



Qualifying Care Relief (Simplified Method) - Tax Scheme for Foster Carers

Since April 2003, all foster carers have been treated as self-employed (including foster carers who provide respite/support care). At this time, HM Revenue and Customs (HMRC) introduced a specific tax scheme for foster carers ('foster care relief'). In April 2010, foster care relief was extended and renamed 'qualifying care relief'. This allows foster carers to receive payments from their fostering service up to a certain level (called your qualifying amount), without being liable for tax.

The qualifying care relief covers foster care, shared lives care (formerly called adult placement), staying put care (where a young person who was fostered remains past their 18th birthday), and parent & child care.

Many foster carers have little or no taxable profit from fostering, because the qualifying care relief is fairly generous. However, a foster carer needs to do a simple calculation at the end of each tax year to find out what their qualifying amount is for the tax year and whether they have any taxable profit or not. We would also advise foster carers not to compare themselves with other foster carers. The simple calculation will be unique to you and your circumstances and therefore your threshold is unlikely to be the same as other foster carers.

The calculation is as follows:

STEP 1

Work out your tax-free 'qualifying amount' (tax threshold) by adding together two elements:

A basic element of £10,000 per household per tax year on the basis the foster carer has been

approved for the whole of the tax year (or pro rata for foster carers newly approved part-way through the tax year)

Plus

A child element, for each week (or part week) a child is placed with you of:

£200 per week per child aged under 11
£250 per week per child aged 11+

Example: child aged 8 is placed for a full year (6th April to 5th April). Basic element £10,000 plus child element £200 x 52 weeks i.e., £10,400 therefore TOTAL qualifying amount £10,000 + £10,400 = £20,400

Note that a tax week runs from Monday-Sunday, so if a child arrives on a Thursday and leaves on Tuesday that counts as two 'weeks'.

STEP 2

Work out your total payments from your fostering service for the tax year (6th April to 5th April). This is **everything** paid to you by your fostering service including fostering allowances, fee or reward payments, retainer payments, holiday or birthday allowances, mileage and any other expenses. Your fostering service should give you a statement after the 5th April, showing your total payments for the year.

Working out if you have any taxable profit

Now work out your profit – by deducting your 'qualifying amount' (tax threshold) from your total payments from your fostering service provider.

If the qualifying amount (tax threshold) is more than the total payments from your fostering service, the profit is zero.

If a foster carer has a taxable profit from their fostering they might still not have to pay any tax if they have not used their personal tax allowance (for example, if they foster full-time and have no other employment). Every UK resident has a personal tax allowance which may vary with their circumstances. This is the amount of income you can receive each year, including any taxable profit from fostering, without having to pay tax on it. The Personal Allowance for most people born after 5 April 1948 for 2015/16 is £12,500. This allowance is how much taxable income you can have before you start paying Income Tax.

If a foster carer has a taxable profit from their fostering (i.e. their fostering payments are more than their qualifying amount (tax threshold) they then have a choice to make – continue to use Qualifying Care Relief to work out how much profit they have to pay or use the traditional profit and loss method (this would require them to keep every single receipt that they spend on fostering).

Additional points to be aware of:

Parent and child placements – You can use qualifying care relief when you undertake parent and child placements. If the parent and child are both 'looked after children', you can use the weekly amounts for the parent and the child. If only the parent is a 'looked after child', you can only use the weekly amount for the parent. If only the child is a 'looked after child', you can only use the weekly amount for the child.

Caring for a child/young person who has additional needs

HMRC allows a foster carer who is using qualifying care relief to add the amount you actually spend on providing these special needs to your 'qualifying amount' (tax threshold) – which you calculate in 'Step 1' above. This would be for exceptional, high-cost items e.g. a piece of sensory equipment.

Child care during the day

If a foster carer helps to look after a child for a few hours during the day e.g. in order for the child's foster carer to attend training, an appointment, a meeting etc. and receives a payment for it – the foster carer cannot use the 'additional amount per child per week' (within Step 1 above) as part of qualifying care relief because the child will not be formally 'placed' with them as a fostering arrangement. We believe the foster carer can include the payment they receive for providing the care when totally their fostering payments, but they cannot increase their tax threshold because the child is not formally placed with them as a fostering placement.

Registering as self-employed with HMRC & self-assessment

Regarding self-assessment, foster carers are treated by HMRC as self-employed and must register their self-employment with HMRC once they have been approved as foster carers, regardless of whether their total fostering payments exceed the qualifying care relief threshold or not.

HMRC will charge a penalty if the foster carer does not let them know within six months of the end of the tax year in which they start self-employment, which is 5 October.

For example:

If you become approved as a foster carer between 6 April 2019 and 5 April 2020, register by 5 October 2020.

This can be done online at: www.gov.uk/register-for-self-assessment, by telephone via the **Newly Self-Employed Helpline 0300 200 3500, 8.00am to 8.00pm Monday to Friday, and 8.00 am to 4.00pm on Saturday**, or in writing by filling in a form CSFI. The self-assessment tax return comes as a short form or a full form and comes with self-employment supplementary pages short form or full form. If you are completing a paper copy of a self-assessment tax return form, you need to make sure you have the (1) **SA100** and (2) **self-employment supplementary page** (you can use the short version if your

'annual business turnover' (i.e. your payments from your fostering service) was below £85,000). If you are completing your self-assessment online, you will be asked some initial questions which will then build a bespoke self-assessment according to your circumstances.

