

The World Of
**CHILD CARE
PROVIDERS**
Recordkeeping & Taxes



www.ChildCareTaxSpecialists.com

How this seminar will help you to

- ◆ Understand what business records you need to keep
- ◆ Improve your recordkeeping practices
- ◆ Learn to identify business deductions & categories
- ◆ Calculate your Time-Space Percentage, Credits, etc.
- ◆ Fully understand how to calculate & record car and food expenses

Meet Your Instructor



- ◆ R. Patrick Michael
- ◆ Over 30 years in practice
- ◆ Over 20 years as a self-employed child care provider
- ◆ Principal : **USTaxLaws.com** & **ChildCareTaxSpecialists.com**
- ◆ Call Pat : 619-589-8680
- ◆ Email Pat: pat@us-taxlaws.com
- ◆ Instructing classes since 1997

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After this seminar you will

- ♦ Be able to download materials used in this presentation at www.childcaretaxspecialists.com/
- ♦ Print the charts, tables and checklists at www.childcaretaxspecialists.com/
- ♦ Receive Certificate of Attendance from the SDYMCACRS
- ♦ Make an appointment to come in for a evaluation & review.



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Get the news on tax changes that may affect you, good tips for recordkeeping and reminder checklists, changes or new deductions, other sites with good stuff.

Use our website, tools and templates

FAMILY DAYCARE PROVIDER MEAL AND SNACK LOG

Name of Provider: _____ TIN/SSN: _____ Week Of: _____

KEEP THIS FOR YOUR RECORDS

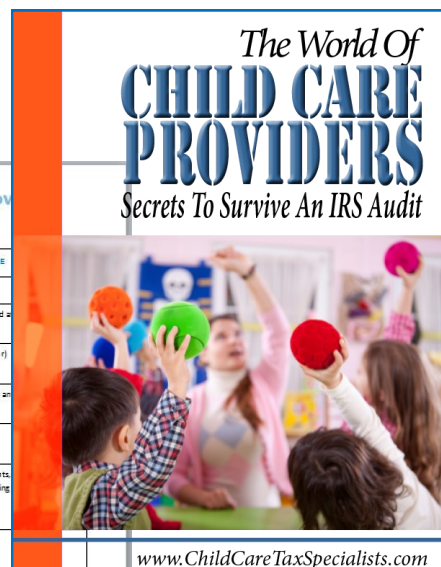
Child's Name	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	Totals	
	Hours of Attendance: <input type="checkbox"/> Breakfast <input type="checkbox"/> Snack <input type="checkbox"/> Lunch <input type="checkbox"/> Dinner <input type="checkbox"/> Snack	Hours of Attendance: <input type="checkbox"/> Breakfast <input type="checkbox"/> Snack <input type="checkbox"/> Lunch <input type="checkbox"/> Dinner <input type="checkbox"/> Snack	Hours of Attendance: <input type="checkbox"/> Breakfast <input type="checkbox"/> Snack <input type="checkbox"/> Lunch <input type="checkbox"/> Dinner <input type="checkbox"/> Snack	Hours of Attendance: <input type="checkbox"/> Breakfast <input type="checkbox"/> Snack <input type="checkbox"/> Lunch <input type="checkbox"/> Dinner <input type="checkbox"/> Snack	Hours of Attendance: <input type="checkbox"/> Breakfast <input type="checkbox"/> Snack <input type="checkbox"/> Lunch <input type="checkbox"/> Dinner <input type="checkbox"/> Snack	Hours of Attendance: <input type="checkbox"/> Breakfast <input type="checkbox"/> Snack <input type="checkbox"/> Lunch <input type="checkbox"/> Dinner <input type="checkbox"/> Snack	Hours of Attendance: <input type="checkbox"/> Breakfast <input type="checkbox"/> Snack <input type="checkbox"/> Lunch <input type="checkbox"/> Dinner <input type="checkbox"/> Snack	Hours of Attendance: <input type="checkbox"/> Breakfast <input type="checkbox"/> Snack <input type="checkbox"/> Lunch <input type="checkbox"/> Dinner <input type="checkbox"/> Snack	Number Served: Breakfast: _____ Snack: _____ Lunch: _____ Dinner: _____

BEFORE AND AFTER HOUR CHECKLIST FOR CHILD CARE PROVIDER

DATE: _____

✓	DESCRIPTION OF ACTIVITY OR CHORE	DURATION	✓	DESCRIPTION OF ACTIVITY OR CHORE
	Making out a grocery list			Unloading groceries
	Cooking, preparing meals			Cleaning up just before children arrive and after children leave
	Laundry (washing, drying, folding, putting away)			Loading dishwasher (emptying dishwasher)
	Online research, webinars, visiting child care forums, and this blog!			Cleaning toys, rotating toys, putting away and organizing toys
	Record keeping, entering data into Minute Menu software, working on taxes			Baby/child proofing home
	Parent meetings Name: _____ Time: _____ Subject: _____			Office work, filing, writing emails to parents, photo copying, writing newsletters, creating updating your website/blog
	Cleaning finger prints off sliding glass doors/windows			Writing contracts and policies

Original 1/2/2008 * updated January 8, 2014 www.ChildCareTaxSpecialists.com Page 3

