

Tax Information for Childminders 2009

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Transforming Ireland

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INTRODUCTION

‘Childminders offer childcare in their own homes on a regular basis. They may take and collect children from playgroups, and may continue to look after children when they reach school age, before and after school and during the holidays. Childminders can provide full-time, part-time and flexible day care. They set their own fees, which may reflect local conditions and the specific services they offer’.

So, you have thought about it over and over and you have now chosen to operate a Childminding business from your home which means you will be self-employed, so do you have to register for tax? The answer is Yes. All Childminders should register for tax.

For all of us the word tax conjures up all kinds of frightening images and one can instantly be struck by fear and the necessity to run a thousand miles. However Childminders, you will be glad to know that registering for tax does not have to be that bad. In fact under the Childcare Services Relief Scheme Childminders earning less than €15,000 a year are exempt from tax on that income.

There are benefits to registering for tax and operating within the formal economy:

- You may be eligible for €15,000 tax exemption on childminding earnings
- You can operate in a confident and professional manner and treat childminding as a professional career choice
- The risk of being reported is eliminated
- You are in a better position for negotiation with parents/guardians
- You will be offering a professional childminding service
- You may be entitled to a contributory state pension and other entitlements
- You can apply for funding towards your business
- Childminders earning less than €18,304 per annum are not liable for the recently introduced 1% income levy

As you can see there really are benefits to registering for tax, however that is not all of them. If you read on further you will see:

- How to register as a self employed Childminder
- How to register for PRSI
- How to avail of the Childcare Services Relief (€15,000 tax exemption)
- How to register for tax if you don't qualify for the tax exemption
- What information you will require every year to help calculate your tax
- Types of expenses that can be written off towards your tax every year
- Real samples of tax calculated
- Personal Pension Provision

REGISTERING AS A SELF EMPLOYED CHILDMINDER

You should advise Revenue when you start your business. You can do this by completing the appropriate registration form.

The registration form you require is **FORM TR1**.

This form is for Individuals/Sole Traders, Partnerships, etc., required to register for

- Tax exemption / Income tax
- Employer's PAYE/PRSI
- VAT (if applicable)

Before you complete the above form you must have a Personal Public Service Number (PPS Number).

HOW TO REGISTER FOR PRSI?

When you complete your annual tax return (**FORM 11**) you must confirm your request for the Childcare Services Relief on this form and submit your childminders income details. Revenue will automatically contact the Department of Social and Family Affairs regarding your PRSI status.

What are the benefits of paying PRSI?

PRSI CLASS S PROVIDES COVER FOR:

- Widow's/Widower's (Contributory) Pension
- Guardian's Payment (Contributory)
- Old Age (Contributory) Pension
- Maternity Benefit
- Adoptive Benefit
- Bereavement Grant

DETAILS OF CHILDCARE SERVICES RELIEF

- The tax exemption applies only to Childminders who are self-employed. Therefore you **must** register with Revenue to avail of the tax exemption. As detailed above.
- The childminding services must be provided in your own home.
- You may mind up to 3 children (under 18 years) at any one time, excluding your own children. A childminder could, conceivably, mind 3 children in the morning and 3 different children in the afternoon and still qualify.
- The tax exemption applies to gross annual income from childminding and must not exceed the limit of €15,000. Gross income is all childminding fees received from parents within the year without taking account of any expenses incurred in running your childminding service.
- If 2 childminders are minding children in the same premises, the limit is split between them. Each is not entitled to €15,000.

- The tax exemption ensures that as a qualifying Childminder you will have no income tax liability and also that your entitlement to the home carer's allowance, mortgage interest relief, and principal private residence relief is not affected. Income to which the tax exemption applies will not be taken into account in determining entitlement to capital gains tax relief on gains from the disposal of your home as a principal private residence.
- You will be liable to pay PRSI on your income, at a flat rate of €253 provided the income is €3,174 or more in a tax year and this payment will be a contribution towards your Class S benefits. (See more information on next pages). (These figures are subject to change)
- Keep a record of the fees received from childminding, a weekly record in a diary can suffice. Another option would be to open a specific bank account and lodge all fees received. Using a cheque book to pay for specific items for your childminding service would be a good business practice.

