

Childcare Vouchers

VAT changes effective 1st January 2012

Prior to 1st January 2012, salary sacrifice was considered as 'outside the scope' of VAT. The changes noted below are as a result of a judgement made by the Court of Justice of the European Union on 29th July 2010 in the case of Astra Zeneca v HMRC (ref C-40/09).

Childcare Vouchers

From 1st January 2012, for VAT purposes, employee benefits which are provided through salary sacrifice will be treated as a supply (sale) of goods or services from the employer to their employees. VAT will be due on this sale in the same way as if the employer were selling the goods or services to the general public. **Childcare Vouchers, however, are VAT exempt (an exempt supply), so the ruling will not have any effect on the vouchers themselves.**

Service Charges for the provision of Childcare Vouchers

Service charges payable for the provision of childcare vouchers may be affected, due to the fact that the service charges are directly attributable to an exempt supply. **However, the majority of employers will be unaffected, due to HMRC's de minimis rules:**

If an organisation (which is VAT registered) makes no other VAT exempt supplies (other than the childcare vouchers) and the VAT value on the service charge is no more than £625.00 per month, the de minimis rules can apply, which means the organisation can continue to recover 100% of the VAT on the service charge. The only other condition is that VAT being claimed in respect of costs attributable to exempt supplies does not represent more than 50% of the total VAT being claimed (input VAT) by the organisation.

Organisations that are considered as Exempt or Partially-exempt for VAT purposes will already be restricted in reclaiming the VAT on the service charges. Such organisations will need to review their VAT calculations in order to correctly reflect the changes to the treatment of Childcare Vouchers and the associated service charges.

IMPORTANT:

VAT can be a complex matter, especially if your business has exempt supplies. We strongly recommend that you discuss the VAT changes with your accountant, to ensure that you are accounting for the VAT correctly in the context of your business.

If you have any questions, please contact Fair Care on 0800 652 4745.