Employers For Childcare

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What is a Workplace Nursery?

A workplace nursery is a nursery provided by an employer for their employees to use. Under the 'workplace nurseries exemption', the cost of a place in a workplace nursery is completely exempt from Tax and National Insurance Contributions.

The exemption for workplace nurseries was introduced in 1990 to encourage employers to provide nursery places for employees, either by opening a nursery on their own premises or by combining with other employers to jointly finance and run a nursery. This is often referred to as a workplace nursery partnership.

What qualifies as a workplace nursery?

To qualify as a workplace nursery, and therefore for childcare costs to be exempt from Tax and National Insurance, the care facilities must:

- comply with the registration requirements of the appropriate registering body (for example, the Health and Social Care Trusts in Northern Ireland, Ofsted, the Care Standards Inspectorate for Wales and the Scottish Care Commission)
- be available to all employees
- provide childcare for all employees' children, or children they have parental responsibility for
- provide childcare up to the maximum age its registration and approval allows for
- be wholly or partly financed or managed by the employer for the provision of care.

In relation to the latter point, this means that the care provision can be sub-contracted by an employer without losing its tax exempt status. A workplace nursery may be located anywhere to suit those who use it, except if care is provided in a private house. You may find HMRC's guidance on expenses and benefits a useful source of information: **Expenses and benefits,** information regarding workplace nurseries is located in Appendix 11

What are the benefits of workplace nurseries for employers?

- The employer saves on employers' National Insurance Contributions.
- Workplace nurseries are a strong recruitment and retention tool.

- Workplace nurseries are extremely convenient for staff.
- The employer may be able to claim back tax relief on costs associated with providing the nursery.

How do workplace nurseries benefit employees?

For many working parents with young children, a workplace nursery may enable them to be close to their children throughout the working day giving peace of mind about their child's wellbeing and the quality of care they are receiving, as well as saving time by not having to drop them off and pick them up from other childcare facilities.

If an employee's child has a place at a workplace nursery, the employee will not have to pay any Income Tax or National Insurance Contributions (NICs) on this benefit. This means that their full childcare bill is exempt from Tax and NICs.

The workplace nursery exemption is commonly provided through a salary sacrifice scheme, whereby employees exchange part of their salary for the childcare cost amount. This is then paid to the workplace nursery and the employee saves the amount of Tax and National Insurance.

It is important to note that employers' workplace nurseries are not affected by the introduction of Tax-Free Childcare from 28 April 2017. Employees are able to join a workplace nursery scheme offered by their employer even if they are in receipt of Tax-Free Childcare for other childcare costs. For more information on Tax-Free Childcare see our guide: A comprehensive Guide to Tax-Free Childcare.

Can employees benefit from the workplace nursery exemption if their nursery is running as a commercial nursery or crèche?

Yes, employers running a commercial nursery or crèche can provide free or discounted childcare for employees and no Tax or National Insurance Contributions are due. However, this is provided that the child using the care is a qualifying child and the conditions of the nursery are met.

How does a commercial nursery or crèche ascertain whether it can operate as a workplace nursery?

The nursery should go through the conditions listed in the HMRC Employment Income Manuals EIM 22000 – EIM22007 to ascertain whether they can be defined as a workplace nursery – see www.gov.uk/hmrc-internal-manuals/employment-income-manual/eim22000.

If the nursery meets the criteria, it is good practice (but not essential) to put into writing to HMRC how they meet the conditions set out in the manuals. The letter should be sent to the following HMRC address and it should include their company name and PAYE number:

Customer Operations Employer Office, BP4009
Chillingham House, Benton Park View
Newcastle, NE98 1ZZ

Previously parents could not avail of Employer Supported Childcare in cases where the salary sacrifice would bring their hourly rate below the National Living Wage / National Minimum Wage. However, new rules mean that this is no longer the case. In a change to previous rules in relation to salary sacrifice and the National Minimum or Living Wage, from April 2020 employers offering salary sacrifice and deductions schemes to employees will no longer be fined if the scheme brings payment below the National Minimum Wage rate for those employees. This includes salary sacrifice Workplace Nursery schemes. The waiver is subject to strict criteria – including that the worker has opted into the scheme and not been forced into it by their employer and has received the correct benefit as a result of the deduction.

What tax relief can employers get for offering workplace nursery places to their staff?

An employer can claim tax relief for the day-to-day running costs of providing workplace nursery places, for example, rent, rates, heating and lighting, staff wages, food and play equipment with a short lifespan. These costs are all deductible when working out your profits for tax purposes. Many items used in a workplace nursery may qualify for capital allowances, including furniture, equipment used for heating, washing and cooking and more durable items of play equipment. An employer may also qualify for tax relief for the capital costs of providing premises for a nursery.

For more information or for personal advice and guidance please call our Family Benefits Advice Service on 028 9267 8200.