HOW TO APPLY FOR CHILDCARE SERVICES RELIEF

- Voluntary Notify your service to your City / County Childcare Committee. You will receive a Certificate of Voluntary Notification, this should be kept on file for future reference. This certificate will be renewed on an annual basis.
- Contact the local tax office and ask for a **FORM TR1** to register as a self employed childminder. (Also available to download on www.revenue.ie - go to forms and registration forms)
- To ensure you avail of the tax exemption, you must submit an Income Tax Return (**FORM 11**) each year and claim the childcare services relief on the Tax Return. You will need to confirm that you have a certificate of voluntary notification and also to confirm your total childminding income for the year of claim, provided it is less than €15,000. Where a couple are being jointly assessed when submitting a form 11 please ensure that the section being completed by the Childminder indicating exempted income includes the Childminders PPS number.
- When you apply for the tax exemption in your tax return, your name will be sent by Revenue to the Self Employment Section of the Department of Social and Family Affairs. As a self employed Childminder you will be required to pay Class S PRSI. This is your contribution towards such benefits as Old Age Contributory Pension, Maternity Benefit, Bereavement grant etc. This Department will write to you requesting payment of a flat rate of PRSI of €253 for the year if the earning is over €3,174 and under €15,000. In the event that income is less than €3,174 Revenue will notify you of non liability.

Please note:

If a childminder does not apply for the Childminding Tax Exemption or is earning over €15,000 gross per annum, then the income is fully taxable. However in this case, a Childminder is allowed deduct a variety of expenses which he/she may have incurred in earning that income before tax is applied i.e. toys, equipment, insurance etc.

REGISTERING FOR TAX IF YOU DON'T QUALIFY FOR THE CHILDCARE SERVICES RELIEF

Complete the **FORM TR1** as above.

Complete a tax return **FORM 11**

You are obliged as a Childminder to keep financial/accounts records. You must keep full and accurate records of you business from the start.

What records must you keep?

The records kept must include books of account showing:

- All purchases of goods/services
- All moneys received and paid out

All relevant documents such as invoices, bank statements, cheque stubs, receipts, etc., should also be retained.

Any expenses incurred in the running of your business must be wholly and exclusively for the purpose of your business.

The following is information that will be needed to prepare your accounts at the end of the accounting year:

- Your business takings: these should be recorded in a cashbook as and when you received payment. Lodge your money on a regular basis and ensure it always balances with your cashbook.
- All items of expenditure: telephone, rent, ESB, insurance, heating, motor expenses, childcare equipment & materials, etc.
- Always keep your invoices and receipts.
- It is easier to keep records if you pay your business expenses by cheque or direct debit.

You must keep your records for six years unless Revenue advises you otherwise.

PAYING YOUR INCOME TAX

Income Levy

Self employed Childminders whose gross income exceeds €18,304 per annum have responsibility for operating the 1% levy in respect of all income sources. You should make a payment of income levy along with your preliminary tax payment, the balance is payable when the return is filed. Gross income is determined after deductions of legitimate expenses directly associated with the childminding business. No deductions for capital allowances or for losses are allowed from gross income.

You must pay Preliminary Tax on or before the 31st October of each year, except in your first year of business.

Preliminary tax is an estimate of your tax due for the current year.

Although you are paying tax in October for the current year you have 3 options from which to choose:

- Pay 90% of your final tax bill for current year

OR

- Pay 100% of your previous years tax bill

OR

- Pay 105% of your final tax bill for the year before last, if paying by direct debit. (This option is only available in your 3rd year of business)

It is recommended that you consult your local tax office to clarify the above.