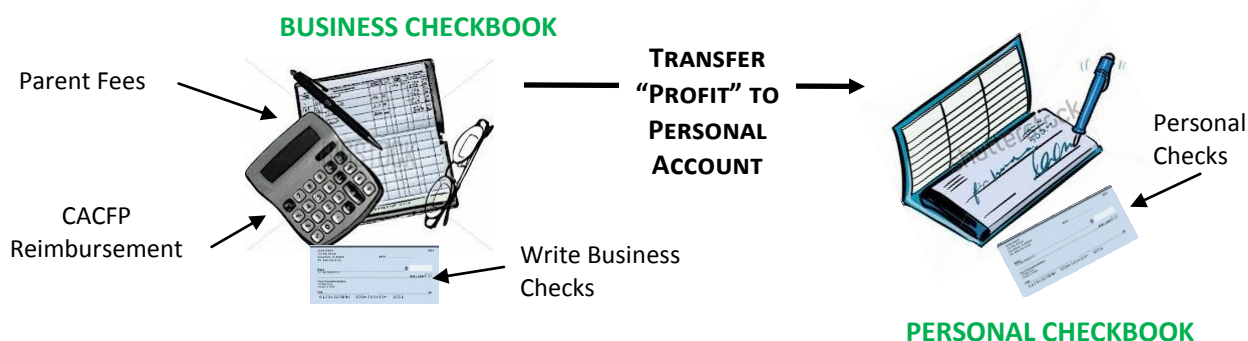


THE SEVEN RULES OF GOOD RECORD KEEPING

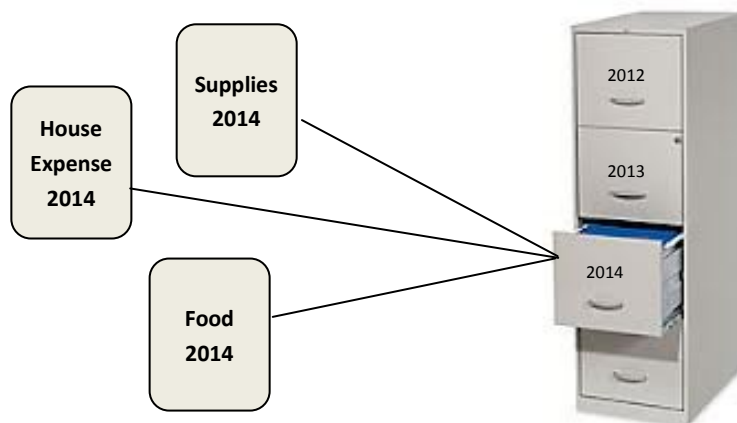
- I. Track income from each parent and the Child and Adult care Food Program.
- II. Save the receipts for all business and personal purchases.
- III. Mark what each item is on the receipt.
- IV. Organize receipts by category, not month.
- V. Keep track of how much time - each week - you use your home for business.
- VI. Conduct a regular review (at least monthly) of your records.
- VII. After filing your tax return, keep your records in a safe place for at least 7 years.

CHECKBOOKS & STORING RECORDS

- ✓ Try to keep as separate as possible your business and personal records.
- ✓ It is a good idea to have a separate business account to deposit business income into, with a separate checkbook to use for business expenses.



- ✓ Identify the source of funds of all deposits and personal checking and saving accounts.
- ✓ Organize all receipts by expense category and keep



TRACKING PARENT FEES



Keep careful records showing how much each parent paid you for your services and how many hours you provided care for each child.

JUNE ATTENDANCE & PAYMENT LOG

CHILD'S NAME	S	M	T	W	T	F	S	TIME	S	M	T	W	T	F	S	TOTAL
							1		2	3	4	5	6	7	8	
Beth									✓	✓	✓	✓	✓	✓		\$80
Gabriella										✓		✓		✓		\$50
Michael										✓	✓	✓	✓	✓		\$70
Brandon										✓	✓	✓	✓	✓		\$80
WEEKLY PAYMENT TOTALS																\$280

Another method of record keeping of parent income.

Week of January 1, 2014

Mrs. Nicol M-F 8-5 \$80 / paid

Mrs. Sobin M, W, F, 8-5 \$50 / paid

Mrs. Rogers M-F 8-5 \$70 / paid

Mrs. Lombardi M-F 8-5 \$80 / paid

\$280

- ✓ Give parents a receipt to establish an accurate income record for your business.
- ✓ Receipts are especially important when dealing with parents who pay cash.
- ✓ Parents should sign each receipt. Both parents and provider should keep a copy.
- ✓ Receipts can be given each time a parent pays or once at the end of the year.

[illegible]

Form W-10 (Rev. July 2011) Department of the Treasury Internal Revenue Service	<h2 style="margin: 0;">Dependent Care Provider's Identification and Certification</h2> <p style="margin: 10px 0;">Do NOT file Form W-10 with your tax return. Instead, keep it for your records.</p>	
Part I Dependent Care Provider's Identification (See instructions.)		
Please print or type	Name of dependent care provider	Provider's taxpayer identification number
	Address (number, street, and apt. no.)	If the above number is a social security number, check here <input type="checkbox"/>
	City, state, and ZIP code	
Certification and Signature of Dependent Care Provider. Under penalties of perjury, I, as the dependent care provider, certify that my name, address, and taxpayer identification number shown above are correct.		
Please Sign Here	Dependent care provider's signature	Date
Part II Name and Address of Person Requesting Part I Information (See instructions.)		
Name, street address, apt. no., city, state, and ZIP code of person requesting information		

FORM W-10 and THE CHILD CARE TAX CREDIT



If parents wish to claim the child care tax credit on **Form 2441 Child and Dependent Care Expenses**, they must have the provider's name, address and social security number (or taxpayer identification number).



Form W-10
(Rev. July 2011)
Department of the Treasury
Internal Revenue Service

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Please Sign Here	Dependent care provider's signature	Date
------------------	-------------------------------------	------

Part II Name and Address of Person Requesting Part I Information (See instructions.)

Name, street address, apt. no., city, state, and ZIP code of person requesting information

It is the parent's responsibility, not the provider's, to obtain **Form W-10**, and ask the provider to fill it out.

Providers who refuse to fill out **Form W-10**, are subject to a penalty of \$50.00 for each form.

Form **W-10**

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Department of the Treasury
Internal Revenue Service

Dependent Care Provider's Identification and Certification

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Please Sign Here	Dependent care provider's signature	Date
-------------------------	-------------------------------------	------

Part II Name and Address of Person Requesting Part I Information (See instructions.)

Name, street address, apt. no., city, state, and ZIP code of person requesting information

General Instructions

Section references are to the Internal Revenue Code.

Purpose of form. You must get the information shown in Part I from each person or organization that provides care for your child or other dependent if:

1. You plan to claim a credit for child and dependent care expenses on Form 1040 or 1040A, or
2. You receive benefits under your employer's dependent care plan.

If either 1 or 2 above applies, you must show the correct name, address, and taxpayer identification number (TIN) of each care provider on Form 2441, Child and Dependent Care Expenses.

You may use Form W-10 or any of the other sources listed under *Due diligence* below to get this information from each provider.

Penalty for failure to furnish TIN. TINs are needed to carry out the Internal Revenue laws of the United States. Section 6109(a) requires a provider of dependent care services to give to you a valid TIN, even if the provider is not required to file a return. The IRS uses the TIN to identify the provider and verify the accuracy of the provider's return as well as yours.

A care provider who does not give you his or her correct TIN is subject to a penalty of \$50 for each failure unless the failure is due to reasonable cause and not willful neglect. This penalty does not apply to an organization described in section 501(c)(3). See *Tax-exempt dependent care provider*, later.

If incorrect information is reported. You will not be allowed the tax credit or the exclusion for employer-provided dependent care benefits if:

- You report an incorrect name, address, or TIN of the provider on your Form 2441 and
- You cannot establish, to the IRS upon its request, that you used due diligence in trying to get the required information.

Due diligence. You can show due diligence by getting and keeping in your records any one of the following:

- A Form W-10 properly completed by the provider.
- A copy of the provider's social security card or driver's license that includes his or her social security number.
- A recently printed letterhead or printed invoice that shows the provider's name, address, and TIN.
- If the provider is your employer's dependent care plan, a copy of the statement provided by your employer under the plan.

- If the provider is your household employee and he or she gave you a properly completed Form W-4, Employee's Withholding Allowance Certificate, to have income tax withheld, a copy of that Form W-4.

