



## Foster care allowances and tax

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Author: Antony Seely

Business & Transport Section

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Many constituents who are foster carers have expressed concerns about proposed changes in the way in which any allowances they receive for fostering are treated for tax purposes. In spring 2001 the Inland Revenue began consulting with the Department of Health and representative bodies on a new simplified system for foster carers to determine what part of their allowances, if any, are liable to tax. On 27 March 2003 the Paymaster General announced that the *Finance Bill 2003* would include provision for an income tax exemption for foster carers with income below a certain level, to take effect from 6 April 2003, to “ensure that carers are taxed consistently across the UK and that they are not unfairly taxed on expenses they incur.”<sup>1</sup> This note looks at the tax position of foster carers, before examining the background to the Revenue’s review and the Minister’s statement.

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### A. Tax treatment of foster care allowances

The following summary of the financial support given to foster carers is taken from a guide published by the National Foster Care Association (NFCA):

There is no ‘standard’ allowance that foster families receive for the children and young people they look after. The amount varies widely, sometimes within the same authority, depending on a variety of factors including the age of the child, the child’s perceived difficulties and level of independence, the scarcity or availability of foster families at any one time ... The fostering allowance, which is generally assumed to cover the cost of keeping the child or young person, is determined by individual fostering agencies.<sup>2</sup> It does not include any reward element to the foster family for their care of the child. The fostering allowance varies from authority to authority.

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<sup>1</sup> HM Treasury press notice 42/03, 27 March 2003; HC Deb 27 March 2003 cc 21-22WS

<sup>2</sup> “The term agency is used ... to refer to voluntary organisations, social work departments and local authority social services departments.”

Each year NFCA produces a survey of allowances paid throughout the UK together with recommendations for a minimum level of allowances. These are related to the government-related cost to parents of bringing up children. These minimum recommended allowances are not intended to reflect the additional costs of looking after children who may, for a variety of reasons, be more expensive to maintain than the foster family's own children. Many authorities base their allowances on NFCA's minimum recommendations. Others provide higher rates ... Additionally ... many authorities give a small proportion of their carers a reward element which is over and above the fostering allowance paid for individual children.<sup>3</sup>

In brief, basic foster care allowances and special enhancements for extra costs are not taxable, though reward elements and retainers are counted as taxable income. The NFCA publishes guidelines on the tax treatment of foster care allowances agreed with the Inland Revenue:

*Foster care allowances:* Foster parents may receive many different types of allowances and grants. The National Foster Care Association at 87 Blackfriars Road, London SE1 8HA has published guidelines agreed with the Revenue on the taxation treatment of these allowances etc. In general, to the extent that local authority payments made to a foster carer do no more than meet the actual costs of caring, the payments are not taxable (Hansard 26 October 1994, vol 248, col 628).<sup>4</sup>

The written answer cited in this commentary is reproduced below:

**Ms Coffey:** To ask the Chancellor of the Exchequer if allowances paid to local authority foster carers are non-taxable and are not regarded as income.

**Sir George Young:** To the extent that payments made to a foster carer do no more than meet the actual costs of caring for someone, no tax is payable. But if a profit arises on payments made to reward the foster carer's services in providing care, this profit is taxable.

**Ms Coffey:** To ask the Chancellor of the Exchequer if foster carers in receipt of boarding-out allowances and who do not receive an additional fee are not classified as self-employed.

**Sir George Young:** It will depend on whether or not an individual is self-employed, in particular the way in which the caring is organised. Whether a foster carer is self employed or not, to the extent that payments received do no more than meet the actual costs of caring, no tax will be payable. If a profit arises on payments made to reward the foster carer's services in providing care, this profit is taxable. Where basic boarding allowances paid to foster carers do no more than re-imburse actual costs, no taxable profit arises. This is reflected in National Foster Care Association guidelines, published in its leaflet NFC 2008, which has been agreed with the Inland Revenue.<sup>5</sup>

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<sup>3</sup> NFCA, *Foster care finance*, December 1997 Intro:1-2

<sup>4</sup> *Tolley's Income Tax 2002-03* para 83.4

<sup>5</sup> HC Deb 26 October 1994 c 628W

A longer extract from the 2000-01 edition of the NFCA guidelines is reproduced in an appendix to this note,<sup>6</sup> along with an extract from the Inland Revenue's *Inspector's Manual* on the method by which all adult carers, foster carers included, may use the guidelines to determine the extent to which any payments they receive for their care constitute a taxable profit.

