

Salary Sacrificing for Early Childhood Education

Introduction

The University of Auckland is introducing a voluntary Salary Sacrifice Arrangement (SSA) for staff who have children in any of the University-based Early Childhood Education (ECE) Centres. This was a key recommendation in the report on the Strategic Review of ECE Centres and a recommendation of the Women Returning to the Workforce Project, a joint initiative of Human Resources, Equity Office and the Tertiary Education Union.

The terms and conditions in this policy document (which may be amended by the University from time to time) apply to all staff who chose to take advantage of the Salary Sacrifice Arrangement.

What is a Salary Sacrifice Arrangement?

A SAA is an arrangement between the University and a staff member whereby the staff member agrees to reduce his/her base salary for future pay periods by a specified annual amount agreed in advance, and a University-based ECE Centre provides the staff member childcare services equivalent in value to the amount of the reduction in the staff member's pay.

Who is eligible?

Any permanent staff member, or staff member who has a fixed term agreement of at least 12 months (whether part time or full time), who has a child attending one of the following University ECE Centres is eligible to apply for a SAA.

City Campus

- Alten Road Early Childhood Education Centre
- Symonds Street Early Childhood Education Centre
- Hineteiwaiwa Te Kohanga Reo

Grafton Campus

- Park Avenue Infant and Toddler Centre
- Park Avenue Childcare Centre

Epsom Campus

- Faculty of Education Early Childhood Education Centre
- Te Puna Kohungahunga

Tamaki Campus

- Just Kidz Early Childhood Education Centre

How does a Salary Sacrifice Arrangement work?

Currently you receive your annual salary from the University and PAYE is deducted from this amount. Then you pay your childcare fees directly to the ECE Centre from your net pay.

For Example:

Note: Tax rates are as at 1 April 2010. The IRD may change their rates from time to time. PAYE is based on "M" tax code

Base Salary (before tax)	\$50,000
Less PAYE deducted	<u>\$10,514</u>
Net pay	\$39,486
Less ECE fees	<u>\$ 5,000</u>
Net pay after ECE fees	<u>\$34,486</u>

If your ECE fees are \$5,000 per annum, your net pay after childcare will be approximately \$34,486.

However, under a Salary Sacrifice Arrangement you may choose to reduce your base salary (before tax) by \$5,000 for ECE fees.

For example

Base Salary before SSA	\$50,000
Less Salary Sacrifice for ECE Fees	<u>\$ 5,000</u>
Base Salary (before tax)	\$45,000
Less PAYE deducted	<u>\$ 9,156</u>
Net pay	<u>\$35,844</u>

PAYE is deducted from your sacrificed base salary of \$45,000 which results in a net pay of approximately \$35,844. This is an annual saving of approximately \$1,358 if you work full time for the year.

What are the benefits?

The benefit to staff of a SSA is that by reducing your gross salary by the amount you would normally contribute to ECE fees, you will only be paying income tax (PAYE) on the reduced base salary and may therefore have an increase in your net (or take-home) pay.

What are the implications?

There are many effects and implications that staff may need to consider before applying for a SAA. In applying for a Salary Sacrifice Arrangement, the staff member is deemed to accept all the resulting effects and consequences. Therefore, it is recommended that individuals seek independent (legal, financial and other) advice, and it is the staff member's sole responsibility to do so. The University cannot provide such advice to staff.

A Salary Sacrifice Arrangement essentially reduces a staff member's base salary for the duration of the arrangement. This may have effects and implications on:

- *Eligibility to claim for a childcare rebate (tax credit) from IRD;*
Individuals are eligible to claim a tax rebate of \$310 from the IRD annually if they pay for childcare. Under salary sacrificing you will not be able to claim this rebate as you will not have receipts of payment
- *The calculation for ACC entitlements in the event of injury;*
If you were to have a workplace accident ACC can pay up to 80% of your salary whilst you are unable to work. You will receive 80% of the sacrificed amount not your base salary
- *Potential effect on student loan deductions, Working for Family and other tax credits;*
Payments and tax credits that involve the IRD will all be based on your sacrificed salary and not your base salary. For example if you have a student loan your repayments will decrease as you will be taxed on the sacrificed amount
- *Potential effect on any income protection insurance and mortgage/credit applications;*
If you request an earnings certificate from the University for the above, your sacrificed salary will be the one shown not your base salary.