If your care provider does not comply with your request for one of these items, you must still report certain information on your Form 2441. For details, see the Form 2441 instructions.

Specific Instructions

Part I

The individual or organization providing the care completes this part.

Enter the provider's name, address, and TIN. For individuals and sole proprietors, the TIN is a social security number (SSN). But if the provider is a nonresident or resident alien who does not have and is not eligible to get an SSN, the TIN is an IRS individual taxpayer identification number (ITIN). For other entities, it is the employer identification number. If the provider is exempt from federal income tax as an organization described in section 501(c)(3), see *Tax-exempt dependent care provider* below.

How to get a TIN. Providers who do not have a TIN should apply for one immediately. To apply for an SSN, get Form SS-5, Application for a Social Security Card, from your local Social Security Administration office. To apply for an ITIN, get Form W-7, Application for IRS Individual Taxpayer Identification Number, from the IRS. To apply for an EIN, get Form SS-4, Application for Employer Identification Number, from the IRS.

Note. An ITIN is for tax use only. It does not entitle the individual to social security benefits or change his or her employment or immigration status under U.S. law.

Tax-exempt dependent care provider. A provider who is a tax-exempt organization described in section 501(c)(3) and exempt under section 501(a) is not required to supply its TIN. Instead, the provider must complete the name and address lines and write "tax-exempt" in the space for the TIN. Generally, an exempt 501(c)(3) organization is one organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or for the prevention of cruelty to children or animals.

Part II

Complete this part only if you are leaving the form with the dependent care provider to return to you later.

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Certification and Signature of Dependent Care Provider. Under penalties of perjury, I, as the dependent care provider, certify that my name, address, and taxpayer identification number shown above are correct.

Please Sign Here	Dependent care provider's signature	Date

Part II Name and Address of Person Requesting Part I Information (See instructions.)
Name, street address, apt. no., city, state, and ZIP code of person requesting information

For calendar year _____, I paid \$ _____ (amount paid) to :

Name of Provider : _____

for the care of (name of child(ren)) _____

Signature of Parent Date

Signature of Provider Date

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Name, street address, apt. no., city, state, and ZIP code of person requesting information

For calendar year _____, I paid \$ _____ (amount paid) to :

Name of Provider : _____

for the care of (name of child(ren)) _____

Signature of Parent Date

Signature of Provider Date

A FOUR STEP PROCESS FOR TRACKING FOOD EXPENSES

STEP I : Save all receipts, business and personal.

STEP II : Separate business and personal food expenses, whenever possible.

STEP III: Mark items on food receipts in one of four (4) categories:

- (1) 100% business expense (juice, snacks, etc.)
- (2) 100% personal expense (coffee, steak, etc.)
- (3) Non-food expense (paper napkins, plastic wrap, etc.)
- (4) Shared business and personal expenses



STEP IV : Estimate actual business food expenses for several weeks.
Use the average from these weeks to calculate a yearly total.

Week #1	Week #2	Week #3
\$ 26.75 100% Business	\$ 31.64 100% Business	\$ 21.65 100% Business
\$ 61.83 100% Personal	\$ 72.85 100% Personal	\$ 58.44 100% Personal
\$ 9.72 Non-food	\$ 13.06 Non-food	\$ 7.61 Non-food
\$ 125.38 Shared	\$141.88 Shared	\$ 118.43 Shared
\$ 75.21 Business	\$ 82.43 Business	\$ 65.29 Business
\$ 50.17 Personal	\$ 59.45 Personal	\$ 53.14 Personal
\$ 101.96 Business	\$114.07 Business	\$ 86.94 Business

Average :
\$96.94 X 50 weeks
= \$4,847
Yearly Business
Food Expense

ESTIMATING FOOD EXPENSE : COST PER SERVING METHOD

STEP I : Calculate the average cost per serving using several meals served throughout the year.

	Breakfast	Lunch	Snack	Dinner
Meal #1	\$.85	\$ 1.40	\$.45	\$ 1.75
Meal #2	.78	1.55	.49	1.62
Meal #3	.90	1.48	.43	1.58
Meal #4	.83	1.51	.54	1.80
TOTAL Divided by the # of Meals	\$3.36 4 meals =	\$5.94 4 meals =	\$1.91 4 meals =	\$6.75 4 meals =
Avg Per Meal Cost	\$.84	\$1.49	\$.48	\$1.69

STEP II : Calculate the number of meals served throughout the year.

BREAKFAST

3 children X 5 breakfasts a
week X 50 weeks
= 750 breakfasts

LUNCH

5 children X 5 lunches
a week X 50 weeks
= 1,250 lunches

SNACK

5 children X 10 snacks
a week X 50 weeks
= 2,500 snacks

DINNER

4 children X 1
dinner per month
= 48 dinners

STEP III : Multiply average meal cost by number of meals served.

Breakfast	750 X \$.84	=	\$630.00
Lunch	1,250 X \$1.49	=	\$1,862.50
Snack	2,500 X \$.48	=	\$1,200.00
Dinner	48 X \$1.69	=	\$81.12
			\$3,773.62

**TOTAL ESTIMATED
FOOD EXPENSE :
\$3,773.62**

ESTIMATING FOOD EXPENSES : COST PER WEEK METHOD

STEP I : Calculate the average cost of food for several weeks throughout the year.

	Week #1	Week #2	Week #3	Week #4
100% Business Food	\$26.75	\$31.64	\$21.65	\$28.46
100% Personal Food	61.83	72.85	58.44	71.58
Shared business & personal food	125.38	141.88	118.43	130.76
- Business portion of shared food	75.21	82.43	65.29	72.19
- Personal portion of shared food	50.17	59.45	53.14	58.57
Total of 100% business and business portion of shared food	\$101.96	\$114.07	\$86.94	\$100.65

STEP II : Calculate the average cost per week.