## **B. Review of tax treatment of foster care allowances**

Following complaints that there was some variation in practice between authorities in calculating allowances for expenses incurred (ie, that part of foster care allowances which are not taxable), the Inland Revenue issued some guidance on discriminating between allowable costs and reward payments in January 2001. Interested parties expressed concerns about this, with the result that in March 2001 the Revenue proposed consulting with both foster organisations and the Department of Health on drawing up revised guidance. In the meantime, existing arrangements for assessing whether any part of foster care payments were liable to tax would stand. At this time the NFCA issued a standard letter on the issue, from which the following is taken:

As you will know, either from Press articles, or other information sources, the Inland Revenue wants to review the agreement that NFCA/Fostering Network and the local authority associations have had with them since 1981. The Inland Revenue issued guidance to its local offices in January, which created confusion. That guidance is now being revised. The latest guidance says:

*“Where there is an existing locally arranged agreement in place this should continue. This agreement must be of a specific nature between the Local Tax Office and either the local authority and or fostering agency. That is not to say that a carer may not claim expenses over and above what has been agreed at a local level. But if they choose to do so they should be aware that in such cases the carer should be able to provide, if requested, full records of all expenses claimed, not just those over and above any locally arranged agreement.*

*Where there is no existing agreement, and the local office is concerned about the levels of income and expenses shown by a carer on their Self Assessment return, or where a local authority or fostering agency seek to establish a new agreement, the **existing NFCA figures may be used as a guide**. Local offices have been made aware that these figures are considered by the NFCA to be the minimum that would apply in any fostering situation and that often there will be legitimate expenses over and above these minimum levels. Once again where an individual carer wants to claim over and above any locally arranged agreement, if such an agreement exists, then the carer will need to do so through the SA return and have records of all expenditure to support such a claim.”*

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<sup>6</sup> This leaflet, *Foster care allowances and income tax NFCA 2008* is available direct from the NFCA at: 87 Blackfriars Road, London SE1 8HA tel 020 7620 6400 email: nfca@fostercare.org.uk

For clarity the NFCA figures quoted are as follows:

**TABLE TWO: NFCA RECOMMENDED WEEKLY FOSTER CARE ALLOWANCES**

*THE COSTS ASSOCIATED WITH FOSTERING ARE ESTIMATED TO BE A MINIMUM OF 50% HIGHER THAN CARING FOR ONE'S OWN CHILD*

<b>AGE</b>	<b>RECOMMENDED ALLOWANCE PER WEEK APRIL 2001</b>	<b>PLUS AMOUNTS FROM ALLOWANCE TO BE GIVEN BACK AT RELEVANT TIMES</b>
0-4	£92.82	+ 2 weeks Holiday
5-10	£115.29	1 week Christmas/ Religious Festival 1 week Birthday
11-15	£143.43	
16+	£185.78	

**TABLE FOUR: LONDON NFCA RECOMMENDED WEEKLY FOSTER CARE ALLOWANCE**

*THE COSTS ASSOCIATED WITH FOSTERING ARE ESTIMATED TO BE A MINIMUM OF 50% HIGHER THAN CARING FOR ONE'S OWN CHILD*

<b>AGE</b>	<b>RECOMMENDED ALLOWANCE PER WEEK APRIL 2001</b>	<b>PLUS AMOUNTS FROM ALLOWANCE TO BE GIVEN BACK AT RELEVANT TIMES</b>
0-4	£108.92	+ 2 weeks Holiday
5-10	£135.17	1 week Christmas/ Religious Festival 1 week Birthday
11-15	£162.21	
16+	£217.98	

The Inland Revenue's letter does not address the issue in relation to those agreements that have been developed between local authorities and their carers. This was the basis of the original agreement with the Revenue. We have asked that these agreements also stand for the time being but await confirmation of this point.