Application and Adjustments

- (a) Salary Sacrifice Arrangements can only apply to future pay periods. It cannot apply retrospectively to income that has already been earned, or be back-dated for ECE fees already incurred.
- (b) Under a Salary Sacrifice Arrangement, a University-based Early Childhood Education Centre provides the staff childcare services equivalent in value to the amount of the reduction in the staff member's pay. Where the childcare fees incurred by the staff member exceed the fortnightly reduction of the staff member's pay, the staff member remains liable to pay the difference directly to the Early ECE according to its terms.
- (c) Without limiting (b), if the staff member receives any additional childcare services on an ad hoc basis, the cost of the additional childcare services is not part of the Salary Sacrifice Arrangement. The staff member remains liable to pay for such additional costs directly to the Early Childhood Education Centre according to its terms.
- (d) Without limiting (b), where the Early Childhood Education Centre's fees increase, or where the staff member receives a different level of childcare services on a permanent basis, the staff member will make a request to AskHR for an adjustment to the Salary Sacrifice Arrangement to reflect the change in childcare fees.
- (e) Please note that any adjustment made only applies to future pay periods; therefore the onus is on the staff member to give advance notice of the adjustment request before the change in childcare fees takes effect. The staff member will remain liable to pay for any additional childcare fees directly to the Early Childhood Education Centre according to its terms until the Salary Sacrifice Arrangement is adjusted accordingly.

Relationship to the Child

Staff members can apply for a Salary Sacrifice Arrangement in respect of children for whom they have legal responsibility. For example: natural or adopted children, or where the staff member is the legal guardian of the child.

The childcare services to be provided to the staff member cannot be transferred or assigned by the staff member.

How will the Early Childhood Education Centre receive the childcare fees?

The ECE Centre will receive the fees via deductions from payroll that will go directly to the ECE Centre.

How do I apply to start salary sacrificing?

There is an application form that needs to be completed by you and the ECE Centre. Once you have both completed your portion of the form you should send it to AskHR.

What happens if you receive a salary increase?

Where the University makes an offer to you that includes a salary increase, the salary increase offer applies to your salary before the Salary Sacrifice Arrangement, unless the offer states otherwise.

For example

Salary before Salary Sacrifice Arrangement	\$50,000
Less Salary Sacrifice for Childcare Services	<u>\$ 5,000</u>
Base Salary (before tax)	\$45,000

Unless stated otherwise, the salary increase offer applies to the \$50,000 and not the \$45,000. If for example the salary increase was \$1,500 it would be as below:

For example

Salary before Salary Sacrifice Arrangement	\$51,500
Less Salary Sacrifice for Childcare Services	<u>\$ 5,000</u>
Base Salary (before tax)	\$46,500

What happens if I go on paid leave (such as annual leave)?

If you go on paid leave (such as annual leave), the Salary Sacrifice Arrangement will continue in effect.

What happens if I go on leave without pay?

Under a Salary Sacrifice Arrangement, a University-based Early Childhood Education Centre provides the staff childcare services equivalent in value to the amount of the reduction in the staff member's pay. If for any reason you are on leave without pay, or the salary sacrifice is not deducted from your pay, you will be required to make payment directly to the Early Childhood Education Centre for ECE fees.

Do I need to pay any fees to apply for a Salary Sacrifice Arrangement and are there any ongoing fees?

No, there are no application or ongoing fees for the staff member.

Is there a set period for a Salary Sacrifice Arrangement?

When your application for the Salary Sacrifice Arrangement is processed, the arrangement will continue in effect for a minimum of one year. If you wish to make any changes to the Salary Sacrifice Arrangement or to stop the arrangement you need to do this giving at least 4 weeks notice in writing to AskHR.

