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Where taxes, accounting, and aid come together

2010 Daycare Provider Planning Guide

Introduction

- **This guide is being distributed to self-employed daycare providers. It addresses the most common questions that we receive at our tax sites. Please refer to this guide as you conduct your daycare business. You will be better prepared when it comes time to prepare your taxes next year.**
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Record Keeping

All income received for your services as a daycare provider is taxable. Income is usually received in the form of cash or checks but can be in the form of property or services provided by you.

Caution: The information on Form 1099-MISC from Michigan Department of Human Services is reported to the IRS. Also reported to the IRS are any payments made that result in Child and Dependent Care Credits for the parents.

We recommend that you open a separate bank account for deposits of income and payment of expenses. Pay all expenses by check if at all possible and obtain a receipt. If you are required to pay by cash, then it is absolutely necessary make sure to obtain and keep a receipt.

We recommend keeping records for the following periods:

- Copies of tax returns (federal, state, and local) – permanently
- Records of income and expense – at least three years after the tax year involved
- Records of asset purchases and improvements (such as your home if used in your day –care business) - until the asset is sold

Income Reporting

- It's important to report all income, whether or not reported to IRS on a Form 1099-MISC.
 - There are tax benefits such as the Earned Income Tax Credit and Recovery Rebate Credit that can result in tax refunds based on self-employment income.
 - Proper reporting of income is important for other purposes such as obtaining financing.
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Expenses

For any business, you can deduct ordinary (common) and necessary (appropriate and helpful) business expenses incurred in carrying on the business. Capital expenses (assets that will last more than one year) are not currently deductible in full. The cost of a capital asset is recovered through cost recovery (depreciation). Personal expenses are not deductible as business expenses.

Expenses normally deductible by a daycare provider include food for the children (not for you), supplies used for food preparation, items purchased for care and entertainment, and expenses related to the business use of your home.

Planning tip: IRS guidance states that while reasonable business expenses need to be considered in computing the Earned Income Tax Credit (EITC), if you have children qualified for the EITC, you might actually receive a smaller refund by claiming more expenses in certain situations.

Food Expenses

You need to keep track of all of the money you spend on food for the children, unless you decide use a Standard Meal and Snack Rate.

A Standard Meal and Snack Rate is an amount allowed by the IRS that you can claim without having to provide receipts for the food purchased. You do need to keep track of the names of the children, dates and hours they are with you, and the type and numbers of meals served. A worksheet contained in IRS Publication 587, Business Use of Your Home (Including Use by Daycare Providers) that you can copy and use on a weekly basis is included as Attachment A.

The rates for 2010 for each child per day are:

Breakfast	\$1.19
Lunch	\$2.21
Dinner	\$2.21
Snack	\$.66 (up to three per day)

Child and Adult Care Food Program (CACFP)

- You might be eligible for reimbursement for food costs under the CACFP.
 - For more information please contact the Detroit Urban League at 313-832-4600, ext. 15126 if you live in Wayne, Oakland, or Macomb Counties. Residents of Livingston County should contact Eastminster Community Concerns, Inc. at 517-349-4550.
 - Important: Any reimbursement received will reduce the deduction for food expense discussed on the previous page.
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Other Expenses

You can also deduct expenses related to the business use of your home. Certain information is needed and is listed on Attachment B. Please provide these amounts to your tax preparer.

Planning Tip: Any rent or property taxes claimed for the business use of your home will reduce the Michigan Homestead Property Tax Credit that you might be entitled to.

