

FOSTER CARERS

FOSTER CARERS AND HMRC

- Fostering is classed as self-employment.
- Carers need to register as self-employed and are required to complete a tax return.
- HMRC take the view that even if you have no tax to pay, you must still register as self-employed.
- Registering as self-employed is straightforward , and can be achieved by either:
 - a. Completing Form CWF1 available online
 - b. Registering online using HM Revenue and Custom’s website www.gov.uk/new-business-register-for-tax
 - c. Calling the newly self employed helpline on 0300 200 3504
- Once registered you will be asked to complete a Tax Return yearly for the period 6 April to the next 5 April.
- You will need to ensure that you submit your Tax return by 31 October (if you are filing by paper) or by 31 January (if you are filing online) following the end of the tax year in order to prevent late filing penalty charges. You will also need to make sure you pay any tax liability in time in order to prevent late payment penalties and interest charges.
- There are many elements that can affect your tax liability:
 1. The number of placements you have
 2. The type of placement you have, for example you may receive an enhanced fee for one of your placements, and whether you incur additional expenses for a child with special needs.
 3. Whether you foster with your partner
 4. Whether you receive any other income as well as your fostering income.

- HM Revenue and Customs have set up a tax scheme for foster carers to simplify the calculation of their taxable income by comparing a “Qualifying Amount” to their total fostering income.
- The Qualifying Amount is made up of two elements:
 1. The first element is a fixed rate of £10,000
 - a. This amount is available to you if you have been a foster carer for the entire tax year
 - b. If you have been a foster carer for part of the tax year, the amount is calculated on a pro-rata basis from the date you were appointed in the year
 2. The second is a weekly rate of:
 - a. £200 per week per placement under the age of 11
 - b. £250 per week per placement aged 11 or over

If your placement’s 11th birthday falls in the tax year, the rate changes from £200 to £250 per week from the week of the birthday.

In order to qualify for this tax relief you will need to group together the total income you received from your fostering duties, including reimbursed mileage and/or expenses along with your fostering income.

If your total fostering income is less than your “Qualifying Amount” then your taxable income is deemed to be NIL and therefore you have no additional tax to pay. If your income is over the Qualifying Amount, the excess is treated as your profit (taxable income) and this might give rise to an additional tax liability.

If you have any fostering income in excess of your Qualifying Amount, you also have your personal allowance to use (providing this has not been used against other income e.g. employment income).

TAX ALLOWANCE	2015/16	2016/17
Personal Allowance	£10,600	£11,000

CLASS 4 NATIONAL INSURANCE CONTRIBUTIONS

Depending on the level of your taxable profit, you may also be liable to pay Class 4 National Insurance Contributions. However, unlike Class 2 National Insurance Contributions, these do not attract National Insurance credits.

Class 4 National Insurance Contributions are paid at the following rate:

Tax Year	2015/16	2016/17
Class 4 National Insurance Contributions	9%	9%
Paid on taxable profits over	£8,060 pa	£8,060 pa

The following examples show how this is applied

Example 1. – Foster carer with three placements

James is a foster carer, and has three placements for the entire 52 week tax year. Two placements are under 11 years of age, and the other is now over 11 years of age. Let's say that James received payments of £397.25 per week for fostering each child. His tax position (for 2015/16 tax year) would therefore be as follows:

Income received

(£397.25 x 3 x 52)	£61,971
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Qualifying amount

Fixed rate	(£10,000)
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Weekly amount

Child under 11 – (£200 x 52 x 2)	(£20,800)
Child over 11 – (£250 x 52 x 1)	<u>(£13,000)</u>
	<u>(£43,800)</u>

TAXABLE INCOME	£18,171
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Once this has been calculated, you are then able to calculate your Income Tax and National Insurance liability.

