ICB The Institute of Certified Bookkeepers

The Basic Earnings Assessment

Tax Year 2024/25

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For Employer-Supported Childcare (ESC) arrangements like the childcare voucher, there is an exempt amount of £55 per week (£243 per month / £2,915 per annum). However, the Income Tax (Earnings and Pensions) Act 2003 states that the amount of Income Tax and National Insurance relief is *'limited'*. One of the limitation criteria, introduced in 2011, is based on anticipated earnings in the following tax year requiring the employer to make an estimation at or before the start of the tax year. The allowable *'exempt amount'* is then determined depending on the resultant marginal rate of Income Tax.

So, £55 per week (£243 per month / £2,915 per annum) does not apply to all entrants.

Pre-06 April 2011 Entrants

Where ESC is provided on or before 05 April 2011, if the employee remains a scheme member and has not had any breaks in ESC provision for 52 weeks, they are unaffected by the 2011 limitations. Relief remains at the marginal rate of Tax and the exempt amount is £55 per week (£243 per month / £2,915 per annum).

Entrants Post-06 April 2011 to 04 October 2018

ESCs closed to new entrants after 04 October 2018. Therefore, the following applies for entrants between and including the above dates.

The exempt amount available for tax relief is ***not*** automatically £2,915 per annum (£55 per week / £243 per month). The amount depends on the employee's *anticipated earnings and estimated* marginal rate of Tax in the next tax year. For employees employed on 06 April, this estimation must be performed at the start of the tax year (or before) and limitations apply as follows:

Marginal Rate	Weekly	Monthly	Annual
Basic	£55.00	£243.00	£2,915.00
Higher	£28.00	£124.00	£1,484.00
Additional	£25.00	£110.00	£1,325.00

The estimation is performed via the annual Basic Earnings Assessment. This determines the expected marginal rate of Tax, allowing the employer to restrict the relief using the limits in the above table.

Scottish and Welsh Taxpayers

Employers ***do not*** have to consider whether the employee is a Scottish or Welsh Taxpayer. The calculations are unaffected by the bands and rates that Scotland sets and the rates that Wales sets.

The Basic Earnings Assessment is applied to all relevant employees using the rUK Income Tax thresholds

The Basic Earnings Assessment

Overview

This guidance has been produced in accordance with HMRC's '*Frequently Asked Questions'* document:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/368483/employer-qa.pdf.

This guidance has not been updated in respect of the closure of ESC schemes to new entrants from 04 October 2018. However, in all other regards it is accurate.

When to do it

The Assessment must be done annually. This accounts for the fact that an employee may have fluctuating earnings and different amounts will apply in different tax years. Once an employee has been identified as requiring an Assessment, it is an annual on-going responsibility.

For employees employed on 06 April 2021, the Assessment must be done at or before the start of the tax year. It remains valid for the entire tax year, even if the employee's income and benefits situation change mid-year. It is an assessment of information available at the start of the tax year. If the employee's situation changes after the Assessment has been completed and this affects their marginal rate of Tax, this is only reflected in the Assessment carried out the following year.

Who does it?

The Income Tax (Earnings and Pensions) Act 2003, Section 270A (vouchers) and 318A (other ESC) state that the responsibility lies with the employer. Payroll providers have historical pay and benefits available to them; however, the Assessment is not based on what has happened previously.

Recordkeeping

There is no defined format in which the Assessment must be performed.

However, the Assessment must be performed and contain sufficient information to show how it was performed in the event of a HMRC compliance audit.

There are various tools available to help employers, including those provided by software providers. Regardless of how it is done, employers should ensure the resultant Assessment demonstrates that it has been completed with due regard to the legislation and guidance.

We advise that it is performed per employee and recommend this forms part of their payroll record.

The Calculations

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The Assessment is based on what is *expected* to happen in the employment over the course of the next tax year. As such, payroll providers are unlikely to be able to perform this for employers, for example:

- Only *guaranteed bonuses and commissions* are included in the calculation. A provider will know the value of bonuses and commission paid previously but is unlikely to know what part of that payment was guaranteed and what part was performance related. Performance and discretionary payments are specifically excluded from the Assessment
- Only *guaranteed overtime* is included in the calculation. As above, a provider will know the overtime that has been paid in the previous tax year but will often be unable to differentiate between guaranteed and non-guaranteed
- Only benefits the employer has *contracted* to provide over the next tax year should be included in the calculation. Again, the provider is unlikely to know this information. This is the case even where the provider also prepares the P11Ds. Consider that at the time that the Assessment must be performed, the provider may not have even been provided with benefit information for the previous tax year, let alone be privy to information as to whether those will continue for the next tax year
- The Assessment should be calculated on the *assumption* the employee will be employed on the same contract for the following tax year. Although, adjustments can be made for employees where there is an agreed start date for a child-related absence, e.g., the employee will receive a lower salary because the employee starts maternity or adoption leave later. The provider is unlikely to know this information to be able to take it into account and perform an accurate Assessment

