

Information for childminders

**Revenue and Customs Advice Team
Business Support Team**

Information about Tax and National Insurance Contributions for Childminders

Introduction

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

Childminders are self-employed and are responsible for their own Income Tax and National Insurance Contributions. This means that as a childminder you will need to work out your income and expenses.

This booklet will give you information to help you.

In England, from 1st September 2008, childcare on domestic premises provided by more than three persons at any one time will not be categorised as childminding but as “childcare on domestic premises.” Telephone either Ofsted on 08456 404040 or the National Child Minders Association on 0845 880 0044 for more details. For Tax and National Insurance purposes HMRC would still expect these people to be self employed and register as such or be employer and employees.

A Home Childcarer is a registered childminder based in the home of the children’s parents. In most of these cases the Inland Revenue expects the Home Childcarer to be an employee of the parent(s).

Registration

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

- ringing the self-employed Helpline on 08459 154515 or
- use the application form CWF1 or
- online at <http://www.hmrc.gov.uk/selfemployed/register-selfemp.htm> select sole trader or partnership link at bottom of page
- download CWF1 online <http://www.hmrc.gov.uk/leaflets/se1.pdf> , print out, complete, sign and post (address is on the form).

You **must** register within three months of the end of the month in which you start up. For example, if you start on 02-05-2009 you must register by 31-08-2009.

If you do not register within the first three full months of your self-employment, you may be liable to a penalty of £100.

National Insurance

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

- Currently £2.40 per week, payment is by Direct Debit or a quarterly bill.
- 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 £5075 (2008-2009 £4,825). Applications for SEE are made by completing a form CF10.
- If SEE is awarded you could lose your rights to some state benefits, for example state pension. You may prefer to pay the weekly amount of NIC to protect your entitlement.
- If you reach State Pension age on or before 6th April 2010, you can obtain a Pension forecast. There are more details at www.pensions.gov.uk/atoz/atozdetailed/rpforecast.asp
- or contact the Future Pension Centre on **0845 3000 168**.

If you reach State Pension age after 6th April 2010, unfortunately, DWP is temporarily unable to provide you, with a State Pension forecast. This is because the computer systems used to provide State Pension forecasts are in the process of being updated to reflect the recent changes to the State Pension rules introduced through the Pensions Act 2007. They aim to have the system changes in place by Autumn 2008.

- If your profits are above the lower profit limit of £5715, (2008-2009 £5,435), you may also be liable for Class 4 National Insurance contributions. The rate is 8% of your net profits above the lower profit limit. If your profits exceed the upper profit limit of £43,875 (2008-09 £40,040), 1% is charged on your profits above the upper profit limit.

For example

Net Profit	£6465
Less lower profit limit	<u>£5715</u>
Chargeable	£ 750 @ 8% = £60.00

Home Responsibilities Protection (HRP)

Home Responsibility Protection helps protect basic state pension position of carers, if you are not working, or your work is low paid and you are looking after; a child under 16; or a person with a long-term illness; or a person with a disability.

HRP can reduce the number of qualifying years you need to earn a full basic State Pension. However you will still need at least 20 qualifying years on top of any years covered by HRP. HRP application form CF411 is available at - www.hmrc.gov.uk/forms/cf411.pdf

Pensions Reforms

The Pensions Act, which became law on 26 July 2007, makes changes to the UK State Pension system. In the main, the changes will only affect you if you reach State Pension age on or after 06 April 2010.

Key changes to Basic State Pension include:

- reducing the number of qualifying years needed for a full Basic State Pension to 30 for people who will reach State Pension age on or after 6 April 2010
- any number of qualifying years will give entitlement to at least some Basic State Pension - this can be achieved through paid or "credited" National Insurance contributions
- replacing the system of Home Responsibilities Protection (HRP) with a new weekly national insurance credit for those caring for children up to the age of 12 and for those who spend at least 20 hours a week caring for severely disabled people
- converting past years of Home Responsibilities Protection into years of credits

For more information see

www.pensions.gov.uk/pensions-reform/home.asp

Further information is in leaflet –

- PM9 State Pensions for carers and parents. Tel 0845 7 31 32 33 or download at www.thepensionservice.gov.uk/resourcecentre

Income and expenses

As a childminder you will need to work out your income and expenses. The National Childminding Association (NCMA) produces an accounts book and attendance register in which you can record business income and expenditure.

Your income will be the total of all payments received by you for the childminding activities in each accounting period. If you receive any funding whilst you have a vacancy, the funding is included as turnover.

