

Childminders

Information about Tax and
National Insurance

HMRC Business Education & Support Team

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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. These childminders will need to keep records of business income and expenses to work out their profit. 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(s). This booklet does not provide information for home childcarers.

Registration

When you first start in business you must register with the HM Revenue and Customs (HMRC). You can register by

- Phone. The self-employed Helpline number is 08459 154515;
- Online. Use this link – www.businesslink.gov.uk/registerselfemployed Select the sole trader or partnership link at bottom of page or
- Download CWF1 online www.businesslink.gov.uk/registerselfemployed
Print out, complete, sign and post the CWF1 (address is on the form).

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

How to work out your profit

Income from childminding (turnover)

Less expenses and capital allowances = 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. You will find information on records on page 9.

Several organisations, for example National Childminding Association (NCMA), produce an accounts book and attendance register in which you can record business income and expenditure.

Income (Turnover)

Your income will be 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* (unless a business chooses otherwise this will be the time up to 5th April each year), for your work as a childminder.

* in the first year as a Childminder the accounting period may not necessarily span a whole year.

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 a grant you receive is treated for Tax purposes.

Expenses

You can claim expenses that arise directly out of your childminding activities. The following are examples of the type of expense that you may claim -

Small items of expenditure

- application/registration 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 the cost of 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 child minder's care
- protective clothing; for example 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 incur the same costs. Receipts are not required for food and drink (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 cost £3, 100g mushrooms - 65p, 1 onion – 15p, tin chopped tomatoes - 60p, ½ tube tomato puree - 30p, 2 carrots – 30p, pack whole wheat pasta £1.60. Meal cost £6.60. Makes approximately 6 child portions so the cost is £1.10 a portion. One yoghurt or apple costs 30p.

The cost of the food for this meal is £1.40

Cooking costs can be claimed under gas/electricity (see other expenses).

Other expenses

- Telephone calls – keep copies of your itemised bills and highlight the childminding calls.
- 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.

The easy way is based on the hours that the childminder works 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. See below.

Hours worked	Heating 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
Mortgage 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 computing your profit from childminding. If you also look after your own child/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.

For example, Sue, a childminder, looks after children for 8 hours per day, 5 days a week for 46 weeks of the year. Sue does not have children of her own and does not look after children of family or friends. One room in her house used as a playroom is available for use by her family for the remainder of the time. The room represents 10% of the floor area of the house. Sue pays £1200 mortgage interest in a 12 month accounting period. Sue would be entitled to claim as a business expense mortgage interest of £25.30, calculated as follows;

$$1200 \times 10\% = 120 \times 46/52 = 106 \times 5/7 = 76 \times 8/24 = 25.30$$

If Sue looks after her own child, or the child of a friend who does not pay the normal rate, at the same time as the other children, no part of her house is used exclusively at any time for her childminding business. Mortgage interest is not an allowable expense of her childminding business.

You must think very carefully before designating part of your home as a business because you may become liable to:

- Capital Gains Tax
- Business Rates of Council Tax.

Motor expenses

If you use your car as a childminder you may use a rate per mile basis or an actual cost basis to calculate your motor expenses. Whichever method you use you **must** keep a record of your business mileage. You will also need records of all motor expenses if you use the actual cost basis.

1 Authorised mileage rates – if the business is not VAT registered childminders can use the authorised mileage rates as a basis for their claims.

From 6 April 2011	Rate for the first 10,000 miles	Rate after 10,000 miles
Car	45p per mile	25p per mile

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

2 The actual cost - you must keep records of all motoring costs, for example, receipts for fuel, repairs, insurance. If the vehicle is used for both private and business purposes, you can only claim for the proportion of the costs that relate to the business use. Expenses are calculated using the following method.

Business miles travelled in the year	(A) =	3000
Total miles travelled in the year	(B) =	15000
calculation of % of costs relating to business		$100 \times \frac{3000}{15000}$ (A) (B)
= business use	(C) =	20 % (or 1/5).

Note - you must make an annual reading of the vehicle's mileage when you use this method.

Example - motoring costs

Insurance		£ 405
Road licence		£ 170
Fuel and oil		£2500
Servicing, repairs, MOT		<u>£ 425</u>
Total for the year	(D)	£3500

The proportion of costs relating to business travel is
 $D (\text{£}3500) \times C (20\%) = \text{£}700.$

Capital allowances

The cost of equipment / assets 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.

There are several different types of capital allowance. The type you can claim depends on the equipment/assets 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. The AIA has an annual threshold.

The amount you wish to claim is entered in the box 'Tax allowances for vehicles and equipment (capital allowances)'.

