

Discussion document - VAT on your childcare voucher scheme

The VAT treatment of employee benefits is changing with effect from 1st January 2012. For an overview of the new rules and an explanation of how your scheme could be affected, please refer to our separate guide:- "Accounting for VAT on your childcare voucher scheme".

For most employers, the revised guidance will not directly increase the cost of running a childcare voucher scheme, but it may lead to extra administration in VAT reporting. For larger employers or those who already have a mixture of VAT-exempt and taxable sales, the revised guidance will directly increase the cost of running a childcare voucher scheme. However, the cost of running a scheme is still likely to be small relative to the employer National Insurance savings.

This discussion document is aimed at the employers who are most affected by the new guidance, either in respect of their childcare voucher scheme or in respect of their other employee benefits. It suggests possible ways in which employers could use existing HMRC guidance as a basis for interpreting the new guidance in a more favourable manner. This document should not be treated as financial advice and we recommend that employers discuss their preferred approach with their accountants.

Agency relationship and disbursements

Where goods or services are provided under an agency relationship, they can sometimes be disregarded in VAT calculations. Employers may be able to use this to minimise the impact of the new VAT guidance on their employee benefit schemes.

For example, employers may wish to take the view that they are not directly providing VAT exempt childcare to their employees, but instead they are acting as an agent.

If it can be shown that an employer is acting as an agent, then the payment of the childcare voucher value to an employee's chosen childcare provider, whether direct or through a childcare voucher provider, can be considered as a disbursement rather than as a sale by the employer.

The employer can then stand aloof from the transaction and the supply of childcare vouchers will not have any impact on its VAT accounting. In particular, the face value of the childcare vouchers will not be considered to be VAT exempt turnover and will not need to be taken into account in any partial exemption calculations.

An agency relationship could be claimed on the following grounds:

- the employer has no contract with the childcare provider and no involvement in providing or in using the childcare
- the employee decides which childcare provider to use
- the employer (or their voucher provider) is authorised by the employee to pay the carer
- the employee knows that the childcare is being provided by a third party and not by the employer
- the amount of the employee's salary reduction is the same as the amount which is paid (or available to be paid) to the carer

The salary sacrifice agreement and scheme rules define how the employee can choose their childcare provider and how they can authorise the employer to pay their chosen carer, thus providing the necessary contractual documents in respect of the agency relationship. In addition, the scheme administration fee is clearly identifiable as being a payment for services and is clearly separate from the voucher disbursements.

If the agency claim holds, the childcare vouchers are no longer viewed as being a VAT-exempt sale by the employer. The administration fee cannot therefore be deemed to be an input cost in respect of a VAT-exempt sale and the employer can continue to reclaim the VAT on the administration fee as a normal business overhead.

Where employers wish to pursue this course, we recommend that they obtain clearance from HMRC.

Voucher classifications

HMRC makes a distinction between “retailer vouchers,” “credit vouchers” and “other kinds of vouchers.” The VAT treatment of vouchers varies depending on which category a voucher falls into.

Retailer vouchers

Retailer vouchers are vouchers which are issued and redeemed by a single entity, such as a high-street store. VAT is disregarded at the point of issue but must be accounted for when the voucher is redeemed. However, if a retailer voucher is subsequently resold, for example to an employee as part of a benefits package, then it ceases to be a retailer voucher and instead falls into the “other” category. At this point, VAT becomes due.

Credit vouchers

With credit vouchers, the issuer does not directly supply goods or services in exchange for the voucher, but instead promises to reimburse a third party for the amount shown on the voucher. Gift vouchers which can be redeemed at a number of different retailers often fall into this category.

Payments for the sale of credit vouchers are disregarded for VAT purposes, as long as the payment does not exceed the voucher value. Therefore, if an employer provides its employees with credit vouchers under an employee benefits package, there will be no VAT implications.

Other kinds of voucher

Vouchers that are not defined as either credit vouchers or retailer vouchers are classified as “other kinds of vouchers.” All “other kinds of voucher” are subject to VAT on their sale. For example, if a high street retailer sells gift vouchers to an intermediate supplier, the onward sale of the vouchers by the intermediate supplier is subject to VAT.

How voucher classifications could help employers

As childcare vouchers can be redeemed at a range of childcare providers, with the childcare voucher provider then reimbursing the carer, on the surface they appear to fit the definition of credit vouchers.

If an employer can obtain HMRC’S agreement that its childcare voucher scheme constitutes a credit voucher arrangement, then it will not need to include its scheme in its VAT calculations.

Summary

If employers can obtain HMRC agreement that their childcare voucher scheme constitutes an agency relationship, then they can disregard childcare vouchers in their VAT calculations.

Alternatively, if employers can obtain HMRC agreement that their childcare vouchers should be classified as credit vouchers, then they can again disregard childcare vouchers in their VAT calculations.

If an employer uses either of the above methods, the revised VAT guidance would have no effect on the cost of their childcare voucher scheme.

These alternative interpretations are only likely to be relevant to large employers. We recommend seeking advice from your accountants before obtaining HMRC approval for your chosen approach.

Further information and links to the relevant parts of the VAT manual can be found at www.kiddivouchers.com/employerdownloads.php. Please contact us on 0800 612 4395 or email info@kiddivouchers.com if you have any questions.