

Information about Tax for Childminders

Disclaimer – the information contained in this document has been checked as accurate as of August 2012 and is offered in good faith. However, none of the authors of this document are tax officers or accountants and we can only give information which has been checked as accurate with the tax office / NCMA as appropriate.

If you are unsure about any of the information given in this document, please check with your local tax office first.

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See also - <http://www.hmrc.gov.uk/manuals/bimmanual/bim52751.htm>.

Childminders are self employed, not employed. They are contracted with parents to provide a service, but they are not employees of the parents. Childminders are responsible for calculating their own income and paying their tax and national insurance contributions.

Income and expenses

The Inland Revenue has worked with the NCMA to agree an easy way of working out expenses. **All** childminders can use this method to claim for any expenses which arise directly out of childminding activities - you do **not** need to be an NCMA member.

Inland Revenue

All childminders are self employed and are legally required to keep written records for self assessment purposes. It is also a legal requirement to register for tax and National Insurance (or to apply for exemption as discussed below).

You must register for tax and National Insurance as soon as you earn any money from self employment - there is no leeway before registering.

All your written records must support the figures that are entered on the tax return - you cannot put one figure on the tax return and show another in your income and expenses records as this is fraud and discovery carries a fine and / or imprisonment.

Regardless of how you earn money from parents - via tax credits, cash, cheque, vouchers etc - you must record it as income.

Records must show (at least) 3 figures...

- **Gross income** – details of money received from parents / carers and any extras such as money for milk subsidies or grants;
- **Expenses** – money spent on setting up and running your childminding business (more information to follow);
- **Net income** – this figure is gross income minus expenses.

Note – there may be other information required on the self assessment form such as taxable benefits (for example Carers Allowance) and details of bank interest but this is not directly related to childminding.

Customs and excise / VAT - childminders do **not** need to register for or pay VAT.

Tax threshold

This is the amount of money you are legally allowed to earn before you have to pay tax. Every person in the UK has a personal allowance - this is not just calculated from childminding net (after expenses) income as it will also include any other income (eg from a second job) or other earnings such as bank interest or money received from, for example, rent on property.

The tax thresholds are -

- £7475 (2011 - 2012)
- £8105 (2012 - 2013)

<http://www.hmrc.gov.uk/rates/it.htm>

If you earn (after expenses) £37,401 or more (2011 - 2012) you will be placed in the higher tax band of 40%.

National insurance

Class 2 NI - self employed childminder NI contributions are usually Class 2 and cost £2.65 a week (2012 - 2013). You can pay monthly by direct debit or by quarterly bill.

NI contributions count towards payments such as the basic state pension, maternity allowance and bereavement benefits.

NI exemptions - you might be able to request an exemption certificate for low earnings if your net earnings (after tax) are below £5,595 (2012 - 2013). You should ask for independent financial advice before doing this and check your State Pension is not affected by requesting a State Pension Forecast.

Class 4 NI - you will be required to pay 9% class 4 NI on annual profits (net income) between £7,605 and £42,475 (2012-13).

For more details, see <http://www.hmrc.gov.uk/working/intro/selfemployed.htm>.

Financial information and Ofsted - Ofsted has a legal duty to register and inspect Childminders. However they do not have a right to inspect your financial information.

Financial information and the Inland Revenue - the Inland Revenue has the right to inspect your financial records at any time. If you are unsure about any of your expenses or whether something should be put down as income etc it is best to ask for advice rather than get it wrong!

Keeping accurate records

This information is taken from the Inland Revenue website. It states that there are three things to remember when keeping records –

Set up a system

Choose a system that you are happy with and confident to use - it will need to show income and expenses (annual ones such as electricity bills and one-off expenses such as buying ice creams). You can use your normal bank account as long as your records are clear about what money is yours and what money comes from other sources.

A tip from a friend is to put a notebook and pencil in your car and jot down all mileage, little bits you buy when you are out etc as it happens.

Keep records throughout the year

It is helpful to update records regularly, on a weekly or monthly basis. It is a good idea to put all your receipts in an envelope (labelled with the month to which they relate) as soon as you get them so you can work through them when you have some free time.

Then you need to write a list of all your expenses for each month and add them up.

Keep all the receipts from purchases made over £10 and accurate records of all payments received by parents / carers.

Keep records safe

Childminders need to keep self employed income and expenses records for a minimum of 6 years as the tax office may ask to inspect them if there is a query over tax in the future. If there is an ongoing query you might need to keep them longer than 6 years.

<http://www.hmrc.gov.uk/sa/rec-keep-self-emp.htm>

You can keep either written or computer records. If records are retained on a computer you must -

- capture all the information (front and back)
- save information in a readable format
- keep a back-up somewhere secure

If your records are lost or destroyed you must contact the Inland Revenue for advice.

How much tax and NI will I have to pay?

If you have to pay tax and / or Class 4 National Insurance, it will be worked out on any income over your tax threshold (see above).

Tax is worked out at 20% of every pound earned over the threshold... so 20p in £1 goes to the tax man. Class 4 NI (if you earn over the threshold) is worked out at 9p in every £1.