Week #1	\$101.96
Week #2	\$114.07
Week #3	86.94
Week #4	100.65
Total	\$403.62

*divided by 4 weeks = \$100.91
average cost per week.*

STEP III : Multiply the average cost per week by the number of weeks in business

\$100.91 average cost per week X 51 weeks = \$5,146.41

TOTAL ESTIMATED FOOD EXPENSE \$5,146.41

CHILD & ADULT CARE FOOD PROGRAM (CACFP)

CHILD AND ADULT CARE FOOD PROGRAM (CACFP) <i>Per Meal Rates in Whole or Fractions of U.S. Dollars</i> <i>Effective from July 1, 2014 - June 30, 2015</i>						
CENTERS		BREAKFAST	LUNCH AND SUPPER ¹		SNACK	
CONTIGUOUS STATES	PAID	0.28	0.28		0.07	
	REDUCED PRICE	1.32	2.58		0.41	
	FREE	1.62	2.98		0.82	
ALASKA	PAID	0.42	0.46		0.12	
	REDUCED PRICE	2.29	4.44		0.66	
	FREE	2.59	4.84		1.33	
HAWAII	PAID	0.32	0.33		0.08	
	REDUCED PRICE	1.58	3.09		0.48	
	FREE	1.88	3.49		0.96	
DAY CARE HOMES	BREAKFAST		LUNCH AND SUPPER		SNACK	
	TIER I	TIER II	TIER I	TIER II	TIER I	TIER II
CONTIGUOUS STATES	1.31	0.48	2.47	1.49	0.73	0.20
ALASKA	2.09	0.74	4.00	2.41	1.19	0.33
HAWAII	1.53	0.55	2.88	1.74	0.86	0.23
ADMINISTRATIVE REIMBURSEMENT RATES FOR SPONSORING ORGANIZATIONS OF DAY CARE HOMES		INITIAL	NEXT	NEXT	EACH ADDL	
<i>Per Home/Per Month Rates in U.S. Dollars</i>		50	150	800		
CONTIGUOUS STATES		111	85	66	58	
ALASKA		180	137	107	94	
HAWAII		130	99	77	68	

¹These rates do not include the value of USDA Foods or cash-in-lieu of USDA Foods which institutions receive as additional assistance for each CACFP lunch or supper served to participants. A notice announcing the value of USDA Foods and cash-in-lieu of USDA Foods is published separately in the *Federal Register*.

THE TAX CONSEQUENCES OF CHILD AND ADULT CARE FOOD PROGRAM PARTICIPATION



Family child care providers who join the Food Program at the lower Tier II rate will still benefit financially. Here are the tax consequences of the two-tiered system.

	TIER I HIGHER FOOD PROGRAM PAYMENT	TIER II REDUCED FOOD PROGRAM PAYMENT	NOT ON FOOD PROGRAM
Parent Fees (4 children)	\$24,000	24,000	24,000
Food Program Reimbursements	\$3,931	1,893	0
TOTAL INCOME	\$27,931	\$25,893	24,000
Business Expenses	-10,000	-10,000	-10,000
Food Expenses	-4,000	-4,000	-4,000
Profit	13,731	11,893	10,000
Federal Taxes (37%)	-5,154	-4,400	-3,700
CASH ON HAND AT END OF YEAR	\$8,777	\$7,493	\$6,300

Note: As the example shows, providers who receive lower reimbursements from the Food Program are still better off than if they receive no reimbursements. The provider in this example who remains on the food Program will have \$1193 (\$7,493 - \$6,300) more cash on hand at the end of the year than if they left the Food Program.

IS IT WORTHWHILE TO CLAIM A 20¢ SNACK FROM THE FOOD PROGRAM?

✓ All providers are eligible to participate in the Child and Adult Care Food Program. You can receive a higher reimbursement amount (Tier I) if you qualify: you are low income, you serve low income children, or you live in a low income neighborhood.

✓ If you don't meet one of these qualifications, you will receive a lower reimbursement amount (Tier II). Providers will receive 73¢ for a snack under the Tier I rate, but only 20¢ under the Tier II rate. Some providers think it's not worthwhile to claim a 20¢ snack. Are they right? Let's look at the following example:

If you claim a 20¢ snack for the entire year, the total reimbursement for one child will be 52.00 (\$0.20 a day X 5 days a week x 52 weeks). If you care for 4 children, the total is \$208.00 (\$52.00 X 4).

If it takes you five minutes a day to record these snacks, this will amount to 21.7 hours a year (5 minutes a day X 5 days a week X 52 weeks).

If we divide \$208.00 by 21.7 hours - you will have earned \$9.59 per hour for doing the paperwork. If it only takes you 2 -1/2 minutes per day, you will be earning \$19.18 per hour. Conclusion: It is still worthwhile to claim a 20¢ snack. Don't throw away this opportunity to earn money for your business.

✓ Another reason for staying on the Food Program is that many parents are concerned about the nutritional quality of the food providers serve their children. If you decide to leave the Food Program, parents may be strong opposed to your decision. You could lose some parents who would prefer to enroll with another provider who is on the Food Program and can guarantee that their children will receive nutritious meals.

FAMILY DAYCARE PROVIDER MEAL AND SNACK LOG

**KEEP THIS FOR
YOUR RECORDS**

Name of Provider _____ TIN/SSN _____ Week Of _____

Child's Name	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	Totals
	<u>Hours of Attendance:</u> <input type="checkbox"/> Bkfst <input type="checkbox"/> Snack <input type="checkbox"/> Lunch <input type="checkbox"/> Snack <input type="checkbox"/> Dinner <input type="checkbox"/> Snack	<u>Hours of Attendance:</u> <input type="checkbox"/> Bkfst <input type="checkbox"/> Snack <input type="checkbox"/> Lunch <input type="checkbox"/> Snack <input type="checkbox"/> Dinner <input type="checkbox"/> Snack	<u>Hours of Attendance:</u> <input type="checkbox"/> Bkfst <input type="checkbox"/> Snack <input type="checkbox"/> Lunch <input type="checkbox"/> Snack <input type="checkbox"/> Dinner <input type="checkbox"/> Snack	<u>Hours of Attendance:</u> <input type="checkbox"/> Bkfst <input type="checkbox"/> Snack <input type="checkbox"/> Lunch <input type="checkbox"/> Snack <input type="checkbox"/> Dinner <input type="checkbox"/> Snack	<u>Hours of Attendance:</u> <input type="checkbox"/> Bkfst <input type="checkbox"/> Snack <input type="checkbox"/> Lunch <input type="checkbox"/> Snack <input type="checkbox"/> Dinner <input type="checkbox"/> Snack	<u>Hours of Attendance:</u> <input type="checkbox"/> Bkfst <input type="checkbox"/> Snack <input type="checkbox"/> Lunch <input type="checkbox"/> Snack <input type="checkbox"/> Dinner <input type="checkbox"/> Snack	<u>Hours of Attendance:</u> <input type="checkbox"/> Bkfst <input type="checkbox"/> Snack <input type="checkbox"/> Lunch <input type="checkbox"/> Snack <input type="checkbox"/> Dinner <input type="checkbox"/> Snack	Number Served: Breakfasts: _____ Lunches: _____ Dinners: _____ Snacks : _____
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THE TIME-SPACE PERCENTAGE



The Time-Space Percentage is the single most important number to calculate for your business



The Time-Space Formula to follow:

of Hours Home
Used for Business

of Square Feet of Home
Used in Business

Total # of Hours
In a Year

Total # of Square
Feet in Home

= Time-Space
Percentage



Use this formula to allocate business use of shared business and personal expenses such as:

House Repairs and Maintenance

Property Tax

Utilities

Home Improvements

Household Supplies & Toys

Personal Property Depreciations:

Excluding computer, TV, VCR, radio, tape recorder, piano, etc.

