

Fostering

INCOME TAX AND NATIONAL INSURANCE

We recently hosted a Fostering Network workshop on income tax & national insurance. Many of our carers been in touch to say how helpful the session was so we thought it might be useful for anyone who is considering fostering to have an understanding of how fostering payments work in relation to tax and benefits- we have used the information from the Fostering Network to put this article together for you

The Tax office (HMRC) treat all foster carers as self employed, so as a foster carer you need to register with HMRC. Once you're registered as self-employed you're also automatically registered for Class 2 National Insurance contributions. Once fostering you also need to start keeping a record of the children you foster, the dates they are with you and their ages. If you don't register with HMRC you may face a financial penalty.

If you've never had to do tax returns before... don't worry! HMRC have done everything they can to make this process as simple and straightforward as possible.



Coventry City Council

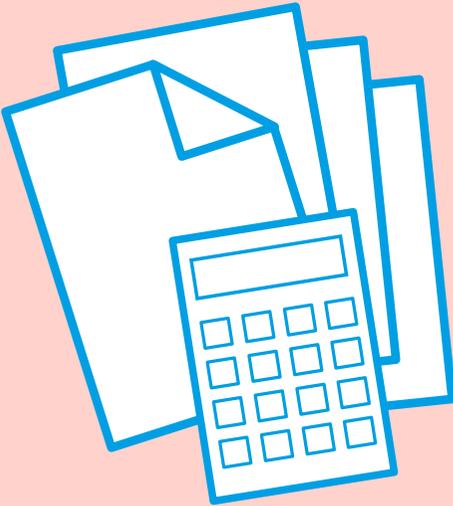
**ADOPT AND
FOSTER FOR
COVENTRY**

Working out your tax

As a foster carer, there are two ways you can work out whether you owe tax to HMRC – the ‘simplified method’ and the ‘profit method’. The HMRC film explains both these methods in full. We will just focus on the ‘simplified method’ here



Using the ‘simplified method’ (It’s quite simple)



The Government provides ‘qualifying care relief’ – an allowance for foster carers who care for a looked after child, called your ‘qualifying amount’, on which foster carers pay no tax.

Using the simplified method, you use the records you’ve kept during the tax year (including the length and ages of each placement you’ve had) to work out your ‘qualifying amount for that tax year

The qualifying amount is different for each foster carer, depending on how many children fostered, their ages, and how long you fostered them for within the tax year. Depending on your level of ‘qualifying amount’, you will probably find you aren’t required to pay any tax or national insurance on the income you earn from fostering.

Your ‘qualifying amount’ is made up of two parts – a fixed rate of £10,000 (if you have been a foster carer for the full tax year, or pro-rata if you only started part way through the tax year), AND a weekly rate of £200 for every week you had a child under the age of 11 placed with you; AND £250 for every week you had a child over the age of 11 placed with you. [A tax week runs Monday-Sunday, and any part of a week counts as a full week, so if a child stayed with you from a Thursday to Tuesday, that would count as two weeks for HMRC]. If you care for a disabled child you may be able to add on some ‘exceptional expenditure’ this entails, for example on special equipment, to the qualifying amount (speak to HMRC regarding this.

We will give you a statement each year after 5th April showing all the income you've received from fostering in the previous tax year. If the total income you've received from fostering that tax year (fees, allowances, birthday and Christmas allowances, mileage and any other expenses paid to you) is less than your qualifying amount, you have no tax to pay. Any income you earn above the qualifying amount is taxable, and is regarded as your 'taxable profit'.

As a foster carer you do need to declare for certain benefits (such as working tax credit) ANY taxable profit even if you don't have to actually pay tax because of your personal allowance

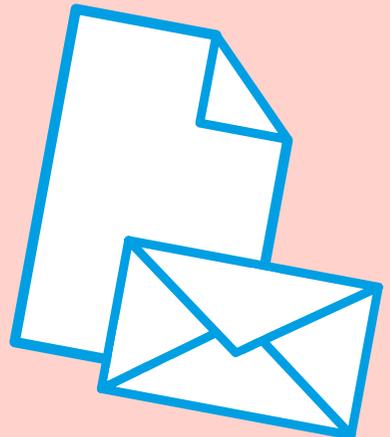
Remember, if you have no other income (e.g. from any other employment), you also have your full £10,600 personal allowance to use, in addition to your qualifying amount from fostering.



HMRC have provided an excellent e-learning package to get you started. This explains how to register, how to keep records for tax purposes, how to work out your qualifying amount, and the way you can work out whether you owe tax or N.I. to HMRC. Go to <http://www.hmrc.gov.uk/courses/syob2/fc/index.htm> and let Charlotte, a new foster carer, take you through the whole process.

Sending in your tax return

Once you are registered as self-employed, you'll be asked to send in a tax return each year, covering the period 6 April the previous year to 5 April in the current year. You have until 31 October of the current year to send in a paper tax return, or until 31 January of the next calendar year to send in your tax return online. If you register online you will be sent email reminders to prompt you to send in your tax return on time.