Expenditure on cars does not qualify for AIA. There are special rules for expenditure on cars.

There is a capital allowance help sheet SA 252 which explains how to calculate all Capital allowances and explains the process if you use equipment both for business and non business purposes.

<http://www.hmrc.gov.uk/helpsheets/hs252.pdf>

An example of an income and expenditure account

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)
£15,295 = turnover

Deduct: -

Wear and tear	£15,295 x 10%	£1,529	
Food 46 weeks x £35 per week		£1,610	
Heat and light	£1,400 x 33%	£ 462	
Council Tax/ water rates	£1400 x 10%	£ 140	
Telephone charges		£ 60	
Motor expenses 1380 miles @ 45p		£ 621	
NCMA membership, Public Liability		£ 180	
Toys/trips craft materials		£ 640	<u>£ 5,242 = expenses</u>
			£10,053 = Net profit
Annual Investment Allowance (Playhouse)			<u>£ 200 = AIA</u>
			£ 9,853 = Taxable profit

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 is received by HMRC. For example, for the year 2011-2012, the records **must** be kept until 31 January 2018.

** 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/

For more information regarding record keeping see

www.direct.gov.uk/en/MoneyTaxAndBenefits/Taxes/SelfAssessmentYourTaxReturn/index.htm

National Insurance

As a self-employed person, you pay a fixed amount of Class 2 National Insurance (NIC).

- Currently £2.50 per week, payment is by twice yearly or monthly by Direct Debit.
- If your net profit is low, you can apply for an exception from paying Class 2 NIC, called small earnings exception (SEE).
- SEE will be granted if you earn or expect to earn less than the SEE limit which is £5,315 for the 2011-12 year.
- Applications for SEE are made by completing a form CF10.
- If SEE is awarded, it may effect your entitlement to some state benefits, for example State Pension.
- You can obtain a Pension forecast, online, by post or telephone **0845 3000 168**.

There are more details at

www.direct.gov.uk/en/Pensionsandretirementplanning/StatePension/index.htm

Class 4 National Insurance

- If your profits are above the lower profit limit which is £7,225 for the 2011-12 year, you may also be liable for Class 4 National Insurance contributions.
- The rate is 9% of your net profits above the lower profit limit.
- If your profits exceed the upper 2011-12 profit limit of £42,475, 2% is charged on your profits above the upper profit limit.

For example

Net Profit	£9,853
Less lower profit limit	<u>£7,225</u>
Chargeable	£2,628 @ 9% = £236.52

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

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.

For more information see

www.direct.gov.uk/en/Pensionsandretirementplanning/index.htm

Pensions Reforms

The State Pension age for women born on or after 6 April 1950 but before 6 April 1955 is rising from 60 to 65 between 2010 and 2020.

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

To check your state pension age, go to

<http://pensions.direct.gov.uk/en/state-pension-age-calculator/home.asp>

Home Responsibilities Protection (HRP)

Home Responsibilities Protection (HRP) is not a benefit but a scheme which helped protect your State Pension. HRP is being replaced for people reaching State Pension age on or after 6 April 2010. It can help if you were not paying National Insurance contributions because you didn't work, or your earnings were low because you were caring for a child, or a sick or disabled person.

Rules have changed since April 2010 but the necessary forms and further information can be obtained by visiting the following website:

www.direct.gov.uk/en/MoneyTaxAndBenefits/BenefitsTaxCreditsAndOtherSupport/Caringforsomeone/index.htm

Key dates for self-assessment 2011-2012

April	<p>HMRC issue a form SA316 - Notice to Complete a Tax Return as the tax year starts on 6 April.</p> <ul style="list-style-type: none">• complete your Return using the records you have kept during the year either on paper or online. <p>If you choose to complete a paper return you should ring the orderline to request one. Filing online will provide you with an immediate calculation of tax and National Insurance due.</p>
31 October	<p>This is the date by which your paper Return must reach HMRC. HMRC will calculate the tax and Class 4 NIC due and let you know, so the money can be paid and funds cleared before 31st January.</p> <p>If your tax return is not with HMRC by 31 October you must complete an online return.</p>
31 January	<p>This date is important for three reasons.</p> <ul style="list-style-type: none">• It is the last date on which you can file online.• You must pay the balance of any tax you owe by this date.• You must pay your first payment on account for the following tax year by this date.
31 July	<p>You must pay your second payment on account by this date.</p>

Self Assessment tax return

If you started self-employment before 5th April you will need to ensure you complete a tax return. You will receive a form SA316 - Notice to Complete a Tax Return. If you do not receive it, you should contact us.

