HM Revenue & Customs

Childminders

Information about Tax and National Insurance

2013-2014

HMRC Business Education & Support Team

Index

Introduction

Childminders are generally contracted with parents to provide services in the childminders' premises, so they are not normally employees of the parents.

Most childminders are self-employed and are responsible for their own Income Tax and National Insurance contributions. Childminders will need to keep records of business income and expenses to work out their profit, and this booklet gives information on how to do this.

A home childcarer is a registered childminder based in the home of the children's parents. Most home childcarers are employed by the children's parent or parents. This booklet does not provide information for home childcarers.

Registration

When you first start in business (known as trading) you must register with HM Revenue & Customs (HMRC). You can register:

- online - use the link www.hmrc.gov.uk/selfemployed/register-selfemp.htm
  Select the sole trader or partnership link at the bottom of the page
- by phoning the Newly Self-Employed Helpline on 0845 915 4515, or
- by downloading form CWF1 (for sole traders) online at
  www.hmrc.gov.uk/forms/cwf1.pdf
  Complete the form, print it out, sign it and post it to the address on the form.

You should register immediately otherwise you may be liable to a penalty.

The Online Tax Registration Service (OTRS) will enable you to register as self-employed and enrol for Self Assessment Online in one website visit. You will receive an activation code by post for this service and you will need to go back into your online account within 28 days to activate the service.

National Insurance

As a self-employed person you may have to pay two types of National Insurance contributions (NICs).

Class 2 National Insurance contributions

Class 2 NICs are payable immediately you become self-employed.

- These are currently £2.70 per week. You can pay monthly or six-monthly by Direct Debit, or we will send you a bill twice a year.
- If your net profit is low, you can apply for an exception from paying Class 2 NICs, called small earnings exception (SEE).
- SEE will be granted if your net profit, or expected net profit, is less than the SEE limit which is £5,725 for the 2013-2014 tax year.
- Applications for SEE are made by completing a form CF10. You can download form CF 10 at www.hmrc.gov.uk/forms/cf10.pdf
- If SEE is awarded, it may affect your entitlement to some state benefits, for example, State Pension.
- Depending on your date of birth, you can get a State Pension forecast or State Pension statement online, by post or by telephoning **0845 300 0168**.

There are more details at www.direct.gov.uk/statepension

Class 4 National Insurance contributions

- If your taxable profits are above the lower profit limit (£7,755 for the 2013-2014 tax year), you may also be liable for Class 4 National Insurance contributions.
- The rate is 9% of your taxable profits above the lower profit limit, up to the upper profit limit (£41,450 for 2013-2014).
- 2% is charged on your taxable profits above the upper profit limit.

For more information see www.hmrc.gov.uk/nic

For example:

Net Profit	£9,782
Less lower profit limit	£7,755
Chargeable	£2,027 x 9% = £182.43

Do you need to top up your National Insurance contributions?

Your entitlement to the basic State Pension and certain bereavement benefits could be affected if there are gaps in your National Insurance contributions record. Therefore you may want to consider filling in the gaps by paying voluntary National Insurance contributions.

Pensions Reform

The State Pension age for women born on or after 6 April 1950 but before 6 December 1953 is between age 60 to 65. Under the Pensions Act 2011 women's State Pension age will increase more quickly to 65 between April 2016 and November 2018. From December 2018 the State Pension age for both men and women will start to increase to reach 66 in October 2020.

You qualify by building up enough 'qualifying years' before State Pension age.

For more information on voluntary National Insurance and to check your state pension age, see: www.direct.gov.uk/pensions

Home Responsibilities Protection (HRP) / Carer's Credit

From 6 April 1978 to 5 April 2010, Home Responsibilities Protection (HRP) helped protect State Pension for those who were not paying National Insurance contributions because they didn't work, or their earnings were low, and they were caring for a child, or a sick or disabled person. HRP has been replaced for people reaching State Pension age on or after 6 April 2010.