Personal Information

Whilst there is no prescribed format, we recommend that the Assessment contains the following information:

- The relevant tax year, i.e., 2024/25
- Employee name
- Employee payroll record number
- The employee's start date

In the event of a compliance audit, the above details will show HMRC that the Assessment has been carried out for the correct tax year, the correct employee and only including an employee that started in the period 06 April 2011 to 04 October 2018.

The Relevant Earnings Amount

The Basic Earnings Assessment, as per the Income Tax (Earnings and Pensions) Act 2003, must ascertain the '*employee's relevant earnings amount'* for the tax year in which the ESC provision is to be made – i.e., for provision in the 24/25 tax year it is the 24/25 relevant earnings amount that must be estimated. This value is '*total earnings and benefits'* LESS '*predicted excluded amounts*'.

The Employer Supported Childcare (Relevant Earnings and Excluded Amounts) Regulations 2011 explains these terms and, therefore, defines the items to be included:

Total earnings and benefits

The Assessment includes gross contractual earnings payments, not discretionary earnings (i.e., guaranteed overtime but not discretionary / voluntary overtime). Benefits to be taken into consideration are the ones the employer has contracted to provide for the employee at the date the Assessment is performed.

The following gross amounts should be added:

- Basic pay, wages, or salary
- Guaranteed bonuses and commission
- Guaranteed overtime
- Location or cost of living allowances
- Shift allowances and skills allowances (e.g., first aid allowances)
- Retention and recruitment allowances
- Market rate supplements
- The P11D cash value of any taxable benefits (e.g., company cars, medical insurance)

Any Optional Remuneration Arrangement (OpRA) / salary sacrifice value is excluded, as this is an arrangement where an employee and employer contractually-agree to lower salary in exchange for, typically, a benefit such as childcare vouchers.

Predicted excluded amounts

The Assessment only excludes amounts that have been contracted at the time it is performed. For example, pension contributions are only an excluded amount if the person is a member of the pension scheme at the date of the Assessment. They should not be included if it is anticipated that the person will enter the scheme during the tax year.

The following excluded amounts should be included, if applicable:

- Occupational and workplace pension contributions
- Payroll giving donations
- Expenses payments included in the above earnings section, but which can be excluded from taxable pay
- Relocation-related removal expenses (up to £8,000)

Where estimated earnings and benefits total less than £125,140, the value of the Personal Allowance (£12,570 in 24/25) and the Blind Person's Allowance (£3,070 in 24/25), if applicable, are also included in '*Predicted excluded amounts'*.

Total earnings and benefits less excluded amounts

The 'employee's relevant earnings amount' for the tax year is, therefore:

- Total earnings and benefits ***LESS***
- Predicted excluded amounts

Tax and NICs free entitlement 2024/25

Sections 270A and 318A of the Income Tax (Earnings and Pensions) Act 2003 contain the limited Tax relief amounts for employees provided with ESC. The same limits apply for the level of disregard for employer and employee Class 1 NICs. Note that these limits are the same for Scottish, Welsh and rest of the UK Taxpayers.

The ESC provision is limited depending on the '*employee's relevant earnings amount*' which, in turn, gives the predicted marginal rate of Tax for the coming tax year. The Tax and NICs free amounts that can be processed in the payroll are as follows:

		Weekly	Monthly	Annual
Basic Rate	Up to £50,270	£55.00	£243.00	£2,915.00
Higher Rate	£50,271 – £125,140	£28.00	£124.00	£1,484.00
Additional Rate	Over £125,140	£25.00	£110.00	£1,325.00

Payroll Entries

Basic Rate marginal taxpayer

Where the employee's relevant earnings amount is up to and including £50,270 (i.e., the basic rate limit of £37,700 plus £12,570 Personal Allowance), the employee will be entitled to have the following amounts as Tax and NIC free elements in the payroll:

£55 per week / £243 per month / £2,915 per annum

Higher Rate marginal taxpayer

Where the employee's relevant earnings amount is £50,271 and £125,140, the employee will be entitled to have the following amounts as Tax and NICs free elements in the payroll:

£28 per week / £124 per month / £1,484 per annum

Additional Rate marginal taxpayer

Where the employee's relevant earnings amount is over £125,140, the employee will be entitled to have the following amounts as Tax and NICs free elements in the payroll:

£25 per week, £110 per month, £1,325 per annum.