



Fostering and Tax

A tax year runs from 6 April in one year to the 5 April in the next. **We are currently in the tax year 2021-22.** HM Revenue and Customs (HMRC) always works retrospectively, so will ask you to submit information to them about the previous tax year, that is 2020-21. This information sheet explains all about tax and fostering for the tax year 2020-21, which has just finished, and which tax returns are due, but has both tax year figures, 2020-21 and 2021-22, for your information.

Since April 2003, ALL foster carers have been treated as self-employed (including foster carers who provide respite care, and family and friends foster carers). At this time, 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 tax threshold), without being liable for tax.

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 & childcare.

Many foster carers have little or no taxable profit from fostering, because the qualifying care relief tax scheme 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 tax threshold is for the tax year and whether they have any taxable profit or not. We 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 also going to be unique to you.

Qualifying Care Relief - the tax scheme for foster carers

The first thing a foster carer has to do is work out their tax threshold using qualifying care relief, the tax scheme for foster carers. Qualifying care relief is a two-part calculation to work out your tax threshold, the amount of money you can receive from your fostering before you might have to pay some tax.

The calculation is as follows:

Part 1

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)

Part 2

A **child element, per child 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+ (including any Staying Put young people)

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 = £10,400

therefore, TOTAL tax threshold is £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 'tax weeks'.

Total payments from your fostering service

Now 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 for the child(ren), 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 from your fostering

Now work out if you have any profit by comparing the two figures (1) tax threshold and (2) total payments from your fostering service.

If your total fostering payments are **less than** your tax threshold from your fostering service, you have NO TAX to pay from your fostering (i.e. no profit from fostering).

If your total fostering payments are **more than** your tax threshold, you have a tax liability from your fostering (i.e. you have profit from your fostering).

Personal tax allowance

If a foster carer has 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 for 2021-22 is £12,570 (for 2020-21 it was £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 tax threshold) they then have a choice to make – continue to use Qualifying Care Relief and accept the tax threshold they have worked out and accept any profit they have gone over the threshold or use the traditional profit and loss method (this would require them to keep every single receipt that they spend on fostering).

Registering as self-employed with HMRC & 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 they make a profit from their fostering or not.

Foster carers must register as self-employed within six months of the end of the tax year in which they were approved - by the **5 October**.

For example:

If you become approved as a foster carer between 6 April 2020 and 5 April 2021, register by 5 October 2021.

If you become approved as a foster carer between 6 April 2021 and 5 April 2022, register by 5 October 2022.

This can be done

- online at: <https://www.gov.uk/register-for-self-assessment/self-employed>
- by telephone via the **Newly Self-employed Helpline on 0300 200 3310** open Monday - Friday 8am-6pm, closed weekends and bank holidays
- you can register in writing by filling in a **form CWF1** – this form is designed to be filled in on screen. You cannot save the form but once you have completed it you will be able to print a copy and post it.

You will need to have your start date (date you were approved as a foster carer) and your national insurance number to hand.

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.

If you foster as part of a couple there are a few options available when deciding how to register your self-employment and it's all about what makes best financial sense depending on your circumstances (and making use of any unused personal tax allowance you might have). Options available are:

- **One partner registers as self-employed and accounts for all the fostering payments.** This is commonly used where one partner is the 'main' foster carer and the other partner has other employment. This allows the partner to use any of their unused personal allowance (should they enter into a profit) because the other partner's personal tax allowance is usually swallowed up in their other employment.
- **Both partners register as self-employed as sole traders and they would split the qualifying care relief tax threshold and any profit 50/50.** This is commonly used where both partners are fostering full-time, they have a profit from their fostering and they both have available their personal tax allowance (in addition to the qualifying care relief tax allowance).
- **Both partners enter into a 'partnership' where each tax year they have the flexibility to split any taxable profit however they like e.g. 60/40, 70/30, 20/80.** This can be helpful where a partner might have some other employment and their earnings might change from year to year. Being able to split the profit flexibly allows maximum use of each partner's personal tax allowances each tax year. There are pros and cons with this arrangement. The pro is the profit can be split flexibly between the two partners and you can change this each year. The cons are you need to buy and use a piece of software or an accountant to complete a partnership tax return form (it's not available to submit during the government gateway service like a normal tax return), there are more forms to complete (an overarching partnership form and then a form for each foster carer) and you would incur double penalties if you missed any HMRC deadlines.

HMRC will accept any of the above arrangements. Think about what makes best financial sense in your situation. If you calculate you have a taxable profit from your fostering and one or both of you have unused personal tax allowance, it makes better financial sense for one or both to register as self-employed so the personal tax allowance can be used to reduce the final amount of tax you would need to pay.

Do I need to pay for an accountant?

If you have no taxable profit from fostering, and you choose Qualifying Care Relief (tax scheme for foster carers), 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 – just make sure they are aware of and understand Qualifying Care Relief.