Example 1... You have earned a total of £3,000 childminding after your expenses... you will not have to pay any tax

Example 2... You have earned £7,500 after expenses... your personal allowance of £7,475 (2011 - 2012) is yours to keep... you pay 20% tax on the extra.

Example 3... You have earned £18,000 net income (after expenses). £7,475 is yours to keep as this is your personal allowance; you will pay 9% class 4 NI and 20% tax on the extra.

Note that both tax payable and class 4 NI will be calculated when you have submitted your tax return (paper or online). Make sure it is not a surprise - keep your records regularly updated and put some money in a savings plan each year to make sure you can pay your bill!

Paying your tax

The tax year runs from 6 April to the following 5 April - these are the dates you need to use when you are calculating your income and expenses. You should not use other dates unless you are first starting out and have received a grant or incurred expenses to set up and comply with Ofsted requirements.

There are different rules for childminders who carry over a loss - you should take advice about this as it is more complex than the norm.

You will receive a self employed tax return in April - you should open the envelope when it arrives and check to see if you need any supplementary pages. If, for example you have worked for an employer you will need a different form and should order it as soon as possible because it may take a few weeks to arrive.

Tax return deadlines

You can send returns on paper or online. HMRC advise you use the online system - but you do need to register (there is a unique log in which comes by post) so don't leave it until the last moment!

The deadlines for submitting your figures (correct 2012) are -

- 31 October after the end of the tax year for paper returns
- 31 January after the end of the tax year for online tax returns

If you are late submitting your tax figures - even if you do not have to pay tax - you will be fined.

Payment deadlines

The deadlines for paying tax are -

- 31st January - payment deadline for what you owe for the previous tax year AND the deadline for making your first payment on account towards the current year's tax bill if one is due (this depends on how much you have earned in the current tax year and is calculated on future earnings).
- 31 July - payment deadline for your second payment on account - if one is due.

<http://www.hmrc.gov.uk/sa/self-emp.htm#5>

Initial expenses

You can claim the following (and any more you have recorded in your expenses book) expenses for setting up a childminding business. If you are not sure about whether any of the expenses are valid please check with HMRC –

- Advertising costs
- Buggies
- Car seats
- Childminding Association membership costs
- Complaints book
- Doctor's fee for your medical check - unless covered by a start-up grant
- Documents for recording information about children eg accident and injury book, attendance register, medication book etc.
- Fencing or gates (including padlocks) needed to make the garden safe - if you would not normally need the fencing or gates in place and Ofsted require it to be in place before registration
- Fire safety resources eg fire guard, alarms etc
- First Aid boxes and contents
- Grill covers for drains
- Information Commissioners Office registration
- Multicultural / disability resources
- Ofsted application / registration fee
- Play equipment (indoor and out) incl books and drawing supplies suitable for the age of children to be minded
- Printing or purchasing costs for any essential information to share with parents eg contracts, EYFS information booklet, policies and procedures, permission forms etc
- Public liability insurance
- Safety requirements eg moving locks on doors and making good, stair gates, warning stickers on patio doors, reins or wrist straps to keep children safe on outings etc

This list is not exhaustive...

Ongoing expenses

Once you have families using your childminding service, you can claim for the day-to-day expenses incurred in running your business from home.

Note that some of these expenses are not always clear - some tax inspectors have different opinions. At all times you must be sure that the amount of expenses you are claiming is reasonable and, as already advised, keep receipts for any expenses over £10.

Where percentages are given in the following list they are based on a 40 hour working week for any number of children (other percentage expenses to follow) –

- Accountant fees (if you choose to use one);
- Assistants / co-childminders – wages and extra expenses;
- Baby cutlery/crockery if you do not already have that available;
- Boiler or other maintenance agreement (33% annual charge);
- Books – for professional development and children;
- Broadband – calculate a reasonable percentage if you would not have invested in broadband otherwise;
- Buggy – purchased for use by a new / growing minded child;
- Capital expenses - there are rules for claiming capital expenses on large purchases such as cars. You should take further advice from HMRC;
- Car – you can either claim the business percentage of your costs - MOT, cleaning, valeting, car wash, service, repairs, rescue (RAC / AA etc) etc OR 45 p / mile on all business miles (keep a book in your car to record business miles and retain all receipts). When you have decided whether you are claiming costs OR mileage, you must continue with this method until you change your car - you cannot chop and change;
- Carpet cleaning - for the rooms you use for minding only;
- Car seats – purchased for use by a new / growing minded child;
- Cleaner – if you only employ a cleaner because you are childminding and only for the childminding portion of the house cleaned;
- Clothing – clothing and / or shoes, whether it carries or does not carry your logo, is **not** an allowable expense;
- Computer software / printer cartridges / paper purchased for the use of the children in your care or for you when making up your paperwork;
- Council tax (10% of annual bill);

- Days out – to the park (including entry costs and ice creams once there), seaside, zoo, swimming pool, birthday parties, cinema etc, not forgetting the mileage (petrol consumption). Remember if the total cost of the day out comes to more than £10 you will need to keep receipts;
- Drawing / writing / painting equipment to replenish stocks;
- E-books and other online purchases to support your professional development;
- Electricity (33% of annual bill) including food preparation (or gas as appropriate);
- Electronic toys – eg Game Boys, WII etc can be put through as expenses only if they are used by the childminded children and then only for the percentage they are used;
- Equipment (normal or specialist), if needed for a child from a different age group or to comply with a disability request;
- First aid equipment to re-stock cabinet;
- Food, drinks and milk used for minded children. If you make batches of food for the whole family and use half for the minded children, claim half the cost of your expenses. It might be useful to keep food receipts for a few weeks every so often to check what you are charging as expenses is right.