TAX TABLE FOR 2009

Tax Rates and Tax Bands 2009

<i>Single/Widowed Without dependant Children</i>	<i>Single/Widowed qualifying for One-Parent family tax credit</i>	<i>Married couple (one spouse income)</i>	<i>Married couple (both spouses with income)</i>
€36,400 @ 20% Bal. @ 41%	€40,400 @ 20% Bal. @ 41%	€45,400 @ 20% Bal. @ 41%	€45,400 @ 20% (with an increase of €27,400 max.) Bal. @ 41%

Income Tax Credits 2009

Single	€1830
Married	€3660
One parent	€3660

Widowed parent tax credit (These credits are for 5 years and reduce as follows):

Bereaved in 2008	€4000
Bereaved in 2007	€3500
Bereaved in 2006	€3000
Bereaved in 2005	€2500
Bereaved in 2004	€2000
Home Career's tax credit	€900
Aged tax credit (over 65 years)	
(a) Single/Widowed	€325
(b) Married	€650
Incapacitated Child - Tax credit	€3660
Dependent Relative - Tax credit	€80
Employee - Tax credit	€1830

PRSI FOR THE SELF-EMPLOYED

Class S9 -This covers self-employed people

The contribution under Class S is €253 for any given year. For Childminders earning over €15,000 the PRSI contribution will be €253 or 3% of taxable income, whichever is the greater.

Queries relating to PRSI can be made to the Childminders PRSI section, Department of Social & Family Affairs on 051 356000.

PERSONAL PENSION PROVISION

If you are self-employed, you may provide additional income in your retirement by saving via a PRSA or a Personal Pension Plan.

What is a PRSA (Personal Retirement Savings Account)?

A PRSA is a long term savings account designed to assist people to save for retirement. Anybody can contribute to a PRSA i.e. self-employed, employed, unemployed, home makers, carers. A list of approved PRSA providers and their products can be obtained from the Pensions Board. A Childminder can pay contributions to a PRSA directly. Tax relief is granted on contributions to a PRSA. For further information on PRSA's contact The Pensions Board on (01) 6131900.

What is a Personal Pension Plan?

A Childminder (self-employed person) may take out a Personal Pension Plan with an insurance company. This is an individual contract between you and the insurance company. You pay contributions direct to the insurance company. Tax relief is granted on your contributions to a personal pension

EXPENSES THAT CAN BE OFFSET AGAINST TAX

As a Childminder all, or a proportion of, the following expenses can be offset against Income for taxation purposes. Source: Childminding Ireland

Notification fee	To your local Health Services Executive (full amount)
Membership	To relevant bodies eg Childminding Ireland (full amount)
Premises/charges	Rent (not mortgage), Repairs, general maintenance, replacements and refurbishment (proportion)
Insurance	Specific childminding insurance, specific car insurance (full amount)
Telephone	(Proportion)
Equipment	Any equipment required to meet statutory regulations, cots, buggies, play-pens, high chairs, stair gates, fire extinguishers/fire blankets, sterilisation equipment, toys etc Capital costs: written off at 12.5% per year
Services	Heating, light, cooking, phone – (proportion)
Play materials	New books, arts & crafts materials, paper, paints etc (full amount)
Cleaning materials	Cleaning products, soaps, toiletries etc (proportion)
Food	Proportion of the household food costs
Furniture & Fittings	Repair, refurbishment, additional wear and tear (proportion)
Transport	Mileage allowance (proportion)
Training	Course fees, text books, training materials, travel and subsistence (proportion)
Marketing	Advertising costs (full amount)
Secretarial	Expenses involved in keeping records and accounts, computer equipment, stationery and other office requirements (full amount)
Accounts	Book-keeping/accountants fees (full amount)
Staff	Payment to childcare assistant, contract cleaner, window cleaner, garden maintenance (full amount)

SAMPLE OF TAX ASSESSMENT

Based on caring for 3 children

Child A @ €140 per week
Child B & C (Same Family) @ €200 per week
Total €340 per week X 50 weeks = €17,000

Childminders income - €17,000

Against a Childminders income you are entitled to offset expenses which are and must be wholly and exclusively for business purposes.