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.

Don't forget HMRC will always help you. Many foster carers have contacted their helpline and found them very helpful when trying to complete a tax return form.

The Fostering Network has partnered with an accountancy firm called **Williams Giles** who are a leading provider of specialist tax services for fostering and their team have in-depth knowledge of the tax and national insurance rules for foster carers. Their fixed fee tax return services has been designed for foster carers and includes:

- Access to a dedicated advisor throughout the process
- An interactive tax checklist to help you stay on top of your tax throughout the year
- Preparing your tax return and liaising with HM Revenue and Customs on your behalf.

For more information you can call them on **01795 478 044** visit www.fosteringtax.co.uk and email support@fosteringtax.co.uk
Remember to tell them you are a member of The Fostering Network.

www.williamsgiles.co.uk/specialist-sectors/fostering/foster-carers

I have been approved as a foster carer for years and haven't registered as self-employed - will I get a fine?

First of all - don't panic. There are many foster carers who do not realise they have to register as self-employed, so you are not the only one. HMRC might issue a fine. If this were to happen you can always appeal the fine and provide evidence to demonstrate you genuinely did not realise you had to register. Before contacting HMRC to register, read and understand Qualifying Care Relief - the tax scheme for foster carers - to see whether you have any tax liability or not from your fostering. You can then let HMRC know when you contact them.

I'm a family and friends foster carer - do I have to register as self-employed?

Yes, you do. ALL foster carers have to register as self-employed.

My total fostering payments are below my tax threshold and so no tax to pay - do I still have to register as self-employed and complete a tax return form?

Yes, you do. Regardless of whether you have any taxable profit or not, you still have to register as self-employed and complete a tax return form.

Does the Trading Income Allowance apply to foster carers?

From 6 April 2017 HMRC introduced a Trading Income Allowance where if combined receipts from self-employment and certain miscellaneous income are less than £1,000, they are exempt from tax and do not need to be reported on a return. The £1,000 threshold applies to income and not profit from self-employment.

The Trading Income Allowance does not apply to foster carers using Qualifying Care Relief, meaning that foster carers do not get an additional £1,000 added to their Qualifying Care Relief tax threshold and foster carers are still required to complete a tax return form.

Self-assessment tax return form

HMRC needs you to tell them about your self-employment once the tax year has finished and you do this by completing a tax return form every year. You can complete your tax return by paper copy or online. HMRC encourages people to complete it online, but it is your choice.

!! DEADLINES !!

Paper tax return - **31 October** after tax year has finished

Online tax return - **31 January** after tax year has finished

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

‘expenses’ - your tax threshold (which you calculated using Qualifying Care Relief)

‘turnover’ – your total payments from your fostering service

‘net profit’ – this is either going to be £0 (if fostering payments are below tax threshold) or £‘X’ (the amount you have gone over your tax threshold).

Coronavirus support scheme payments

You must include amounts of taxable coronavirus support scheme payments that you received, subject to further guidance in the HMRC guidance notes for completing a tax return form. These include the Self-Employment Income Support Scheme (SEISS). There are a very small number of foster carers who applied for the SEISS during the Covid-19 pandemic because they had a taxable profit from their fostering which made them eligible for the scheme.

Paper copy tax return - deadline for completing 31 October 2021

The self-assessment tax return (paper copy) comes as two forms

- **SA100**
- **SA103s** self-employment supplementary page - either the short or full form. You can use the short version if your ‘annual business turnover’ (i.e. your payments from your fostering service) was below £85,000 - this will apply to most foster carers.

Tax return forms are always available to download from www.gov.uk and just enter SA100 or SA103s into the search box.

The following are step by step instructions of how to complete the short version of the self employment supplementary page (SA103s):

Fill in your name, Unique Taxpayer Reference (UTR),

Box 1 – Description of business: enter ‘foster carer’

Put an ‘X’ in Box 4

If your fostering payments are BELOW your tax threshold:

- put ‘0’ (zero) in box 31
- do not fill in the rest of form SA103s

If your fostering payments are ABOVE your tax threshold and you are using Qualifying Care Relief to work out any profit:

- fill in boxes 2 to 8 (if they apply to you)
- put your total receipts (total fostering payments) in box 9

- put your qualifying amount (tax threshold) in box 20
- fill in boxes 21, 28 and 31
- Include Covid-19 SEISS payments in box 27.1 and any other coronavirus support payments in box 10.

Online tax return - deadline for completing 31 January 2022

When completing an online tax return you will need to have your user ID and password to hand so you can log into HMRC Online Services to start your tax return. You will have created these when you registered online as self-employed and were provided with a UTR and activation code (which had to be activated within 28 days).

If you do not have a user ID and password or you have forgotten it, there are instructions below the sign-in box to get another one.

