Qualifying care relief: Foster carers, adult placement carers, kinship carers and staying put carers

Contacts

Please phone:
- the number printed on page TR 1 of your tax return
- the SA Helpline on **0845 9000 444**
- the SA Orderline on **0845 9000 404** for helpsheets

or go to **www.hmrc.gov.uk**

This helpsheet 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.

Qualifying care relief

From 6 April 2010 qualifying shared lives carers can claim the same Income Tax relief as foster carers. This helpsheet describes those carers eligible for qualifying care relief.

There have been different simplified arrangements available for adult placement carers and for the tax year beginning 6 April 2010 (2010–11) carers effected can choose between the previous simplified arrangements and qualifying care relief. The existing arrangements are explained towards the end of this helpsheet.

You may be eligible for qualifying care relief if you provide any of the following.

Foster care – 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.

Adult placement care – if you provide adult placement care to people placed with you by a local authority (HSS Trust in Northern Ireland), a health service body or a voluntary Shared Lives Scheme and you receive payments for providing care from a local authority or health service body.

Kinship care – if you provide care for a ‘looked after’ child and receive payments from a local authority, or health service body, for doing so. The child must be related to you (by blood, marriage or civil partnership) but you cannot be the parent or step-parent of the child. Also, if the child is with you under a residence order or a special guardianship order the arrangements will not qualify for this relief.

Staying put care – if you provide care for someone who, immediately prior to reaching 18 years, was subject to a care order or was a ‘looked after’ child (this can include someone who was cared for under kinship care arrangements). The person who you care for must be 18 or over and in full-time education, full-time higher education or full-time vocational training. You must be receiving payments for providing care from a local authority or health service body and the person you care for must have a pathway plan.

Where you provide these types of care you may be treated as being self-employed. However, your income or profits from such care will usually be exempt from Income Tax. We will be happy to discuss whether the arrangements under which you provide care will mean that you are treated as self-employed.

This exemption does not include private care arrangements. So if you receive payments in a private arrangement for providing care you will not qualify for qualifying care relief. Private carers should calculate their profits in the normal way.

Qualifying care relief applies on a tax year basis. If you start to be a carer for the first time during the tax year or you decide to stop being a carer during the tax year you should ask us, or your tax adviser, for advice on how to complete your tax return.

How does qualifying care relief work?

If your total receipts from qualifying 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 caring 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 2010–11
  - if two or more carers within the same household separately receive payments for qualifying care, the fixed amount should be applied to their combined receipts
  - if you are a carer for less than a full year either because you started being a carer during the year or stopped being a carer altogether, you can claim an appropriate proportion of your fixed amount
- **plus** a weekly amount for each person placed with you. For the tax year 2010–11, the amount is £200 a week (or part of a week) for each child aged under 11 and £250 a week (or part of a week) for each adult and child aged 11 or over.

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

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

You may want 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 want to use the simplified method you must notify us no later than 31 January 2013. You can make your notification by completing your tax return and submitting it by the filing date.

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What are your total receipts from qualifying care?

Your total receipts from qualifying care are all the payments (fees, salaries, reward payments, allowances, and so on) you receive from your local authority, HSS Trust, health service body, voluntary fostering organisation or under a qualifying care scheme, including those payments you have previously treated as being non-taxable.

Example 1

John's total receipts from qualifying care for one child aged 14 for the whole of the year and one child aged eight for ten weeks of the year is £20,000. No other 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)	£2,000
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 2010-11.

Example 2

John's circumstances are the same as in Example 1, except that his total receipts from qualifying 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 qualifying 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, that is £5,000.

Capital allowances

If you decide to use qualifying care relief you cannot claim capital allowances and there is no need to read this section.

In working out your business profits you must not deduct any expenditure incurred on (for example, the cost of) buying or improving items such as a car, equipment or tools that you use in the business, or depreciation or any other losses which arise when the items are sold. Instead, you can claim tax allowances called capital allowances, which may be deducted from your profits to arrive at taxable profits, or added to your losses to arrive at allowable losses. There is general guidance on the allowances available and how to calculate them in Helpsheet 252 *Capital allowances and balancing charges*. If you want to claim capital allowances you should read that helpsheet first.

You may claim capital allowances against any profits you make from caring but **only if you pay tax using the 'profit method', that is, on your actual care receipts minus your actual expenses.** Capital allowances are calculated for the period for which you draw up your accounts (your accounting period). You may not claim capital allowances if you are entitled to the Income Tax exemption, or if you choose to use the alternative 'simplified method' of calculating your profits as a qualifying carer.

If you do not calculate your profits from caring using the same method each year there are special capital allowances rules to follow because you may be able to claim capital allowances in one year but not in the next and so on. The guidance in the Business Income Manual will be updated in due course.

What if your accounting date is not 5 April?

If your annual accounting date is other than 5 April, qualifying care relief treats your total receipts from qualifying 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 qualifying care for one child aged 15 for the whole of the year to 30 September 2011 and one child aged six for 20 weeks of the same year are £20,000. She is the only carer in her house. Her qualifying amount for 2010-11 will therefore be made up as follows:

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

As Ruth's total receipts from qualifying care for the year ended 30 September 2010 of £20,000 are less than her qualifying amount of £27,000, they are exempt from tax for the year.

