



Foster Carer Finances

With you every step of the way

Fosterline
0800 040 7675
your fostering advice service

www.fosterline.info



When a child is placed in foster care, the cost of caring for them is paid to the foster carer in the form of a fostering allowance.

Many fostering services also pay a fee on top of this allowance, in recognition of the work they do in caring for these children. This additional payment is classed as the "reward" element of the fee.

To ensure that no foster carer is out of pocket because of their caring role, a recommended national minimum allowance was introduced by the Department for Education. There is currently no recommended amount for the reward element, and each fostering service will set this separately.

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The national minimum allowance has been calculated on the basis of the minimum amount that any foster carer needs to meet the cost of caring for a foster child. Recommended rates, excluding rewards, are as follows:

Minimum Weekly Allowance 2023 to 2024

	Age 0 to 2	Age 3 to 4	Age 5 to 10	Age 11 to 15	Age 16 to 17
London	£179	£182	£203	£232	£270
South East	£171	£177	£195	£223	£260
Rest of England	£154	£159	£175	£199	£233

Fostering is classed as a self-employment therefore carers need to:

- Register as self-employed and for Class 2 National Insurance
- Complete a tax return
- Income Tax and National Insurance



Registering as self employed

Registering as Self-Employed is relatively straight forward, and can be done one of two ways:

- Completing a paper form CWFI by downloading it from HMRC's website
- Registering online using HMRC's website register at <https://www.gov.uk/register-for-self-assessment>

Completing Your Tax Return

- Once you have completed the registration you will be asked to complete a tax return on an annual basis for the period 6 April to 5 April.
- You will need to ensure that you submit your tax return by 31 October (if you are filing by paper) or by 31 January (if you are filing online) following the end of the tax year. You will also need to make sure you pay any tax liability due by 31 January following the end of the tax year.
- The date you register from should be the date that you went to panel, as this will allow you to claim the full amount of allowances that you are entitled to.

There are a number of things that can affect your tax liability including:

1. The number of children in your care at any one time
2. The type of placement (i.e. if you receive an enhanced fee for one of your placements)
3. Whether you foster with a partner
4. Whether you receive any other income in addition to your fostering income

As a foster parent, you're in a unique tax position. You have a choice of methods to calculate your taxable fostering income:

- The simple method
- The profit method

Simple Method

In 2003, HMRC set up a tax scheme for foster carers to simplify the calculation of their taxable income by comparing a 'Qualifying Amount' to their total fostering income. The Qualifying Amount is made up of two elements:

1. The first element is a fixed rate of £18,140

This amount is available if you have been a carer for the entire tax year.

If you have only been a carer for part of the tax year, the amount is calculated on a pro-rata basis from the date you were appointed in the year

2. The second element is a weekly rate of
£375 per week per placement under the age of 11
£450 per week per placement over the age of 11

In order to qualify for this tax relief you will need to group together the total income you received for your fostering duties. All receipts from your fostering service are included in your income (i.e. birthday money, mileage, expenses etc.)

If your total fostering income is less than your 'Qualifying Amount' then your taxable income is deemed as NIL and therefore you have no tax to pay. If your income is over the qualifying amount, the excess is treated as your taxable income.

If you have any fostering income in excess of your qualifying amount, you also have your personal allowance to use as well (providing you have no other income e.g. employment income).

Profit Method

The profit method rules state that, in calculating your taxable fostering income, you simply deduct your actual expense from your fostering income for the tax year.

In practice, you would need to keep track of your expenses throughout the tax year and retain any receipts that you are given. This is in case HMRC request evidence to support any entries you have made in your self-assessment tax return.

For any 'profit' made on your fostering income, the same rules apply whereby you still have your personal allowance to take advantage of before tax is calculated.

Special Guardianship (SGO)/Residence Order (RO) Allowances

If a carer received income for a placement that is placed under SGO or RO, the income is not taxable and should not be entered on a tax return.

Tax for Foster Carers

Follow the link to an easy online step by step explanation of tax specifically for Foster Carers. The guide is written and produced by the HMRC as an e-learning tool.

Tax for Foster carers learning tool (<http://www.hmrc.gov.uk/courses/syob2/fc/index.htm>)

Tax for Shared Lives Carers (http://www.hmrc.gov.uk/courses/syob2/s_l/index.htm)

Claiming Benefits

The UK Benefits system is currently undergoing major change with the introduction of Universal Credit which is being phased in across the country.

All allowances and fees received by foster carers in return for fostering are fully disregarded for the purposes of calculating entitlement to means tested benefits.

For further information please visit: Benefits for foster carers (<https://www.gov.uk/foster-carers/claiming-benefits-while-fostering>)

Universal Credit is a means tested benefit.

Fees and allowances will not be taken into account as earnings or income and will not affect the amount of Universal Credit a foster carer is entitled to receive. For further information please consult the Department of Work and Pensions Website (<https://www.gov.uk/government/organisations/department-for-work-pensions>).

