

Record Keeping for New Family Child Care Providers

Family child care providers who are just getting started often have little idea about what business records to keep. Here are the key tips for new providers that will make a difference.

Unregulated Providers

Providers do not have to be licensed or regulated to claim deductions for their business. A provider's business begins the day she is ready to care for children and is advertising she is open. After this point she is entitled to claim business expenses, even if she is not regulated. Providers who are exempt from state regulations are entitled to all the same business deductions as providers who are regulated. Providers who are in violation of state regulations can claim all business deductions except those associated with their home (property tax, mortgage interest, utilities, house insurance, house repairs, and house depreciation).

Start Up Expenses

A start-up expense is an item purchased for use in the business before the business began and which costs less than \$100. Providers can deduct up to \$5,000 of such start-up expenses in the year the business begins. For example, a provider who buys \$2,000 worth of small toys in January 2010 and starts her business in July 2010 will be able to deduct the full \$2,000 on her tax return in 2010. Start-up expenses in excess of \$5,000 must be amortized over 180 months (15 years).

This means that all providers who are just beginning to think about going into business (even if they are only being paid to care for a grandchild or one unrelated child) should be saving receipts for all business related expenses.

Depreciation

Providers who purchase items costing more than \$100 before their business begins are entitled to depreciate these items once their business begins. Such items can include toys, play equipment, computer, home improvements, fences, etc. Providers are also allowed to depreciate any household items that they owned before they went into business (rugs, pots and pans, bedding, household furniture and appliances, etc.) based on their fair market value at the time the business began. The rules for depreciation are complex, but it is well worth it for providers to save receipts of any such purchases and to conduct a household inventory once their business begins.

Three Key Rules

Providers who first start out can be easily overwhelmed by all the rules and responsibilities of their new business. Here are the three most important record keeping rules that a new provider should follow:

- 1) Save all receipts associated with the cleaning, repairing, and maintaining of your home. This includes: laundry detergent, soap, paper towels, toilet paper, light bulbs, service contracts on appliances, household tools, garden supplies, broom, and so on. All of these expenses are at least partly deductible.

- 2) Keep a record of the number and type of meals served to the children in your care. This includes any meals reimbursed by the Food Program as well as all other meals served (even if they are not nutritious). At the end of the year providers can add up all such meals and use a standard meal allowance rate to determine their business food deduction without having to keep any food receipts.
- 3) Track all the hours you work in your home. This includes all hours children are present (from the moment the first child arrives until the last child leaves) and all the hours spent on business activities after the children are gone. These hours may include cleaning, activity preparation, meal preparation, record keeping, etc. The more hours that are recorded, the larger the percentage of house expenses that a provider can to deduct on her taxes.

There's a lot for providers to learn about business record keeping, and many are not excited by this work. Providers should, however, understand that saving receipts and keeping good records will help reduce their taxes significantly, and that they will probably earn more per hour doing record keeping than they are earning per hour caring for children.

This handout was produced by Resources for Child Caring (www.resourcesforchildcare.org). For additional family child care business publications, contact Resources for Child Caring's publishing division, Redleaf Press, at 800-423-8309 or visit www.redleafpress.org