

EXPLANATORY MEMORANDUM TO
THE INCOME TAX (EXEMPT AMOUNT FOR CHILDCARE VOUCHERS
AND FOR EMPLOYER CONTRACTED CHILDCARE) ORDER 2013

2013 No. 513

1. This explanatory memorandum has been prepared by Her Majesty's Revenue and Customs (HMRC) on behalf of the Treasury and is laid before the House of Commons by Command of Her Majesty.

2. Purpose of the instrument

2.1 This instrument amends sections 270A and 318A of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA). These sections provide for limited tax relief where employers provide qualifying childcare vouchers or contract directly with childcare providers. As a result of the change in the rate of income tax for additional rate taxpayers, the relevant exempt value of childcare vouchers and directly contracted childcare provided for additional rate taxpayers is increased from £22 per week to £25 per week.

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

3.1 None.

4. Legislative Context

4.1 This Order is made by the Treasury under sections 270A(11) and 318D(1) ITEPA, and it is the first use of those powers.

4.2 If the estimate of relevant earnings indicates that the employee is an additional rate taxpayer, the level of the amount of childcare support (childcare vouchers and directly contracted childcare only), on which tax relief is available is restricted to £22 per week. This is based on a charge to income tax at 50%.

4.3 The Finance Act 2012 reduced the charge to income tax for additional rate taxpayers from 50% to 45% with effect from 6 April 2013. The amendment in this Order ensures that the exempt amount is aligned with the marginal rate of tax by increasing the amount on which tax relief is available to £25 per week.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

The Economic Secretary to the Treasury has made the following statement regarding Human Rights:

In my view the provisions of the Income Tax (Exempt Amount for Childcare Vouchers and for Employer Contracted Childcare) Order 2013 are compatible with the Convention rights.

7. Policy background

- *What is being done and why*

7.1 In the Finance Act 2012, the Government introduced a change in the charge to income tax for additional rate taxpayers from 50% to 45%. As a consequence in order to restrict the value of tax relief available for employer-supported childcare to the value received by basic rate taxpayers, that is, approximately £11 per week, the tax exempt amount needs to be increased from £22 per week to £25 per week. The amendment only applies to individuals who joined employer-supported childcare schemes on or after 6 April 2011.

8. Consultation outcome

8.1 This Order was published in draft on 11 December 2012 as part of the consultation process for Finance Bill 2013.

9. Guidance

9.1 The relevant HMRC guidance will be amended in line with these Regulations.

10. Impact

10.1 The impact of this instrument on business is negligible.

10.2 No impact on the public sector is foreseen.

10.3 A Tax Information and Impact Note covering this instrument was published on 11 December 2012. It is available on the HMRC website at <http://www.hmrc.gov.uk/thelibrary/tiins.htm>. It remains an accurate summary of the impacts that apply to this instrument.

11. Regulating small business

11.1 The legislation applies to small businesses if they provide employer-supported childcare. The impact on any small business affected will be negligible. HMRC will amend their external guidance to support employers and employees.

12. Monitoring and Review

12.1 This policy will be monitored and assessed alongside other measures in the Government's package of personal tax and benefits changes.

13. Contact

Mrs Su McLean-Tooke at HMRC Tel: 020 7147 2665 or email: susan.mclean-tooke@hmrc.gsi.gov.uk can answer any queries regarding this instrument.