Following a meeting held with the Revenue, DoH, ADSS, independent and voluntary fostering agency representatives, BAAF, and ourselves, it has been agreed to set up a working party to develop a survey, which in turn, will inform the discussion to agree an appropriate and fair level of average allowable expenses to set against any income that a foster carer may receive. We have approached some authorities/agencies, and individual carers to help us in this work, but are keen to hear from anyone who could offer assistance. In addition we would like to seek funding for a longer-term research project to fully investigate the costs of fostering.<sup>7</sup>

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<sup>7</sup> NFCA, 26 March 2001

At this time the Revenue confirmed that any new system for taxing foster care allowances would be optional, and that foster carers who wished to keep records of the actual costs they incur, and make a claim based on these figures, would still be allowed to do so. A written answer setting out the position was given in April 2001:

**Dr. Cable:** To ask the Chancellor of the Exchequer what response the Inland Revenue has made to the representations from foster carers' organisations and the Department of Health regarding its proposals for taxing payments to foster carers.

**Dawn Primarolo:** The Inland Revenue is working with the Department of Health and a number of organisations representing foster carers to design a simple method by which foster carers can choose to calculate the income tax due on the reward element of their payments using standard, agreed, costs. Alternatively, foster carers would be able to rely upon actual costs. The Inland Revenue plans to introduce the new arrangements as soon as practicable. In the interim, the Inland Revenue will maintain existing agreements for calculating the reward element of payments, in accordance with representations made by care organisations.<sup>8</sup>

In August 2001 the Revenue and the Department of Health issued a joint statement on the review of foster care allowances which appeared in the NCFCA publication, *Foster Care Magazine*; it is reproduced below:

#### **Taxation of foster care allowances**

Concern has been expressed within the fostering community about the effects of the recent decision by the Inland Revenue to review the taxation position of foster carers. Following a recent meeting attended by NFCA, the Inland Revenue and the Department of Health have issued the following joint statement, which aims to clear up any confusion that may exist on the way in which the review is being taken forward:

Foster carers are liable for income tax on any 'profit' element of the fostering allowance - that is, anything paid as a reward over and above the basic reimbursement of expenses incurred as a result of fostering. Inland Revenue guidance to Inspectors has traditionally encouraged them to take a flexible approach to the payment agreements that exist between local authorities and carers in order to achieve simplicity. However, the Inland Revenue is also concerned to ensure that taxpayers are treated fairly and equitably and this has led both the Inland Revenue and the Department of Health to look at the real costs associated with providing foster care in more detail than we have previously.

We are working closely with the Association of Directors of Social Services, and various national fostering bodies to agree an appropriate and fair level of average allowable expenses for foster carers. This may then be offset against any income received by a carer either from a local authority or a fostering agency. As part of this work in progress, we intend to conduct a survey of carers later this year. Once the

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<sup>8</sup> HC Deb 5 April 2001 c 239W

level of allowable expenses has been agreed, carers will be able to calculate their reward element by deducting the agreed amounts from income received from paying agencies. We wish to reassure foster carers that these changes are not intended to increase the amounts of tax they pay, but to create a fairer system that is also easier to use. This simplified system would, however, be optional. Carers who believed their expenses to be higher than the agreed amount would be free to keep receipts and claim actual expenses if they wanted to.

