

Foster Care Relief

This is a basic introduction to foster care relief prepared by HM Revenue and Customs (HMRC) in August 2005.

Contents

[Who does the relief apply to?](#)

[When does the relief apply from?](#)

[How does the relief work?](#)

[What is the exemption?](#)

[What if my receipts are not exempt?](#)

[What are my total receipts from foster care?](#)

[What is my qualifying amount?](#)

[Parent and baby schemes](#)

[Additional expenses incurred in caring for disabled/special needs children](#)

[Adult placement care](#)

[Leaving Care Act arrangements](#)

[Residence Orders](#)

[How will the relief affect my National Insurance Contributions \(NICs\)?](#)

[Registration and Small Earnings Exception \(SEE\)](#)

[Home Responsibilities Protection](#)

[Class 4 NIC](#)

[How will the relief affect my entitlement to Child Tax Credit?](#)

[How will the relief affect my entitlement to Working Tax Credit?](#)

[How is my fostering income taken into account for tax credits?](#)

[What records will I need to keep?](#)

[Will I need to complete a Self-Assessment \(SA\) tax return?](#)

[Further advice](#)

Who does the relief apply to?

Foster care relief applies to people who get income from providing foster care to children and young people, placed with them either by local authorities (Health and Social Services (HSS) Trusts in Northern Ireland) or independent fostering providers. If you receive this income we normally treat you as being self-employed.

The relief **does not** apply to private fostering arrangements.

When does the relief apply from?

Foster care relief was introduced with effect from 6 April 2003. The first tax year it applied to was the year 2003-04 (that is, 6 April 2003 to 5 April 2004). It continues for subsequent tax years. The amount of relief remains unchanged for the years 2004-05 and 2005-06.

How does the relief work?

There are two elements to the relief:

- an **exemption**, if your total receipts from foster care do not exceed the 'qualifying amount' (explained below). The exemption is automatic and does not need to be claimed;
- an optional **simplified method** of calculating profits if your receipts from foster care do exceed the 'qualifying amount'.

What is the exemption?

If your total receipts from providing foster care in the year do not exceed the qualifying amount, your receipts will be **exempt** (free) from income tax for that year.

This means that, for taxation purposes, you will be treated as having no profit or loss from foster care for the year.

This will not affect any other income you may have (e.g. income from employment, self-employment or savings) which will be taxed in the normal way.

What if my receipts are not exempt?

If your total receipts exceed the qualifying amount you can choose to pay tax on either:

- the actual profit from foster care (total receipts from foster care less allowable expenses and capital allowances): **the profit method**; or
- total receipts from foster care less the qualifying amount with no additional relief for allowable expenses or capital allowances: **the simplified method**.

There is an example below (Example 2).

The profit method gives a smaller profit if your expenses and capital allowances are more than the qualifying amount. But it means you must keep records and work out your profit.

The choice is yours. And you can make different choices for different years.

If you want to use the simplified method you must notify the Inland Revenue. Completing your tax return using the simplified method and submitting it by the filing date will be accepted as notification.

The self-assessment [Helpsheet IR236](#) gives more information about filling in the self-employment pages of your return.

What are my total receipts from foster care?

Your total receipts from foster care are all the payments (fees, reward payments, retainer payments, allowances etc.) you receive from your local authority, HSS trust or independent fostering provider, including payments which were treated as non-taxable under the rules which applied up to 5 April 2003.

What is my qualifying amount?

Your qualifying amount consists of two parts to be added together:

- your share of the fixed amount. The fixed amount is £10,000 per year for each household. If two or more carers in the same household receive separate foster care receipts they will share the £10,000 equally. If you are a registered foster carer for less than a full year you can claim a proportion of the fixed amount; and
- an amount per week for each foster child placed with you (£200 a week for a child aged under 11 and £250 a week for a child aged 11 or older). Part of a week counts as a full week.

Example 1

Janet provides foster care for one fourteen year old for the whole of the year and for one eight year old for ten weeks of the year. No other foster carers live in her house. Janet's 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
Total	£25,000

If Janet's total receipts from foster care are less than the qualifying amount, the receipts are exempt from income tax.

If Janet's total receipts from foster care are more than the qualifying amount she can choose whether to pay tax on the profit method or the simplified method.

Example 2

Janet's qualifying amount is £25,000 as in example 1. Her total receipts from foster care are £30,000 and her allowable expenses are £15,000. Her taxable income using the two methods will be:

Profit method: £15,000 (£30,000 less allowable expenses £15,000).

Simplified method: £5,000 (£30,000 less the £25,000 qualifying amount).

The qualifying amount is a simple way of establishing whether you have made a profit from providing foster care. It does not affect your personal allowance. Your personal allowance is available to use against your profits from foster care or any other taxable income or chargeable gains. In Example 2, Janet can use her personal allowance against her taxable income from foster caring whether she uses the simplified or the profit method.

Parent and baby schemes

In parent and baby schemes, only the parent is in foster care, but the local authority pays an amount which is intended to cover accommodation and care for both parent and baby. We treat both parent and baby as being in foster care and you can claim a weekly amount for both parent and baby when calculating your qualifying amount.