Here is an example

Sarah has been fostering for a year and fostering is her only job. She has had a 5 yr old and a 3yr old in placement for all of the 52 weeks
Her 'Qualifying Care Relief'

Part 1 - £10,000 per year plus

Part 2 - £200 x 52 weeks = £10,400 (first child)

£200 x 52 weeks = £10,400 (second child)

TOTAL = £30,800 Qualifying Care Relief

Income from fostering with Coventry City Council:

£139.36 'skills fee' per child per week is £278.72 per week which is:

£14,493 for the year (her 'skills fee' is for being a foster carer)

Sarah has also received:

£142.87 a week to spend on looking after the 3 yr old ,£162.82 per week for the 5 yr old so a total of £305.69 per week. Sarah also received 5 weeks additional payments over the year for holiday, clothing and festivals so a total of £1528.45

Total 'maintenance allowance' for spending on caring for the children per year:

£17,424 for the year

Added together these are:

£14,493 +

£17,424

£31,917 (all monies received from fostering)

£31,917 she takes away

£30,800 Qualifying Care Relief

=£1,917 Taxable profit (to be declared elsewhere as needed)

BUT she still has her personal tax allowance of £10,600

£1,917- £10,600 = NEGATIVE so NIL tax for the year

Here is another example

Jules and Petra have been fostering for 12 months, Jules works outside of the home and uses the personal tax allowance on that job. Petra also works outside of the home and also uses the personal tax allowance for that job. They have had a 13 year old in placement for 20 weeks and a fifteen year old in placement for 6 weeks

Their 'Qualifying Care Relief':

Part 1 - £10,000 per year plus

Part 2 - £250 x 26 weeks = £6,500 (20 plus 6 weeks of over 11 yr old in placement)

TOTAL = £16,500 Qualifying Care Relief

Income from fostering with Coventry City Council

£139.36 X 26 weeks £3,623 'skills fee' for fostering

Jules and Petra have also received:

£202.58 X 30 weeks 'maintenance' allowance = £6,077

Total 'maintenance allowance' for spending on caring for the children per year: (£202.58 per child for each week in placement is 26 weeks between the 2 placements, plus had 4 weeks of additional allowance to holiday and clothing is 30 weeks in total)

Added together these are:

£3,623 + £6,077 = £9,700 (all monies received from fostering)

From the:

£9,700 they take away

£16,500 Qualifying Care Relief

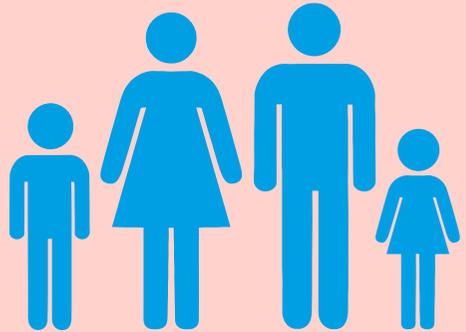
= NEGATIVE so NIL Taxable Profit to declare and NIL tax to pay



The 'other way' Using the 'profit method'

Using the profit method, you deduct your actual expenses spent on fostering from your fostering income for the tax year. It is usually only worth doing this if you have very high expenses connected with your fostering. Please speak to us, Fostering Network or HMRC about this for further advice.

Foster caring and national insurance



All self-employed people must register to pay Class 2 National Insurance contributions, which are set at £2.75 a week for 2014/15 and £2.80 for 2015-16. When you register as self-employed with HMRC you are also automatically registered for national insurance.

From April 2015 you automatically don't have to pay Class 2 contributions if your profit is under £5,965. Previously it was the Small Earning Exception (SEE) which would exempt you if your profit from fostering was below £5,885 in 2014/15 or £5725 in 2013/14 – but your entitlement to benefits and a state

pension may be affected. You can apply for National Insurance credits to protect your National Insurance record in these circumstances. Get form CF411A from HMRC to get these credits.

You will need to pay the higher rate (Class 4) National Insurance contributions if your profits from fostering are over £8,060 in 2015-16. £7,956 in 2014/15 or £7,755 in 2013/14

To find out more call the HMRC Self Employed National Insurance Contributions Helpline on 0300 200 3504

More guidance and resources on tax from HMRC

As well as the e-learning package for foster carers, HMRC have produced lots of helpful advice and guidance for foster carers. There are webinars specifically for foster carers, shared lives carers and those completing a tax return for the first time

You could also download record keeping apps supplied by the HMRC

The Fostering Network has a signpost booklet all about Income Tax and National Insurance which is updated every financial year. As members, foster carers can purchase the booklet at a discounted price of £2

And for further general advice and information for foster carers on tax issues visit HMRC or call the HMRC Newly Self-Employed Helpline on 0300 200 3504



Download



Visit HMRC



Call

Quick tip!

HMRC can be very helpful, if you do phone them, you may find it useful to ask to speak with someone who knows about 'Qualifying Care Relief' which is the tax scheme for foster carers (and other arrangements too e.g. staying put)



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Please note- This information is intended as a general guide only and not Tax advice - for advice for your particular circumstances you should contact HMRC or a qualified tax advisor

July 2015