Taxable Income	£18,171
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Less personal allowance	<u>£10,600</u>
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£7,571

Income Tax

£7571 x 20%	£1,514
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Class 4 National Insurance

(£18,171 - £8,060) x 9%	£910
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TOTAL TAX & CLASS 4 NATIONAL INSURANCE LIABILITY	£2,424
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Example 2 – Foster care with one placement

Mary is a foster carer, and only has one placement aged 12. As before, let's say that Mary received payments of £397.25 per week for fostering this one placement. Her tax position (for 2015/16 tax year) would therefore be as follows:

Income received

(£397.25 x 1 x 52) £20,657

Qualifying amount

Fixed rate (£10,000)

Weekly amount

Child over 11 – (£250 x 52 x 1) (£13,000)

£23,000

TAXABLE INCOME **£0**

When your fostering income is less than your "Qualifying Amount" your taxable income is deemed to be NIL, and you will not have a tax liability. However, you still need to declare this on a tax return.

CLASS 2 NATIONAL INSURANCE CONTRIBUTIONS

Class 2 National Insurance Contributions (NICs) are paid by the self-employed, and they count towards certain contributory based state benefits such as State Pension.

Tax Year	2015/16	2016/17
Class 2 National Insurance rate	£2.80	£2.80

- Registered Foster carers with profits below the Small Profits Threshold (SPT) who decide not to pay Class 2 NICs voluntarily, are entitled to claim National Insurance credits for carers. SPT for 2015/16 and 2016/17 is £5,965.
- Applications must be made on Form CF411a – available online, and you must have a letter accompanying the application from your fostering service, confirming that you are an approved foster carer.

FREQUENTLY ASKED QUESTIONS

Q. Why do I need to pay Class 4 National Insurance as well as Class 2 National Insurance?

A. Class 2 National Insurance is payable to secure entitlement to certain contributory based state benefits.

Class 4 National Insurance is also payable in addition to your Class 2 on self-employment profits over a certain limit. This is not linked to state benefit entitlement.

Q. I foster with my partner. Can we reduce our tax liability in any way?

A. If you foster with your partner it may be beneficial to trade as a partnership. If you split the fostering profits between you, your total liabilities may be lower.

Q. We only have one placement, but we received double funding because they need special care, is there any way of reducing our tax liability?

A. As a specialist foster carer you are entitled to compute your taxable income in exactly the same way as a non-specialised carer, except that exceptional expenditure may be claimed as an additional deduction in calculating your taxable profits. HM Revenue and Customs explain that expenditure may be 'exceptional' in either nature or degree, but the expenditure must relate directly to the placement's special needs in order to be deductible.

AUTO ENROLMENT

The law on workplace pensions has changed. Under the Pensions Act 2008, every employer in the UK must put certain staff into a pension scheme and contribute towards it. This is called “Automatic Enrolment” and applies to foster carers who have one or more employees.

The legal duties are explained on the website www.thepensionsregulator.gov.uk

TAX RATE BANDS

Rate	2015/16	2016/17
Starting rate for savings: 10% *	£0-£5,000	£0-£5,000
Basic Rate: 20%	£0-£31,785	£0-£32,000
Higher rate: 40%	£31,786-£150,000	£32,001-£150,000
45%	Over £150,000	Over £150,000

USEFUL FORMS AND TAX DATA

HMRC form description	HMRC form number
Registration for Self Assessment	CWF1
Application for National Insurance credits for carers	CF411a
Qualifying care relief guide	HS236
Registering a partnership	SA400
Registering a partner	SA401

GENERAL TAX & NATIONAL INSURANCE HELP/ADVICE

HM Revenue & Customs

www.hmrc.gov.uk

Newly self-employed helpline: 0300 200 3504

Self-assessment helpline: 0300 200 3310

National Insurance for the self-employed: 0300 200 3505

PROFESSIONAL ASSISTANCE

- The tax legislation is constantly changing and it could be very easy to make a mistake if you choose to complete your personal tax return without receiving professional help and guidance.
- If you have not engaged a professional to manage your financial situation, opportunities for reducing your tax bill (for example) maybe missed completely, or simply discovered too late.
- The need for professional advice and assistance is particularly important given that HM Revenue and Customs have the power to issue a range of penalties for all types of errors and discrepancies, whether innocent or not.
- There may be scope for reducing your tax bill and/or making beneficial claims. You may therefore find that the cost of any professional advice is more than offset by the tax saving you achieve as a result. If nothing else, you will have greater peace of mind that your affairs are in order and that you will not have any unexpected surprises at a later date.