In the interim period, the Inland Revenue has agreed to maintain any current agreements that are in place between local tax offices and local authorities or independent fostering agencies. Existing arrangements will continue to apply until such time as figures for average allowable expenses can be agreed. Where a tax district has no existing agreement with the local authority, Inspectors will use the Fostering Network's estimates as a guide, but will bear in mind that these amounts are the minimum needed in any foster care placement, and carers' real expenses may often be higher. We hope the new arrangements will be in place for the 2002/03 tax year.<sup>9</sup>

### **C. Recent developments**

As noted above, in March 2003 the Government announced that provision for an income tax exemption for foster carers with income below a certain level would be included in the forthcoming Finance Bill.<sup>10</sup> Prior to this announcement there have been two related developments, concerning payments to adoptive families and foster parents.

First, the statutory regime for payments made to adoptive families is to be revised under provisions in the *Adoption and Children Act 2002*: in particular, section 4 of the Act allows for the introduction of regulations to underpin the delivery of the new framework for adoption support.<sup>11</sup> The Act has its origins in the White Paper on adoption reform – published in December 2000 – which raised concerns about the mechanism by which local authorities assessed the support adoptive families should receive, including financial support in the form of adoption allowances. In addition the White Paper stated that the Government would “review how adoption allowances are treated within the tax and benefits systems, to ensure that, where appropriate, this is consistent and reflects our objective to help children grow up in a stable family environment.”<sup>12</sup>

Second, in March 2002 the Health Minister Jacqui Smith launched a review of fostering and placement choice, so as “to provide stability for looked after children and a better framework for reward and support for foster carers.”<sup>13</sup> One issue the ‘Choice Protects review’ – as it is

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<sup>9</sup> *Foster Care Magazine* (based at NCFCA headquarters), 17 August 2001

<sup>10</sup> HM Treasury press notice 42/03, 27 March 2003; HC Deb 27 March 2003 cc 21-22WS

<sup>11</sup> The background to the Act is discussed in Library Research paper 01/78, 26 October 2001.

<sup>12</sup> Department of Health, *Adoption : A New Approach*, Cm 5017, December 2000 paras 6.32, 6.36

<sup>13</sup> Department of Health press notice 2002/0145, 20 March 2002

known – would consider was the level of allowances paid to foster carers, as confirmed in a recent written answer:

**Tim Loughton:** To ask the Secretary of State for Health what plans he has to standardise allowances paid to foster carers throughout the United Kingdom.

**Jacqui Smith:** The Department of Health is currently reviewing all aspects of the fostering service, including remuneration and other issues such as training and support as part of the Choice Protects review.<sup>14</sup>

Early findings of the review were expected in March 2003.<sup>15</sup>

Both these issues were noted in the November 2002 *Pre-Budget Report*:

The Government recognises the important contribution of parents who foster or adopt children and has decided that payments to adoptive families under the new Children and Adoption Act should continue to be free of tax. These arrangements benefit all adoptive families who receive financial support to help them meet the extra costs they face when they adopt a child. The Government is also considering ways in which the tax system may facilitate the recruitment and retention of foster carers.<sup>16</sup>

On 27 March 2003 the Paymaster General, Dawn Primarolo, gave a Ministerial statement concerning two measures to be introduced in the *Finance Bill 2003* (*emphasis added*):

#### **Finance Bill Measures**

**The Paymaster General (Dawn Primarolo):** Legislation will be introduced in the Finance Bill 2003 to take effect from today that will counter avoidance used by individuals attempting to exploit the relevant discounted securities (RDS) rules to create artificial income tax losses and to remove the potential for tax to distort investment decisions between investment in RDS and normal interest bearing securities. The measures will apply to transfers and redemptions of such securities on and after the date of this announcement.