Why is there a minimum duration for the Salary Sacrifice Arrangement?

There are a number of costs incurred by the University in setting up and administering a Salary Sacrifice Arrangement. These costs are increased with additional changes. Therefore staff need to commit to a period of one year.

What happens if I change Early Childhood Education Centre part way through a year?

The Salary Sacrifice Arrangement is only for staff that have children in any of the University-based Early Childhood Education Centres. Therefore, if you take your child out of a University-based ECE Centre, you will need to request AskHR to cease the Salary Sacrifice Arrangement.

If you move your child from one University-based ECE Centre to another, you will need to give AskHR at least 4 weeks' notice in writing. The other University-based ECE Centre will continue to provide you childcare services. However if the childcare fees are higher, you will need to make-up the shortfall and pay this directly to the ECE Centre, or request an adjustment to the Salary Sacrifice Arrangement to reflect the change in childcare fees.

What happens if my child starts school part way through a year?

If your child starts school and s/he will no longer be attending an ECE Centre, you will need to make a request to AskHR to cease the Salary Sacrifice Arrangement by giving AskHR at least 4 weeks notice in writing.

Why is the Salary Sacrifice Arrangement only for staff who have children in a University-based Early Childhood Education Centres?

A non-cash benefit provided by an employer to a staff member in connection with employment can be subject to Fringe Benefit Tax ("FBT"). However where the University provides ECE services to staff, this will not give rise to FBT liability provided the service is provided on the premises owned or leased by the University.

Examples

Example A – part time staff member with one child

Sarah is a general staff member who works 3 days per week. She has a 4 year old son who is in the Symonds Street ECE Centre for 3 full days. Her son is entitled to 20 hours free childcare so Sarah currently pays \$28 per day, or \$84 a week.

Currently

Sarah's base salary (before tax) is:	\$30,000
Less PAYE deducted (around \$219 per fortnight)	<u>\$ 5,702</u>
Net Pay	\$24,298
Less annual ECE fees (\$84 x 50 weeks)	<u>\$ 4,200</u>
Net pay after ECE fees	<u>\$20,098</u>

Under a Salary Sacrifice Arrangement

Base Salary before Salary Sacrifice Arrangement	\$30,000
Less Salary Sacrifice for Childcare Services	<u>\$ 4,200</u>
Base Salary (before tax)	\$25,800
Less PAYE deducted (around \$182 per fortnight)	<u>\$ 4,731</u>
Net pay	<u>\$21,069</u>

This is a saving of approximately \$971 for the year for Sarah.

Example B – full time staff member with one child

Kate is an academic staff member who works full time. She has a 2 year old daughter who is in the Alten Road Early Childhood Education Centre full time. Kate pays \$220 per week in ECE fees.

Currently

Kate's base salary (before tax)	\$100,000
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Less PAYE deducted (around \$1,136 per fortnight)	<u>\$ 29,504</u>
Net Pay	\$ 70,496
Less annual ECE fees (\$220 x 50 weeks)	<u>\$ 11,000</u>
Net pay after ECE fees	<u>\$ 59,496</u>

Under a Salary Sacrifice Arrangement

Salary before Salary Sacrifice Arrangement	\$100,000
Less Salary Sacrifice for Childcare Services	<u>\$ 11,000</u>
Base Salary (before tax)	\$ 89,000
Less PAYE deducted (around \$968 per fortnight)	<u>\$ 25,103</u>
Net pay	<u>\$ 63,897</u>

This is a saving of approximately \$4,401 for the year for Kate.

Example C – full time staff member with 2 children

Helen is an academic staff member who works full time. She has a 6 month old baby and a 3 year old who are both in Early Childhood Education Centres full time. Helen pays \$240 per week for her baby and \$139 per week for her 3 year old.