HMRC's preferred method is to register online. When you use this method, you will also automatically be signed up for the self-assessment online service. This means you can send your self-assessment tax returns online. Once you have registered your self-employment, a record will then be set up for you. You will be given a unique taxpayer reference (UTR). HMRC will also send you an activation code through the post so that you can start to use the online service to submit your self-assessment tax return online. You need to use this number to activate the service within 28 days or else it will expire and you will need to sign up for an online account again later.

A couple who both foster can choose whether one of them declares all of the fostering income (as the main carer) or whether they split everything between them

If you have no taxable profit from fostering, and choose the simplified method, as outlined above, completing a self-assessment tax return need not be complicated. Most foster carers find they can complete their tax returns without needing an accountant, however if you have complicated tax affairs or prefer to pay someone to complete your tax return, any local accountant should be able to do this for you. Alternatively, there are specialist organisations that offer free tax information and advice to people who are on low incomes. If your only income is from foster care you are likely to be considered on a low income.

HMRC's e-learning package for foster carers has a section all about completing an on-line self-assessment tax return form, including some 'screen shots' of what it will look like – you can view this at the following link http://www.hmrc.gov.uk/courses/syob2/fc/HTML/fc_701.html

When completing a tax-return form (either paper copy or online), normally HMRC will need to know three figures from you:

1. 'expenses' – your qualifying amount (tax threshold) (as calculated in Step 1)
2. 'turnover' – your total payments from your fostering service (as calculated in Step 2)
3. 'net profit' – this is either going to be £0 (if fostering payments are below qualifying amount/tax threshold) or £'x' (the amount you have gone over your threshold).

Tax Aid

AUK charity that provides free tax advice to people who are on low incomes. They have a helpline 0345 120 3779 open 10am-12 noon Monday-Friday and website www.taxaid.org

The Low Incomes Tax Reform Group (LITRG) aims to give voice to those usually unrepresented in the tax system, including offering free tax advice to those on low incomes. They can be contacted via their website www.litrg.org.uk

Class 2 National Insurance Contributions

Finally, for completeness, when foster carers register as self-employed they also register for Class 2 National Insurance (NI) contributions. Foster carers have a number of options about how they wish to pay this Class 2 NI:

- Qualify for the **Small Profit Threshold (SPT)**. If a foster carer has no taxable profit from their fostering, or if they have taxable profit (the amount over the threshold) by up to £6,365 automatically they will not have to pay Class 2 NI contributions. Foster carers can make a voluntary contribution if they want to if their National Insurance record is not complete. (In previous tax years (2014/15 and before), a foster carer has had the option of applying for a Small Earnings Exception (SEE) if their annual

profit from self-employment is nil or below £5,885 (2014-15). By applying for a SEE this has allowed a foster carer to opt out of paying Class 2 NICs – the difference was a foster carer had to complete a form to ‘opt out’ of paying class 2 NICs. For the SPT it is automatic.)

- **NI credits** – foster carers can apply for a NI credit for each week they are approved as a foster care. Foster carers can apply for NI credits at the end of each tax year and they have one year to do so. There is a form they will need to complete and will require a letter from their fostering service to confirm they have been approved for the tax year. A NI credit will count towards your NI record.
- **Voluntary contributions** (tax year 2019-20 are £3/week) – more information about voluntary NI contributions can be found at the following link
<https://www.gov.uk/voluntary-national-insurance-contributions/who-can-pay-voluntary-contributions>

The option you choose from above will depend on your individual circumstances and whether you have a full NI record or not.

More information about how to check your NI record can be found on the government’s website at the following link
<https://www.gov.uk/check-national-insurance-record>

Further Sources of Information

You can view HMRC's e-learning package for foster carers at the following link
<http://www.hmrc.gov.uk/courses/syob2/fc/index.htm>

Normally every month HMRC hold a ‘webinar’ (a ‘live’ presentation you can watch and participate through your computer). More information and how to register can be found at the following link

<https://www.gov.uk/government/news/webinars-emails-and-videos-if-youre-self-employed> (scroll down to ‘foster carers’).

You can view HMRC's Helpsheet 236 at the following link
<https://www.gov.uk/government/publications/qualifying-care-relief-foster-carers-adult-placement-carers-kinship-carers-and-staying-put-carers-hs236-self-assessment-helpsheet>

Copies of the following documents are available in the foster carer’s handbook under finance

- **SA100 tax return form 2018/19** – so you can see what the form looks like.
- **Self-employment supplementary page (short version) 2018/19** – so you can see what the form looks like - you can use the short version if your ‘annual business turnover’ (i.e. your payments from your fostering service) was below £85,000
- **Staying Put (DfE, DWP and HMRC) Guidance** – for those foster carers who provide Staying Put arrangements