Example 4

Ruth's circumstances are the same as in Example 3 except that her total receipts from qualifying care for the year ended 30 September 2010 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 qualifying care for 2010-11. 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

If you have received the SA200 *Short Tax Return* and wish to take advantage of the qualifying care relief, please phone the Self Assessment Orderline on **0845 9000 404** and ask for form SA100 *Tax Return* and either the *Self-employment (short)* or the *Self-employment (full)* pages to be sent to you. To file online, go to **www.hmrc.gov.uk** and under *Do it online* choose *Register (new users)* if you're a new user, or *Log in* if you've used the service before, then select *Self Assessment*.

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

- if your total receipts from qualifying care are not more than your qualifying amount
  - enter 'Qualifying carer' in box 1, put 'X' in box 4 and enter zero, '0', in box 30
  - leave the rest of the *Self-employment (short)* pages blank
- if your total receipts from qualifying care exceed your qualifying amount and you use the simplified method
  - enter 'Qualifying 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 30.

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

- if your total receipts from qualifying care are not more than your qualifying amount
  - enter 'Qualifying carer' in box 1, put 'X' in box 12 and enter zero, '0', in box 75
  - leave the rest of the *Self-employment (full)* pages blank
- if your total receipts from qualifying care exceed your qualifying amount and you use the simplified method
  - enter 'Qualifying 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, 63, 72 and 75
- if your total receipts from qualifying care exceed your qualifying amount and you do not want 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 qualifying 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 qualifying 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 your qualifying care in the usual way if your total receipts from qualifying 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 qualifying care of a later year, if your total receipts from qualifying care do not exceed your qualifying amount and you therefore have no tax to pay on that income.

What about qualifying care in partnerships?

People cared for are placed with individuals, not with partnerships. However, we accept that a partnership can carry on a business of providing qualifying 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 qualifying 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 NICs. These are set at £2.40 a week for 2010–11.

Where qualifying care is your only source of self-employed income and your taxable profit is nil, you may apply for the Small Earnings Exception (see below). However, if you choose not to pay Class 2 NICs, your entitlement to Incapacity 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 4655** instead.

Small Earnings Exception

If your annual earnings from self-employment are low (less than £5,075 a year for 2010–11), 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 £5,075.

Class 4 NICs

All self-employed people are liable to pay Class 4 NICs on taxable profits above a threshold. For 2010–11 the rates are 8% on profits between £5,715 and £43,875, and 1% on profits above that. If your qualifying 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 99 to 101 of the *Self-employment (full)* pages and boxes 35 and 36 of the *Self-employment (short)* pages as appropriate. Further explanation is included in the *Self-employment notes*.

Previous arrangements still available for 2010–11

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 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 2010 and 5 April 2011 inclusive.

How do the simplified arrangements work?

As an adult placement carer you have a choice of methods for calculating your taxable profit for 2010–11.

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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 2010, 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
minus Rent a Room relief	£4,250
Profit	£15,750

Fixed expenses method - Quentin calculates his profit as nil.

Fixed expenses	
Adult 1 (52 x £400)	£20,800
Adult 2 (24 x £250)	£6,000
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
minus fixed expenses	£26,800
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		£5,600
Total allowable expenses		£17,000
Quentin also claims capital allowances on his car of		£2,100
Receipts		£30,000
minus expenses	£17,000	
minus capital allowances	£2,100	£19,100
Profit		£10,900

Respite carers

For 2010–11 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.

Day care is outside the respite care arrangements.

If you provide day care only, you may choose, for 2010–11, either:

- the fixed expenses method. Under the fixed expenses method you deduct from the amount you receive fixed expenses of £15 a day per adult. If the total of the fixed expenses is more than the amount you received, your taxable profit is nil. If the total of the 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.

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 a shared lives carer.

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Completing the *Self-employment* pages

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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 30
  - 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 30.

Additionally, if you are using the sampling method, and want to claim capital allowances, enter 'Sampling method' in box 1 and complete boxes 22 to 25.

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 75
  - leave the rest of the *Self-employment (full)* pages blank
- 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, 63, 72 and 75.

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 58 as appropriate.

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

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 NICs. These are set at £2.40 a week for 2010–11.

Where caring is your only source of self-employed income and your taxable profit is nil, you may apply for the Small Earnings Exception (see page 10). However, if you choose not to pay Class 2 NICs, your entitlement to Incapacity Benefit, State Pension and Bereavement Benefit may be affected.

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If your annual earnings from self-employment are low (less than £5,075 a year for 2010–11), 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 £5,075.

Class 4 NICs

All self-employed people are liable to pay Class 4 NICs on taxable profits above a threshold. For 2010–11 the rates are 8% on profits between £5,715 and £43,875, 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 99 to 101 of the *Self-employment (full)* pages and boxes 35 and 36 of the *Self-employment (short)* pages as appropriate. Further explanation is included in the *Self-employment notes*.