

TAX FACTS FOR FAMILY CHILD CARE PROVIDERS

Family Child Care Providers are required to:

1. File income tax returns (whether or not they are registered).
2. Pay self employment taxes when income is over \$400 per year.
3. File quarterly Estimated Tax returns if you expect to owe at least \$1000 in income taxes (after subtracting credits). For more information, go to www.irs.gov/pub/irs-pdf/1040es.pdf

Registered Family Child Care Providers can:

1. Join the Child and Adult Care Food Program (CACFP) to receive reimbursement for meals and snacks they serve to children and claim food expenses which are greater than those covered by CACFP.
2. Get liability insurance and claim this as a business expense.
3. Claim a portion of their house expenses such as insurance, mortgage interest, property taxes, utilities and rent or house depreciation. These expenses are divided into two categories: a) direct expenses for which the total amount can be claimed, and b) indirect expenses for which a partial payment can be claimed.

Direct Expenses

Advertising
Food
Paper supplies
Child care toys/equipment

Indirect Expenses

Home repairs
Mortgage payment
Rent
Mileage

4. Check to see if you qualify for the Earned Income Credit (EIC). For more information, go to www.irs.gov/individuals/article/0,,id=96406,00.html .

Important Tax Information Resources for Family Child Care Providers:

1. Internal Revenue Tax Information Service number for tax questions: 1-800-TAX-1040. You can also access specific information, tax forms and worksheet assistance at www.irs.gov/publications/p587/index.html
2. Redleaf Press – 1-800-423-8309 or at www.redleafpress.org . You can order items such as:
 - ✓ *Basic Guide to Family Day Care Record Keeping*
 - ✓ *Family Day Care Tax Workbook*
 - ✓ *Calendar Keeper*

Using the Time-Space Percentage Formula for Shared Business and Personal Expenses

Space Percentage

1. Measure and add up the total number of square feet in your house;
2. Measure and add up the total square feet used for your child care business;
3. Divide the number of square feet used for child care business by the total number of square feet in your house. For example:

$$\frac{\text{Square feet used for business}}{\text{Total square feet in your house}}$$

If you have a total of 2000 square feet in your house and you use 1900 square feet of that space for your child care business, then your space percentage would be 95%

$$\frac{1900}{2000} = .95 \times 100 = \text{SPACE PERCENTAGE of 95\%}$$

Time Percentage

1. Calculate the number per week your home is used for your child care business. Include in this calculation hours spent in your home on business activities such as:
 - Caring for the children, from when the first child arrives until the last child leaves
 - Cleaning up the house for the business before and after the children are present
 - Meal preparation for the children in care
 - Preparing activities for the children in care
 - Interviewing prospective parents
 - Talking to parents on the phone
 - Keeping business records and preparing taxes
 - Meal planning and preparing shopping lists for the business
 - Filling out paperwork for the Child and Adult Care Food Program
 - Spending time on the internet for business purposes

Please note that:

- ***Providers may not count time twice if they are caring for children and engaged in some business activity described above.***

- *Providers may not count hours spent away from home in activities such as shopping or transporting children to school.*

2. Divide the number of hours you use your home or your child care business by the number of hours in a week (168). For example:

$$\frac{\text{Number of hours home is used for business}}{\text{Number of hours in a week (168)}}$$

If you work 60 hours per week at your business:

$$\frac{60}{168} = .36 \times 100 = \text{TIME PERCENTAGE OF } 36\%$$

Time Space Percentage

*The Time-Space Percentage is probably the single most important number to calculate in the family child care business.

To calculate the time-space percentage, multiply the time percentage by the space percentage. Then multiply the number you get by 100 to get the time-space percentage. For example:

$$\text{Time percentage} \times \text{Space Percentage} = \text{TIME-SPACE PERCENTAGE}$$

$$.36 \times .95 = .34 \times 100 = 34\%$$

This percentage can be applied to all indirect (shared business and personal) expenses.

Reminders:

Tax laws and forms frequently change from year to year. For up-to-date information, talk to a tax consultant or call the IRS toll free number 1-800-TAX-1040.

All persons offering child care in Maryland must be registered or licensed to take any tax deductions on their state income tax.