Note – you do not need food receipts for the Inland Revenue BUT you must keep them for Environmental Health inspectors to view on request;

- Gardener – if you only employ a gardener because you are a childminder to help you meet the requirements that children have daily access to outside play;
- Gas (33% of annual bill);
- Information Commissioners Office registration - annual fee;
- Insurance – childminding from either NCMA or Morton Michel. If you also pay membership fees for joining a childminding association, they can be claimed;
- Insurance – clarified by David Brethton from the IR Technical Team (0161 9319 0704) who advised that whilst there is no agreement for childminders to claim household /contents insurance, it would be reasonable to claim 10% for both;
- Magazines – professional ones to keep up-to-date on minding issues;
- Membership to eg RSPB or Nature Detectives if it is bought for childminded children;
- Milk – if you claim for nursery milk, then you must put the amount you have claimed through your books as income, offset by the amount you have paid as expenses;
- Mobile phone – it is a requirement to carry a mobile phone and you can claim for all childminding related calls but you must be able to show them on a list of calls / texts made;

- Mortgage – payments are not deductible;
- Ofsted annual fee;
- Outings – including entrance fees, food (for you as well as minded child), ice creams, extra drinks purchased etc. See notes about no receipt needed below;
- Oven cleaning – if you have it done to help you meet Health and Safety requirements;
- Paperwork - ongoing purchasing and printing costs;
- Photographs printed for parents, used for evidence of children making good progress etc;
- Presents, wrapping paper and cards for the children’s birthdays, Easter, Christmas (a reasonable amount);
- Public transport fares – if you do not drive but take children on outings using buses or trains or if you go on special outings using public transport;
- Rent on property used for minding (10% of annual charge);
- Resources including toys - for the house, garden etc;
- Safety alterations as required by Ofsted after inspections;
- Safety equipment - recognised as needed when doing risk assessments;
- Stationery including stamps, pens, pencils, rubbers, envelopes, cash book, receipt book, medication / first aid and other record book, photocopying etc;
- Suite cleaning – for a sofa in a childminding room;
- Sundries – percentage used for childminded children of cotton wool, hand towels, kitchen rolls, dustbin liners, gloves, disinfectant, washing-up liquid etc;
- Teenage help – if you pay your child to help you with eg putting toys away or clearing after meal times, a reasonable amount can go through as an expense. However, your child may need a work permit. Contact your local authority for more information;
- Telephone rental (1/10th of annual bill) - it is a requirement for fire regulations that we have a phone. If you claim for telephone calls, you must be able to prove you have made them;
- Television - you can only claim expenses for the capital allowances on a television set, if the television is wholly and exclusively used for childminding. If you claim for the cost of your television set, you must be able to show that you only use the television in your childminding work (thank you to Debbie for clarifying this one);
- Television licence – you must have a licence if you have a television so it is not considered to be an allowable business expense;
- Toiletries including nappies if supplied, wipes, toilet paper etc;

- Training courses if they are required as part of your registration such as first aid - travel to and from courses, food if not provided, plus an extra 5p a mile if you are giving a colleague a lift;
- TV – extended services such as Sky, Virgin or similar (up to ½ annual cost) - if you would not have bought this otherwise;
- Unexpected expenses would usually be included as part of wear and tear;
- Water rates (10% of household charge);
- Wear and tear on household furnishings - 1/10th of your total income before any other deductions.

Note – due to differing opinions on claims relating to gas / electricity / water rates / council tax clarification has been sought from NCMA (which worked with the Inland Revenue to clarify expenses for childminders). NCMA confirms that when working out your percentages it is on the YEARLY cost and NOT excluding holidays (information correct 2011).

This list is far from exhaustive...

Please remember the above figures are for full time working. If you work part time, you will need to use different percentages, as follows...

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%

<http://www.hmrc.gov.uk/manuals/bimmanual/bim52751.htm>

No receipt needed

Here are some ideas for expenses which do not require a receipt because they are less than £10... however this is less than £10 on one day.

So if you have been on an outing and the lunch is £7, bread for the ducks is £2, ice creams are £5... then you have spent over £10 and according to the Inland Revenue, you now need receipts...

- Bread for ducks;
- Car boot bits and bobs;
- Car parking;
- Charity shop buys;
- Comics for the children;
- Drinks when out;
- DVD rentals;
- EBay bits and bobs;
- Headlice treatments;
- Ice creams on outings;
- Library book, DVD or other purchases;
- Nuts for birds;
- Pound shop crafts;
- Your children's toys which you buy back from them;
- Seeds to grow in the garden;
- Toddler entrance fees etc.

This list is far from exhaustive...