

Foster and adult placement carers

This Help Sheet gives you information to help you fill in boxes in:

- the *Self-employment (short and full)* pages of your personal Tax Return, or
- the *Trading* pages of the Partnership Tax Return and the *Partnership* pages of your personal Tax Return.

Foster carers

Foster care Income Tax exemption

If you provide foster care to children and young people placed with you either by local authorities (Health & Social Services (HSS) Trusts in Northern Ireland) or voluntary fostering organisations, we will usually treat you as being self-employed. However, your income or profits from such care will usually be exempt from Income Tax.

This exemption does not include private fostering arrangements. So if you receive payments from the parent of a child for looking after them you will not qualify for the Income Tax exemption. Private foster carers should calculate their profits in the normal way.

The foster care exemption applies on a tax year basis. If the income from foster care is not for:

- a period of 12 months, or
- a period from the date you started providing foster care to 5 April 2008, or
- a period from 6 April 2007 to the date you ceased providing foster care you should ask us, or your tax adviser, for advice on how to complete your Tax Return.

How does your Income Tax exemption work?

If your total receipts from foster care in the tax year (the period from 6 April to 5 April) do not exceed your qualifying amount, those receipts will be free from Income Tax for that year. This means that, for tax purposes, you will be treated as having made no profit or loss from foster care for the year.

What is your qualifying amount?

Your qualifying amount consists of two parts which you should add together:

- an annual fixed amount of £10,000 for each household for 2007-08
 - if two or more carers within the same household separately receive payments for foster care, the fixed amount should be applied to their combined receipts
 - if you are a registered foster carer for less than a full year you can claim an appropriate proportion of your fixed amount
- **plus** a weekly amount for each foster child placed with you. For the tax year 2007-08, the weekly amount of £200 a week for each child aged under 11 and £250 a week for each child aged 11 or over.

Your qualifying amount does not affect your personal tax allowance. If your foster care receipts are exempt, the full amount of your personal allowance is available to use against any other income you might have.

The foster care exemption does not affect any income you may have from other sources, for example, from employment or from investments. Such other income will be taxed in the normal way.

What happens if your total foster care receipts exceed your qualifying amount?

If your total receipts from foster care exceed your qualifying amount, you have two options for calculating the tax you have to pay:

- the **profit method**, where you pay tax on your actual fostering receipts minus your actual expenses and capital allowances, or
- the **simplified method**, where you pay tax on your actual receipts from foster care minus your qualifying amount. If you use this method, no account is taken of your expenses or capital allowances.

You may wish to use the profit method if your allowable expenses and capital allowances are more than your qualifying amount, in which case your taxable profit will be less than that if you use the simplified method. If you decide to use this method, you will have to keep a detailed record of your receipts and expenditure

If you wish to use the simplified method you must notify us within one year after the end of the filing date for your Return. You can make your notification by completing your Return and submitting it by the filing date.

What are your total receipts from foster care?

Your total receipts from foster care are all the payments (fees, salaries, reward payments, allowances, etc.) you receive from your local authority, HSS Trust or voluntary fostering organisation, including those payments you have previously treated as being non-taxable.

Example 1

John's total receipts from providing foster care for one child aged fourteen for the whole of the year and one child aged eight for ten weeks of the year is £20,000. No other foster carers live in his house. His annual accounting date is 5 April. His qualifying amount will be made up as follows:

Fixed amount	£10,000
Child 1 (52 x £250)	£13,000
Child 2 (10 x £200)	<u>£2,000</u>
Qualifying amount	£25,000

As John's total receipts of £20,000 are less than his qualifying amount, they are exempt from Income Tax for 2007-08.

Example 2

John's circumstances are the same as in Example 1, except that his total receipts from foster care for the year are £30,000. His total receipts are now greater than his qualifying amount (£25,000). He can therefore choose between the profit method or the simplified method to calculate the tax he has to pay.

John's total expenditure and capital allowances for the year are £22,000 and so his profits from providing foster care are £8,000.

Under the profit method, John will pay tax on his actual profit for the year of £8,000.

If he chooses the simplified method, John will pay tax on the difference between his total receipts of £30,000 and his qualifying amount of £25,000, or £5000.

What if your accounting date is not 5 April?

