

A GUIDE TO INCOME TAX AND NATIONAL INSURANCE FOR FOSTER CARERS

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In conjunction with Suffolk County Council

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INTRODUCTION

This document has been prepared as a simple guide to help Foster Carers understand the tax situation they face and to help with National Insurance (N.I.) questions. It will show the alternative methods of calculating tax due and paying N.I. It may not cover all of your individual needs and the Association will try to answer any questions that arise due to your personal tax situation. Where we cannot answer those questions we will point you to an alternative specialist for more answers.

Income Tax the Alternative Methods of Calculating what you may owe

The Qualifying Care Relief Scheme allows for two methods of calculating payment: THE SHORT SCHEME or the SELF-EMPLOYED FULL SCHEME.

It is recommended that you use the Short Scheme, for the majority of people it is the easiest way to work out your tax situation and will almost always see the Foster Carer having no tax bill to pay. The Self Employed full Scheme is really only applicable where the Carer has multiple incomes and large outgoings that can be used to reduce tax. Or where income from Fostering greatly exceeds allowances and a large profit may arise. It also normally requires an Accountant to be involved in the process adding to the cost of such a scheme.

It is therefore proposed to only concentrate on the Short Scheme at this stage.

Steps to follow

- If you have not already done so you must register with HMRC letting them know you wish to register as a self-employed Foster Carer working on the Short Scheme and using the form SA100. If they do not

understand ask to be put through to the team that deals with Foster Carers. HMRC do provide an e learning link on their web site.

- To register call **0300 200 3504** or go online to **www.gov.uk/register-for-self-assessment** or by completing form **CWF1**.
- You must register with N.I. and pay a class 2 contribution currently £2.75 a week or a class 4 contribution if your profits are between £7,956 - £41,815 and this is set at 9%. You may be exempt from payment but do **ask how will this affect your pensions**.
- If you are not sure where you stand call The Department of Work and Pensions and ask them - their number is **0845 3000 168** or go to their web site **www.gov.uk/state-pension-statement**.
- You may qualify for N.I. credits to obtain them you will need to complete a form CF411A which is obtainable from the Tax Office or your local Jobcentre Plus office. Or call HMRC on **0300 200 3500** or via their web site **www.hmrc.gov.uk/forms/cf411A.pdf**. You must register within one year of the end of the qualifying tax year.

Do not leave this - and from April 2010 you will need N.I. contributions to get the full state pension. If you have a partner- you currently both need to have paid for 30 years for both to qualify. In 2016, however this is due to increase again and you will need 35 years payment for both of you to claim the full state pension.

To obtain greater understanding we recommend you contact the Fostering Network and ask for their Signposts in Fostering booklet covering Income Tax and National Insurance. Call **020 7620 6400** to have one posted to you.

THE SHORT SCHEME

The scheme covers all people Fostering or who are a Staying Put Carer, or are a Parent and Child Carer or working in certain Kinship Carer Arrangements or offer Shared lives/Adult placement care. It should be noted that HMRC tax relief does not cover Private fostering arrangements nor does it cover other payments made by a local authority such as child arrangements/residence order payments or special guardianship payments or section 17 payments.

WHAT IS INCOME

In simple terms you take all of your income from fostering that includes:

- All allowances
- Fees
- Rewards or special payments
- All expense payments
- All capital payments paid for alterations to your house
- Reimbursements for equipment expenditure.

This figure must be supplied to you by the local authority and they have a duty to provide this information in time for you to complete your tax return. If you do not have it you must chase your support worker for it.

With major expenditure or capital works to your home it is advisable that you get the Local Authority to pay the supplier directly or provide the equipment needed as their payments to refund your costs will be counted as taxable income.

Against this total income you then set your threshold which is the amount you can earn before tax is due. For most people this threshold will exceed their income and thus most people will not have to pay tax. The threshold is calculated as below:

- A fixed amount of £10,000 a year is provided. This is applied on a pro-rata basis if you were approved as a carer part of the way through the tax year.
- In addition each child you foster provides an additional threshold allowance of £200 a week if they are between 0 and 10 or £250 a week if the child is between 11 to 17. If you are a short term or respite carer the weekly threshold allowance is the same but if you keep a child over Sunday night and through Monday the tax man calculates your allowance as if it was for two full weeks. This is because the tax week commences at 12.01am every Monday.

- In addition your normal tax allowance still applies.

We have included a few simple examples to illustrate how the scheme works. For these examples we have used the new proposed payment scheme currently under discussion.

EXAMPLE CALCULATIONS

Example 1

Is where you care for one child over 11 for the full year as a level 3 carer.

Income £355 a week for 52 weeks	= £18460
Holiday payment	= £ 318
One week's pay for birthday	= £ 159
One week's pay for Christmas	= £ 159
Assume expenses to cover travel etc.	= £ 400
Total Income	£19496
Tax Allowance	£10,000
Threshold Allowance 52 week	
At £250	£13000
Personal Tax Allowance	£10500
Income Allowance before tax is due	£ 33500

Thus the tax due is £0

Example 2

Two children one is 16 at level 4 one is 14 at level 4

Income 52 weeks at £505	= £ 26312
Income 52 weeks at £455	= £ 23660
Holiday payment £370 + £318	= £ 688
One week's pay for birthday	
For both children	= £ 344
One week's pay for Christmas	

For both children = £ 344

Assume expenses for travel etc. = £ 600

Total Income = £ 51948

Tax Allowance £10,000

Threshold Allowance 52 week

At £250 per child X 2 £26000

Personal Tax Allowance £10500

Income Allowance before tax is due £ 46500

Thus Taxable income is £51948 -£46500 =£5448

Example 3

Three children one level two under 10 one level three under 15 and one level 3 under 10.