Additional expenses incurred in caring for disabled/special needs children

If you are a specialist carer you may incur additional expenditure on the children in your care, different from normal maintenance costs. For example, you may need to buy special equipment for a disabled child. You can add expenditure of this kind to the qualifying amount.

Adult placement care

Adult placement carers provide accommodation and care through adult placement schemes. The foster care relief provisions do not apply, but simplified arrangements apply to some adult placement schemes. These are described in a [separate fact sheet](#)

Leaving Care Act arrangements

The Leaving Care Act provides for continued support to allow children in care to move to independence. In practice, the arrangements vary. Some local authorities adopt supported lodging schemes, others adopt arrangements equivalent to adult placement care. Payments under the Leaving Care Act for children who have left foster care will fall outside foster care relief, but the simplified arrangements for adult placement care may apply.

Residence Orders

Payments under residence orders are non-taxable where local authorities make them on a discretionary and gratuitous basis. However, payments made under contractual arrangements may be taxable. For example, where a local authority contracts to continue making payments to a foster carer in return for the carer agreeing to take on a new legal responsibility for the child, there will be a legal entitlement to receive the payments. We would generally regard such payments as taxable income. Such payments will fall outside foster care relief, but the simplified arrangements for adult placement care may apply.

How will the relief affect my National Insurance Contributions (NICs)?

If you have profits from fostering it will count as earnings from self-employment for NICs purposes.

Registration and Small Earnings Exception (SEE)

All self-employed people aged 16 and over who are below state pension age are liable and must register to pay Class 2 National Insurance Contributions (NICs). The weekly contribution is £2.05 for 2004-05 and £2.10 for 2005-06.

We accept that you do not need to pay Class 2 NICs and do not need to register for NICs at all if:

- foster caring is your only self-employment, and
- your annual profits from foster care are less than the Small Earnings Exception (SEE).

The limit for the SEE is:

- £4,215 for 2004-05 and
- £4,345 for 2005-06.

Please note that if you qualify for the SEE and choose not to pay Class 2 NICs, your entitlement to Incapacity Benefit, Maternity Benefit, State Pension and Bereavement Benefit may be affected. But you may be entitled to claim Home Responsibilities Protection (see below).

Home Responsibilities Protection

If you do not need to pay National Insurance Contributions (NICs, from 6 April 2003 you can claim Home Responsibilities protection (HRP) for each complete year you are registered as a foster carer. HRP helps to protect the basic State Pension of people who do not work due to responsibilities at home. For more information see form CF411, available from the Inland Revenue National Insurance Contributions Office, Inland Revenue Enquiry Centres and local DWP offices.

You can obtain further information about Class 2 NICs from:

- The Newly Self-Employed Helpline on 0845 915 4515 if you have not previously registered.
- The Self-Employed Helpline on 0845 915 4655 if you are currently registered.

Class 4 National Insurance Contributions (NICs)

All self-employed people are liable to pay Class 4 NICs on annual profits above a threshold.

For 2004-05 the rates are 8% on profits between £4,745 and £31,720 and 1% on profits above that.

For 2005-06 the rates are 8% on profits between £4,895 and £32,760 and 1% on profits above that.

If your receipts from foster care are exempt you will not have to pay Class 4 NICs on them as you will have no profit from foster care.

How will the relief affect my entitlement to Child Tax Credit (CTC)?

You can claim CTC for your own children, but not for your foster children (unless, very exceptionally, the Local Authority do not pay you for Accommodation/Maintenance).

How will the relief affect my entitlement to Working Tax Credit (WTC)?

You are entitled to claim WTC provided that you or your partner are in 'qualifying paid work' for at least 16 hours a week if you have a child of your own, or 30 hours a week if you do not. Foster caring is 'qualifying paid work'.

How is my fostering income taken into account for tax credits?

You must include your income from foster caring in your declaration of income. Your foster caring income for tax credit purposes is the same as your taxable profit from fostering. So if your total foster care receipts are less than your qualifying amount, your profit from foster caring for both tax and tax credit will be nil.

Note: Other income (yours or your partner's) will be taken into account for Working Tax Credit and Child Tax Credit purposes.

What records will I need to keep?

You will need to keep a record of:

- your total receipts for the year from your local authority, HSS trust or independent fostering provider,
- the number of weeks that you care for each child placed with you in the year. A week runs from Monday to Sunday; count any part of a week as a full week,
- the date of birth of each child.

If your receipts are not exempt **and** you intend to use the 'profit method' (that is, calculate your profit from foster care by using total receipts less allowable expenses and capital allowances) you will also need to keep sufficient records to support your figures.

You will need to keep your records for six years after the end of the tax year to which they relate.

Will I need to complete a Self-Assessment (SA) tax return?

Not necessarily.

If you are issued with a SA Return you must complete it. If you complete a return which shows that your only income is from your self-employment as a foster carer and you are exempt under the new relief we will not send you a return for future years, unless you tell us that your circumstances have changed.

If you are not issued with a SA Return, you must tell us if you are not exempt or have other income on which you have tax to pay (except income where tax is being deducted at source such as employment income and interest from bank savings).

Further advice

If you have any questions on the scheme or are unsure of what it means for you then please contact your local HM Revenue and Customs (HMRC) office.

There is also more detailed information in our [Business Income Manual](#) in the section beginning at [BIM52750](#).