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Individual/Corporate Taxes – Small Business Accounting – Financial Planning



Child Care Providers: Meals vs. Food



Self-employed taxpayers may have occasion to claim expenses on Schedule C, line 24a: "Deductible meals and entertainment." Family child care providers, however, will rarely claim a deduction on this line because they are claiming food expenses under line 27.

What's the difference between a deductible meal on line 24a and deductible food on line 27?

Meal and entertainment expenses claimed on line 24a must be ordinary and necessary in the taxpayer's trade or business, and they must either be directly related to a business benefit or "associated" with the active conduct of the business. To meet the associated test, IRS Publication 463 states that the expense must be both "associated with the active conduct of your trade or business" and "directly before or after a substantial business discussion."

The publication further states, "Generally, an expense is associated with the active conduct of your trade or business if you can show that you had a clear business purpose for having the expense. The purpose may be to get new business or to encourage the continuation of an existing business relationship." Typically, this involves the business owner taking clients or potential clients to a social or sporting event. Only 50% of the cost of the meals and the cost of the entertainment expense are deductible.

Family child care providers usually do not take clients out to the theater or ballpark, but occasionally they may throw a party (where beer or wine may be served) for parents at their home. If the party was held on a weekday, there would probably be no question that such an expense is deductible because it happened on the same day as caring for the client's child, and the provider likely discussed some business issue with the parent that day.

However, what if the party were held on the weekend? Other than Publication 463 stating that taxpayers should consider the facts and circumstances, I am not aware of any IRS document that clarifies this situation. I would assume that such a weekend party would be allowed. Providers could certainly make their case stronger if they can show that there was some business discussion with the parents at the party. Business discussions include talking about how the children are progressing, behavior problems, recent children's activities, etc. Providers who are claiming expenses for such parties should do so on line 24a.

Food expenses for the children in care of a family child care provider are not subject to the 50% limitation on line 24a. Food expenses should therefore never be shown on this line but instead should be reported on line 27 (Other expenses). Food is not a meal and is 100% deductible. If a daycare parent showed up to visit her child during lunchtime and ate some food served by the provider, this amount should be shown as a "meal" on line 24a.