*Legislation will be introduced in the Finance Bill 2003 to take effect from 6 April to provide an income tax exemption for foster carers with gross receipts below a threshold. Carers with receipts above the exemption threshold will be able to choose between computing their profits in the normal way for self-employed persons or treating the amount by which their gross receipts exceed the threshold as their taxable profit.*

A number of Treasury Orders are being made today that set out how the current figures for various tax thresholds and limits would change for 2003–04 if indexed in

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<sup>14</sup> HC Deb 25 February 2003 c 525W

<sup>15</sup> DoH, *Choice Protects Update Bulletin No. 1*, November 2002

<sup>16</sup> Cm 5664 November 2002 para 5.22

line with the retail price index for various tax thresholds and limits. There is a formal legislative requirement each year to make such a statement before the start of the tax year on April 6 regardless of the actual changes that are made; the actual levels of these amounts will be announced by the Chancellor on Budget day in the usual way.

The Orders made today are:

The Income tax (Indexation) Order 2003 (SI 840), for the starting rate and basic rate limits.

The Inheritance Tax (Indexation) Order 2003 (SI 841), for the inheritance tax threshold.

The Capital Gains Tax (Annual Exempt Amount) Order 2003 (SI 842), for the capital gains tax annual exempt amount.

The Retirement Benefit Schemes (Indexation of Earnings Cap) Order 2003 (SI 843), for the earnings cap for pensions schemes.<sup>17</sup>

Further details on the income tax exemption for foster carers were given in a press notice, an extract from which is reproduced below:

Measures that will take effect prior to Budget 2003 were announced today by Paymaster General Dawn Primarolo to provide taxpayer certainty ... The measures are:

- Legislation in Finance Bill 2003, to take effect from today, to counter avoidance used by individuals attempting to exploit the relevant discounted securities (RDS) rules to create artificial income tax losses; and to remove the potential for tax to distort investment decisions between investment in RDS and normal interest-bearing securities;
- An income tax exemption for foster carers with income below a certain level will from 6 April 2003 ensure carers are taxed consistently across the UK, ensure they are not unfairly taxed on expenses they incur, and will encourage recruitment and retention in the industry ...

#### **Income tax exemption for foster carers**

The Government will introduce, for the tax year commencing 6 April 2003, an income tax exemption for foster carers with gross receipts below a threshold. Carers with receipts above the exemption threshold will be able to choose between computing their profits in the normal way for self-employed persons or treating the amount by which their gross receipts exceed the threshold as their taxable profit.

The threshold will consist of two elements. Firstly, a fixed amount which for 2003-04 will be £10,000 a year. Secondly, an additional amount per child, which for 2003-04 will be equivalent to £200 per week for a child aged under eleven and £250 per week for a child aged eleven or over. This change will encourage the recruitment and retention of foster carers, of whom there are currently around 35,000 in the UK. It will ensure that foster carers are taxed consistently across the UK and that they are not unfairly taxed on the expenses they incur in making their valuable contribution to society.<sup>18</sup>

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<sup>17</sup> HC Deb 27 March 2003 cc 21-22WS

<sup>18</sup> HM Treasury press notice 42/03, 27 March 2003



## **D. Appendix : NFCA & Inland Revenue guidance for carers**

National Foster Care Association, *Foster care allowances and income tax NFCA 2008*, 2000-01 edition pp 3-4

Income tax and tax allowances can be confusing areas for anyone. But there has been a lot of additional confusion among foster carers, local authorities and agencies, about the tax and national insurance position of foster carers. Therefore NFCA has agreed these guidelines with the Inland Revenue Policy Division.

The methods of calculation agreed between NFCA, the Association of Metropolitan Authorities, the Association of County Councils, and the Inland Revenue, are designed to help all concerned. They should ensure that foster carers do not have to keep detailed records of income and expenditure for children in foster care. Detailed records should only be necessary if foster carers are unhappy with the financial breakdown made at the time of placement by the agency paying the foster care allowance, but this should be known in advance and the foster carers should have ample opportunity to collect information.

**Basic foster care allowances :** Basic foster care allowances are reimbursement of costs incurred and are not taxable. If a carer receives a tax return, and they are only being paid basic foster care allowances, they should not enter these allowances on the return.

