

# Information for childminders



**H M Advice 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.

A Home Childcarer is a registered childminder based in the home of the children's parents. In most of these cases Her Majesty's Revenue and Customs (HMRC) expects the Home Childcarer to be an employee of the parent(s).

## Registration

When you start to childmind, you must register with the HMRC by

- ringing the self-employed Helpline on 08459 154515 or
- use the application form CWF1 or
- completing CWF1 form online at [www.workingforyourself.co.uk/selfemployed/form.asp](http://www.workingforyourself.co.uk/selfemployed/form.asp) or
- download CWF1 online, print out, complete, sign and post to HMRC National Insurance Contributions Office. (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 02-05-2007 you must register by 31-08-2007.

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 £2.20 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 £4,635 (2006-2007 £4,465). 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.
- You can obtain a Pension forecast by obtaining form BR19 from Department of Work and Pensions (DWP) online. You can complete online at [www.pensions.gov.uk/resourcecentre/br19/home](http://www.pensions.gov.uk/resourcecentre/br19/home).

If you need more information on completing your State Pension forecast application form contact the Future Pension Centre on **0845 3000 168**.

- If your profits are above the lower profit limit of £5,225, (2006-2007 £5,035), 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 £34,840 (2006-07 £33,540), 1% is charged on your profits above the upper profit limit.

### For example

Net Profit	£6255
Less lower profit limit	<u>£5225</u>
Chargeable	£1030 @ 8% = £82.40

## **Home Responsibilities Protection (HRP)**

Home Responsibility Protection helps to protect the basic state pension position of carers. You might get it 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.

For example: a woman whose state pension age is 60 could get a full basic State Pension after caring for a child or relative for a total of 19 years and paying full rate NIC for a total of 20 years.

HRP application form CF411 is available at - [www.hmrc.gov.uk/forms/cf411.pdf](http://www.hmrc.gov.uk/forms/cf411.pdf)

On 28 November 2006, the Government introduced the Pensions Bill into Parliament. The Bill legislates for long-term pensions reform, making the state pension fairer and more generous and providing a solid foundation for private saving.

In summary some of the proposed measures are

- increasing the number of people entitled to a full basic state Pension by reducing the number of years it takes to build a full basic State Pension from 39 years for women and 44 years for men to 30 years for everyone who reaches State Pension age from 6 April 2010;
- raising the State Pension age over time from 2024 to reflect increasing longevity, supporting extending working lives.

For more information see - [www.dwp.gov.uk/pensionsreform/](http://www.dwp.gov.uk/pensionsreform/)

Further information is in leaflets –

- PM5 Pensions for the self-employed,
- PM6 Pensions for women,
- PM9 State Pensions for carers and parents.

Tel 0845 7 31 32 33 or download at [www.thepensionsservice.gov.uk/resourcecentre](http://www.thepensionsservice.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.
- 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.

<b>Hours worked</b>	<b>Heating Lighting</b>	<b>Water rates and council tax</b>
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.

<b>For 2002-03 onwards</b>	Rate for the first 10,000 miles	Rate after 10,000 miles
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Car	40p per mile	25p per mile
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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 25% 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
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Food	48 weeks x £10 per week	£480
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Heat and light	£1200 x 33%	£396
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Council Tax and water rates

	£1000 x 10%	£100
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Telephone charges		£ 40
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Motor expenses 960 miles @40p		£384
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Toys/trips craft materials		£180	£2156 = expenses *
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£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 2007-2008, the records **must** be kept until 31 January 2014 if you send us your return on-line or 31 October 2013 if you send us your return on paper.

## Key dates for self-assessment 2007- 2008

- |               |  |
|---------------|--|
| 6 April 08    | Date of issue of tax return for year just ended.   |
| 31 October 08 | If you want HMRC to calculate your tax for you, you must get your completed paper return to HMRC by this date.<br><br>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 09 | As well as being one of the main payment dates, it is also the <b>final</b> date for an online return . Failure to submit the return by this date could result in a penalty.   |
| 31 July 09    | Second payment on account due. You may not, as a childminder, be involved in this date, as it is for taxpayers that are due to pay over £500 tax and Class 4 NIC.  |

## Key dates for self-assessment 2008- 2009

From 2008, the statutory filing date for Self Assessment paper returns has been reduced to seven months so paper returns should be filed by 31 October, HMRC will calculate your tax and Class 4 NIC liability. The

statutory filing date for Self Assessment returns sent online over the Internet is 31 January. Also see page 10.

