2011, for new joiners to either Vouchers, or employer contracted scheme changes, the employer is now required to undertake an annualised **Basic Earnings Assessment (BEA)** to check the estimated income:

Details can be obtained from HMRC on the following link:

<http://www.hmrc.gov.uk/thelibrary/employer-ga.pdf>

Ceridian have written a number of articles on the application of childcare along with the application of Salary Sacrifice and the implication of the HMRC changes. More detail on these can be found as follows:

From February 2009 – Child Care Vouchers & Salary Sacrifice:

<http://www.ceridian.co.uk/hr/newsletter/nav/1,4813,1014,00.html>

From November 2009 – Child Care Vouchers Under Attack:

<http://www.ceridian.co.uk/hr/newsletter/nav/1,4813,1235,00.html>

From May 2010 – Childcare changes for 2011:

<http://www.ceridian.co.uk/hr/newsletter/nav/1,4813,1354,00.html>

From December 2010 – 2011 Childcare Changes to go ahead:

<http://www.ceridian.co.uk/hr/newsletter/nav/1,4813,1432,00.html>

The BEA will determine an employee's estimated income as follows (values quoted are based on 2011/2012 tax year only):

- Those employees whose earnings are judged to be Basic (20%) rate (earnings do not exceed the basic persons allowance plus the basic rate threshold = £42,475) are entitled to £55 per week or £243 per month.
- Those employees whose earnings are judged to reach Higher rate (40%) are entitled to £28 per week or £124 per month.
- And those employees whose earnings are judged to reach Additional rate (50% due to exceeding £150,000) are now entitled to £22 per week or £97 per month.

The actual tax rate applicable to an employees pay via payroll has no relevance to the BEA calculation.

Who is considered to have joined prior to 6th April 2011?

Those employees who have submitted an application to the employer **before 6th April 2011** and who meet the qualifying conditions. The employee does not have to have received any vouchers by 5th April 2011 but must have applied and be entitled to them at that date. Annual renewals and some breaks (referred to as temporary cessation of up to 12 months) do not invalidate someone from already being part of a scheme prior to 6th April 2011.

The BEA is carried out at the point of joining the scheme and then annually at the start of the tax year. The assessment then remains in place for the whole of the tax year and is not influenced by any change in circumstance. Employers must keep records of the calculation to be available for inspection by HMRC if requested.

The BEA includes the following (always judged on an annualised basis):

- Basic pay as stated in the contract of employment
- Contractual bonuses
- London weighting and regional allowances
- Shift Allowance
- Qualification payments (such as 1st Aid allowance)
- Taxable benefits in kind (those contracted at the point of undertaking the BEA assessment)

The BEA **does not** include:

- Performance related pay or discretionary bonuses
- Overtime payments
- Earnings or benefits exempt from tax such as Pension, share scheme and charitable giving.

How is the BEA calculation to be performed and by whom?

This activity is required to be carried out on application to join the scheme. It will require a judgement to be made by the employer with information that may not be readily available to payroll.

Employers need to review their childcare schemes to ensure compliance. Salary Sacrifice arrangements need to be reviewed and revised to operate the appropriate amount of tax and NIC reduction, and the correct assessment of any consequential benefit in kind whether that is assessing Class 1 NICs through payroll, taxing the benefit at Source, and the provision required for reporting on P11D.

As there will be no employee and especially employer saving on amounts which exceed the individual allowance, it is likely that many schemes will not want to meet the enhanced costs of the provision of the benefit for amounts over the statutory limits. Equally consideration will need to be given on how the annual BEA is to be undertaken.

Frequently Asked Questions

Will Ceridian be offering a BEA calculation as part of its payroll solution?

Ceridian cannot as it is not a payroll activity. BEA forms part of the process and operation of a tax approved childcare programme. The assessment is made for new joiners to the scheme from 6th April 2011 and thereafter undertaken annually at each 6th April. The responsibility for undertaking a BEA rests with the employer and potentially your child care voucher provider to which you will pay an administration fee.

As a general principle, tax and NIC exempt childcare does not form part of the payroll process and equally is not reportable on P11D. What often is handled by payroll is the application of a contractual salary sacrifice arrangement (a contractual pay cut). Sometimes this salary sacrifice arrangement forms part of a flexible benefit scheme.