If your annual accounting date is other than 5 April, the foster care exemption treats your total receipts from foster care in your accounting year as though they were the total receipts of the tax year in which your accounting year ends. Likewise, the qualifying amount for the tax year is treated as being the qualifying amount for your accounting year.

Example 3

Ruth's annual accounting date is 30 September. Her total receipts from providing foster care for one child aged fifteen for the whole of the year to 30 September 2007 and one child aged six for twenty weeks of the same year are £20,000. She is the only foster carer in her house. Her qualifying amount for 2007-08 will therefore be made up as follows:

Fixed amount	£10,000
Child 1 (52 x £250)	£13,000
Child 2 (20 x £200)	<u>£4,000</u>
Qualifying amount	£27,000

As Ruth's total receipts from foster care for the year ended 30 September 2007 of £20,000 are less than her qualifying amount of £27,000, they are therefore exempt from tax for the year.

Example 4

Ruth's circumstances are the same as in Example 3 except that her total receipts from foster care for the year ended 30 September 2007 are £32,000, which are greater than her qualifying amount. Her total expenses and capital allowances are £22,000 and so she has made a profit of £10,000 from providing foster care for 2007-08. She can therefore choose between:

- the profit method, so she would pay tax on her actual £10,000 profit, or
- the simplified method, which would mean she pays tax on the difference between her total receipts of £32,000 and her qualifying amount of £27,000, that is £5,000.

Completing the Self-employment pages

Enter the following details on the *Self-employment (short)* pages:

- if your total receipts from foster care are not more than your qualifying amount
 - enter 'Foster carer' in box 1, put 'X' in box 4 and enter zero, '0', in box 28
 - leave the rest of the *Self-employment (short)* pages blank.
- if your total receipts from foster care exceed your qualifying amount and you use the simplified method
 - enter 'Foster carer' in box 1 and fill in boxes 2 to 7, as appropriate
 - enter your total receipts in box 8, your qualifying amount in box 19 and the net amount in boxes 20 and 28.

Enter the following details on the *Self-employment (full)* pages:

- if your total receipts from foster care are not more than your qualifying amount
 - enter 'Foster carer' in box 1, put 'X' in box 12 and enter zero, '0', in box 74
 - leave the rest of the *Self-employment (full)* pages blank.
- if your total receipts from foster care exceed your qualifying amount and you use the simplified method

- enter 'Foster carer' in box 1 and fill in boxes 2 to 13, as appropriate
- enter your total receipts in box 14, your qualifying amount in box 30 and the net amount in boxes 46, 62, 71 and 74.
- if your total receipts from foster care exceed your qualifying amount and you do not wish to use the simplified method
 - fill in the *Self-employment (full)* pages by entering your total receipts, allowances and balancing charges in the normal way.

Losses

Normally there cannot be a tax loss in a year when your foster care receipts are exempt. So if your total receipts are less than your qualifying amount you have no tax loss for that year. However, overlap relief can create a tax loss. This may occur when you change your accounting date or you cease to provide foster care. In such circumstances you should approach your tax adviser or ask us for help.

Any losses from earlier years, when you were not exempt, are not lost - they are dealt with as follows:

- losses can be set against your profits from foster care in the usual way, if your total receipts from foster care exceed your qualifying amount. This applies whether you have calculated your profit by using the profit method or by using the simplified method
- losses brought forward will be carried forward to set against the profits from foster care of a later year if your total receipts from foster care do not exceed your qualifying amount and you therefore have no tax to pay on that income.

What about foster care partnerships?

Children are placed with individuals, not with partnerships. However, we accept that a partnership can carry on a business of providing foster care. Where this is the case a Partnership Tax Return should be completed on the basis that the qualifying amount relates to the partnership rather than to the individuals involved in the partnership.

How will this affect National Insurance contributions (NICs)?

In practice we will treat your taxable profit from foster care as earnings from self-employment for NICs purposes. If you are exempt, your taxable profit is nil.

Registration

All self-employed people aged 16 and over who are below State Pension age are liable and must register to pay Class 2 National Insurance contributions. These are set at £2.20 a week for 2007-08.

We are aware that a number of foster carers may not have registered for Class 2 NICs because they make little or no taxable profit. We will not impose a penalty on foster carers who fail to register or to apply for the Small Earnings Exception (see below) where foster care is the only source of self-employed income and your taxable profit is nil.