Single person income based on single persons Tax Credits

Annual Income		€17,000
Less Expenses (examples only):		
Rent (1/3)	€1,500	
Light & Heat	€350	
Phone	€300	
Insurance	€200	
Consumables (food, cleaning, paper etc.)	€2,000	
Equipment @ 12.5% of capital	€300	
Accounts fees	€450	
Advertising	€200	
Training	€150	
Travel	€100	

Total	€5,550	
Taxable Income		€11,450

€11,450 @ 20% = €2,290

Less Tax credits - €1,830 allowance for **asingle person**

Tax due for this period €460

PRSI €11,450 @ 3% = €343.50

Total Tax & PRSI Due €803.50

SAMPLE OF TAX ASSESSMENT Based on caring for 6 children

Child A @ €120 per week
 Child B @ €120 per week
 Child C & D (Same Family) @ €200 per week
 Child E (afterschool) @ €60 per week
 Child F (afterschool) @ €60 per week
 Total €560 per week X 50 weeks = €28,000

Childminders income - €28,000

Against a Childminders income you are entitled to offset expenses which are and must be wholly and exclusively for business purposes.

Annual Income €28,000

Less Expenses (examples only):

Rent (1/3)	€1,500
Light & Heat	€350
Phone	€400
Insurance	€220
Consumables (food, cleaning, paper etc.)	€4,000
Equipment @ 12.5% of capital	€350
Accounts/Audit	€450
Advertising	€200
Training	€200
Travel	€200

Total	€7,870

Taxable Income €20,130

€20,130 @ 20% = €4,026

Less Tax credits - €1,830 allowance for **asingle person**

Tax due for this period €2,196

Income levy 1% 201.30

PRSI €20,130 @ 3% = € 603.90

Total Tax Income levy & PRSI Due €3,001.20

Married Income

As above except:

A married persons circumstances may differ slightly. A married couple has a Tax credit of €3,660 all together. They may allocate their credits as they wish i.e.

- One person takes all the credits (€3,660)
- Each person takes 50% (€1,830 each)
- Each person takes a percentage (60%/40 % or 70%/30%)

Single Parent Family Income:

As above except:

Single Parents receive tax credits of €3,660.

Social Welfare – Single Parent Family Income

- Individual can earn up to €146.50 per week without affecting lone parent benefit
- If you earn between €146.50 - €400 per week you may qualify for a reduced payment
- Earning over €400 per week – can no longer claim benefits but some transitional payment may be due.

Back to Work Enterprise Allowance (BTWEA)

The Back to Work Enterprise Allowance encourages people getting certain Social Welfare payments to take up self-employment. Participants of the scheme retain a percentage of their Social Welfare payment for 4 years.

To qualify, participants must be:

- Setting up a self-employment business which has been approved in writing in advance by a partnership Company or a Job Facilitator
And
- In receipt of Jobseeker's Benefit or Jobseeker's Allowance (formerly known as Unemployment Benefit or Unemployment Assistance) for **at least 2 years**
Or
- In receipt of One-parent Family Payment, Disability Allowance, Blind Pension, Farm Assist, Incapacity Supplement, Pre-retirement Allowance, Invalidity Pension, Carer's Allowance (having ceased caring on a temporary or permanent basis), Widow's/Widower's (non-contributory) Pension, Deserted Wife's Benefit/Allowance or Prisoner's Wife's Allowance for **at least 12 months**
Or
- In receipt of Illness Benefit (formerly known as Disability Benefit) for **3 years or longer**

Participants in the scheme will receive support for four years as follows:

- 100% of weekly social welfare payment for year 1
- 75% for year 2
- 50% for year 3
- 25% for year 4

Medical Card holders who are eligible for the BTWEA are entitled to keep their medical card for the duration of the scheme.

For further details contact your local Social Welfare Office.

Secondary Benefits

Any income earned through childminding *may* affect a childminders secondary benefits i.e. Medical Card, Rent Allowance etc. For further details regarding this childminders should contact their local Community Welfare Officer.