

Mortgages and childminder expenses

In June 2008 HMRC stated that mortgage interest (or a proportion depending on private use) would be an allowable expense for self-employed people working from home. However, when NCMA (now Pacey) and HMRC came to an agreement about how childminders claim expenses, mortgage interest was not included –

<http://www.childmindinghelp.co.uk/freeresources/Free%20downloads/Resources/HMRC-Childminders-Tax-2013-2014.pdf>

This has led to a lot of misunderstanding and confusion ever since, with some childminders saying, 'My accountant counts mortgage interest as an expense' and others saying that they have been told by HMRC, Pacey and their accountant that it is not allowed.

We need to go back to the 2013/14 version of the HMRC document for childminders to find the answer. The document clearly states –

'Capital repayments cannot be reclaimed as a business expense' ... and ... 'Generally mortgage interest payments are NOT an allowable expense of a childminding business.'

It goes on to say that if part of a childminder's house is set aside **exclusively** for all or part of the childminding business then 'part of your mortgage interest **may** be allowable when calculating profit from childminding.'

However, this is an unusual scenario because normally the childminder's own children or family use the space in their house so it is not exclusively used for childminding – and if childminders do decide to follow this rule the document says that they may become liable for Capital Gains Tax when they sell their property.

If a childminder decides to use the new HMRC mortgage expenses guidance BIM47820 here - <http://www.hmrc.gov.uk/manuals/bimmanual/bim47820.htm> to calculate mortgage expenses instead of the agreed Pacey / HMRC expenses rules, there is also some confusion about whether they can then use the other agreed childminder allowances such as 10% wear and tear and the preferential percentages for lighting, heating etc.

A childminder has recently been advised by the tax office to claim 10% mortgage interest as an allowable expense. However, there is no evidence in any documentation to support this advice and nowhere does it say that 10% is the allowed percentage. HMRC referred the childminder to document BMI52751 - <http://www.hmrc.gov.uk/manuals/bimmanual/bim52751.htm>. However, this document does not include any information about mortgages!

The main problems with claiming mortgage interest appear to be –

- You will not know if you are doing the right thing or not until you are audited – and then if HMRC decide you are wrong you will have to pay it back.
- You do not know if you can claim the other expenses agreed between Pacey and HMRC – which means you might be doing totally the wrong thing. For example, you might have to keep receipts for every penny spent, you might not be able to claim 10% wear and tear.
- It appears from research that you will have to do full accounts rather than the 'easy' accounts childminders do at present.
- You will probably need to employ and pay an accountant because the calculations for working out mortgage interest are very complicated.
- In the future you are likely to lose a big proportion of the benefit you have gained because you will be required to pay Capital Gains Tax when your house is sold.
- Few childminders use parts of their house exclusively for childminding... and, if you do, it might affect your council tax payments as you may need to be business rated.
- If you claim mortgage interest expenses, you might need to apply for planning permission because you will be running a fully-fledged business from the property - rather than a childminding business which normally does not need planning unless you want to care for more than 6 children under 8.
- HMRC and Pacey documents do not state an agreed percentage for mortgage interest expenses. An HMRC auditor might decide that you are using the wrong figures based on how you use your house and the rooms available for childminding - which might mean you would have to pay money back.

The decision about whether to claim mortgage interest is, of course, yours. We can only provide you with the information we have available from HMRC.

If you do decide to calculate mortgage interest it is strongly recommended that you take advice from an accountant who is qualified to work on childminder accounts. It is also recommended that you ask HMRC for clarification for your individual circumstances before proceeding.