House Depreciation

Mortgage Interest

House Insurance

Land Improvements



Note: Instead of using the Time-Space Percentage, you may allocate business use for the above items by calculating actual business use, if you can document your calculation.

THE TIME PERCENT : WHAT HOURS MAY BE COUNTED?



$$\frac{\text{\# of Hours Home Used for Business}}{\text{Total \# of Hours In a Year}} = \text{Time Percent}$$



Include in this calculation hours spent in your home:

- Caring for children, from when the first child arrives until the last child leaves.
- Cleaning up the house for the business before and after the children are present.
- Meal preparation for the children in care.
- Preparation activities for the children.
- Interviewing prospective parents.
- Talking to parents on the phone.
- Keeping business records and preparing taxes.
- Meal planning and preparing shopping lists for the business.
- Filling out paperwork for the Child Care Food Program.

Note:

- You may not count time twice if you are caring for children and engaged in some business activity described above.
- You may not count hours spent away from in activities such as shopping or transporting children to school.

THE SPACE PERCENT

$$\frac{\text{\# of square feet of home used in business}}{\text{Total \# of square feet in home}} = \text{Space Percent}$$

List each room in your home and measure the square feet in each room. If you use the room on a regular basis for your business, count the square feet as being used in business.

Location	Is area regularly used for business activities	If yes, count as business space	If no, do not count as business space
Living Room	Yes	250 sq. ft.	
Dining Room	Yes	150 sq. ft.	
Kitchen	Yes	150 sq. ft.	
Bathroom	Yes	100 sq. ft.	
Entryway/Stairs	Yes	150 sq. ft.	
Second Floor Hallway	Yes	150 sq. ft.	
Master Bedroom	Yes	250 sq. ft.	
Child's Bedroom	No		150 sq. ft.
Child's Bedroom	No		150 sq. ft.
Bathroom	Yes	100 sq. ft.	
Basement/Laundry Rm	Yes	75 sq. ft.	
Basement Furnace Area	Yes	50 sq. ft.	
Basement Storage Area	Yes/No	175 sq. ft.	200 sq. ft.
Detached Garage	yes	400 sq. ft.	
TOTAL		2,000 sq. ft.	500 sq. ft.

$$\frac{2,000}{2,500} = 80\% \text{ Space Percentage}$$

Many providers regularly use all the square feet in their home in the business and thus their space percentage would be 100%

EXCLUSIVE USE ROOMS AND THE TIME-SPACE PERCENTAGE

✓ Providers who use one or more rooms exclusively for child care should calculate a Time-Space Percentage for both the exclusive use of room(s) and for the rest of the home and add the percentages together.

✓ Exclusive use of a room means absolutely no personal use in the evenings or on weekends.

Example: 2200 square foot home
1900 square feet used regularly for child care
300 square foot room used 100% for child care
30% Time Percent for non-exclusive space

Step I : Calculate Time-Space Percentage of exclusive use room:

$$\frac{300}{2200} = 15\% \text{ Space} \times 100\% \text{ Time} = 15\% \text{ Time-Space Percentage}$$

Step II : Calculate Time-Space Percentage of non-exclusive use space:

$$\frac{1800}{2000} = 95\% \text{ Space} \times 30\% \text{ Time} = 28.5\% \text{ Time-Space Percentage}$$

Step III : Add two Time-Space Percentages :

$$15\% + 28.5\% = 45.5\% \text{ Time-Space Percentage}$$

✓ Note: If all the rooms in the home were used regularly for child care, the Time-Space % would be 30% (100% Space X 30% Time).

THE TIME PERCENT : HOW TO KEEP RECORDS



It is vital to have accurate records of the hours spent on your business throughout the year. Save your contract or other record that describes your normal work day hours. Use a calendar to track your business hours. For example:

<i>Sun</i>	<i>Mon</i>	<i>Tue</i>	<i>Wed</i>	<i>Thu</i>	<i>Fri</i>	<i>Sat</i>
		1 business cleaning - 1 hr. personal cleaning - 1 hr. bus. cooking - 1 hr.	2 new child arrives - 1 hr. personal cleaning - 1 hr. bus. cooking - 1 hr.	3 business cleaning - 1 hr. personal cleaning - 1 hr. bus. cooking - 1 hr.	4 business cleaning - 1 hr. personal cleaning - 1 hr. bus. cooking - 1 hr.	5 business cleaning - 1 hr. personal cleaning - 1 hr. bus. cooking - 1 hr.
6 business cleaning - 1 hr. personal cleaning - 1 hr. bus. cooking - 1 hr.	7 plan trip to par - 30 min..	8	9	10 Arrange new play - 1 hr. New Room cleaning - 1 hr.	11 business cleaning - 1 hr. personal cleaning - 1 hr. bus. cooking - 1 hr.	12 business cleaning - 1 hr. personal cleaning - 1 hr. bus. cooking - 1 hr.
13 business cleaning - 1 hr. personal cleaning - 1 hr. bus. cooking - 1 hr.	14	15 Talk to Claire's Mom - 1 hr. .	16 Todd arrives - 1 hr.	17	18	19
20	21	22 business cleaning - 1 hr	23	24 business cleaning - 1 hr	25 business cleaning - 1 hr	26
27	28	29	30	31		



Providers normal hours are 7 a.m. to 5 p.m. Total extra hours: 32 hours, 40 min.,
Average per week: 8 hrs., 10 min.



If you can't keep a daily record, prepare a weekly or monthly schedule and stick to it. For example:

S	M	T	W	T	F	S
	daily clean - 1 hr		cook - 1 hr.			
	daily clean - 1 hr		cook - 1 hr.			

RECORDING AUTOMOBILE EXPENSES

- ✓ Use either the Standard Mileage Rate (56¢ per mile for 2014) or the Actual Car Expenses Method.
- ✓ If a trip is “primarily” for business purposes, the entire trip can be claimed for business.
- ✓ For grocery store trips to buy both business and personal food: claim all of the mileage if the provider purchases more business than personal food.
- ✓ Providers need to keep “sufficient written evidence” of business trips. It is necessary to keep a mileage log.
- ✓ Evidence of trips: notations on a calendar, receipts, canceled checks, photos, letters from parents, field trip permission forms, admission tickets, etc.
- ✓ Record mileage distance during the trip or take a separate “trip” day once a month or once a year to measure the mileage for all trips.
- ✓ You may claim parking fees, tolls, bus, subway or train fares, and a portion of interest on car loans, and state personal property taxes on the car as business expenses regardless of which method you use to claim automobile expenses.

