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*The National Center for the
Business of Family Child Care*

Ten Record Keeping and Tax Tips for the New Provider

Family child care providers are self-employed taxpayers who must report their business income and expenses to the IRS. It is important to become familiar with all of the IRS requirements for filing your taxes. To help you prepare for this, here are ten record keeping and tax tips to help you as you start your new profession. By following these tips you will be better able to organize your records, claim the maximum legal deductions, and reduce your taxes.

1. Receipts

Keep receipts for every business expense. Your goal should be to have receipts for every penny of your expenses. Because most of the costs to clean, maintain and repair your home can be partially deducted as a business expense (light bulbs, toilet paper, garbage bags, snow shovel, etc.), collect receipts whenever you go to the drugstore, hardware store, etc. Record on your calendar when you go on field trips or travel because of business. A canceled check may not be as acceptable to the IRS as a store receipt.

2. When can expenses be deducted?

You must report all income from caring for children even if you do not meet or have not completed local regulation requirements. You should begin deducting business expenses as soon as you begin caring for your first child, even if you do not meet local regulations. The only expenses you cannot deduct if you do not meet local regulations are expenses connected with your house (utilities, insurance, taxes, interest, depreciation and repairs).

3. Food Expenses

Because food costs will probably be your single biggest expense, you should begin keeping careful track of the number of meals you serve each day, including meals that are not reimbursed by the Food Program. Multiply these meal counts by the standard meal allowance rate to claim food expenses without having to keep any food receipts.

4. Monthly Review

Do not wait until the end of the year to collect your receipts and other records. Conduct a monthly review to make sure you have everything in order. Keep your records in one place. Use envelopes to store receipts by category of expense. Make sure receipts are labeled and can be read. If you forgot to get a receipt or if you could not get one (parking meter, garage sale, etc.), make one of your own to remind you of the expense.

5. Estimated Tax

You may have to pay some federal income tax before the end of the year. To find out if you must pay estimated tax, estimate your income and expenses through the end of the year. If you will owe \$1,000 or more in taxes, you may have to pay in quarterly installments due April 15, June 15, September 15 and January 15. There are a number of exceptions to this rule. See IRS Publication 505 Tax Withholding and Estimated Tax

6. Employees

If you hire someone as a substitute or helper in your business, you should treat this person as an employee, which means you must withhold social security and income taxes for the employee and pay employers' social security taxes throughout the year. Many providers treat helpers as independent contractors and do not withhold taxes, but this practice is not advisable. Only someone who is in the business of providing substitute care or is doing a special service could be considered an independent contractor.

7. Household Inventory

Your house and items in your house that are used at all in your business are being worn out at a faster rate than if you were not doing family child care. As a result, you can deduct or depreciate a portion of the cost of these items as business expenses. Conduct a thorough room by room inventory and list every item (furniture, appliances, lawn mower, etc.) in your house. Consult the Inventory-Keeper for a room-by-room listing of items.



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8. Year End Expenses

Be aware that if you purchase 40% or more of items that last longer than one year during the last three months of the year, you may not get all the deductions for all of your capital expenses for that year. To avoid this “mid-quarter convention” rule, plan your purchases before October or after December. If you begin your business during the last quarter of the year, this rule will apply to you. See the Family Child Care Tax Workbook and Organizer for more details.

9. Time-Space Percentage

The number that will probably make the greatest difference on your tax return is your Time-Space Percentage. You will use this percent to calculate how much of your expenses that are for business and personal use can be deducted as a business expense.

$$\frac{\text{Number of square feet used for business}}{\text{Total \# of square feet}} \times \frac{\text{Number of hours home is used for business}}{\text{Total \# hours in year}} = \text{Time/Space \%}$$

Track all the hours children are present, from the moment the first child arrives until the last child leaves. Add all the hours you use you home for business when children are not present doing cleaning, cooking, preparing activities, record keeping, interviewing parents, etc. Do at least two months of careful tracking on a calendar of these hours. Try to use all rooms on a regular basis for your business.

10. House Improvements

You should begin depreciating a portion of your house as a business expense. The amount of house expenses you can depreciate is the purchase price of your home (minus the value of the land) plus all home improvements made before you went into business. Go back and record all of your house improvements (new roof, furnace, remodeling, etc.). Save receipts. Get replacement receipts from contractors, if necessary. As a last resort, photograph the improvements and write down your best recollection of the cost and date it was done. Keep records of any house improvements you make after you start your business. When you sell your home you will owe more in taxes.

Redleaf Press (800-423-8309) publishes a variety of books to help providers run a successful business:

- Calendar-Keeper*: The essential family child care record keeping system is packed with ways to streamline your record keeping. Also available in Spanish.
- Family Child Care Record-Keeping Guide*: Lists over 1,000 allowable deductions and details on how to track food expenses, the business use of your home, and the best way to keep your records.
- The Family Child Care Tax Workbook and Organizer*: This annual book provides detailed line-by-line explanation of how to fill out all business tax forms, as well as the latest tax law changes.
- Family Child Care Contracts and Policies: How to be Businesslike in a Caring Profession*: Sample contracts and policies and how-to information on using them effectively to improve your business.
- Family Child Care Legal and Insurance Guide*: Protect yourself and your business with legal and insurance strategies designed specifically for family child care providers.
- Family Child Care Business Receipt Book*: Improve your record keeping by using receipts designed specifically for family child care. Carbonless duplicate sets.
- Mileage-Keeper*: This mileage log book shows providers exactly how to keep the proper vehicle expense records.