Seven Record Keeping and Tax Tips for the New Provider

Family child care providers are self-employed taxpayers who must report their business income and expenses to the IRS. It is important to become familiar with all of the IRS requirements for filing your taxes. To help you prepare for this, here are seven record keeping and tax tips to help you as you start your new profession. By following these tips you will be better able to organize your records, claim the maximum legal deductions, and reduce your taxes.

1. **Receipts**

Keep receipts for every business expense. Your goal should be to have receipts for every penny of your expenses. Because most of the costs to clean, maintain and repair your home can be partially deducted as a business expense (light bulbs, toilet paper, garbage bags, snow shovel, etc.), collect receipts whenever you go to the drugstore, hardware store, etc. Record on your calendar when, you go on field trips or travel because of business. A canceled check may not be as acceptable to the IRS as a store receipt.

2. **When can expenses be deducted?**

You must report all income from caring for children even if you do not meet or have not completed local regulation requirements. You should begin deducting business expenses as soon as you begin caring for your first child, even if you do not meet local regulations. The only expenses you cannot deduct if you do not meet local regulations are expenses connected with your house (utilities, house insurance, property taxes, mortgage interest, house depreciation and house repairs).

3. **Food Expenses**

Because food costs will probably be your single biggest expense, you should begin keeping careful track of the number of meals you serve each day, including meals that are not reimbursed by the Food Program. Multiply these meal counts by the standard meal allowance rate to claim food expenses without having to keep any food receipts.

4. **Monthly Review**

Do not wait until the end of the year to collect your receipts and other records. Conduct a monthly review to make sure you have everything in order. Keep your records in one place. Use envelopes to store receipts by category of expense. Make sure receipts are labeled and can be read. If you forgot to get a receipt or if you could not get one (parking meter, garage sale, etc.), make one of your own to remind you of the expense.

5. **Estimated Tax**

You may have to pay some federal income tax before the end of the year. To find out if you must pay estimated tax, estimate your income and expenses through the end of the year. If you will owe $1,000 or more in taxes, you may have to pay in quarterly installments due April 15, June 15, September 15 and January 15. There are a number of exceptions to this rule. See IRS Publication 505 Tax Withholding and Estimated Tax.

6. **Employees**

If you hire someone as a substitute or helper in your business, you should treat this person as an employee, which means you must withhold social security and income taxes for the employee and pay employers' social security taxes throughout the year. Many providers treat helpers as independent contractors and do not withhold taxes, but this practice is wrong. Only someone who is in the business of providing substitute care or is doing a special service for you (cleaning, puppet show, music lesson) could be considered an independent contractor.

7. **Household Inventory**

Your house and items in your house that are used at all in your business are being worn out at a faster rate than if you were not doing family child care. As a result, you can deduct or depreciate a portion of the cost of these items as business expenses. Conduct a thorough room by room inventory and list every item (furniture, appliances, lawn mower, etc.) in your house. Consult the Redleaf Press Inventory-Keeper for a room-by-room listing of items.

Tom Copeland - www.tomcopelandblog.com