From April 2010 parents and carers are able to build up qualifying years through new weekly credits for the basic State Pension. You may be eligible for a National Insurance credit in a given week if you get Child Benefit for a child or children under the age of 12, or you are an approved foster carer.

Further information can be obtained from www.direct.gov.uk

How to work out your taxable profit

As a self-employed person your profit is taxable. You will need to keep records so that you can work out your income, expenses and capital allowances. Several organisations, for example, the National Childminding Association (NCMA), produce an accounts book and attendance register in which you can record business income and expenditure. You will find more information on record keeping on page 12.

Your taxable profit is your income from childminding (turnover), less allowable business expenses and capital allowances for your equipment.

Income (Turnover)

Your income is the total amount of money earned by you as a childminder. It is the money you received and the money due, but not paid to you, up to the end of your accounting period for your work as a childminder. Unless a business chooses otherwise, this will be for the 12 months up to 5 April each year. In the first year as a childminder the accounting period may not necessarily be a full 12 months.

If you receive any funding whilst you have a vacancy, the funding is included as income.

You may receive a grant to help you:

- start up your business as a childminder
- meet day to day expenses (the running costs of your childminding business)
- purchase equipment.

If you receive a grant you should contact HMRC for advice on how it is treated for tax purposes.

Expenses

You can claim expenses that arise directly from your childminding activities. Guidance is provided at www.hmrc.gov.uk/manuals/bimmanual/bim52751.htm

The following are examples of the type of expense that you may claim.

Pre-trading expenses:

- application/registration fee
- medical examination/form fee
- fire blanket
- electrical socket covers
- first aid box and contents

- NCMA (or similar) membership
- accident book or parental contracts
- public liability insurance
- cost of cash book.

Day to day childminding expenses:

- toys, books and art/craft materials
- trips and outings including fares, but exclude any cost relating to your own children
- toiletries/nappies, but not for your own children
- cleaning materials, where the need for cleaning is substantially due to the children in the childminder's care
- protective clothing such as aprons, but not everyday clothing even if bought specially for the business
- food and drink for minded children.

Food and drink

There is no flat rate allowance for the cost of a meal, as no two childminders will have the same costs. Reasonable estimates of the cost of food and drink for your minded children are acceptable and receipts are not required (but see note on page 9).

Estimate the cost of meals provided to the children you mind. It might be useful to keep your supermarket till rolls for about four weeks before and after the start of childminding to see what extra items you are buying.

You can calculate the cost of a meal like this:

500g turkey mince	£2.00	½ tube of tomato puree	£0.50
100g mushrooms	£0.40	2 carrots	£0.15
1 onion	£0.15	Pack of wholemeal pasta	£1.50
Tin of chopped tomatoes	£1.00	Total	£5.70

The meal cost £5.70 and makes approximately 6 child portions, so the cost is £0.95 per portion. One yoghurt or apple costs 30p, so the cost of the food for this meal is £1.25.

Cooking costs can be claimed under gas/electricity (see under household expenditure).

Other expenses

- Telephone calls – keep copies of your itemised bills and highlight the childminding calls. You can only claim for the cost of these calls. You have to keep the original bills with your records.
- Gifts – modest amounts spent on buying birthday and Christmas gifts for minded children may be claimed.

Household Expenditure

HMRC has worked with the NCMA to agree an easy way of working out the amount of certain household expenses that you can claim as business expenses. Even if you are not in the NCMA, you can still use this method.

This is based on the hours that you work and not on the number of children. If you work as a childminder for 40 or more hours each week you are entitled to claim the full time proportion of expenses. If you work as a childminder for fewer than 40 hours per week, you are entitled to claim a lower proportion of the expenses as follows:

Hours worked	Heating and lighting	Water Rates, Council Tax and rent
10	8%	2%
15	12%	4%
20	17%	5%
25	21%	6%
30	25%	7%
35	29%	9%
40	33%	10%

Wear and tear - a deduction of 10% of total childminding income may be made to cover the wear and tear of furniture and household items.

Mortgage Payments

- Capital repayments cannot be claimed as a business expense.

