

## **EXPLANATORY MEMORANDUM TO**

### **THE INCOME TAX (EXEMPT AMOUNTS FOR CHILDCARE VOUCHERS AND FOR EMPLOYER CONTRACTED CHILDCARE) ORDER 2006.**

**2006 No 882**

- 1.** This explanatory memorandum has been prepared by the Commissioners for Her Majesty's Revenue and Customs (HMRC) and is laid before Parliament by Command of Her Majesty.

This memorandum contains information for the Select Committee on Statutory Instruments.

#### **2. Description**

These Regulations amend the Income Tax (Earnings and Pensions) Act 2003, in section 270A(6) (amount of limited exemption for qualifying childcare vouchers) and in 318A(6) (amount of limited exemption for other care). The principal effect of the amendments is to increase the exempt amount from £50 to £55 per week.

#### **3. Matters of special interest to the Select Committee on Statutory Instruments**

This instrument breaches the 21 day rule. It is essential that the increase in the weekly exempt amounts for qualifying childcare vouchers and other care should come into force on 6<sup>th</sup> April 2006. The Chancellor announced on Budget day (22 March 2006) that the exempt amount will be increased from £50 per week to £55 per week with effect from 6<sup>th</sup> April 2006. This has left us with limited time to draft the requisite Statutory Instruments and accordingly we are in breach of the 21 day rule. The Department apologises for the breach of the Parliamentary convention.

#### **4. Legislative Background**

- 4.1** This instrument is made under powers conferred by sections 270A(11) and 318D(1) of the Income Tax (Earnings and Pensions) Act 2003. All the powers concerned are exercisable by the Treasury.
- 4.2** This instrument amends the Income Tax (Earnings and Pensions) Act 2003 by increasing the maximum value of the exempt amount for employer supported childcare from £50 to £55 per week. The effect of this is to increase the maximum value of childcare vouchers and employer contracted childcare which may be exempted in computing an employees earnings for the purposes of Income Tax.

## **5. Extent**

This instrument applies to all of the United Kingdom.

## **6. European Convention on Human Rights**

The Paymaster General, Dawn Primarolo, has made the following statement regarding Human Rights.

“In my view, the provisions of this order are compatible with the Convention rights.”

## **7. Policy background**

7.1 The Government introduced new tax and NICs exemptions for employer supported childcare with effect from 6 April 2005. The purpose of the new exemptions was to provide a better incentive, and to make it easier, for employers to offer support to employees with childcare costs. The exemptions widen the range of good quality childcare that qualifies for tax and NICs relief in order to best suit the needs of employees and employers. The Chancellor announced on Budget Day that from 6 April 2006 the exemption limit for employer provided childcare vouchers and employer-contracted childcare would be raised from £50 to £55 per week.

7.2 Broadly, the policy objective of the new exemptions is to:

- a) advance the Government’s strategy on childcare to promote safe, good and quality childcare;
- b) provide incentives and wider options to encourage more employers to support such childcare provisions for staff; and
- c) to align the tax and NICs treatment of employer-supported childcare.

7.3 The proposed increase in the exempt limit is expected to enhance the Government’s support for employer-supported childcare which is aimed to encourage employers to engage with the issue of childcare and enable them to support working parents with their childcare costs.

## **8. Impact**

This instrument does not impose any new costs on business. A full Regulatory Impact Assessment was published in April 2004 and is available on the HMRC website at [www.hmrc.gov.uk/ria/emp-supp-childcare.pdf](http://www.hmrc.gov.uk/ria/emp-supp-childcare.pdf)

## **9. Contact**

Ekundayo Salami at HM Revenue and Customs (Tel: 020 7147 2482 or e-mail [ekundayo.salami@hmrc.gsi.gov.uk](mailto:ekundayo.salami@hmrc.gsi.gov.uk)) can answer any queries regarding the instrument.