

Foster care relief

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 (HSS Trusts in Northern Ireland) or independent fostering providers. If you receive this income we treat you as being self-employed.

It **does not** include private fostering arrangements.

When does the relief apply from?

Foster care relief applies from 6 April 2003. It will not affect the tax year 2002-03 (that is, 6 April 2002 to 5 April 2003). You should fill in your Self Assessment (SA) tax return for that year in the normal way and send it to the Inland Revenue by 31 January 2004.

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. The exemption is **not** optional.
- 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.

If you are exempt, it will not affect any other income you may have (e.g. income from employment or investment income), which will be taxed in the normal way.

What if I am not exempt?

If your total receipts exceed the qualifying amount, you can choose between paying tax on

- the actual profit from foster care worked out using total income, with separate tax relief for allowable expenses or capital allowances, or
- total receipts less the qualifying amount (the **simplified method**), without any separate tax relief for allowable expenses or capital allowances.

You may want to use actual profits where your allowable expenses and allowances are more than the qualifying amount, in which case your taxable profit will be less than if you use the simplified method.

What are my total receipts from foster care?

Your total receipts from foster care are all of the payments (fees, salaries, reward payments, allowances etc.) you receive from your local authority, HSS trust or independent fostering provider, including those payments that have previously been treated as non-taxable.

What is my qualifying amount?

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

- a fixed amount (£10,000 for each household for 2003-04). If two or more carers in the same household receive foster care receipts separately, they will share the £10,000 equally. If you are a registered foster carer for less than a full year you can claim a suitable proportion of your 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 for 2003–04).

Example

Ms Smith provides foster care to one eleven year old for the whole of the year and to one eight year old for ten weeks of the year. No other foster carers live in her house. Ms Smith'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

The qualifying amount is simply a way of seeing whether you have made a profit from providing foster care. It does not affect your personal allowance. If you are exempt, the full amount of your personal allowance (which for 2003-04 is £4,615) is available to use against other income.

What about expenses incurred in caring for disabled/special needs children?

We are discussing with the Fostering Network ways of allowing people to obtain full credit for such expenses.

What about adult placement care?

Adult placement care is outside foster care relief. We are discussing special arrangements for 2003-04 with the National Association of Adult Placement Schemes.

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

In practice we will treat your taxable profit under this relief as your earnings from self-employment for NICs purposes. If you are exempt, you have no taxable profit.

Registration

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). These are set at £2 a week for 2003-04.

We are aware that a number of foster carers have not registered with us because they make little or no taxable profit. We will accept that that you need not register with us and apply for the small earnings exception (see below) if foster caring is your only source of self-employed income **and** you have no taxable profits.

If you choose not to pay Class 2 NICs, your entitlement to Incapacity Benefit, Maternity 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 number 0845 9 15 46 55 instead.

Small Earnings Exception

If your annual earnings from self-employment are low (less than £4,095 a year for 2003-04), 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 £4,095.

Class 4 NIC

All self-employed people are liable to pay Class 4 NICs on taxable profits above a threshold. For 2003-04 the rates are 8% on profits between £4,615 and £30,940 and 1% on profits above that. If you are exempt you will not have to pay Class 4 NICs.

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

You can claim Child Tax Credit (CTC) for your own children, but not for your foster children. If you are eligible, your income from foster caring, for CTC purposes, is your taxable profit.

If you fall within the foster care exemption, your income from foster care will be nil, but if you or your partner have any other income, that income will be taken into account for CTC purposes.

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

You are entitled to claim Working Tax Credit (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". Income from foster caring for WTC purposes is your taxable profit.

If you fall within the foster care exemption, your income from foster care will be nil, but if you or your partner have any other income, that income will be taken into account for WTC purposes.

Will the relief affect my entitlement to Income Support?

No. Foster care relief does not affect your entitlement to Income Support.

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, and
- the number of weeks that you care for each child placed with you in the year and the age (or birthday) of each child. A week runs from Monday to Sunday. Count any part of a week as a full week.

If you are not exempt and you intend to calculate your actual profit from foster care worked out using total income, with separate tax relief for allowable expenses or capital allowances, you will need to keep sufficient records to support your figures.

You will need to keep these records for six years.

Will I need to complete a Self Assessment tax return for 2003-04?

If the only reason you receive a Self Assessment (SA) tax return is because you are self employed as a foster carer **and** you will be exempt under the new relief, we will not need to send you a return for 2003/4.

Once you are issued with a SA return you must complete it. If you are not issued with a SA return, you must still tell us if you are not exempt or have other sources of income on which you have tax to pay.

We will send a short questionnaire to foster carers (individuals and partnerships) who were issued with a SA return for 2002-03. You do not have to complete the questionnaire, but it will help us to identify you if you are exempt and do not need to receive a tax return from us for 2003-04.

If you received a return for 2002-03 and believe you will be exempt for 2003-04, and have not heard from us by the end of October please contact your local Inland Revenue office. The address and telephone number will be shown on previous correspondence from us.

Contact details can also be found at www.inlandrevenue.gov.uk/local.

Further advice

If you have any questions on the scheme or are unsure of what it means for you then please contact your local Inland Revenue office.