Example

From the example on page 8, if you complete a short tax return you would show your information as follows

Your turnover	£15,295
Total allowable expenses	£ 5,242
Tax allowances for vehicles or equipment	£ 200
<u>Profit</u>	<u>£ 9,853</u>

There may be other sections to complete.

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 need to also register for online services before you can send your return. You can do this via www.hmrc.gov.uk or www.gateway.gov.uk (look for the green banner on the left-hand side of the HMRC Home page).

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.

2011-2012 = £7,475

The tax bands

2011-2012		
Basic rate	20%	up to £35,000
Higher rate	40%	£35,001 – 150,000
Additional rate	50%	over £150,000

Payment cycle for Self Assessment

Self-employment starts on 1 June 2011

06-04-2012	SA316 issued (Notice to Complete a Tax Return).	
31-10-2012	2011-12 tax return due if sent on paper. HMRC will calculate your tax and Class 4 NIC liability.	
	or	
31-01-2013	2011-12 tax return due if submitted online.	
		£
	Tax and Class 4 NIC due for 2011-2012	for example 1,800.00
31-01-2013	Payment due for 2011-2012	1,800.00
	Plus 1 st payment on account 2012-2013 (half of previous year's liability of £1800.00)	+ 900.00
	Total amount payable at 31-01-2013	2,700.00
06-04-2013	Self Assessment return, or notice to complete a tax return, for 2012-13 issued	
31-07-2013	2 nd Payment on account 2012-2013	900.00
31-10-2013	2012-2013 tax return due if sent on paper HMRC will calculate your tax and Class 4 NIC liability.	
	or	
31-01-2014	2012-2013 tax return due if submitted online.	
		£
	Tax and Class 4 NIC due for 2012 - 2013	for example 2,200.00
31-01-2014	Balancing payment due for 2012-2013, £2200 - £1800 (payments on account) =	400.00
	plus 1 st Payment on account 2013-2014 (half of previous year's liability of £1100)	<u>1,100.00</u>
	Total amount payable at 31-01-2014	<u>1,500.00</u>

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

Ready reckoner 2011-2012

This ready reckoner is a guide of how much money you might need to set aside to meet your eventual tax and (where appropriate) Class 4 National Insurance contributions bill when it becomes payable. It is based on a basic personal allowance of £7,475 and if self employment is your only source of income

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

Weekly		Monthly	
Estimated net weekly profit (£ per week)	Approximate amount to set aside for tax and Class 4 NIC (£ per week)	Estimated net monthly profit (£ per month)	Approximate amount to set aside for tax and Class 4 NIC (£ per month)
100	0	450	0
150	3	500	0
200	17	600	0
250	32	800	53
300	47	1,000	112
350	61	1,250	184
400	75	1,500	257
500	104	2,000	401
600	133	2,500	546
700	162	3,000	691
840	207	3,656	905
844 + (?)	207+ (? X 42%)	3,657 + (?)	905+ (? X 42%)
Taxable income over £150,000 will be liable at the additional tax rate			
These figures do not include Class 2 NIC (£2.50 a week in tax year 2011-2012)			

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 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 4 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.

You have to usually live in the United Kingdom and be either –

- responsible for a child, be over 16 and work at least 16 hours a week or
- without children, aged over 25 and work at least 30 hours a week or
- age 16 and over and work at least 16 hours a week and have a disability which puts you at a disadvantage in getting a job or
- You or your partner are aged 50 or over and work at least 16 hours a week and are returning to work after time spent on qualifying out of work benefits. (Details of the qualifying benefits are in the claim pack).

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

Phone 0845 3003900 for a claim pack or for more information look on our website at www.hmrc.gov.uk/taxcredits/index.htm

Child care providers

Childcare providers will not have to provide evidence of fees, only their local authority/Ofsted/Care Commission registration number*. 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.

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

Helpline for the newly self-employed and registration

Ring 0845 915 4515

Self-assessment helpline

Ring 0845 900 0444

Self-Assessment orderline

Ring 0845 9000 404 or Fax 0845 9000 604

Email address is saorderline.ir@gtnet.gov.uk

National Insurance self-employed (Class 2)

Ring 0845 915 4655

Call Centre for queries regarding personal tax

Ring 0845 300 0627

National Insurance and HRP queries

Ring 0845 302 1479

Tax Credit Helpline

Ring 0845 300 3900

Business Education Support Team

Ring 0845 603 2691

Self Assessment tax return online

Refer to our online help www.businesslink.gov.uk

This information is for your guidance only. It does not cover all you need to know about this subject.

Please refer to HMRC or Business Link for more help and information.'