Housing Benefit (Now referred to as the Housing Cost Element of Universal Credit)

Fostering income is disregarded for Housing Benefit purposes. If you are claiming Universal Credit, Housing Benefit is paid as part of your claim.

Housing benefit is for rented accommodation (not available if a carer has a property that they own and rent out)

Housing Benefit is means tested.

Spare room reduction:

You can claim 1 bedroom for:

- each single adult
- each couple
- all children of the same gender under 16
- all children under 10 (regardless of gender)

- each disabled tenant
- each partner needing an external overnight carer
- all foster children (also applies when no foster children live with you as long as the room isn't empty for more than 52 weeks)
- each foster child that can't share a bedroom because of a disability or medical condition (contact your local council with medical evidence)
- each adult child in the Armed Forces or each reservist
- all external carers who provide overnight care for you or your partner

Housing Benefit could be reduced by:

- 14% of the 'eligible rent' if you have 1 extra bedroom
- 25% of the 'eligible rent' if you have 2 or more extra bedrooms

Most local authorities have a benefits calculator on their website.

Council Tax Relief

Your fostering income must be disregarded for the purposes of Council Tax reduction and therefore you can apply for Council Tax Reduction.

Council Tax relief is a means tested benefit.

Apply through the local authority

How much you get depends on:

- where you live – each council runs their own scheme
- your circumstances (eg income, number of children)
- your household income – this includes things like savings, pension, your partner's income
- if your children live with you
- if other adults live with you

Disability Living Allowance for children

Disability Living Allowance (DLA) is a tax free benefit for disabled children who need help with mobility or care costs.

To qualify the child must:

- Be under 16 years of age
- Have difficulty walking or need more looking after than a child of the same age without a disability (they must have had the difficulties for at least 3 months and expect them to last for at least 6 months). Terminally ill children are not subject to the 3 month rule.
- Be in Great Britain, another EEA country or Switzerland when making the claim
- Not subject to Immigration control

- Be habitually resident in the UK and have actually lived in the UK for a certain period of time

The child may have to attend an assessment in respect of a claim.

Child Age	Length of time in UK
Under 6 months	13 weeks
6 months to 3 years	26 weeks of the last 156 weeks
Over 3 years	2 of the last 3 years

The residence qualification does not apply to terminally ill children (those with 6 months or less to live).

The allowance has a care and mobility component – the tables below show the rates and level of care required.

Care Component

Band	Rate and level of care required
Lowest	£26.90 per week help for some of day or night
Middle	£68.10 per week frequent help or constant supervision during the day, supervision at night or someone to help when on dialysis
Highest	£101.75 per week child can't walk, can walk a short distance without discomfort, become ill when walking or are blind/severely sight impaired

The residence qualification does not apply to terminally ill children (those with 6 months or less to live).

The allowance has a care and mobility component – the tables below show the rates and level of care required.

Mobility Component

Band	Rate and level of care required
Lower	£26.90 per week they can walk but need help or supervision outdoors
Higher	£71 per week child can't walk, can walk a short distance without discomfort, become ill when walking or are blind/severely sight impaired

Carer's Allowance: If you spend over 35 hours a week caring for a child who is in the middle or higher rate band you may be entitled to claim carer's allowance

For more information on DLA, please download the PDF at <http://www.fosterline.info/wp-content/uploads/2016/10/FT01-Fosterline-further-info-on-DLA-Oct16.pdf>.

Carer Allowance

- If a carer has a placement that receives Disability Living Allowance at the middle or higher rate of the care component, they can claim carers allowance.
- They must ensure their taxable income other than the fostering is less than £100 per week
- Fostering Income is disregarded

Free Childcare for Working Parents

From September 2017, many working parents of 3 to 4 year olds in England became eligible for 30 hours of free childcare rather than the previous 15 hours.

Not every child is eligible to receive the additional 15 hours but the current level of 15 hours is still available to those who are already in receipt of the allowance.

Prior to September 2017, children that were eligible to receive the 15 hours free child care will continue to receive this as it is a universal entitlement for all children starting the term following their third birthday.

The extended entitlement is in addition to the universal 15 hours entitlement, providing an extra 15 hours a week of free childcare for families that meet the eligibility criteria.

You can usually get 30 hours free childcare if you (and your partner, if you have one) are:

- in work – or getting parental leave, sick leave or annual leave
- each earning at least the National Minimum Wage or Living Wage for 16 hours a week – this is £120 if you're over 25 (<https://www.gov.uk/national-minimum-wage-rates>)

This earnings limit doesn't apply if you're self-employed and started your business less than 12 months ago.

You're not eligible if:

- your child doesn't usually live with you
- either you or your partner has a taxable income over £100,000 (<https://www.gov.uk/income-tax>)
- your child is a fostered child (unless also working outside the role of fostering)

If you are a foster carer you can obtain the 15 hours additional free child care for your birth children (if eligible) as the role of foster care is recognized as qualifying work.

