

EXPLANATORY MEMORANDUM TO
THE SOCIAL SECURITY (CONTRIBUTIONS) (AMENDMENT NO 3)
REGULATIONS 2006

2006 No. 883

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 Social Security (Contributions) Regulations 2001 (S.I. 2001/1004; "the Regulations"). Part 5 of Schedule 3 to the Regulations, provides that certain types of non-cash vouchers are to be disregarded in the calculation of an employee's earnings as payments in kind. Those types include childcare vouchers¹. The principal effect of the amendment is to increase the value of E in the formula² for the exempt amount from £50 to £ 55 per week.

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

These Regulations breach the 21 day rule. It is essential that the increase in the weekly exempt amount for qualifying childcare vouchers should come into force on 6th 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 6th 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 3(2) and (3), 10 (9) and 175 (3) and (4) of the Social Security Contributions and Benefits Act 1992, and sections 3(2) and (3), 10(9) and 171(3) and (4) of the Social Security Contributions and Benefits (Northern Ireland) Act 1992. All the powers concerned are exercisable by the Treasury with the

¹ Qualifying childcare vouchers are specifically excluded in paragraph 7 of Part 5 of Schedule 3 to S.I. 2001/1004.

² In Paragraph 7, the exempt amount is defined by a formula – E x QW, where:
E is the sum of £50 and the administration costs for qualifying childcare vouchers;
QW is the number of qualifying weeks for which the earner has been employed by secondary contributor (usually the employer) during the tax year in which the qualifying childcare voucher is provided; and for which no other qualifying childcare voucher has been provided by the secondary contributor.

concurrence of the Department for Social Development in Northern Ireland and the Department for Work and Pensions.

- 4.2 This instrument amends the Social Security (Contributions) Regulations 2001 by increasing the maximum value of the exempt amount for qualifying childcare vouchers from £50 to £55 per week. The effect of this amendment is to increase the maximum value of childcare vouchers which may be disregarded in computing an earner's earnings for the purposes of Class 1 National Insurance contributions.

5. Extent

This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

These Regulations are subject to annulment and do not amend primary legislation. Accordingly no statement as to compliance with the Convention rights is required.

7. Policy background

7.1 The Government introduced new tax and National Insurance contributions (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. They include an exemption for employer provided childcare vouchers up to limit per employee of £50 a week. The Chancellor announced on Budget Day that from 6 April 2006 the exemption limit 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

These Regulations do 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

9. Contact

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