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

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

This helpsheet describes those carers eligible for qualifying care relief.

The non-statutory simplified arrangements available for adult placement carers were withdrawn from 6 April 2011 and a new relief was introduced for certain categories of carer.

Your local authority will be able to help you understand if the care you are providing will qualify for qualifying care relief – in particular they can tell you if the person you are caring for is a 'looked after' child.

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 Trusts 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 – this generally refers to arrangements in Scotland. 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 – where a carer of a previously 'looked after' child continues to care for that person when they stop being looked after. The person who you care for must be aged 18, 19 or 20 or in further education, higher education or vocational training. In addition, in Scotland the person you care for can also be over school age but under 19. 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.

Parent and child arrangements – local authorities may make arrangements for a parent and child to live with a foster carer or adult placement carer. Where this applies to you and you receive a payment from the local authority for providing care and accommodation to the parent and child, you will be eligible for qualifying care relief.

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.

Supported lodgings schemes – There are many supported lodgings schemes and some providers of supported lodgings may be within qualifying care relief if they meet the criteria for the schemes noted above. Your local authority should be able to provide you with the information that will help you decide. If you do not qualify for qualifying care relief you can apply the normal tax rules and get full relief for your actual allowable expenses incurred in providing accommodation and support to young people. Guidance on the normal rules can be found on our website. Go to **www.hmrc.gov.uk/worksheets/sa105-notes.pdf**. In addition, providers of supported lodgings who do not qualify for qualifying care relief may choose to use Rent a Room provided they meet the rules of the scheme. Go to **www.hmrc.gov.uk/helpsheets/hs223.pdf**

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 2011–12
  - 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 2011–12, 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.

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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 2014. You can make your notification by completing your tax return and submitting it by the filing date.

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) that 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 2011-12.

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, then 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.

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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 2011-12 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 2011 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 2011 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 2011-12. 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 that 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* 2012 and wish to take advantage of the qualifying care relief, please phone the Self Assessment Helpline on **0845 9000 444** and ask for a form SA100 *Tax Return* 2012 to be sent to you or, if you can complete the tax return online, please fill in the form SA100 *Tax Return* 2012.

The following guidance is for carers who wish to take advantage of the qualifying care relief and have received a paper SA100 *Tax Return* 2012 or are completing the return online. *Self-employment* pages are supplementary to the tax return.

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.

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 £2.50 a week for 2011–12.

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 get more information by calling the Newly Self-Employed Helpline on **0845 915 4515**. If you are currently registered to pay Class 2 NICs, you can get more information by calling the National Insurance Self-Employed Helpline on **0845 915 4655** instead.

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Small Earnings Exception

If your annual earnings from self-employment are low (less than £5,315 a year for 2011–12), 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 £5,315.

Class 4 NICs

All self-employed people are liable to pay Class 4 NICs on taxable profits above a threshold. For 2011–12 the rates are 9% on profits between £7,225 and £42,475, and 2% 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*.

Tax credits

Where you are self employed you may be able to claim Working Tax Credit. For more information, go to the tax credits website **www.hmrc.gov.uk/taxcredits/index.htm** or phone the helpline on **0345 300 3900.**