- Interest repayments - generally mortgage interest payments are not an allowable expense of your childminding business.

However, if a part of your house is set aside and used **exclusively** for all or for part of the time for your childminding business, part of your mortgage interest may be allowable as an expense in calculating your profit from childminding. If you also look after your own child or children, or children of family or friends, and you do not charge the normal rate, you are unlikely to use part of your home exclusively for your childminding business.

You should also be aware that where part of your home is set aside exclusively for business use, and there is no personal use of that area, you may become liable to Capital Gains Tax.

Further information on mortgage interest can be found on the HMRC website.

Motor expenses

If you use your car in your childminding business, you can calculate your motor expenses on either a fixed rate per business mile basis or an actual cost basis. Whichever method you use, you must you must keep a log of your business trips showing:

- date of travel
- destination
- mileage covered
- purpose of the journey.

Authorised mileage rate method

If the business is not VAT registered, childminders can use the authorised mileage rates as a basis for their claims.

From 6 April 2012	Rate for the first 10,000 miles	Rate after 10,000 miles
Car or van	45p per mile	25p per mile

If you claim mileage allowance, no other motoring expenses or capital allowances are claimed on the vehicle.

The actual cost method

You must keep records of all motoring costs, such as receipts for fuel, repairs and insurance. If the vehicle is used for both private and business purposes, you can only claim the proportion of the costs that relate to business use. You must make an annual reading of the vehicle's mileage when you use this method.

Expenses are calculated using the following method:

Business miles travelled in the year (A)
Total miles travelled in the year (B)
% costs relating to business use (C) = A x 100

		B
Total motoring costs	(D)	

Example:

Business miles (A)	3,000		
Total mileage (B)	15,000		
% of costs relating to business (C)		100 x	$\frac{3{,}000 \text{ (A)}}{15{,}000 \text{ (B)}}$
		=	20 %

Motoring costs:

Insurance	£ 410
Road licence	£ 165
Fuel and oil	£3,200
Servicing, repairs, MOT	£ 425
Total for the year (D)	£4,200

Allowable costs relating to business travel is D x C

D (£4,200) x C (20%) = £840.

Capital allowances

The cost of equipment that you use in your business is not an allowable business expense.

Instead you can claim allowances, called capital allowances, which are based on the cost (or in certain circumstances the value) of equipment that you own and use in your business. There are several different types of capital allowance. The type you can claim depends on the equipment you have and other circumstances.

Annual Investment Allowance (AIA) applies to most business expenditure on equipment.

The AIA is 100 % of the cost of all the equipment purchased in the period of your accounts, provided you use the equipment wholly for business purposes. If the equipment is also used by you or your family you will only be able to claim the proportion relating to the business. The AIA has an annual threshold, which is £250,000 for the 2013-2014 tax year. If your accounts are for less than 12 months, the threshold is reduced. For example, if your accounts are for six months, the threshold is £125,000.

The purchase of cars does not qualify for AIA. There are special rules for claiming capital allowances for cars, and you can only claim them if you use the actual cost method to calculate the business expense. That is, if you claim mileage allowance for your car you cannot claim capital allowances.

Example of AIA:

Sue started her business as a childminder on 1 May 2013. In July 2013 Sue bought a large playpen for £90 and a trampoline for £200. The playpen is only used by the minded children, but her own children use the trampoline. Sue works out that her children use it for 10% of the time and the minded children for 90% of the time.