You may receive a start-up grant or grant to help you to run, purchase equipment or develop your childminding services. There are many different types depending on where you live; therefore you should contact HMRC for advice on how it is treated for Tax purposes.

The HMRC has worked with NCMA to agree an easy way of working out expenses. Even if you are not in the NCMA, you can still use this method. You can claim for any expenses that arise directly out of your childminding activities.

Small items of expenditure such as

- application/registration fee
- fire blanket
- electrical socket covers
- first Aid box and contents
- NCMA 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
- food and drink for minded children
- protective clothing; for example aprons – not everyday clothing even if bought specially for the business.

Food and Drink

If you make batches of food for the minded children, just claim the cost of those expenses. You do not need to keep a record of every spoonful of milk! It might be useful to keep your supermarket till rolls for about four weeks 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 £2, 100g mushrooms - 65p, 1 onion – 15p, tin chopped tomatoes - 50p, ½ tube tomato puree - 20p, 2 carrots – 20p, pack whole wheat pasta £1. Meal cost £4.80. Makes approximately 6 portions so 80p a portion. One yoghurt or apple costs 20p.

The cost of the food for this meal is £1.00.

Cooking costs can be claimed under gas/electricity (see other expenses). There is no flat rate allowance for the cost of a meal, as no two childminders will incur the same costs.

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 – The agreement is based on the hours that childminders work and not on the number of children they care for. A childminder looking after a child on a full time basis for 40 or more hours each week is 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%

- Mortgage-payments are not deductible.
- 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.

Motor expenses

You can claim either

Authorised mileage rates - where appropriate, childminders can use the authorised mileage rates as a basis for their claims.

For 2002-03 onwards	Rate for the first 10,000 miles	Rate after 10,000 miles
----------------------------	---------------------------------	-------------------------

Car	40p per mile	25p per mile
-----	--------------	--------------

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

Or

The actual cost - of car expenses for childminding purposes. For example, petrol, MOT, insurance, repairs. In addition capital allowances can be included. This is based on 20% of the vehicle's market value but is restricted for cars costing more than £12,000.

You must proportion the business use by calculating the business miles travelled against the total miles travelled. Only the business proportion of actual costs and capital allowances can be claimed as an expense.

Whichever method you use you **must** keep a record of your business mileage.

An example of an income and expenditure account

Gross income

(40 hour week @ £3.00 per hour
x 48 weeks worked)

£5760 = turnover *

Deduct: -

Wear and tear £5760 x 10% £576

Food 48 weeks x £10 per week £480

Heat and light £1200 x 33% £396

Council Tax and water rates

£1000 x 10% £100

Telephone charges £ 40

Motor expenses 960 miles @40p £384

Toys/trips craft materials £180

£2156 = expenses *

£3604 = profit *

Records

You must keep all records to support any entry in your tax return relating to business and private income.

- Keep business affairs separate from private affairs.
- You must keep receipts, or if you spend less than £10, keep a note of the amount 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 has to be filed. For example, for the year 2008-2009, the records **must** be kept until 31 January 2015.

Key dates for self-assessment 2008- 2009

6 April	Date of issue of tax return for year just ended.
31 October	If you are filing a paper return and you want HMRC to calculate your tax for you, you must get your completed return to HMRC by this date. A penalty maybe charged for paper returns received after this date. HMRC will tell you by 31 December how much tax you will have to pay. This will give you 30 days notice of the amount to be paid on or before the following 31 January.
31 January	As well as being one of the main payment dates, it is also the final filing date for sending your return online via the internet. Failure to submit the return online by this date could result in a penalty.
31 July	Second payment on account due. NB You may not, as a childminder, be involved in this date, unless the total tax and Class 4 NIC payable for the year is £1000 or more.

Also see page 10.

Self-assessment tax return 2008-09

When you receive your tax return you will need to complete pages 1 to 6 and SES1 and SES2 of the Self-employment (short) pages. (if your turnover exceeds £64,000 you will need to complete the Self-employment (full) pages.) Please follow the notes on self-employment, which accompany the return.

Example

- boxes 1 to 7 showing “Registered Childminder” at box 1

If your turnover is less than £30,000 you will need to show your information on self-employment pages SES1 and SES2.