However, if you choose not to pay Class 2 NICs, you should be aware that your entitlement to Incapacity Benefit, Maternity Benefit, State Pension and Bereavement Benefit may be affected.

If you have not previously registered to pay Class 2 NICs, you can obtain further information by calling the Newly Self-employed Helpline on **0845 915 4515**. If you are currently registered to pay Class 2 NICs, you can obtain further information by calling the Self-employed Helpline on **0845 915 46 55** instead.

Small Earnings Exception

If your annual earnings from self-employment are low (less than £4,635 a year for 2007-08), you can apply for a Small Earnings Exception once you have registered. This means that paying Class 2 NICs is optional if your earnings are below £4,635.

Class 4 NICs

All self-employed people are liable to pay Class 4 NICs on taxable profits above a threshold. For 2007-08 the rates are 8% on profits between £5,225 and £34,840, and 1% on profits above that. If your foster care receipts are exempt, and you have no other self-employed income, you will not have to pay Class 4 NICs for the year.

If the taxable profit exceeds the Class 4 NICs exempt threshold, you should complete boxes 98 to 100 of the *Self-employment (full)* pages and boxes 33 and 34 of the *Self-employment (short)* pages as normal. Further explanation is included in the *Self-employment notes*.

Adult Placement Carers

You are an adult placement carer if:

- you provide accommodation, care and support to an adult who has been placed with you by either a local authority (HSS Trust in Northern Ireland) or an independent body under an adult placement scheme, and
- you provide care for between one and three adults.

If you are an adult placement carer, you can use the following simplified arrangements so that you do not have to keep full records to determine your taxable profit. They apply to schemes which are registered with the relevant care standards inspectorate, or unregistered schemes which comply with the National Association of Adult Placement Services' (NAAPS) good practice standards. You can use these arrangements as long as you do not provide full time care for more than three adults at any one time in the year.

However, you are not required to use these arrangements: you may instead determine your taxable profit by keeping full records of your income and expenses. If you do choose to do so, you are outside of the simplified arrangements and you should complete the Tax Return in the normal way.

The simplified arrangements apply for accounting periods ending between 6 April 2007 and 5 April 2008 inclusive.

How do the simplified arrangements work?

As an adult placement carer you have a choice of methods for calculating your taxable profit.

If you are a full-time carer with between one and three adults in care at any one time during the year, you can choose to calculate your taxable profit in one of the following four ways:

- the Rent a Room method. Under this method your taxable profit is the payments you receive each year minus £4,250. If the amount you receive is less than £4,250 your taxable profit is nil
- the fixed expenses method. Under the fixed expenses method you deduct from the amount you receive, fixed expenses of £400 a week for the first adult and £250 a week for the second and third adults that you care for at any one time.

If the total of the fixed expenses is more than the amount you received, your taxable profit is nil. If the total of fixed expenses is less than the amount you received then you can choose to pay tax on this difference

- the profit method. You are required to keep full records of your actual income and allowable expenses for the year. Your taxable profit is the payments you receive minus any allowable expenses or capital allowances
- the sampling method to determine a fair estimate of regular expenses for the year by keeping records of your allowable regular expenses for three months, and then multiplying up. Add the total to your other allowable expenses to arrive at your total allowable expenses for the year. Deduct this amount from your income for the year to calculate your taxable profit for the year.

If you wish to claim loss relief you must use the profit method

Capital allowances are not available if you use either the Rent a Room method or the fixed expenses method. Capital allowances are available if you use the sampling method.

Example 5

Quentin provides care for one adult throughout his accounting year to 31 October 2007, and for a second adult for 24 weeks. He receives £20,000 for providing care.

- **Rent a Room method.** Quentin calculates his profit as £15,750.

Receipts	£20,000
<i>minus</i> Rent a Room relief	<u>£4,250</u>
Profit	£15,750

- **Fixed expenses method.** Quentin calculates his profit is nil.

Fixed expenses	
Adult 1 (52 x £400)	£20,800
Adult 2 (24 x £250)	<u>£6,000</u>
Total fixed expenses	£26,800

The total fixed expenses are more than his receipts. The fixed expenses method cannot result in a loss, so the profit is nil.

Example 6

Quentin's circumstances are the same as in Example 5 except that he receives £30,000 for providing care.

- **Fixed expenses method.** Quentin calculates his profit as £3,200.