USING THE ACTUAL CAR EXPENSES METHOD TO CLAIM AUTOMOBILE EXPENSES

- Calculate your total business miles using the same method as described for the Standard Mileage Rate.
- Divide the number of business miles driven by the total number of miles driven

$$\frac{2,250 \text{ business miles driven}}{15,000 \text{ total miles driven}} = 15\%$$

- List the actual expenses for maintaining your automobile and multiply by your business use percent:

Gasoline	\$2,812.00
Oil	\$100.00
Repairs	\$650.00
Insurance	\$450.00
Taxes & License	\$200.00
Car Loan Interest	\$275.00
TOTAL	\$4,487.00

$$\begin{aligned} &\$4,487.00 \times 15\% \\ &= \$673.00 \end{aligned}$$

- You may also take expenses for the depreciation of your automobile:
 - A. If the business use of the car is 50% or less: Depreciate the car using 5 year straight line rules.
 - B. If the business use of the car is more than 50%: You may claim depreciation, using one of three choices: 5-year straight line, 5-year 200% declining balance or Section 179 rules.

USING THE STANDARD MILEAGE METHOD TO CLAIM AUTOMOBILE EXPENSES

- Regularly record the destinations of business trips on a calendar.
- List the mileage next to each trip.
- Multiply the number of trips to each destination by the mileage and
- Multiply the total by 56¢ cents for 2014.

Al's Grocery Store	30 trips X 5 miles =	150 miles
First Bank	10 trips X 2 miles =	20 miles
Como Park	8 trips X 5 miles =	40 miles
Tots Toy Store	4 trips X 4 miles =	16 miles
Vons Grocery Store	35 trips X 3 miles	105 miles
Other trips (list)		1705 miles
TOTAL MILES		2036 miles

$$2036 \text{ Miles} \times .56 = 1140.16 \text{ (for 2014)}$$

- Record the total on **Schedule C**, line 10. In addition, fill out Section B, Part V of **Form 4562** or Part IV of **Schedule C**.
- Providers may also claim a portion of the interest payments on their car loan and a portion of any state and local personal property taxes on the automobile. The business portion of these expenses is the percentage of total miles the automobile is driven for business purposes.
- Providers using this method may not claim expenses for automobile insurance (even if purchased specifically for the business) or car repairs (even if the damage was caused while on a business trip).

CALCULATING ESTIMATED TAX

- ✓ The IRS requires providers to pay in at least 90% of the total taxes their family owes throughout the year:

\$4,000.00	Estimated Total Taxes Owed for 2014
X 90 %	
<hr/> \$3,600.00	Amount of taxes that must be paid in throughout 2014

- ✓ Estimated taxes are based on the estimated income and expenses for the year. Taxes owed include self-employment tax. If the provider is married and filing jointly, look at the total taxes owed by the family.

- ✓ To file estimated taxes, you must pay in one-fourth of your estimated taxes each quarter.

Using Form 1040 ES, file on : April 15,
June 15,
September 15
January 15

- ✓ Paying estimated taxes can be avoided if:
1. You estimate you will receive a tax refund.
 2. You estimate you will owe less than a total of \$1,000 in taxes.
 3. You will owe less than 10% of your total family taxes by April 15.
 4. The taxes that will be withheld by your spouse in 2015 are greater than the total taxes your family paid in 2014 (unless total adjusted gross income is more than \$150,000.00).

THE THREE CATEGORIES OF BUSINESS EXPENSES

DIRECT EXPENSES ARE:

- ◆ Incurred for use by the business.
- ◆ Usually claimed all in one year.
- ◆ Often both business and personal expense (i.e. light bulbs, paper towels, toilet paper). Providers may determine the business deduction by applying their Time-Space Percentage or an actual business-use percent.

NOTE:

Do not use the Time-Space Percentage on food expenses listed on **Schedule C**

HOUSE EXPENSES ARE:

- ◆ Incurred for the purpose of maintaining or repairing your home.
- ◆ Usually claimed all in one year.
- ◆ Allocated between business and personal use by applying the Time-Space percentage in most situations.
- ◆ Listed on **Form 8829**.

CAPITAL EXPENDITURES ARE:

- ◆ Those made to purchase, improve or increase the value of property usually worth at least \$500.
- ◆ Usually spread over a number of years by using depreciation.
- ◆ Allocated between business and personal use by applying the Time-Space percentage or an actual business use percent.
- ◆ Listed on **Form 4562** or **Form 8829**.

EXAMPLES OF DIRECT BUSINESS EXPENSES

ADVERTISING

CARE EXPENSES

EMPLOYEE WAGES, TAXES AND BENEFITS

LIABILITY INSURANCE

BUSINESS INTEREST

LEGAL AND PROFESSIONAL SERVICES

OFFICE EXPENSES

BANK SERVICE CHARGE/BOUNCED CHECKS

ASSOCIATION DUES AND PUBLICATIONS

EDUCATION / TRAINING

RENT OF BUSINESS EQUIPMENT

SUPPLIES

LAUNDRY AND CLEANING

GIFTS TO CHILDREN AND THEIR PARENTS

MEALS AND BUSINESS ENTERTAINMENT AWAY FROM HOME

TELEPHONE SERVICES (CALL FORWARDING, ANSWERING
MACHINE)

FOOD

HOUSEHOLD TOOLS

YARD TOOLS

TOYS AND GAMES

HOUSEHOLD ITEMS

CLAIMING DIRECT BUSINESS EXPENSE



Example : We will assume a Time-Space Percentage of 30% for this example.

Expense	Cost	100% Business Expense	Shared business & personal expenses	Business Deductions
Fee for YMCA Workshop	\$15	Yes		\$15
Wages for helpers	\$1056	Yes		\$1056
Toys, Supplies	\$21.60	Yes		\$21.60
Sheets	\$25.00		Yes	$\$25.00 \times 30\% = \7.50
Garden Hose	\$27.50		Yes	$\$27.50 \times 30\% = \8.25
Paper Plates	\$14.00		Yes	$\$14.00 \times 75\% \text{ actual business use } \% = 10.50$

LIST OF HOUSE EXPENSES

CASUALTY LOSSES

MORTGAGE LOAN INTEREST

REAL ESTATE TAXES

HOUSE INSURANCE

HOUSE REPAIRS AND MAINTENANCE

(furnace repair or cleaning, service contracts on appliances, fix broken window, etc.)

UTILITIES

(gas, electric, water, sewer, garbage)

HOUSE RENT

EXAMPLES OF BUSINESS CAPITAL EXPENDITURES

PERSONAL PROPERTY

Personal Computer

Entertainment/Recreational or Amusement Items
(i.e. TV, VCR, Record Players, etc.)

Other

(appliances, furniture, play equipment, lawn mower, snow blower, etc.)

HOUSE

HOME IMPROVEMENTS

(remodeling, new roof , wall to wall carpeting, etc.)