Using the figures from our example on previous page;

* Turnover	£5760 at box 8
* Expenses	£2154 at box 19
* Profit	£3604 at box 20

You must also complete, as appropriate, all other sections on the self-employment pages SES1 and SES2 including

- boxes 25 and 28
- boxes 33 and 34 for your Class 4 NIC if applicable

If your annual turnover is more than £30,000 but less than £64,000 you will need to complete the relevant boxes on page SES1 instead of box 19. Please note these boxes are relevant to the return for the year ended 5 April 2008.

Remember - these profits are added to any other income/earnings to work out if you should pay tax. The personal allowance for 2008-2009 is £5435, 2009-2010 is £6475.

You will be sent your Self Assessment form the April following the tax year in which you become self-employed.

Payment cycle for self-assessment

Business Commences on 1 June 2008

- 01-06-2008** CWF1 form completed or
phoned Registration helpline 0845 915 4515.
- 06-04-2009** Self Assessment return issued.
- 31-10-2009** 2008-09 tax return due if sent on paper.
HMRC will calculate your tax and Class 4 NIC liability.
- Or**
- 31-01-2010** 2008-09 tax return due if submitted online.

Tax & Class 4 NIC due for 2008-09 for example **£1000.00**

Payment due for 2008-09	£1000
<i>Plus</i> first payment on account for 2009-10 (half of previous year's liability of £1000)	+ <u>£ 500</u>
Total amount payable at 31-01-10	<u>£1500</u>

- 06-04-2010** Self Assessment Return issued.
- 31-07-2010** Second Payment on Account for 2009-10 **£ 500**
- 31-10-2010** 2009-10 tax return due if sent on paper
HMRC will calculate your tax and Class 4 NIC liability.
- Or**
- 31-01-2011** 2009-10 tax return due if submitted online.

Tax & Class 4 NIC due for 2009-10 for example **£1200.00**

Balancing payment due for 2009-10 (£1200 - £1000 payments on account)	£ 200
<i>plus</i>	
First Payment on Account 2010-11 (half of previous year's liability of £1200)	+ <u>£ 600</u>
Total amount payable at 31-01-11	£ 800

Ready Reckoner 2009-2010

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 NIC bill when it becomes due and payable. It is based on a basic tax allowance of £6475 and if self employment is your only source of income

The correct liability can only be determined once a completed Tax Return has been filed.

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)
109	0	476	0
120	1	530	5
150	8	600	22
175	16	700	50
200	23	800	78
250	37	1000	134
300	51	1200	190
350	65	1400	246
400	51	1600	302
350	65	1800	358
400	79	2000	414
450	93	2250	484
These figures do not include Class 2 NIC (£2.40 a week in tax year 2009-2010)			

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 will include 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.

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 is 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 is payable in addition to any Child Tax Credit.

Phone 0845 3003900 for a claim pack or for more information look on our website at <http://www.taxcredits.inlandrevenue.gov.uk/HomeNew.aspx>

Child care providers

Childcare providers will not have to provide evidence of fees, only their local authority registration number. The Tax Credit Office (TCO) will 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 9 15 45 15 open 7 days a week – 7.00 to 20.00

Self-assessment helpline

Ring 0845 9 000 444 open 7 days a week – 8.00 to 22.00
All Calls Charged at Local Rates.

Self-assessment orderline

Ring 0845 9 000 404
Open 7 days a week – 8.00 to 22.00 or Fax 0845 9 000 604
Email address is saorderline.ir@gtnet.gov.uk
Open every day except Christmas Day.

National Insurance self-employed (Class 2)

Ring 0845 9 154655 Open Monday – Friday 8.30 to 17.00

Call Centre

Ring 0845 3 021414

National Insurance and HRP queries

Ring 0845 3 021479

Tax Credit Helpline

Ring 0845 300 3900 open 7 days a week 08.00 to 20.00

Revenue and Customs Advice Team

Ring 0116 2535200 for Leics & Northants Area

Self Assessment tax return online

Sending your Tax Return online is quick, convenient and secure. It offers

- automatic calculation of tax, a view of your Statement of account
- faster repayments and an online acknowledgement of receipt
- 24 hour immediate access to the service.

Any questions?

- Refer to our online help www.hmrc.gov.uk or
Tel - **0845 60 55 999** open 8.00 to 20.00, 7 days a week
Closed Christmas Day, Boxing Day & New Years Day
Fax - **0845 366 7828** Or e-mail helpdesk@ir-efile.gov.uk

The information in this booklet is for guidance only and reflects the position at the time of writing.
It does not affect any right of appeal.

Always check current official publication for detailed instructions, or contact the appropriate HMRC office.

Version 2 June © Crown copyright