Receipts	£30,000
<i>minus</i> fixed expenses	<u>£26,800</u>
Profit	£3,200

- **Sampling method.** Quentin calculates his profit as £900. His records of regular expenses for three months (13 weeks), with two adults in care, shows allowable expenses of £3,900. He has other allowable expenses of £5,600 for the year.

Regular expenses

Weekly expenses (£3,900/13)	£300
Weekly expenses for each adult (£300/2)	£150
Total for the year ((52 + 24) x £150)	£11,400
Other allowable expenses	<u>£5,600</u>
Total allowable expenses	£17,000

Quentin also claims capital allowances on his car of	£2,100
Receipts	£20,000
<i>minus</i> expenses	£17,000
<i>minus</i> capital allowances	£2,100
	<u>£19,100</u>
Profit	£900

Respite carers

As a respite carer you can have the same choices for calculating your taxable profit as a full-time carer.

Additionally, if you provide no more than 182 days of care in a year (add together the number of days of care for each adult) you can treat your taxable profit as nil.

Carers of children other than foster care

If you provide accommodation and a significant degree of care to a child who has been placed with you through a care scheme operated by a local authority (HSS Trust in Northern Ireland), or an independent body, you can use the same methods for calculating the tax you have to pay as an adult placement carer.

Completing the Self-employment pages

Enter the following details on the *Self-employment (short)* pages:

- if your taxable profit calculated using the simplified arrangements is nil
 - enter 'carer' in box 1, put 'X' in box 4 and '0' in box 28
 - leave the rest of the *Self-employment (short)* pages blank
- otherwise
 - enter 'carer' in box 1 and fill in boxes 2 to 7, as appropriate
 - enter the receipts in box 8, the expenses in box 19 and the taxable profit in boxes 20 and 28.

Additionally, if you are using the sampling method, and want to claim capital allowances, enter 'Sampling method' in box 1 and complete boxes 22 and 23.

Enter the following details on the *Self-employment (full)* pages:

- if your taxable profit calculated using the simplified arrangements is nil
 - enter 'carer' in box 1, put 'X' in box 12 and '0' in box 74
 - leave the rest of the *Self-employment (full)* pages blank

How will the relief affect National Insurance contributions (NICs)?

- otherwise
 - enter 'carer' in box 1 and fill in boxes 2 to 13, as appropriate
 - enter the receipts in box 14, the expenses in box 30 and the taxable profit in boxes 46, 62, 71 and 74.

Additionally, if you are using the sampling method, and want to claim capital allowances, enter 'Sampling method' in box 1 and complete boxes 48 to 57 as appropriate.

In practice we will treat your taxable profit under the simplified arrangements as your earnings from self-employment for NICs purposes.

Registration

All self-employed people aged 16 and over who are below State Pension age are liable and must register to pay Class 2 National Insurance contributions (NICs). These are set at £2.20 a week for 2007-08.

We are aware that a number of carers may not have registered with us because they make little or no taxable profit. If caring is your only source of self-employed income and your taxable profit is nil, we will accept that you need not register with us and apply for the Small Earnings Exception (see below).

If you choose not to pay Class 2 NICs, your entitlement to Incapacity Benefit, Maternity Benefit, State Pension and Bereavement Benefit may be affected.

If you have not previously registered to pay Class 2 NICs, you can obtain further information by calling the Newly Self-employed Helpline on **0845 915 4515**.

If you are currently registered to pay Class 2 NICs, you can obtain further information by calling the Self-employed Helpline **0845 915 4655** instead.

Small Earnings Exception

If your annual earnings from self-employment are low (less than £4,635 a year for 2007-08), you can apply for a Small Earnings Exception once you have registered. This means that paying Class 2 NICs is optional if your earnings are below £4,635.

Class 4 NICs

All self-employed people are liable to pay Class 4 NICs on taxable profits above a threshold. For 2007-08 the rates are 8% on profits between £5,225 and £34,840, and 1% on profits above that. If you are exempt you will not have to pay Class 4 NICs.

If the taxable profit exceeds the Class 4 NICs exempt threshold, you should complete boxes 98 to 100 of the *Self-employment (full)* pages and boxes 33 and 34 of the *Self-employment (short)* pages as normal. Further explanation is included in the *Self-employment notes*.

These notes are for guidance only, and reflect the position at the time of writing. They do not affect any rights of appeal.