Our employees make a selection once a year in our flexible benefit scheme as we understand that a salary sacrifice arrangement of less than 12 months is not permitted?

This is not true for child care vouchers. The legal principle, known as *Heaton v Bell*, would generally apply to the operation of salary sacrifice and receipt of non-cash benefits, but the provision of childcare, car parking and bikes are specifically excluded in the regulation from the principle. So selection of CCV can be amended at any point by an employee or employer.

Therefore it is advisable for an employer CCV scheme to allow a restriction of flex bens, when going into a new tax year, to amounts that attract tax and NICs reliefs only.

How will Ceridian handle any amounts which are not tax and NICs free if they are provided to an employee?

If the employee purchases non-cash vouchers via the employer then there is no requirement for any tax or NICs calculations to be undertaken by payroll. If these amounts are to be deducted from pay, then you will need to notify payroll of the voluntary deduction amounts to be taken from your employee's pay amount.

However, if the employer continues to provide Child Care Vouchers as a free benefit in kind, which exceed the tax free limits, then HMRC require the tax benefit amount to be declared on form P11D (and the employee would be required to declare through self assessment). The employer must declare to payroll the values that are subject to Class 1 NICs for these to be appropriately accounted for.

NOTE. These amounts are not subject to PAYE Income Tax, only to Class 1 NICs.

What if payroll is undertaking the Salary Sacrifice?

If payroll is being notified of amounts to be operated as salary sacrifice with different tax and NICs liabilities, then each value and its treatment must be notified. So the tax and NICs free reduction would be notified separately to any amount that purely reduces the payroll tax (i.e. amounts that only attract Class 1 NICs).

Is there is an option for dealing with the tax element of non-cash vouchers at source (through payroll)?

Although not an official method of operation, it is possible to deal with the taxation at source via payroll. The amount of salary reduction which does not reduce tax and NICs would need to be notified. However, employers must understand that the amounts would still be required to be reported on form P11D as taxation at source does not negate this legal requirement.

Could BEA activity be undertaken by Ceridian?

Providing the employer provides the predicted annualised earnings to Ceridian, and also predicted provision of benefits in kind, then Ceridian could undertake an assessment on the employer's behalf and report back the result. These amounts are not necessarily payroll related values. Fees for undertaking this additional service are likely to be similar to those of processing a manual payment.

However, as the CCV provider already charges for the administration of CCV, they may undertake the BEA assessment on your behalf. You would need to provide them with details of the predicted annualised contracted earnings and the predicted value of benefits in kind.

Are there facilities available for recording BEA activity undertaken by the employer?

Yes, the use of Xtra fields (X codes), user panels and screens is available. These could be defined to store values and dates to aid employers in retaining BEA calculation data. No predefined facilities are provided, these are user definable.

For example:

- Date of Joining Child Care Scheme
- Date of BEA assessment
- Annualised earnings assessment value, which could be broken down further to hold:
 - Annualised Earnings estimate
 - Benefit in Kind
 - Resulting total
- Consequential amount of tax and NICs free child care benefit provision (ie basic, higher, and additional).

Should I consider restricting my employee to only receive tax and NICs free amount?

Definitely - Neither employee or employer benefit from the provision of Child Care Vouchers which have no tax or NICs reliefs. The benefit falls only to the CCV providers in the added fees on excess amounts.

The employer will be paying fees on amounts exceeding the tax and NIC free limits which may wipe out the majority of their NIC savings.

Another consequence to consider is maternity leave. If the employer provides CCV over the tax and NICs free amounts as a non-cash benefit in kind, then they are liable to continue providing that benefit to the employee, as a cost to the employer only, throughout an employee's maternity leave period (52 weeks). That is not the case where the employee purchases additional amounts from net pay in which case they would continue to fully meet the cost or end the voluntary deduction arrangement. Tax and NICs free benefits would still be required to be provided by the employer at the employers cost.

What is the consequence of closing our child care scheme to new entrants?

If your child care scheme excludes any group of potentially qualifying employees, then the benefit is not generally available and would therefore lose its tax and NICs free status for all pre-existing qualifying employees. All tax and NICs benefit would be lost.