

Eight Key Federal Tax Issues Unique to Family Child Care Providers

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 their 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 spent 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 provider 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.
7. All providers are better off financially if they claim depreciation on their home as a business expense. When selling their home, providers must always pay capital gains tax on any house depreciation they claim (or are entitled to claim) after May 6, 1997.

8. Most providers can avoid paying capital gains tax on the profit on the sale of their home as long as they live in their home for two years out of the last five years they own it.

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