Sue calculates her AIA claim as follows:

100% of the cost of the playpen	£90
90% of the cost of the trampoline (£200 x 90%)	£180
Total	£270

There is a capital allowance help sheet, HS252 'Capital allowances and balancing charges', which explains how to calculate all capital allowances. It also explains the process to follow if you use equipment both for business and non business purposes. You will find it at:
www.hmrc.gov.uk/helpsheets/hs252.pdf

An example of an income and expenditure account

Sue's records show the following:

Income:

40 hour week @ £3.50 per hour x 46 weeks worked x 2 children
15 hour week @ £3.50 per hour x 46 weeks worked x 1 child

£3.50 x 40 x 46 x 2 = £12,880; £3.50 x 15 x 46 = £2,415
£12,880 + £2,415 = £15,295

		Turnover	£15,295
Deduct			
Wear and tear - £15,295 x10% (rounded up)	£1,530		
Food – 46 weeks at £35 per week	£1,610		
Heat and light - £1,400 x 33%	£462		
Council tax and water rates - £1,400 x 10%	£140		
Telephone charges	£60		
Motor expenses – 1,380 miles at 45p per mile	£621		
NCMA membership, public liability insurance	£180		
Toys, trips and craft materials	£640		
		Total expenses	£5,243
		Net profit	£10,052
Deduct			
Annual Investment Allowance (playpen and trampoline)			£270
		Taxable profit	**£9,782**

Records

You must keep records to support entries in your tax return, but you can use estimates for food and drink*.

- Keep business records separate from private records.
- You must keep receipts, or if you spend less than £10*, a note of the amount you spent in a record book.
- Keep your record book up to date, record all transactions whether or not you have obtained a receipt.
- Do not throw away your records – they may be asked for to check your claim for expenses.
- Keep a weekly record of all income/expenditure.

These records must be kept for five years from the latest date by which the tax return must be received by HMRC. For example, for the tax year 2013-2014 the records must be kept until 31 January 2020.

For more information regarding record keeping see the 'My New Business' pages on www.businesslink.gov.uk/mynewbusiness

** Receipts for food*
Childminders may be required to keep all the invoices and receipts for any food products purchased, depending on whether they need to register with the Food Standard Agency.
www.food.gov.uk/enforcement/enforceessential/startingup/childminders/

Key dates for Self Assessment

April	HMRC issue a form SA316 - Notice to Complete a Tax Return (SA316) as the tax year starts on 6 April. • To complete your tax return online you must be registered to use the Self Assessment online service. • If you registered as newly self-employed after April 2012 using OTRS, you may already be registered for Self Assessment Online. • If you are not registered for Self Assessment Online, or did not activate on time, register on the HMRC website at www.hmrc.gov.uk • Complete your tax return using the records you have kept during the year. • You will be provided with an immediate calculation of tax and National Insurance contributions due. If you want to do your Self Assessment tax return on paper, ring the Self Assessment Orderline to ask for the forms.

31 October	This is the deadline for paper tax returns. We will calculate the tax and Class 4 National Insurance contributions due, and let you know how much you must pay, before the due date of 31 January. If you miss the 31 October deadline, you must send your return online.

31 January	This is the deadline for online tax returns. • You must pay the balance of any tax and Class 4 National Insurance contributions you owe by this date. • You must pay your first payment on account for the following tax year by this date.

31 July	You must pay your second payment on account by this date.

Self Assessment tax return

You will receive a Notice to Complete a Tax Return (form SA316) in the April following your starting date. If you do not receive it, you should contact us.

You will have to complete personal details and tailor the return to your personal circumstances. For sole traders there will be self-employment pages.

The quickest and easiest way to complete your return is online.

- It is secure and you can do it at a time convenient for you.
- You can stop, save and come back at any point.
- It calculates your tax automatically.
- It gives you an online acknowledgement of receipt.

You also need to register for online services before you can send your return, unless you have already registered using OTRS and activated the service. You can do this via www.hmrc.gov.uk (under 'Do it online' on the left-hand side of the HMRC Home page) or www.gateway.gov.uk

From the example on page 11, if Sue would complete the online self-employment pages, showing her information as follows:

Turnover	£15,295
Total allowable expenses	£ 5,243
Annual Investment Allowance	£ 270

Her profit of £9,782 would be calculated for her.

