Finances and Your New Child Care Business

The first recommendation as a new business owner is to apply for an Employer Identification Number (EIN). This number will be used on all business correspondence instead of using your social security number. Your EIN will be used on your tax returns as well as be given out to parents on the IRS Form W-10. Parents are allowed a deduction on their tax return for child care expenses and may ask you for a letter or statement specifying how much they spent in a calendar year for child care. By giving them this number you are not sharing your social security number. Applying for an EIN online is both free and simple! Go to www.irs.gov and type in the abbreviation “EIN” in the search bar. Fill out form SS-4 online to receive your business EIN number.

By owning your own business you are a sole-proprietor and will be required to fill out a Schedule C “Profit or Loss From Business” at the end of the calendar year which is an attachment to your tax return. This schedule will show all receipts and disbursements in relation to your business. The net income or loss from your business will roll into your individual tax return, or tax form 1040.

Additionally you will be filling out form 8829 “Expenses for Business Use of Your Home” which rolls into your Schedule C. This form is very important in maximizing your deductions. You will be figuring your specific Time-Space percentage. This percentage takes into account the entire time you spend on your business as well as the entire space being utilized by the children in your care. The time and space used for your business is greater than you would think! Your laundry room and your furnace room are both considered as used for your business. The time you are on the phone, interviewing parents, or completing paperwork is considered time used for your business! The Time-Space percentage can seem daunting but it is applied to almost every type of expense in your home including but not limited to casualty losses, mortgage interest, real estate taxes, homeowners insurance, home repairs and maintenance, utilities, rent and home depreciation.

Taxes are a part of everyday life. In order to reduce your taxable income you need to keep detailed records of every deduction in relation to your business. In-home child care providers are unique in the sense that they can deduct more expenses than any other home-based businesses; knowing your deductions will considerably lower your tax liability. Additionally, hiring a tax accountant who knows your specialty business is just another sound practice of running a profitable business since we all know that deductions decrease taxable income and that additional income can stay in your pocket!

To learn more about your deductions or for help figuring out your Time-Space percentage please contact: Kate Carey, Fiscal Manager, at careyk@saccn.org or (518) 798-7972 x208