Self Employment Tax

- You might pay less income tax as a self-employed person because your business expenses are reported on a Schedule C or C-EZ and are not limited as is the case for an employee. However, you will pay self-employment tax of 15.3% on your business income. This sounds like a lot and it can be, but if you were an employee you would pay one-half of that amount or 7.65% through withholding from your pay. As a self-employed person, you receive an income tax deduction for one-half of the self-employment tax paid.
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Estimated Tax

- If you owe \$1,000 or more in federal tax not covered by withholding (this includes both income and self-employment tax) you can be liable for an estimated tax penalty. It's like an interest charge, but is in fact a penalty. There are several exceptions that can apply, one of which is to pay in ahead of time (quarterly) at least 90% of the tax due or 100% of last year's tax, whichever is less. Form 1040-ES is used to compute the amount and has vouchers attached for you to use. Note: For Michigan the threshold for estimated tax is "more than \$500" and for the City of Detroit it is "more than \$100". Both have Forms similar to IRS Form 1040-ES.
 - *Planning Tip: If you are also employed, the easiest way to handle estimated tax is to increase withholding from your employer.*
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Additional Resources

The information provided above is intended to for a typical daycare provider. Depending on the individual facts of your situation there can be many complex issues that need to be considered.

For additional information, we recommend the following IRS Publications:

IRS Publication 334, Tax Guide for Small Business

IRS Publication 525, Taxable and Nontaxable Income

IRS Publication 535, Business Expenses

IRS Publication 583, Starting a Business and Keeping Records

IRS Publication 587, Business Use of Your Home (Including Use by Daycare Providers)

These are available at www.irs.gov or by calling 1-800-829-3676.

If you need an answer to a specific question we will be glad to help you. Please contact Accounting Aid Society at 313-556-1920 or toll-free at 866-673-0873.

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Exhibit A. Family Daycare Provider Meal and Snack Log

Name of Provider _____ TIN/SSN _____

Week of _____

Keep For Your Records

Child's Name	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	Totals
	Hours of attendance: _____ <input type="checkbox"/> Bkfst <input type="checkbox"/> Snack <input type="checkbox"/> Lunch <input type="checkbox"/> Snack <input type="checkbox"/> Dinner <input type="checkbox"/> Snack	Hours of attendance: _____ <input type="checkbox"/> Bkfst <input type="checkbox"/> Snack <input type="checkbox"/> Lunch <input type="checkbox"/> Snack <input type="checkbox"/> Dinner <input type="checkbox"/> Snack	Hours of attendance: _____ <input type="checkbox"/> Bkfst <input type="checkbox"/> Snack <input type="checkbox"/> Lunch <input type="checkbox"/> Snack <input type="checkbox"/> Dinner <input type="checkbox"/> Snack	Hours of attendance: _____ <input type="checkbox"/> Bkfst <input type="checkbox"/> Snack <input type="checkbox"/> Lunch <input type="checkbox"/> Snack <input type="checkbox"/> Dinner <input type="checkbox"/> Snack	Hours of attendance: _____ <input type="checkbox"/> Bkfst <input type="checkbox"/> Snack <input type="checkbox"/> Lunch <input type="checkbox"/> Snack <input type="checkbox"/> Dinner <input type="checkbox"/> Snack	Hours of attendance: _____ <input type="checkbox"/> Bkfst <input type="checkbox"/> Snack <input type="checkbox"/> Lunch <input type="checkbox"/> Snack <input type="checkbox"/> Dinner <input type="checkbox"/> Snack	Hours of attendance: _____ <input type="checkbox"/> Bkfst <input type="checkbox"/> Snack <input type="checkbox"/> Lunch <input type="checkbox"/> Snack <input type="checkbox"/> Dinner <input type="checkbox"/> Snack	Number served: _____ Breakfasts: _____ Lunches: _____ Dinners: _____ Snacks: _____
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ATTACHMENT B

INFORMATION NEEDED TO DEDUCT BUSINESS USE OF YOUR HOME

Area of your home or apartment used for daycare in (in square feet) _____

Total area of your home or apartment (in square feet) _____

Number of hours that you provide daycare _____

If a homeowner:

Amount

- ✓ Mortgage Interest paid _____
- ✓ Real Estate Taxes _____
- ✓ Original cost of home and date of purchase _____
- ✓ Cost of any major improvements _____
- ✓ Amount of any depreciation or cost recovery deducted _____

If a renter:

- ✓ Rent paid _____

For both homeowners and renters:

- ✓ Insurance _____
- ✓ Repairs and maintenance _____
- ✓ Utilities _____
- ✓ Other expenses relating to your residence (list) _____