When you log in you will see on the right hand side 'File a return for 2020-21' and you need to click on 'File a return'.

There are eight stages to file a return.

(1) Welcome

(2) Tell us about you

This section will ask you details such as your name, unique taxpayer reference (UTR), national insurance number, telephone number and address.

(3) Tailor your return

This section helps to tailor your tax return form and aims to ensure you only answer questions which are relevant to you and your circumstances.

This section will ask if your turnover was £1,000 or more in total from all self-employments - this means was your total fostering payments for 2020-21 more than £1,000? For most foster carers, the answer is YES.

This section will also ask you to provide your business name - here you would put your own name

(4) Fill in your return

Details of carer (page 1 of 2)

On this page it will ask if you have an annual turnover of £85,000 or more (2020-21) - this means, does your total fostering payments come to more than £85,000? For most foster carers the answer is going to be NO.

Then there will be a box which you can tick which states 'I am a foster carer or adult placement carer' - tick this box.

Details of carer (page 2 of 2)

On this page it will ask for the business name - put your own name

It will then ask for a description of the business - put 'foster carer' or 'qualifying carer'

Income for carer

This is the page where you declare your figures

'turnover' = total payments from your fostering service

'total allowable expenses' = tax threshold which you have calculated using qualifying care relief

It will ask how you want to record your expenses - select **'single total value'**

'net profit' = this will calculate automatically when you complete your turnover and total allowable expenses.

Important: foster carers cannot make a loss

If you use qualifying care relief (the special tax scheme for foster carers) and your fostering payments are below your tax threshold you do not have a tax liability. However, when it comes to tax, foster carers cannot make a 'loss' from their fostering. So, when entering this information in order to not show a 'loss' on the tax return a foster carer will need to enter £0 in the 'turnover' and 'total allowable expenses' boxes. This will leave the 'net profit' as £0 instead of showing a minus figure.

Class 2 National Insurance Contributions

This section allows you to pay Class 2 National Insurance Contributions voluntarily, should you wish to. Tick 'yes' if you would like to do this.

(5) Check your return

(6) View your calculation

(7) Save your return

(8) Submit your return

Additional points to be aware of regarding tax and fostering

Parent and child placements

If you have a parent and child placement, the parent and/or the child may be a 'looked after child'.

It is important that your fostering service is clear with you at the start of the placement about the nature and legal status of the parent and child placement.

Foster carers can use the additional amount per child per week for both parent and child HMRC's Business Income Manual (BIM52765) states:

'Foster care of a parent and child

We understand that some local authorities have schemes whereby a child, who is a parent, is placed in foster care. The foster carer effectively cares for the parent and her baby, but only the parent is technically placed in care.

We are informed that the payments made to the foster carer in these circumstances are invariably intended to cover accommodation and care provided to parent and baby. On that basis, we are content for tax purposes to treat the parent and each baby as being in foster care. The foster carer can claim a weekly amount per child for each of them when calculating their qualifying amount.'

<https://www.gov.uk/hmrc-internal-manuals/business-income-manual/bim52765>

Qualifying Care Relief also covers parent and child arrangements where the parent is aged 18 or over and the child is not a 'looked after child'.

So, Qualifying Care Relief covers all scenarios involved in parent and child arrangements and allows a foster carer to include the additional amount for both parent and child.

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 part 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 totalling their fostering payments, but they cannot increase their tax threshold because the child is not formally placed with them as a fostering placement.

Where can I get more information about fostering and tax?

HMRC's Help-sheet 236

<https://www.gov.uk/government/publications/qualifying-care-relief-foster-carers-adult-placement-carers-kinship-carers-and-staying-put-carers-hs236-self-assessment-helpsheet/hs236-qualifying-care-relief-foster-carers-adult-placement-carers-kinship-carers-and-staying-put-carers-2021>

The Fostering Network's foster carer tax presentation video

<https://www.thefosteringnetwork.org.uk/foster-carer-tax-presentation>

(you will need your username and password to log in to our website to view the tax video)

The Fostering Network's tax FAQ's

<https://www.thefosteringnetwork.org.uk/advice-information/finances/tax-faqs>

The Fostering Network's Income Tax and National Insurance Signpost booklet

<https://www.fosteringresources.co.uk/?cid=1&sid=3&pid=330&p=0>

The signpost booklet is currently being updated for tax year 2021-22 and will be available to purchase shortly.

HMRC self-assessment tax return forms

You can download hard copies of the tax return forms at the following links:

SA100 <https://www.gov.uk/government/publications/self-assessment-tax-return-sa100>

SA103s <https://www.gov.uk/government/publications/self-assessment-self-employment-short-sa103s>

You can also go to the www.gov.uk and type HS236 in the search box.

