

BANANAS HANDOUT

Family Child Care Income Tax Recordkeeping

Taking care of children is a full-time job – but, if you don't also "take care of business," you will probably be costing yourself money when it comes time to pay your income taxes. Keeping careful records doesn't have to take that much time. You need to find a system which works for you and a regular time to keep your records up-to-date. Basically you need the following records:

1. **Income** records – An on-going record of the child care payments you receive.
2. **Expense** records – An on-going record of what you spend (both directly and indirectly) on your child care program – backed up by receipts.

You can use a commercial recordkeeping system or create one of your own. Red Leaf Press, 450 N. Syndicate, Suite 5, St. Paul, MN 55104 sells "The Calendar Keeper," a popular system designed for family child care providers. Write or call (651)641-0305 for the current price. You can also view the information on-line at www.redleafpress.org. A copy of this system is available for review in BANANAS' Reference Library. You can also buy a computer program such as "Quicken" or "Quick Book" to use for your accounting. If you decide to design your own system, blank ledger forms are available at office supply stores. Here are some hints about keeping track of your income and expenses.

Income

Any method which works for you is fine – individual index cards, a formal ledger, etc. Keep your records on an individual child basis even if you care for more than one child from the same family. When it's time to take the child care tax credit, parents need to know how much they spent on child care for each child in the family. Make sure your form includes the following information:

- Child's Name
- Amount due for the month (or week; however you expect parents to pay)
- Amount actually paid for the month (or week)
- When (date) and how you were paid (check or cash)
- Any balance owed to you (or the parent)

Many providers simply give parents a receipt when they are paid and then transfer their records from their receipt book to a more permanent ledger at the end of the month. Always keep a duplicate copy of receipts.

Expenses

You will have two kinds of expenses – direct (expenses you have just for your child care business) and indirect (expenses, such as rent, you split between your family and your business according to the IRS business percentage formula). See BANANAS' Family Child Care Tax Handout for a more complete discussion of expenses and how to use the IRS formula. You need to document and keep track of each type of expense. One simple method is to have a separate checking account for your child care business. Deposit all parent fees and pay all your direct expenses including your "salary" from that account. Pay your indirect expenses from your family account and "bill" your child care account on a monthly basis. Your bill might look like this:

Bill For Indirect Expenses – <i>Sample only.</i> Percentages will vary for individual providers			
Category	Total for Month (or Quarter)	% Applicable to Child Care	Amount Charged to Business
Groceries	\$600.00	59%	\$354.00
Rent (or Mortgage, Taxes & Interest)	\$1,500.00	29%	\$435.00
Insurance	\$ 70.00	29%	\$ 20.30
General Maintenance (e.g. painting porch)	\$200.00	29%	\$ 58.00
P.G.& E.	\$135.00	29%	\$ 39.15
E.B.M.U.D.	\$ 70.00	29%	\$ 20.30
Garbage Pick-up	\$ 52.00	29%	\$ 15.08
Date Paid: _____ Check #: _____			Total Amount: \$941.83

Whether you use this approach or pay all bills from your family account, it will save you time and energy come April 15th, if you sit down once a month (or even once a quarter) and review your expenses and income. You will want to spread your expenses out by category. Here is a sample spread sheet (you will have many more expense categories than we include on this sample):

Date	Paid to	Check Amount	Check Number	Toys	Supplies	Legal & Tax	Maintenance	Education	Dues & Subs
1/3/03	Rockridge Kids	92.48	201	92.48					
1/8/03	Costco	189.44	202		189.44				
1/10/03	Accountant	400.00	203			400.00			
1/17/03	Merritt College	13.00	204					13.00	
1/19/03	Day Care Assn.	45.00	205						45.00
1/22/03	Payless	59.50	206				59.50		
1/28/03	BANANAS	5.00	207						5.00
Totals for Month		804.42		92.48	189.44	400.00	59.50	13.00	50.00

Spreading out your costs like this will give you a good idea of exactly where your money is going and it may also help you figure out where you can cut costs. You will probably also want to do a comparison between your expenses and your income. You can use a simple form like this to compare the two.

Income		Expenses	
Income For the Month:	\$ _____ *	Direct Expenses For The Month	\$ _____
Total Income Year-To-Date	\$ _____	Indirect Expenses For The Month	\$ _____
		Total Expenses For The Month	\$ _____
		Total Expenses Year-To-Date	\$ _____

* Don't count unpaid parent fees. The IRS doesn't allow you to "write off" unpaid fees. Your only recourse is to use small claims court to collect unpaid parent fees.

If you don't have two checking accounts and use a billing system, it will be more trouble to include your indirect expenses (% of rent, utilities, groceries, etc.) in this comparison – but, doing so gives you a much better idea of whether your income is really covering all your child care expenses.

Special Expense Categories

Groceries: Many people try to keep track separately of the money they spend on their child care groceries and supplies. But, they are probably cheating themselves in the end. They run out of "child care" peanut butter or paper towels and borrow from the family supply – and, then promptly forget to pay themselves back. It makes more sense to buy your food and supplies for child care and your family at the same time and then apply a percentage formula to figure out your child care's share of the bill. (See BANANAS' Family Child Care Income Tax Handout for a formula the IRS will accept.)

Mileage: Unless you have a vehicle you drive only on child care business, the easiest way to take mileage as a tax deduction is to keep track of the actual miles you drive for child care. Keep a notebook in your car with a pen attached. Jot down the mileage every trip. You don't have to be transporting children to take mileage. Child care shopping trips, driving to association meetings or workshops, etc. all count. Also jot down the beginning and ending mileage for your car on Jan. 1 and Dec. 31 of the tax year. You do need a written record. The IRS will not accept your guesswork at the end of the year.

A Word On Receipts

Cancelled checks aren't good enough for the IRS. If you get audited, you will be expected to come up with receipts for all the expenses you claimed. Some people put an envelope in the kitchen and fill it with the month's receipts and sort them out later. Others buy an accordion pocket file, label each pocket with an expense category (toys, rent, groceries, etc.) and file their receipts as they go. Use the system that works best for you, but remember to make sure that the category is listed somewhere on the receipt before you leave the store. If the receipt just says "item" then make a note on the back to remind you what you purchased. Whatever you decide to do just don't try to sort out an entire year's receipts at one time!

Start Early In Gathering Information For Your Tax Return

January 1st isn't too early! – especially for the first year or so you are in business. That way if you get stuck and need some professional help, you will have the time to get it. And, if April 15th comes too soon for you, remember, you can file an extension on your tax return. (Form 4868 will give you an extension until August 15th – but file it before April 15th and pay any taxes you think you might owe when you file the form.)

While giving you some ideas on recordkeeping, this Handout probably won't answer all your questions. Send a self-addressed, stamped envelope to BANANAS for our more detailed Tax Handout or download it from our website, www.bananasinc.org. Watch the BANANAS Newsletter or check the calendar on our website for the date of our annual Tax Workshop – usually held in January.