**TAX INFO FOR FOSTER CARERS 2023 – 2024**

INFORMATION FROM THE FOSTERING NETWORK WEBSITE:

All foster carers are treated as self-employed for tax purposes. There is a specific tax scheme foster carers can use called Qualifying Care Relief. The scheme calculates a tax threshold unique to the fostering household and when compared with their total fostering payments, determines if a foster carer has to pay any tax from their fostering or not. For many foster carers their total fostering payments are below their tax threshold and they do not have to pay any tax.

Anyone who is self-employed must register to pay Class 2 National Insurance Contributions. 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  £6,725 (2023-24) (£6,725 also in 2022-23), they will automatically not have to pay Class 2 National Insurance Contributions.

The individual circumstances of the foster carer will determine if this is the best option for them or whether they have to make other arrangements to maintain their National Insurance record, for example applying for National Insurance credits or opting to pay the Class 2 contributions voluntarily.

Further information about tax and national insurance is available from HM Revenue and Customs [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): A help sheet explaining qualifying care relief, the tax scheme for foster carers. You can also go to the [www.gov.uk](http://www.gov.uk/) and type HS236 in the search box.​​​​​​

How we can help foster carers

Queries about tax for foster carers is one of the most common reasons why people get in touch with us. We have pulled together some frequently asked questions about tax for foster carers. These were developed with the help of our partner, Williams Giles, who are a leading provider of specialist tax services for foster carers.

We have a short presentation on tax for foster carers to help our members understand their tax and National Insurance contributions. [Watch it here](https://bit.ly/fosterTAX). You can also register for tax webinars with Williams Giles Accountants [here](https://bit.ly/fosterTAX)and [read our tax FAQs](https://www.thefosteringnetwork.org.uk/advice-information/finances/tax-faqs).

Our [member helplines](https://www.thefosteringnetwork.org.uk/advice-information/advice/fostering-network-helplines) provide confidential, independent and impartial advice for foster carers in the UK.

We have also produced an [Income Tax and National Insurance Signpost](https://www.fosteringresources.co.uk/?cid=1&sid=3&pid=330&p=0) booklet to help provide foster carers with information about income tax and National Insurance. It covers the following:

* How the qualifying care relief scheme for income tax works.
* How foster carers should calculate their tax threshold and complete a tax return if they need to.
* How fostering affects National Insurance contributions.
* What happens if a young person stays on after their 18th birthday.

You can purchase our [Income Tax and National Insurance Signpost](https://www.fosteringresources.co.uk/?cid=1&sid=3&pid=330&p=0) booklet for just £3 if you are a member of The Fostering Network. Bulk discounts are available for fostering services.

If you would like support from an accountant, our partners [Williams Giles](https://www.williamsgiles.co.uk/industries/foster-care-accountants/) have developed a tailor-made fixed fee tax return service designed to meet the needs of foster carers. [Find out more](https://www.thefosteringnetwork.org.uk/williams-giles) about Williams Giles or call **01795 478044**. If you are a member of The Fostering Network and a new customer of Williams Giles, please [log in](https://www.thefosteringnetwork.org.uk/user/login?destination=node/9739) to the membership section of our website to access a **five per cent off** discount code.

**Making Tax Digital**

Making Tax Digital is a UK Government plan to change the way that tax works in the UK. It means that all tax administration (for example, completing your tax return) will need to be done online using a digital system. The Fostering Network is working with HMRC to make the case that foster carers should not be included in this change. [Read more about Making Tax Digital.](https://www.thefosteringnetwork.org.uk/node/12493)

Frequently Asked Questions

**Do foster carers need to pay tax?**
It will depend on a number of factors, including the total amount of fostering payments you receive and if you have taxable income from another source such as work or a pension.  However the majority of foster carers do not pay tax on their fostering payments. All foster carers need to register with HM Revenue and Customs and complete an annual tax return, even if you do not need to pay tax on your fostering payments.

Foster carers can use a tax scheme called [Qualifying Care Relief (QCR)](https://www.thefosteringnetwork.org.uk/advice-information/finances/tax-and-national-insurance/tax-and-national-insurance-contributions#QCR). This scheme provides a tax free amount to be deducted from your total fostering payments to work out whether you need to pay tax on your fostering income. If you do, it may be possible to offset this amount against your personal tax allowance of £12,570 for 2023/24.