## Self-assessment tax return

When you receive your tax return you will need to complete pages 1 to 10 and self-employment pages SE1 and SE3. Please follow the notes on self-employment, which accompany the return.

### Example

- boxes 3.1 to 3.13 showing “Registered Childminder” at box 3.2

If your turnover is less than £15000 you will need to show your information on self-employment page SE1.

Using the figures from our example on previous page;

* Turnover	£5760 at box 3.24
* Expenses	£2154 at box 3.25
* Profit	£3604 at box 3.26

You must also complete, as appropriate, all other sections on the self-employment pages SE1 and SE3 including

- boxes 3.74, 3.75, 3.76, 3.83, 3.90, and 3.92
- boxes 3.94 and 3.96 for your Class 4 NIC if applicable

If your annual turnover exceeds £15000 you will need to complete the relevant boxes on page SE2 instead of boxes 3.24, 3.25, 3.26. Please note these boxes are relevant to the return for the year ended 5 April 2007.

Remember - these profits are added to any other income/earnings to work out if you should pay tax. The personal allowance for 2005-2006 is £4895, 2006-2007 is £5035, 2007-2008 is £5225..

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 2007

<b>01-06-2007</b>	CWF1 form completed or phoned Registration helpline 0845 915 4515.
<b>06-04-2008</b>	Self Assessment return issued.
<b>31-10-2008</b>	2007-08 tax return due if sent on paper. HMRC will calculate your tax and Class 4 NIC liability. <b>Or</b>
<b>31-01-2009</b>	2007-08 tax return due if submitted online.

<b>Tax &amp; Class 4 NIC due for 2007-08 for example</b>	<b>£1000.00</b>
Payment due for 2007-08	<b>£1000</b>
<i>Plus</i> first payment on account for 2008-09 (half of previous year's liability of £1000)	<b>+ <u>£ 500</u></b>
Total amount payable at 31-01-09	<b><u>£1500</u></b>

<b>06-04-2009</b>	Self Assessment Return issued.	
<b>31-07-2009</b>	Second Payment on Account for 2008-09	<b>£ 500</b>
<b>31-10-2009</b>	2008-09 tax return due if sent on paper HMRC will calculate your tax and Class 4 NIC liability. <b>Or</b>	
<b>31-01-2010</b>	2008-09 tax return due if submitted online.	

<b>Tax &amp; Class 4 NIC due for 2007-08 for example</b>	<b>£1200.00</b>
Balancing payment due for 2008-09 (£1200 - £1000 payments on account)	<b>£ 200</b>
<i>plus</i>	
First Payment on Account 2009-10 (half of previous year's liability of £1200)	<b>+ <u>£ 600</u></b>
Total amount payable at 31/01/10	<b>£ 800</b>

## Ready reckoner 2007 - 2008

This Ready reckoner is a guide of how much money you might need to set aside to meet your tax and (where appropriate) Class 4 NIC bill based on a basic tax allowance of £5225 when this 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)
75	0	300	0
100	0	400	0
125	4	500	12
150	10	600	30
175	17	700	57
200	25	800	87
225	32	900	117
250	40	1000	147
275	47	1100	177
300	55	1200	207
350	70	1300	237
635	155	2750	672
These figures do not include Class 2 NIC (£2.20 a week from tax year 2007-2008)			

## **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 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 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 [www.taxcredits.inlandrevenue.gov.uk/HomeIR.aspx](http://www.taxcredits.inlandrevenue.gov.uk/HomeIR.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](mailto: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

### H M Advice Team

Ring 028 90532755 – Northern Ireland

### 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](http://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](mailto: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.

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