LAND IMPROVEMENTS

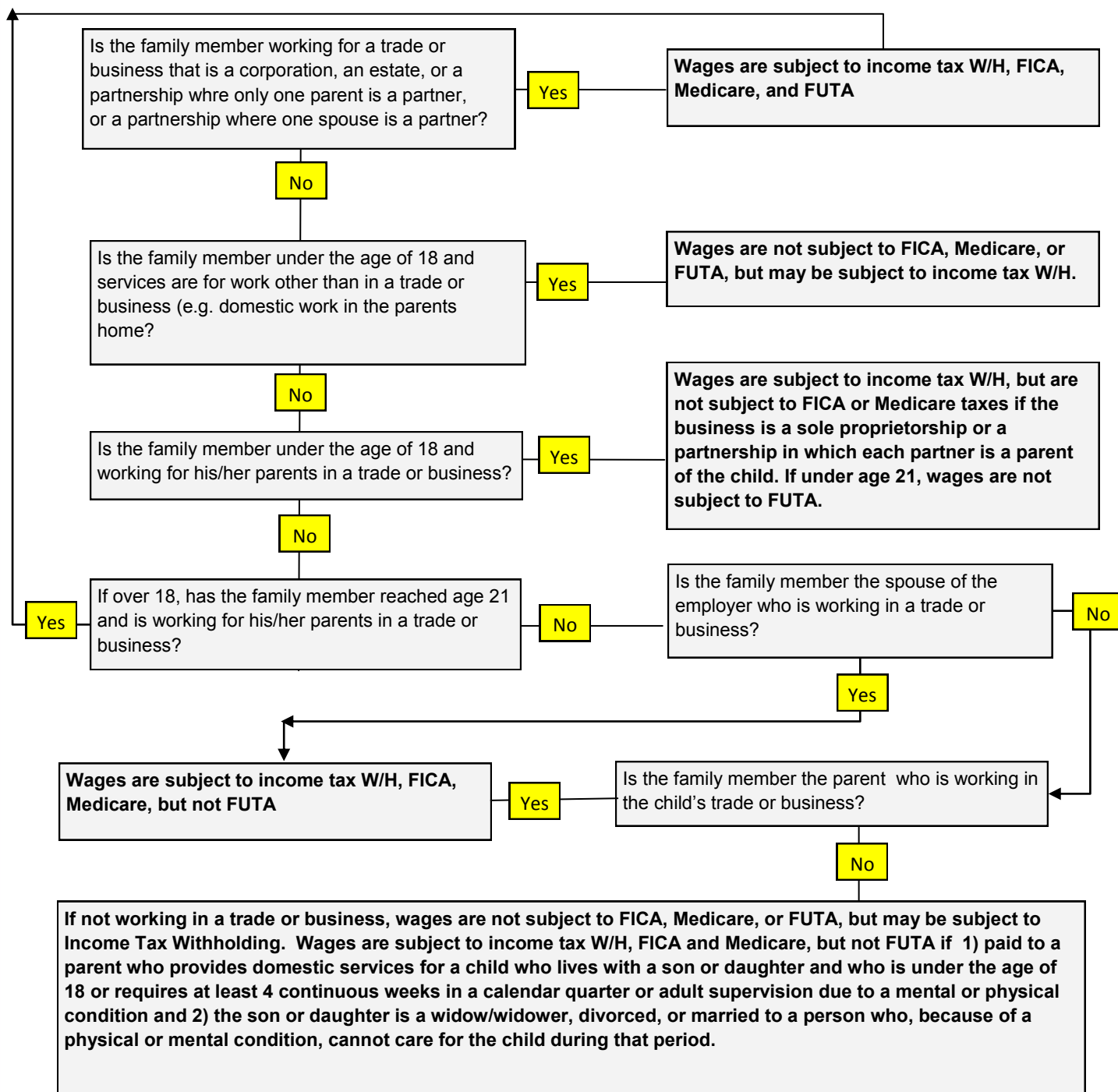
(fence, landscaping, new driveway, etc.

AUTOMOBILE

HIRING FAMILY MEMBERS

- ✓ Providers should treat family members who work for their business as employees.
- ✓ There is a slight tax benefit to hiring your spouse because the employer share of Social Security and Medicare is deductible as a business expense.
- ✓ If you pay your own child who is 18 years old or over, the child must report the income as wages and pay Social Security. Wages are not subject to federal unemployment tax up to age 21.
- ✓ If you pay your own child who is under age 18, the child does not have to pay Social Security or Medicare.
- ✓ If you hire your own child, make sure the work is related to business, the pay is reasonable (what another child of the same age would receive), and the pay is distinguished from a personal allowance.

PAYROLL TAXES FOR FAMILY MEMBERS : WHAT TAXES ARE REQUIRED?



REQUIREMENTS FOR HIRING AN EMPLOYEE

The following tax forms must be filled out if you have an employee:

OFFICIAL FORM NO.

PURPOSE OF FORM

- | | |
|---------------------------|--|
| * Form I-9 | Verification of eligibility to work in the United States |
| * Form SS-4 | Employer Identification Number |
| * Form W-4 | Federal Income Tax Withholding |
| * Form 941 | Quarterly Social Security and Medicare Withholding |
| * Form 940 | Federal Unemployment Withholding |
| * Form W2 & W3 | End of year reporting of wages and withholding |



Employees must be paid at least the minimum wage (\$9.00 (in California) per hour, beginning July 1, 2014). There is a special exception for providers who hire only one employee in a year. In addition, state laws may require employers to pay worker's compensation and withhold state income and unemployment taxes.

EMPLOYEE VERSUS INDEPENDENT CONTRACTOR



Providers who hire people to help them care for children should treat these assistants as employees.

THERE ARE SEVERAL EXCEPTIONS TO THIS RULE:

- ◆ If the assistant is hired through an agency and the provider pays the agency for the service.
- ◆ If the assistant works for other providers and is clearly in the business of providing substitute care.
- ◆ If the assistant is offering a “special service” (for example, a puppet show or ballet class).
- ◆ Providers are required to treat assistants as employees even if they are providing help for only a few hours a month.
- ◆ The IRS is taking a strict stand about treating assistants as employees and not as independent contractors.

BUSINESS DEDUCTIONS FOR REGULATED AND UNREGULATED PROVIDERS

- ✓ To deduct expenses for their home, providers must have applied for, been granted, or be exempt from having a license, certification, registration or approval as a family or group child care home under their state laws.
- ✓ If providers do not meet mandatory state requirements, they may not claim any of the following house expenses as business deductions:
 - Casualty losses
 - Real Estate taxes
 - House repairs & maintenance
 - Rent
 - Home improvements
 - Mortgage loan interest
 - House insurance
 - Utilities
 - House depreciation
- ✓ Providers who do not meet a voluntary state regulation may still deduct all allowable house expenses.
- ✓ Providers who are in violation of state requirements may still claim all direct expenses and personal property depreciation as business expenses.

WHEN IS IT SAFE TO TALK ABOUT FAMILY CHILD CARE RATES?