**Payment of additional allowances for expenses incurred :** In addition to the basic foster care allowance there may be payments made to foster carers which are a reimbursement of extra identifiable expenses. Such payments would not be considered as income and are not taxable<sup>19</sup>... The paying agency needs to identify the extra payments and their nature to give a total figure of extra allowances. It must inform foster carers in writing what proportion is basic, and what proportion is for additional expenses. If a carer needs to fill in a tax return, payments for additional expenses should not be entered ...

**Reward element :** Payments are sometimes made over and above reimbursement of costs. These recognise the time and skill used by a foster carer in caring for a child who has special needs. Such a payment must be declared for income tax purposes, and fostering agencies should inform foster carers that this amount is taxable. Carers should enter these reward payments on any tax returns ...

**How payments are made :** The following method of categorising payments should be used in all cases where anything over and above the basic foster care allowance is to be paid. The procedure is the same for all cases, for instance, enhanced allowances (as they have traditionally been called), special schemes, family placement projects and professional fostering schemes. If the payments are in excess of the basic foster care allowance, the paying agency, in consultation with the foster carers, should clearly identify the extra element and the reason it is being paid, for example: a. weekly basic foster care allowance; b. average weekly additional reimbursement of costs incurred as per the list [in Appendix 2] (if any); c. weekly reward payment (if any).

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<sup>19</sup> Appendix 2 to this leaflet provides a list of examples of reimbursable costs.

Carers should be fully involved in identifying the costs of individual placements to ensure that tax is not levied on money which is needed to cover the child or young person's costs. There is no need for a paying agency to enter into discussion with individual Inland Revenue offices unless an item of expense is identified which is not covered by the schedule. The paying agency should then negotiate the acceptance of this payment as a reimbursable expense with the local Inland Revenue office, and notify NFCA of its acceptance or rejection. This method ensures that any proportion of any extra payment which is made in recognition of the work involved by the foster carers is clearly distinguishable for income tax purposes (category c. [above]). Any increase in the weekly amount paid to the foster carers in respect of a particular child should be clearly identified together with the reasons for it, for example, increase in basic foster care allowance, and/or increase in allowance for additional expenses.

At the end of each income tax year, the paying agency should provide those foster carers receiving reward payments with a statement of the amount of the reward element, and the address of the payment agency's income tax area office. There is no need for the agency to notify its tax office of the payments. Foster carers should be advised to keep the statement as part of their records. The information on this statement should be recorded on a tax return. The yearly statement should cover all children cared for by the foster carers in that tax year and for whom they received a reward element.

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Inland Revenue, *Inspector's Manual*, para IM1812e: Adult carers and adult placement schemes<sup>20</sup>

The following extract from the Revenue's *Inspector's Manual* provides detailed guidance on the method by which all adult carers, foster carers included, may determine the extent to which any payments they receive for their care constitute a taxable profit, and mentions of the use of the NFCA guidelines (*emphasis added*).

#### **Adult Carers and Adult Placement Schemes: establishing profits**

Adult carers can be divided into three main categories

##### **1) Respite carers**

Many carers look after adults in their own home for only a short period, perhaps to give a close relative or another carer a break. This is sometimes called the Short Break Adult Placement Scheme. Although it is regarded as principally a voluntary service the carers do receive small payments on a daily basis for each guest. Respite carers will usually satisfy the conditions to qualify for relief under the Rent a Room scheme which allows up to £3,250 to be received each year free of tax.<sup>21</sup> The limit applies to the carer's home and is halved to £1,625 if, during the basis period for the year, someone else received income from letting accommodation in the same property. Few respite carers will receive more than the Rent a Room limit. Any respite carer may keep a detailed record of their income and expenses to calculate their profit if they prefer to opt out of the scheme.

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<sup>20</sup> <http://www.inlandrevenue.gov.uk/manuals/immanual/im1812a/im1812e.htm>

<sup>21</sup> The Rent a Room annual limit was increased to £4,250 from 1997/98.