HMRC's online forum for foster carers

<https://online.hmrc.gov.uk/webchatprod/community/posts/list/15/39.page>

TaxAid

TaxAid can help anyone on low income who has been unable to resolve their tax problem with HMRC. As a guideline, a low income is up to about £380 a week before tax for a single person – equivalent to £20,000 per year.

They have a helpline **0345 120 3779** open 10am-4pm Monday-Friday and website <https://taxaid.org.uk/>

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.litrq.org.uk

Class 2 National Insurance Contributions

When a foster carer registers as self-employed, they also register for Class 2 national insurance contributions (NICs). For 2021-22 Class 2 NICs are £3.05/week. Foster carers have a number of options with regards to national insurance.

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

If you would like to check your national insurance record and how many contributions you have made you can do this at the following link
<https://www.gov.uk/check-national-insurance-record>

Options available to foster carers are:

- **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 £6,515 (2021-22) (£6,475 in 2020-21), **automatically they will not have to pay Class 2 NICs**.

- **National Insurance (NI) Credits (a Class 3 credit)**

Foster carers can apply for a NI credit for **each week they are approved as a foster carer**. Foster carers can apply for NI credits at the end of each tax year. 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 national insurance record. Applications for NI credits can be made on **form CF411A** which you can locate at the following link

<https://www.gov.uk/government/publications/national-insurance-credits-for-parents-and-carers-cf411a>

NI credits are a Class 3 credit which means they count towards basic and additional State Pension **only**.

- **Paying Class 2 national insurance contributions voluntarily**

Foster carers can decide to pay Class 2 NICs voluntarily. For 2021-22 Class 2 NICs are £3.05/week (2020-21 £3.05/week). There is an option when completing the tax return form to pay the contributions voluntarily.

Class 2 NICs provide access to contribution-based employment and support allowance, maternity benefit, bereavement benefit and state retirement pension. If you choose not to pay Class 2 NICs your entitlement to these welfare benefits may be affected.

Class 4 national insurance contributions

Class 4 NICs only have to be paid if you make a certain amount of profit from your self-employment. This is in addition to the Class 2 NICs. The rates of Class 4 NICs are:

9% on profits between £9,569 and £50,270 in 2021-22 (£9,501 and £50,000 in 2020-21)
2% on profits over £50,270 in 2021-22 (£50,000 in 2020-21)

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

You stop paying Class 2 National Insurance when you reach state pension age. You stop paying Class 4 National Insurance from 6 April (start of the tax year) after you reach state pension age.

If you need more information about national insurance, you can contact the government's national insurance general enquiries helpline using the details below:

National Insurance General Enquiries

Telephone: **0300 200 3500**

Monday-Friday, 8am-6pm, closed Saturdays, Sundays and Bank Holidays

Can foster carers apply for help under the government's self-employed financial package during the coronavirus outbreak?

It is important to remember foster carers are required to register as self-employed and use Qualifying Care Relief to work out if they have any taxable profit from their fostering payments. If they do have a taxable profit, they have a choice to make – continue using Qualifying Care Relief and just accept the amount of profit they have calculated, or they can use the profit and loss method. The majority of foster carers continue to use Qualifying Care Relief.

HMRC have confirmed there is nothing that would specifically prevent a foster carer from being eligible for the government assistance. To check if you can claim a grant through the Self-Employment Income Support Scheme, information is available on the GOV.uk website at the following link

<https://www.gov.uk/guidance/claim-a-grant-through-the-coronavirus-covid-19-self-employment-income-support-scheme>.

The fourth grant covers 1 February 2021 to 30 April 2021. There will be a fifth grant covering May 2021 to September 2021. Guidance on how to claim the fifth grant will be provided in due course. The amount payable will be based on the profits declared on a tax return form. As the majority of foster carers have no taxable profit using qualifying care relief and therefore declare £0 profit on their tax return form, there would be nothing payable to them.

Where a profit has been declared, the carer will have the same eligibility as any other self-employed person.

So, to recap:

- There is nothing to specifically prevent a foster carer from being eligible for the government's self-employed support package.
- **Given that the majority of foster carers have no taxable profit there would be nothing payable to them through this package.**
- For those foster carers who have a taxable profit from their self-employment the same eligibility would apply as any other self-employed person.
- Information states that those eligible to claim for the support package will be contacted by HMRC
- <https://www.gov.uk/guidance/claim-a-grant-through-the-coronavirus-covid-19-self-employment-income-support-scheme>

Fosterline Wales helpline

If you have further questions or need advice and information about any fostering issue you are very welcome to contact us here at **Fosterline Wales**.

Helpline on 0800 316 7664

Open Monday - Friday, 9.30am to 12.30pm (excluding bank holidays).

Out of these hours, please leave a message and your call will be returned, if not the same day, then the next day. You should receive a response within 24 hours. You can also email us at fosterlinewales@fostering.net

We try to respond to email enquiries as quickly as possible and you will receive a response within 24 hours.

November 2021