Free Childcare for Working Foster Parents

Foster parents who also work outside their role of foster carer will also have the opportunity for the additional 15 hours free childcare.

The government will provide the same access of support to foster carers working outside the role of foster care as for all working families in England. The role of foster care will be recognised as qualifying work to enable foster carers to apply for the additional hours for their birth children.

Where the foster parent and their partner (if any) hold additional employment outside the role of fostering then they will be able to apply for the additional 15 hours free childcare providing the provision of these hours is consistent with the child's care plan and would have to be authorised by the local authority.

Responsible local authorities will therefore need to determine whether 30 hours childcare is appropriate for the child, and confirm that foster parents meet the eligibility criteria. They will have the flexibility to develop local policies and processes for establishing this.

This won't be right for every child and the government estimate that only a small number of foster parents will take up the offer.

Foster parents should start discussions with their social worker to discuss an application. The local authority will be required to confirm the application from a designated person from within the local authority

Three-and-four-year-olds can start in a 30 hours place from the 1st September, 1st January or 1st April. To ensure a September start, applications should be sent to the responsible local authority by 31 August.

The early years team at the responsible local authority will issue a code to the foster parent and the parent should then contact the childcare provider to confirm their place.

The free child care can only be received the term after the child turns 3 years old and the foster parent/s received the code (both conditions must be met)

More information will be available on the Childcare Works website

For further information visit Childcare costs (<https://www.gov.uk/help-with-childcare-costs>).

Frequently Asked Questions – fostering income and Tax

I foster with my partner, can we reduce our tax liability in any way?

If you foster with your partner it may be beneficial to trade as a partnership but only if their personal allowance is not fully utilised. The numbers would need to be crunched to see if it would be beneficial for you.

We only have one placement, but we received double funding because they need special care, is there any way of reducing my tax liability?

As a specialist foster carer you are entitled to compute your taxable income in exactly the same way as a non-specialist foster carer. However, in addition to the standard allowances, exceptional expenditure may be claimed as an additional deduction in calculating your taxable income. HMRC explains that expenditure may be 'exceptional' in, either nature or degree, but must relate directly to the placements special needs in order to be tax deductible.

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.

How will my income from fostering affect my entitlement to Child Tax Credit?

You can claim Child Tax Credit 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 my income from fostering affect my entitlement to Working Tax Credit?

You are entitled to claim Working Tax Credit 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'.

For further information on Tax issues visit: GOV.UK foster carers (<http://www.hmrc.gov.uk/individuals/foster-carers.htm#s>)

Useful Forms & Tax Data

HMRC Form Description	HMRC Form No.
Registration for Self-Assessment & Class 2 National Insurance	CWF1
Application for National Insurance Credits for Carers	CF411a
Qualifying Care Relief Guide	HS236

Useful Numbers

Name	Number
Tax Credit Helpline	0345 300 3900
Newly Self Employed Helpline	0300 200 3504
Self Assessment Helpline	0300 200 3300
Self Assessment Payment Helpline	0300 200 3835
NIC Deficiency Helpline	0300 200 3503
Self Employed NIC Helpline	0300 200 3505

THE INFORMATION WAS CORRECT AT THE TIME OF WRITING (JANUARY 2022). FOSTERLINE WOULD ALWAYS RECOMMEND SEEKING PROFESSIONAL ADVICE REGARDING TAX AND FINANCIAL ISSUES.

Link to record keeping apps supplied by the HMRC

<http://www.hmrc.gov.uk/softwaredevelopers/mobile-apps/record-keeping.htm>

<https://www.fosterline.info/about-us/contact-us/>

HMRC Webinars for foster carers

HMRC has put together a useful range of Webinars for foster carers on a range of issues that affect them. These are designed to give practical help and advice on how to keep records and what tax and insurance foster carers are required to pay. You can choose to take part in a live webinar or watch a pre-recorded session.

For more information and to access the webinars follow this link:

<http://www.hmrc.gov.uk/webinars/self-employed.htm#8>

This page also includes links to supporting material and guidance which you might find helpful after you have viewed the webinar.

Webinars on offer include:

Foster carers and HMRC

This webinar is suitable for prospective Foster carers or those who have been approved as a Foster carer. Find out about what self-employment means to you, how to use qualifying care relief, keeping records and what to put on your tax return

Shared Lives carers and HMRC

This webinar is suitable for those involved in Shared Lives care for example, Adult Placement care, Kinship care, staying-put care and parent and child arrangements. Find out about what self-employment means to you, how to use qualifying care relief, keeping records and what to put on your tax return.

National Insurance for the self-employed

Find out about the types of National Insurance when self-employed, how to pay it and what benefits your National Insurance counts towards.

How to Complete Your First Online Tax Return

Find out how to register for Self Assessment Online, how to tailor your Tax Return, how to complete the self-employed pages and how to send your completed return online. This webinar is aimed at sole traders and is not suitable for directors of limited companies.

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