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## Client Briefing Note

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### Child Care Costs

It is fairly well known that the Taxman can contribute towards childcare costs in the form of Tax Credits. If sufficient hours are being worked, HM Revenue and Customs (HMRC) will pay Working Tax Credits of up to 80% of your childcare costs, subject to a maximum of £175 per week if you have costs for one child or £300 if you have costs for more than one. Tax Credits payments are however restricted on the basis of your income.

The income of many working parents is however too high meaning they are not entitled to assistance through the Tax Credits system but there is a second, perhaps lesser known, way to achieve savings on childcare costs through the tax system.

It is possible for employers to contract with a childminder or nursery, or provide childcare vouchers, to contribute the first £55 per week of the childcare costs of their employees. This can result in savings for both the parent and employer. Salary payments are liable to Income Tax

and National Insurance whereas, correctly structured, provision of childcare by employers is exempt. Salary can therefore be sacrificed in favour of childcare provision or vouchers to produce savings in Tax and National Insurance. There are detailed conditions to be complied with for the exemption to apply and it is important that the childcare provision and salary sacrifice arrangements are correctly structured and documented by the employer, to ensure the scheme is effective in achieving the desired savings. HMRC will challenge any childcare or salary sacrifice schemes which are set up incorrectly.

As an example, an employee giving up salary and receiving £55 per week in childcare provision or vouchers could save up to around £1500 per year in Tax and National Insurance. Employers can save up to £366 per employee each year. These savings can be doubled if both parents take advantage of the system.

Based on law in force at September 2008

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