WHAT DO THE FOLLOWING SITUATIONS HAVE IN COMMON?



- ◇ At an association meeting, family child care providers discuss how much they charge parents.
- ◇ In order to find out the going rate in her neighborhood, a new provider calls another provider and asks what she charges parents.
- ◇ A family child care association surveys its members about rates and shares the results at the next association meeting.

In all of the above situations, there is a probable violation of the Federal Antitrust Law. What is going on?

Federal Antitrust Law is designed to encourage competition and discourage competitors from setting prices higher than they would be otherwise. When providers discuss rates at association meetings, this can easily be construed to be a discussion to raise rates. This is true even if there are no direct statements made encouraging providers to raise rates. Associations who operate their own referral service for parents can give parents who call the service rate information, but they cannot share this information with other providers in the association.

WHEN IS IT SAFE TO TALK ABOUT FAMILY CHILD CARE RATES?

**Under what circumstances can rate information be shared?
Each of these three tests must be met:**

1. The individual or organization other than an association must collect the rate information and make it readily available to the public, not just to one association.
2. The information must be communicated in such a way as to not allow anyone to identify the rates of any one provider.
3. The sample of providers surveyed must be large enough so that no one can identify the rates of any one provider.



Associations can share rate information collected by resource and referral agencies or by county agencies who use it to determine the subsidy rate for low-income parents. If an association wanted to know what the rates are for a small geographic area, they should have an independent organization do the survey and make sure that the results are widely distributed to the public.

Most associations have unknowingly violated the Federal Antitrust Law. Recently, the Minnesota Attorney General's Office investigated one provider association and ordered members to stop sharing rate information at their meetings. After the association promised not to do this in the future, the state took no further action against the association. It is unlikely that a state will ever fine an association that is unknowingly breaking the law.

IRS FORMS & PUBLICATIONS FOR THE FAMILY CHILD CARE BUSINESS

YOU MUST PREPARE YOUR TAX FORMS IN THE FOLLOWING ORDER:

- **FORM 4562** : Depreciation and Amortization
- **SCHEDULE C** : Profit or Loss from Business
- **FORM 8829** : Expenses for Business Use of Your Home
- **SCHEDULE SE** : Self-Employment Tax
- **FORM 1040** : U.S. Individual Income Tax Return

OTHER FORMS AND PUBLICATIONS:

- Form 1040 ES - Estimated Tax for Individuals
- Form W-10 - Dependent Care Provider's Identification and Certification
- Form 1040X - Amended U.S. Individual Tax Return (if necessary)
- Form 5305-SEP - Simplified Employee Pension
- Form 8826 - Disabled Access Credit
- Form 4797 - Sales of Business Property
- Form 4684 - Casualties and Thefts
- Form 2119 - Sales of Your Home
- Form 8109 - Federal Tax Deposit Coupon
- Schedule A - Itemized Deductions
- Schedule B - Interest and Dividend Income
- Schedule D - Capital Gains and Losses
- Publication 505 - Tax Withholding and Estimated Tax
- Publication 583 - Taxpayers Starting a Business
- Publication 587 - Business Use of Your Home
- Publication 334 - Tax Guide for Small Business
- Publication 917 - Business Use of Car
- Publication 590 - Individual Retirement Arrangements
- Publication 534 - Depreciation
- Publication 556 - Examination of Returns, Appeal Rights, and Claims for Refund
- Publication 544 - Sales and Other Dispositions of Assets

LIST OF IRS FORMS AND PUBLICATIONS FOR THE FAMILY CHILD CARE BUSINESS

FOR EMPLOYEES:

Form W-2 - Wages and Tax Statement

Form W-4 - Employee's Withholding Allowance Certificate

Form W-3 - Transmittal of Income and Tax Statements

Form 940 - Employer's Annual Federal Unemployment Tax Return (FUTA)

Form 941 - Employer's Quarterly Federal Tax Return

Form SS-4 - Application for Employer Identification Number

Form 1099 - Miscellaneous Income

Form I-9 - Employment Eligibility Verification

Circular E - Employer's Tax Guide

REMINDER : YOU MUST PREPARE YOUR TAX FORMS IN THE FOLLOWING ORDER:

FORM 4562 : Depreciation and Amortization

SCHEDULE C : Profit or Loss from Business

FORM 8829 : Expenses for Business Use of Your Home

SCHEDULE SE : Self-Employment Tax

FORM 1040 : U.S. Individual Income Tax Return

You can also find IRS forms and publications at local IRS offices, banks, libraries and post offices. You can also call 1-800-829-3676 to have any IRS forms mailed to you.

HIRING A TAX PREPARER

What to look for when hiring a tax preparer:

Professional Credentials : Enrolled Agent, CPA, Attorney

Experience with small business tax returns rather than personal taxes

Takes ongoing training workshops in small business tax issues

Has experience doing family child care tax returns

Is willing to listen to you and explain how your tax return was prepared

Questions to help you choose a tax preparer:

Should I depreciate my home?

Can I claim hours when children are not present when calculating my Time-Space percentage?

How do I depreciate my TV and freezer? Are the rules different?

RPMTM
ASSOCIATES
(619) 589-8680



www.ChildCareTaxSpecialists.com

*We focus on you -
so you can focus
on the children*

The IRS defines your business
as unique ... so why would you
trust your tax return preparation
to anyone who doesn't
understand your
unique business?



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8 KEY FEDERAL TAX ISSUES UNIQUE TO FAMILY CHILD CARE PROVIDERS

THAT EVERY PROVIDER AND TAX PREPARER SHOULD UNDERSTAND

1. The standard for claiming a room in the home as business use is “regular” use, not “exclusive use”. Day care children need not be present in a room for it to be used regularly for the business (storage, laundry, etc.)
2. The garage (attached or detached to the home) should be included in the total square feet of the home when calculating the business use of the home. Most family child care providers are using their garage on a regular basis for the business because the garage is used as storage for the car, bicycles, tools, lawn maintenance items, firewood, etc.



3. Providers can claim a higher business use percent of their home if they have one or more rooms used “exclusively” in their business. Providers should add the space percentage of this exclusive use area to the time/space percentage of the rest of the home to calculate the total business use percent of the home.
4. When counting the number of hours the home is used for business, include the number of hours day care children are present as well as the number of hours spend on business activities when the day care children are *not* present. These hours include time spent cleaning, activity preparation, parent interviews, record keeping, meal preparation, etc.
5. Reimbursements from the Child and Adult Care Food Program are taxable income to the provider. Reimbursements for the provider’s own child (assuming the provide is income-eligible) are not taxable income. Providers are entitled to deduct all food served to day care children, even if the food expense is greater than the Food Program reimbursement.
6. Providers who are not licensed or registered under their state law are still entitled to claim business use of their home expenses, if they have applied for or are *exempt* from mandatory regulations.