Personal Allowance

Your Personal Allowance is available to be set against the taxable profit, provided that you have not used it elsewhere for example a job or pension. The Personal Allowance for 2013-2014 is £9,440

The tax bands 2013-2014

Basic rate	20%	up to £32,010
Higher rate	40%	£32,011 to 150,000
Additional rate	45%	£150,001 and above

In our example:
Sue's tax due is £342 (£9,782 - £9,440) x 20% = £68.40

Payment cycle for Self Assessment

Self-employment starts on 1 May 2013

6 April 2014	SA316 issued (Notice to Complete a Tax Return).
31 October 2014	Deadline for paper tax return for 2013-2014. HMRC will calculate your tax and Class 4 NIC liability.
31 January 2015	Deadline for online tax return for 2013-2014.

Example:	**Tax and Class 4 NICs due for 2013-2014 is**	£1,800.00
31 January 2015	Payment due for 2013-2014	£1,800.00
	Plus 1st payment on account for 2014-2015	
	(half of previous year's liability of £1,800)	£900.00
	Total amount payable at 31 January 2015	£2,700.00
6 April 2015	Notice to complete a tax return for 2014-2015 issued	
31 July 2015	2nd payment on account for 2014-2015	£900.00
31 October 2015	2014-2015 tax return due, if sent on paper.	
31 January 2016	2014-2015 tax return due, if submitted online.	
	Tax and Class 4 NICs due for 2014-2015 is	£2,200.00
31 January 2016	Balancing payment due for 2014-2015 is £2,200 - £1,800 (payments on account)	£400.00
	Plus 1st payment on account for 2014-2015	
	(half of previous year's liability of £2,200)	£1,100.00
	Total amount payable at 31 January 2015	£1,500.00

If the total amount due for the year is less than £1,000, no payments on account are required.

In Sue's example, her bill would be:

Tax	£ 68.40 (see page 14)
Class 4 NICs	£182.43 (see page 3)
Total	£250.83

Sue would not make any payments on account.

How to pay

We would recommend that you make payment electronically. You can:

- pay by debit or credit card over the internet using a service called BillPay, or
- use your bank/building society services to pay over the internet or telephone.

HMRC can now accept Faster Payments. Please contact your bank for further details. More information on how to make a payment can be found at www.hmrc.gov.uk/payinghmrc

If you find you can't pay your tax bill the most important thing is not to ignore the demand. If we have already contacted you about an overdue payment it's important that you call the original office that contacted you.

If you are aware that you may be unable to pay the payment due in full before the payment deadline please contact our Business Payment Support Service on 0845 302 1435.

Ready reckoner 2013-2014

There is an interactive ready reckoner on the HMRC website at:

www.hmrc.gov.uk/tools/sa-ready-reckoner/index.htm

Please read the notes carefully, as this tool will not be suitable in all circumstances.

There is also a free app for smartphones called MyBizTracker.

The correct liability can only be determined once we have received your completed tax return.

Tax credits

Child Tax Credit (CTC)

This is a payment to support families, with children aged up to 16, or up to aged 18 if in full time, non-advanced education, who usually live in the United Kingdom.
Child Tax Credit will be paid in addition to Child Benefit and Working Tax Credit. It is paid to the main carer either weekly or four-weekly, as they choose.

Working Tax Credit (WTC)

WTC is a top up for people with low earnings. It includes those who do not have children. It is ‘family’ income related. The amount of tax credit awarded will be reduced as ‘family’ income increases. For couples, awards will be based on the income of both partners.

It is available to people who are employees or self-employed.

Working Tax Credit may be payable in addition to any Child Tax Credit.

Phone 0345 300 3900 for a claim pack or for more information look on our website at www.hmrc.gov.uk/taxcredits

Childcare providers

The Tax Credit Office (TCO) may ring the childcare provider to confirm that the details submitted by the claimant are correct. The TCO may ring on more than one occasion during the period of the award. Childcare providers will not have to provide evidence of fees, only their local authority, Ofsted or Care Commission registration number.

The childcare provider is **not** responsible for advising the TCO if the child is removed from the facility. The responsibility is with the claimant, the notes accompanying the claim form make this clear.

Where to go for further advice and help

Contact telephone numbers can be found on the HMRC website at:

www.hmrc.gov.uk/contactus