Currently

Helen's base salary (before tax)	\$80,000
Less PAYE deducted (around \$828 per fortnight)	<u>\$21,516</u>
Net Pay	\$58,484
Less annual ECE fees (\$379 x 50 weeks)	<u>\$18,950</u>
Net pay after ECE fees	<u>\$39,534</u>

Under a Salary Sacrifice Arrangement

Salary before Salary Sacrifice Arrangement	\$80,000
Less Salary Sacrifice for Childcare Services	<u>\$18,950</u>
Base Salary (before tax)	\$61,050
Less PAYE deducted (around \$554 per fortnight)	<u>\$14,383</u>
Net pay	<u>\$46,667</u>

This is a saving of approximately \$7,133 for the year for Helen.

Example D – 2 parents working at the University

Helen's husband, John, has recently got a job at the University so they looked at options around Salary Sacrifice Arrangements. They both decide to apply for a Salary Sacrifice Arrangement with Helen continuing to pay for the baby's ECE fees and John paying for the 3 year old's ECE fees.

Currently – Helen

Helen's gross salary (before tax)	\$80,000
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Less PAYE deducted (around \$828 per fortnight)	<u>\$21,516</u>
Net Pay	\$58,484
Less annual ECE fees (\$220 x 50 weeks)	<u>\$11,000</u>
Net pay after ECE fees	<u>\$47,484</u>

Under a Salary Sacrifice Arrangement – Helen

Salary before Salary Sacrifice Arrangement	\$80,000
Less Salary Sacrifice for Childcare Services	<u>\$11,000</u>
Gross Salary (before tax)	\$69,000
Less PAYE deducted (around \$662 per fortnight)	<u>\$17,175</u>
Net pay	<u>\$51,825</u>

John also earns \$80,000 and he will pay the childcare for their 3 year old from his salary.

Currently – John

John's gross salary (before tax)	\$80,000
Less PAYE deducted (around \$828 per fortnight)	<u>\$21,516</u>
Net Pay	\$58,484
Less annual childcare fees (\$139 x 50 weeks)	<u>\$ 6,950</u>
Net pay after childcare fees	<u>\$51,534</u>

Under a Salary Sacrifice Arrangement – John

Salary before Salary Sacrifice Arrangement	\$80,000
Less Salary Sacrifice for Childcare Services	<u>\$ 6,950</u>
Gross Salary (before tax)	\$73,050
Less PAYE deducted (around \$722 per fortnight)	<u>\$18,742</u>
Net pay	<u>\$54,308</u>

If John and Helen both enter into a Salary Sacrifice Arrangement for the ECE fees for one child each, their combined net pay should be approximately:

Helen	\$ 51,825
John	\$ 54,308
Combined take home pay	\$106,133

Alternatively if only Helen enters into a Salary Sacrifice Arrangement for the childcare services of both children, their combined net pay should be approximately:

Helen	\$ 46,667
John	\$ 58,472
Combined take home pay	\$105,139

Therefore it is more beneficial for both John and Helen to enter into salary sacrificing and pay for the childcare of one child each as they will be approximately \$994 better off on an annual basis.

Disclaimer

The information and examples contained in this document are for general information purposes only. They are not intended to provide advice, and should not be used as a basis for any course of action or as a substitute for independent or professional advice (whether legal, financial or otherwise). No express or implied representation or guarantee (including towards third parties) is made as to the accuracy, reliability, completeness or currency of the information and examples in this document. All staff members considering a Salary Sacrifice Arrangement should evaluate their own circumstances and seek independent & professional advice.

The examples were produced using IRD's PAYE Deduction Tables as at April 2010 and they assume the staff member's tax code is 'M'. Therefore the examples may not be applicable to the staff member and will become outdated, so they should not be relied upon. Further, ECE fees may increase and the rates stated in this document may cease to be current.

Communications Plan

Thursday 27 May	Have all documents up on staff intranet
Wednesday 2 June	Send out an all staff email about introduction of salary sacrifice and discuss WRW network meeting will be held with more information
Wednesday 9 June	News story to go on staff intranet about introduction of salary sacrificing
Thursday 24 June	WRW Network meeting to discuss salary sacrificing and answer questions