If you have used up your personal tax allowance from employment income or a pension, then you will need to pay tax on your fostering income that has gone over the calculated tax threshold.

**Do I need to register as self-employed?**
Yes. All foster carers are classed as self-employed by HM Revenue and Customs and so you need to register with them as self-employed, regardless of your type of fostering and the level of your income from fostering. This includes family and friends foster carers and those that provide respite. You can [register as self-employed online](https://www.thefosteringnetwork.org.uk/advice-information/finances/tax-and-national-insurance/tax-and-national-insurance-contributions) or an accountant will be able to assist you with this process.

**I am already registered as self-employed, do I have to register again for my fostering?**
No. However, we advise you to contact HM Revenue and Customs to let them know you are also now fostering.

When you come to complete a tax return form, in addition to your self-employed business, you will need to complete a section about your fostering.

**Do I have to complete a Self Assessment tax return?**
Yes. For every year that you are an approved foster carer you will need to complete a Self Assessment tax return - even if your income from fostering is covered by Qualifying Care Relief. In April HM Revenue and Customs will write to or email you to inform you that you are required to complete a Self Assessment tax return. This can either be completed by paper (by 31 October) or online (by 31 January) yourself, or by an accountant on your behalf.

**How do I work out how much tax I owe on my fostering income?**
By using the Qualifying Care Relief scheme you can calculate whether you have any taxable income from fostering. If you do, and you have used up your personal allowance, then this amount will be taxed at 20 per cent for all basic rate taxpayers.

If any tax has been deducted at source, this will be taken off this figure to work out your tax due.

It is worth remembering that your Class 2 National Insurance contributions will also be added to your tax bill if your taxable income from fostering is above the Lower Profits Limit of £12,570 for 2023-24 or you have chosen to pay Class 2 National Insurance voluntarily. In addition, if your taxable income is over £12,570 Class 4 National Insurance Contributions will also be payable.

**What receipts or records do I need to keep to complete my tax return?**
As a foster carer, you can complete your tax return using [Qualifying Care Relief](https://www.thefosteringnetwork.org.uk/advice-information/finances/tax-and-national-insurance/tax-and-national-insurance-contributions#QCR)which does not require you to keep receipts, unless you are caring for a specialist placement. You will though, need to keep remittance slips from your fostering service and your annual summary if they provide you with one.

You will also need information about your placements, such as the dates children were in your care, including respite placements (even if they were only with you for one night) and the ages of each child placed with you.

You will need details of your total income, including for example the fostering allowance for the child, any fee, reward or skill payment, holiday payments, reimbursed mileage, school uniform allowance and any loyalty payments you received from your fostering service – everything your fostering service has paid to you in the tax year (ended 5 April).

If you are caring for specialist placement, you may be able to claim exceptional expenses (see jargon buster) and should keep receipts or records of these.

**I work and pay my taxes monthly. Does this income need to be shown on my tax return in addition to my fostering?**
Yes. A Self Assessment tax return needs to declare all of your taxable income for the year, even if some sources of income have been taxed already. You will not be taxed twice on the same income.

**How do I pay my tax?**
Once you have completed and submitted your Self Assessment tax return, you can pay your tax and National Insurance Contributions in a number of ways:

* online or telephone banking
* debit card online
* with your annual statement attached to the statement you receive from HM Revenue and Customs that you can pay either over the counter at a bank or building society, or by post with a cheque.

**Why am I being asked to pay more than one type of National Insurance?**
There are two types of National Insurance for people who are self employed - Class 2 and Class 4. Foster carers are classed as self employed by HM Revenue and Customs and so both of these can apply.

Class 2 National Insurance Contributions are a flat rate (£3.45 per week for 2023/24). If your taxable income is below the small profits threshold (£6,725 for 2023/24), there is no requirement to pay these contributions, although it may be beneficial for you to make this payment depending upon your current circumstances in order to access future contributions and benefits such as the state pension.

It is also possible for foster carers with an income below the small profits threshold to claim credits for parents and carers. This will credit your National Insurance record for the year. Again, your individual circumstances will need to be assessed to determine the best course of action for you to take.

Class 4 National Insurance Contributions are paid at a rate of 9% on profits between £12,570 (Lower Profits limit) and £50,270 (Upper Profits Limit) in 2023- 24 and 2% on profits over £50,270 (Upper Profits Limit).