Income 52 weeks at £165 = £ 8580

Income 52 weeks at £355 = £18460

Income 52 weeks at £305 = £15860

Holiday pay for the three children = £ 874

Birthday pay for the three children = £ 437

One week's pay for Christmas

For all three children = £ 437

Assumed expenses for all three = £ 650

Total Income = £44756

Tax Allowance £10,000

Threshold Allowance 52 week

At £250 for one child £13000

At £200 per child x 2 £ 20800

Personal Tax Allowance £10500

Income Allowance before tax is due £ 54300

Thus the tax due is £0

TAX THRESHOLD CALCULATION FOR RESPITE

To clarify the tax allowance for those people who do respite or short term fostering the income is the amount paid and the Threshold Allowance is calculated as the total number of weeks as full weeks even though they may be part weeks or weekends. For example (one)

If a child arrives on a Friday and goes back on Monday morning the tax man will take that as two full weeks for the Threshold calculation.

Example (two)

Similarly if a child arrives on a Thursday and stays the whole of the next week and leaves on the following Tuesday that will be taken as three full weeks for the Threshold Allowance.

The Tax Allowance of £10,000 can also be pro-rated.

For example one that would be worth £384.62 and for example two it would be worth £576.92

Note when calculating your income any money paid under the disability allowance is not to be counted as income.

COMPLETING THE TAX FORM – SHORT SCHEME

Having completed your calculations and allowances you will either owe tax or not. If not enter the term Qualifying Carer in box 1 on the short pages and then put an X in box 4 and finally enter a zero in box 30.

You must then leave the rest of the self-employment (short) pages blank as the other sections are not relevant to you.

Where the income exceeds your allowances, and thus you are in profit, you can still use the simplified method. Again enter the term Qualifying Carer in box 1 and then go to box 2 and complete all sections to and including box 7 as appropriate. In box 8 you will need to enter your total income and then the full qualifying total in box 19. The difference or profit which is the net amount in box 20 and again in box 30.

If you wish to use the full pages of the self-employment section we strongly suggest you seek help both to complete the form but to also ensure you do so by the required dates.

Having completed the self-assessment tax return and filed it with HMRC you will receive a statement to either confirm that no tax is due or what tax you are liable to pay.

SMALL EARNINGS EXEMPTION

Each carer can apply for the small earnings exemption if they earn a profit from caring as per the tax return calculations provided the profit is less than £5885 for the tax year 2014-2015. If you make no profit, or fall under the Small Earnings Exemption, you will not have to pay a Class 2 NICs. You must still register for Class 2 NICs to ensure your pension and other benefits are not effected and ask for the exemption under form CF10. The system has been changed since 17 July 2014 and now your contributions are calculated by HMRC from your self-employed tax return. You must still check your contribution to see if it is advisable that you make a voluntary payment to ensure maximum benefit later in life.

Failing to do this will affect your entitlement to future employment and support allowances, your state pension and bereavement benefit. As a Foster Carer you must apply and you will be protected via national insurance credits.

NATIONAL INSURANCE CREDITS FOR FOSTER CARERS

The system of qualifying for your state pension changed on the 6th April 2010 allowing you to be able to build up your qualifying years for the basic rate of state pension and the additional state pension through new weekly national insurance credits. This means that if you are a foster carer you can get a N.I. credit for each week in which that you qualify. This is done if you care for a child under 12 and do not receive the child benefit of that child as a parent or if you are an approved foster carer. As long as you qualify the government will pay the credits. To claim you need to complete the form CF4 11A which the jobcentre Plus should supply or call the HMRC itself on 0300 200 3500 or go online at www.hmrc.gov.uk/formscf411A.pdf.

FOSTER CARE AND TAX CREDITS

Working tax credits are used to top up the income of low paid workers. Because fostering counts as a self-employed status you should be entitled to working tax credit if your profit from your fostering work as calculated on your tax return is zero or very small. It may be that if you also have children of your own that you may qualify for child tax credits as well. This is because fostered children do not count for Child tax credits and cannot be included in any claim you make.

Should you wish to claim working tax credits or child tax credits you must first make your declaration on your taxable profit, if any, from your fostering work. The claim is based on the total income of the household so any income earned or received by a partner or spouse must be declared. It is obvious that the lower your income is, the more working tax credits you will receive. If you are

fostering and have no other income you may also be able to claim income support (for a single carer), jobseekers allowance or employment support if one of the couple is unemployed or unwell.

We would recommend talking to your local Citizens Advice centre in the first instance.

Again you can check your entitlement to these credits and also claim any credits you believe you are entitled to by calling the Tax Helpline 0345 300 3900. The Fostering Network can also supply a booklet on Benefits under its Signposts in Fostering publication.

The Government's new Universal Credit payment scheme that is being rolled out across the country should make the system of credits much simpler. When it reaches this area it may mean that Foster Carers are able to get extra financial help. Because this credit removes the distinction between people being in work but claiming working tax credits and people out of work whilst claiming income support or jobseekers allowance. All of these benefits, including any housing benefit paid, will be paid out by the Department for Work and Pensions as one total Universal Credit.