



Your Tax Obligations

As a Family Child Care Provider

Handout #11

Healthy Children, Strong Families, Caring Communities

This handout is for general information purposes only. It does not constitute or imply legal or professional advice. If you need insurance, tax or legal advice, please contact a qualified professional.

Where to Start

An IRS tax preparer, a tax consultant or a tax workshop that covers tax requirements and guidelines can assist you with each year's requirements. Child care providers can also purchase a detailed guide called the *Family Child Care Tax Workbook and Organizer* by Tom Copeland and/or *The Basic Guide to Family Child Child Care Starter Kit* with information on record keeping, contracts, marketing, legal and insurance requirements and is available for purchase from Redleaf Press, www.redleafpress.org or call 1-800-423-8309 to order.

Family child care providers must list each item or service they have purchased, the cost of the item/service, the date of purchase, and the business purpose. Organize all receipts in chronological order. Categorize the expenses (i.e., advertising, food, supplies) and then total each category.

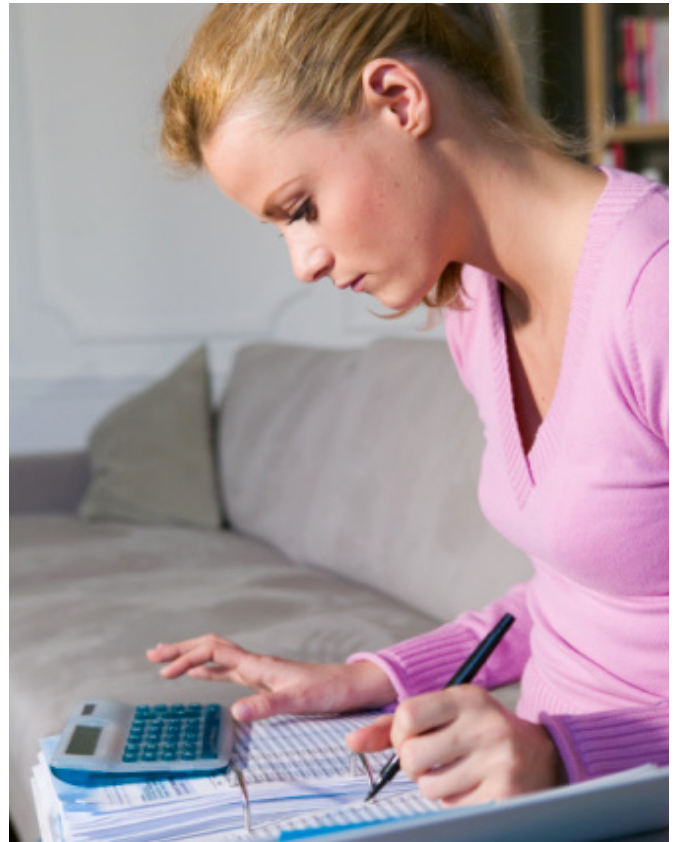
Deductible Expenses

You may deduct both your business expenses and the cost of using your home for your child care business from your federal income taxes. Keep all records and expenses separate. One way to do this is by opening a separate checking account for the child care business. Adequate and complete records should always be supported by invoices, receipts, bank deposit slips, cancelled checks and other documents. Record all costs related to the child care business, including direct and indirect expenses.

Examples of Direct Business Expenses

You may be able to claim all of these expenses:

- Association dues
- Postage
- Substitutes or assistants
- Indoor/outdoor toys, supplies, books, field trips and entertainment



- Insurance for child care business
- Business mileage or transportation expenses
- Office expenses and advertising
- Banking fees
- Cost of workshops or conferences

Examples of Indirect Expenses

You may only be able to claim part of the following expenses:

- Janitorial, laundry and cleaning expenses for home, home repairs, furniture and appliances. You can claim 100 percent if used only for the child care business.
- Rent or mortgage payments, utilities, insurance and home equipment bought for the use of both the child care children and the family child care provider's own family.

Federal Tax Law

The federal tax law allows individuals who use their personal residence on a regular basis for providing child care to deduct all ordinary or necessary business expenses. To qualify, the home must be licensed or comply with all laws and regulations. Contact the IRS for the correct form for allowable home office deductions.

Self-Employment Social Security Tax

If you are the sole proprietor or a partner and the net profit you made from all business is \$400 or more per year, the profit is subject to a social security self-employment tax. Check with the IRS for current profit limits.

Quarterly Estimated Taxes

If you are self-employed and have at least \$500 in taxes owed at the end of the year, you should file an Estimated Tax Payment for each quarter of the following year. Consult the IRS for current estimated tax information first. A penalty is applied if you fail to make quarterly payments when the tax liability is more than \$500.

You have tax obligations for your assistants if he/she is hired to:

1. Care for the children on a regular basis, or
2. Care for the children while the family child care provider takes time off, or
3. Care for the children in the family child care provider's home. If this is the case, then you are an employer and you have certain legal responsibilities to your employee.

Some important legal requirements are:

- If you pay any amount of salary to an employee, you are required to get a Federal Employer Identification Number through the IRS.
- If you hire an ongoing assistant, or if you pay a substitute more than \$100 in a calendar quarter, then you are required to get a State Employer Identification Number through the California State Employment Development Department.

Child Care Tax Credit Information Requirements

1. The name of each child cared for during the tax year.
2. The dates of care provided.
3. The total child care fees charged for each child during the tax year.
4. The total amount actually paid during the tax year (do not count fees still owed for that year).
5. Your social security or tax identification number.
6. Prepare a form for all children cared for during the year, including children no longer in care. If the parents are divorced or legally separated, prepare a separate form for each of them.
7. Inform parents that they can get more information about the Child Care Tax Credit by contacting:

The National Women's Law Center
11 Dupont Circle NW, Suite 800
Washington, DC 20036
202/588-5180
www.nwlc.org

Tax Identification Number

You must provide your tax identification number or social security number to parents when they are required to file a tax return. If you do not furnish the correct tax identification number to the parent, you are subject to a penalty for each failure unless the failure is due to reasonable cause and not willful neglect.

Resources

The websites below have information and forms online as well as how to file your taxes electronically.

IRS – Internal Revenue Service

www.irs.gov

For questions. 1-800-829-1040

EDD – Employment Development Department

www.edd.ca.gov

Payroll Tax questions 1-888-745-3886

Franchise Tax Board

www.ftb.ca.gov

For questions. 1-800-852-5711