**Calculating Tax Payer Limits**

At the start if each tax year and when an employee joins the scheme after 06th April 2011, employers must complete a basic earnings assessment of an employee. This should be using figures applicable at the start of the tax year. If an employee has joined the scheme midway through the year, the employer should pro-rata the monthly salary to establish the annual amount and determine which tax band they will fall into.

The most important point to note is that the changes affect only those who were not already participating in their employer’s childcare voucher scheme at 05th April 2011. Everyone already participating by then continues to enjoy tax relief at whatever is the employee’s marginal rate, including those with a taxable income greater than £150,000 and therefore making them liable to additional rate tax at 45%.

New entrants to an employer’s voucher scheme on and after 6th April 2011 are subjected to a reduced maximum of tax-free vouchers. The maximum is at present £243 per month. For new participants:

* Whose estimated earnings and taxable benefits exceed the sum of the personal allowance (£11,850 in 2018/2019) and the basic rate limit (£34,500 net pay in 2018/2019) i.e. a total of £46,350 gross, the maximum monthly amount in vouchers is £243.
* Whose estimated earnings and taxpayer benefits exceed the additional (45%) rate limit £150,000+, the maximum monthly amount in vouchers is £110.

What are the 2018/2019 tax band thresholds?

|  |  |
| --- | --- |
| **Annual Salary including Personal Allowance of £11,850** | **Tax Band** |
| £1 - £46,350 | Basic Rate  |
| £46,351 - £149,999 | Higher Rate |
| £150,000+ | Additional Rate |

The following is the calculation to determine what tax payer you are for the benefit of Childcare Vouchers:

**Annual Gross salary with all contractual guaranteed allowances minus any Salary Sacrifice arrangement = taxable pay (Pre CCV reduction)**

***then***

**Taxable pay minus forecasted amount of childcare vouchers for the financial year**

**Example 1** – based upon a salary of £43,000 with 7 months remaining in the financial year

Annual Salary £43,000

7 months @ £243 £1,701

Taxable Pay £41,299

Tax Payer Band Basic Rate Taxpayer

**Example 2** - based upon a salary of £60,000 with 7 months remaining in the financial year

Annual Salary £60,000

7 months @ £124 £868

Taxable Pay £59,132

Tax Payer Band Higher Rate Taxpayer

In addition when completing the basic earnings assessment an employer must ensure that the level of earnings that the employee has available for taxable pay must leave them with an hourly rate above the National Living wage or National Minimum wage. The wage levels are advised by the Government and any confirmed changes will require for the employer to complete a further assessment if the new rate would take the employee below the earning thresholds. We have provided a table below to highlight the advised Government levels for employees’ wages levels due to the employee’s age.

If the employees after calculating the rate stays above the wage levels then they can receive the requested childcare vouchers. If however the employee now falls below these levels then the employee would need to reduce the salary sacrifice amount until such point that they are above the wage level limit.

|  |
| --- |
| National Living Wage for any employee working over the age of 25 years of age and National Minimum age for under 25 years of age |
| Date of rate changes | 25 and Over | 21 to 24 years of age | 18 to 20 years of age | Under 18 | Apprentice |
| April 2018 | £7.83 | £7.38 | £5.90 | £4.20 | £3.70 |

**Example 1** – based upon a salary of £43,000 with 7 months remaining in the financial year

Annual Salary £43,000

7 months @ £243 £1,701

Taxable Pay £41,299

Tax Payer Band Basic Rate Taxpayer

Employee works 37.5 hours per week

Calculation of hourly rates - Taxable pay divided by number of weeks in the year and then divided by numbers of hours worked = Hourly take home rate

(£41,299/52 weeks) = £794.21 per week

£794.21 / 37.5 hours = £21.18 per hour

**Example 2** - based upon a salary of £14,500 with 7 months remaining in the financial year

Annual Salary £14,500

7 months @ £243 £1,701

Taxable Pay £12,799

Tax Payer Band Basic Rate Taxpayer

Employee works 32 hours per week

Calculation of hourly rates - Taxable pay divided by number of weeks in the year and then divided by numbers of hours worked = Hourly take home rate

(£12,799/52 weeks) = £246.13 per week

£246.13 / 32 hours = £7.69 per hour