## 2) Full-time carers with 1-3 adults

Normally the carer has to provide the resident with a room in the carer's only or main resident and these cases will, therefore, also usually qualify for relief under the Rent a Room scheme. Enquiries may be received about the level of acceptable expenses from carers looking after 1-3 adults in their own home who would prefer not to keep records and who:

- opt out of the Rent a Room exemption; or
- receive more than the Rent a Room limit and do not elect for the Rent a Room alternative basis to apply.

The following guidelines should be followed in dealing with these enquiries with a view to saving individual carers the trouble of keeping records of expenses throughout the year.

The allowable expenses of caring full time for one adult, many of whom have behavioural or learning difficulties, will be higher than those of having an ordinary lodger. The expenses are:

- £82 per week for the first resident (to reflect the increase in Rent a Room allowance)
- £66 per week for the second and third residents to (reflect inflation since the original figure was set).

For the purpose of ascertaining any profits Inspectors, may therefore, accept this amount as the weekly cost of caring for each adult without question.

- Before entering into discussions about expenses consideration should be given to whether any tax will arise. Caring is a full time activity and carers may have little other income. Personal allowances, can, therefore, be available, which taken into account with the level of expenditure which is immediately accepted, mean that no tax is due in a particular tax year unless circumstances change.
- The profits assessable for tax purposes will be the income received from caring less the allowable expenses. The normal Case I rules apply in calculating the profits. Payment for the carer's time or skill is not an allowable expense for tax purposes.
- The actual expenses incurred in caring will vary considerably depending upon the needs of the resident and the way in which the caring is organised by the carer. Higher expense claims might relate to specific additional expenses over and above the basic weekly costs, for example, purchased services such as respite care or cleaning, expensive wear and tear or damage to the furniture or decorations, mortgage interest outside MIRAS, travel expenses or the costs of taking the resident on holiday; a general claim that the basic amount for allowable costs does not fully reflect the expenses incurred.
- Some local authorities provide breakdowns of payments made to carers which go into considerable detail. Caution should be exercised if a carer supplies one of these as an example of their expenses since they will often include payment for the carers time or skill. Some payments may be flagged by their description, for example, nursing, counselling or supervision and will not be admissible unless paid to a third party. Other amounts may also exceed the actual sums extended. For instance the amount attributed to food may have been calculated on a commercial basis to include the time spent in cooking and preparation. Laundry and cleaning costs may be similarly based.
- *Carers may refer to the special arrangements that apply to foster carers and the lengthy list of non-taxable expenses which appear in the leaflet prepared by the National Foster Care Association (IM2390).<sup>22</sup> It is accepted that these specific expenses are also non-taxable when incurred by adult*

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<sup>22</sup> <http://www.inlandrevenue.gov.uk/manuals/immanual/im2390/im2390.htm>

*carers for their residents but it is a question of fact which expenses have actually been incurred in an individual case and the amounts involved.*

- In most cases it should be possible to reach agreement on broad brush lines without the requirement for detailed records of expenses provided the claims are reasonable and consistent with the particular needs of the resident concerned.
- Once the level of expenses has been agreed with a particular carer the agreement will normally remain in effect whilst the carer's situation stays broadly the same.

In cases of doubt the carer should be advised that payments for their time and skill are taxable and asked to keep a record of their actual expenses for a short typical period in order to arrive at the correct level of allowable expenses for tax purposes. The aim should be to arrive at the right figure with a minimum of fuss whilst achieving a result that is fair and consistent. Where agreement cannot be reached the carer should be told to keep detailed records of their income and expenses to arrive at the taxable profit. Any loss claim should also be supported by detailed records. There are organisations other than local authorities who operate arrangements similar to the Adult Placement Scheme. The arrangement with regard to record keeping should be extended to carers receiving payments from these organisations.

### **3) Full-time carers with more than 3 adults**

These carers are required to kept records of income and expenditure in the same way as proprietors of nursing homes or boarding houses.