In summary, if your taxable profits are over £12,570 for 2023/24, both Class 2 and Class 4 National Insurance will be payable.

**I’m an approved foster carer, but I haven't registered as self-employed – what do I do?**
There are many foster carers who do not realise they have to register as self-employed. If this happens, contact HM Revenue and Customs. Before you contact them to register, read and understand the Qualifying Care Relief scheme to see whether you have any tax liability on your fostering income. You can then let HM Revenue and Customs know when you contact them.

HM Revenue and Customs might issue a fine and if this were to happen, you can appeal the fine and provide evidence to demonstrate you genuinely did not realise you had to register. If you are concerned, speak to your social worker, give our helpline a call or contact an accountant.

**What do I do when I stop fostering?**
You may continue to be self employed through another business, but if not, you can contact HM Revenue and Customs to let them know you are stopping fostering.

You will still need to complete a tax return for any part of the tax year that you fostered.

**Making Tax Digital**

Making Tax Digital is a UK Government plan to change the way that tax works in the UK from 2024.  It means that many foster carers will have to change the way they complete their self-assessment for income tax.  Under the new plan, foster carers will need to send in quarterly tax returns (a return every three months) and use 'compatible software' to do all tax administration online.  The Fostering Network is working with HMRC to make the case that foster carers should not be included in this change.  Find out more at the following link [Making Tax Digital | The Fostering Network](https://www.thefosteringnetwork.org.uk/node/12493)

Jargon buster

**Self-employed**
If you run your own business, you may be self employed. For the purpose of tax, HM Revenue and Customs count foster carers as self employed.

**Income Tax**
Income Tax is a tax paid on most types of income and is collected by HM Revenue and Customs.

**Qualifying Care Relief**
Qualifying Care Relief is the special tax scheme for foster carers that provides a tax free amount of income.

**Personal Allowance**
Your personal allowance is the amount of income you can have each year before needing to pay income tax.

**National Insurance**
National Insurance contributions build up your entitlement to state benefits. There are four types of national insurance:

* Class 1 – For employees earning more than £242 a week and under State Pension age. These are automatically deducted by your employer.
* Class 2 – For self employed people. You do not have to pay this if you earn less than £6,725 a year, but you can choose to pay voluntary contributions.
* Class 3 – Voluntary contributions are contributions you can make to fill or avoid gaps in your National Insurance record.
* Class 4 – For self employed people earning profits over £12,570 a year.

**Self Assessment tax return**
This form enables you to declare all your taxable income to HM Revenue and Customs.

**Total fostering income**
Your total income from fostering is the total amount you receive from your fostering service. This includes the fostering allowance for each child, any fee, reward or skill payment, holiday or birthday allowance, respite and reimbursed expenses.

**Remittance slip**
Some local authorities or independent fostering agencies issue weekly/fortnightly/monthly remittance slips detailing your payments and the placements you had in your care.

**Annual summary**
Some fostering services issue annual summaries or statements which detail all the income and placements you had during the tax year.

**Exceptional expenses**
Foster carers can claim exceptional expenses where you have incurred expenses that would not normally be incurred due to the specialist requirements of the child you are caring for. This may include the purchase of medical equipment, sensory equipment, mileage to hospital and therapies.

Further information

For more information about tax and National Insurance for foster carers, [visit our webpage](https://www.thefosteringnetwork.org.uk/advice-information/finances/tax-and-national-insurance/tax-and-national-insurance-contributions)or you can purchase our [Income Tax and National Insurance Signpost](https://www.fosteringresources.co.uk/?cid=1&sid=3&pid=330&p=0) publication for just £2. You can also call one of our [helplines](https://www.thefosteringnetwork.org.uk/advice-information/advice/fostering-network-helplines).

However if you would like support from an accountant, our partners [Williams Giles](https://www.williamsgiles.co.uk/specialist-sectors/fostering/foster-carers) have developed a tailor-made fixed fee tax return service designed to meet the needs of foster carers. [Find out more](https://www.thefosteringnetwork.org.uk/williams-giles) about Williams Giles or call **01795 478044**. Members of The Fostering Network who are not currently customers of Williams Giles can receive a five per cent discount on their fixed fee tax return service. This discount is available from April to September each year

Tags:

[income tax/national insurance](https://www.thefosteringnetwork.org.uk/taxonomy/term/1200)