

# CORNERSTONE FINANCIAL SOLUTIONS

Individual/Corporate Taxes – Small Business Accounting – Financial Planning

## CHILD CARE PROVIDERS - RECORDKEEPING

**T**aking the time to keep good records of your business is a sign of professionalism as well as a means to save you money. For every \$100 of business expenses you track, you will save approximately \$25–50 in taxes.

- You will owe taxes on all income you receive from your business. This includes money from parent fees and government payments for low-income parents. It also includes Food Program payments and grants to purchase equipment. At the end of the year, get the parents to sign a receipt indicating how much they paid you.
- You can deduct 100% of items used exclusively for your business (advertising, training, activity supplies). You can deduct a portion of items used by your business and your family (cleaning supplies, utilities, furniture).
- You are entitled to claim expenses for all the household furniture and appliances you owned before you went into business that you are now using in your business. Make a detailed list of all the items used in full or in part for your business.
- Items costing more than \$100 may have to be deducted over a number of years using depreciation rules.
- You can begin deducting expenses as soon as your business begins. It begins when you are ready to care for children and are advertising that you are ready. This may come before you are officially regulated. For a tax advantage, postpone smaller expenses until your business has already begun.
- Keep track of your car mileage for trips that are primarily for business: to the grocery store, bank, park, school, library, and so on.

\*\*Here are the three most important things to do throughout the year to keep good expense records: save all receipts for all expenses associated with your home or apartment; save all food receipts (including personal food), tracking the number of all meals served (even if not paid for by the Food Program); record all hours your home is used for business, particularly when the children in your care are not present (cleaning, activity preparation, phone calls, and so on).\*\*

- The IRS doesn't want to wait until the end of the year to get your taxes. You may have to pay federal or state estimated taxes each quarter. If you do need to file tax returns quarterly, the deadlines will be April 15, June 15,

September 15, and January 15. You can avoid quarterly payments if your spouse withholds enough.

- If you hire a substitute or helper in your business, you need to treat this person as an employee. This means withholding federal and state payroll taxes.
- Review your records at least monthly, if not weekly. Use envelopes to store receipts by different expense categories (food, toys, supplies, utilities, and so on). Keep canceled checks, credit card statements, calendar notations, photographs, and other written records to document your expenses.
- Keep your records for **at least** three years after filing your taxes. You can amend your tax return and the IRS can audit for the previous three years.
- Join the Child and Adult Care Food Program (CACFP). You are always financially better off joining the Food Program. Money you receive for the meals you serve the children in your care is taxable income. Any money you receive for your own children is not taxable. After paying taxes on the money you receive, you will keep at least half of it for your family. Business food expenses are deductible whether or not you are on the Food Program.

\*\*You are entitled to deduct all expenses that are "ordinary and necessary" for your business. This includes hundreds and hundreds of items around your home, such as:

**house expenses:** property tax, mortgage interest, utilities, cable TV, house insurance, house repairs, house depreciation, fence, landscaping, well, garage, rent (for renters), etc.;

**items for the children:** food, arts and craft supplies, toys, outdoor play equipment, children's books and magazines, video rentals, CDs, diapers, field trip expenses, etc.;

**household items:** light bulbs, toilet paper, paper towels, cleaning supplies, carpet cleaning, lawn maintenance service, kitchen supplies, fire extinguisher, household tools, yard supplies, lawn mower, laundry detergent, etc.;

**furniture and appliances:** sofa, chairs, beds, TV, VCR, washer, dryer, tables, rugs, freezer, refrigerator, microwave, rocker, stroller, etc.;

**other expenses:** advertising, car expenses (including car loan interest), business liability insurance, training workshops, computer, business books, etc.\*\*