# Top 10 Record Keeping and Tax Tips

## Receipts

Keep receipts for every business expense. Your goal should be to have receipts for **EVERY PENNY** of your expenses. Collect receipts whenever you go to the store. Record on your calendar when you go on field trips or travel for business. A cancelled check may not be as acceptable to the IRS as a store receipt.

## 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 can not deduct if you do not meet local regulations are expenses connected with your house.

## Food Expenses

Reporting Food Program Reimbursements:

- Reimbursements received from the Food Program for the children in your care are taxable income
- Reimbursements received from the Food Program for your own children are not taxable income
- You are always better off financially by being on the Food Program

Tax Consequences of Child and Adult Care Food Program Participation

Family child care providers who join the Food Program at the lower Tier II rate will still benefit financially. Here are the tax consequences of the two-tiered system for 2015, based on a provider caring for four children.

| | Tier I CACFP Payment | Tier II CACFP Payment | Not on Food Program |
|---|---:|---:|---:|
| Parent Fees (4 children) | $25,000 | $25,000 | $25,000 |
| CACFP Reimbursement | +$4,654* | +$2,239** | +$0 |
| **Total Income** | **$29,654** | **$27,239** | **$25,000** |
| Business Expenses | -$10,000 | -$10,000 | -$10,000 |
| Food Expenses | -$5,000 | -$5,000 | -$5,000 |
| Profit | $14,654 | $12,239 | $10,000 |
| Federal Taxes (37%***) | -$5,422 | -$4,528 | -$3,700 |
| **Cash On Hand At End Of Year** | **$9,232** | **$7,711** | **$6,300** |

Note: As the example shows, providers who receive lower reimbursements from the Food Program are still better off than if they receive no reimbursements. The provider in this example who remains on the Food Program will have $1,411 ($7,711 - $6,300) more cash on hand at the end of the year than if they left the Food Program.

*Based on a reimbursement of $4.51 per day, for four children (2014-2015 reimbursement rate).
**Based on a reimbursement of $2.17 per day, for four children (2014-2015 reimbursement rate).
***Based on 25% federal income tax, plus 12% net social security tax.

Standard Meal Allowance

- Add up all the breakfasts, lunches, suppers and snacks you serve to the children in your care
- Deduct a maximum of one breakfast, one lunch, one supper and three snacks per child, per day

Standard Meal Allowance Rates for 2016

- Breakfast = $1.32
- Lunch/Supper = $2.48
- Snacks = $0.74

Guidelines for Using Standard Meal Allowance

- All providers can use these rates whether or not they are on the Food Program and whether or not they are a Tier I or Tier II provider
- You must keep the following records: name of each child; dates and hours of attendance in care; and number of meals served

**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. Make sure your receipts are labeled and can be read. If you forget to get a receipt or could not get one, make one of your own to remind you of the expense.

**Estimated Tax Payments**

You may have to pay some federal income tax before the end of the year. To find out if you need to 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 need to pay in quarterly installments due April 15, June 15, September 15 and January 15.

**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, Medicare and income taxes for the employee and pay the employers' share of social security and Medicare taxes throughout the year.

Many providers treat helpers as independent contractors and do not withhold taxes, but this practice is not advisable. Only someone who is in the business of providing substitute care or is doing a special service could be considered an independent contractor.

Employee vs Independent Contractor

When you hire assistants or substitutes to work with the children in your care; the critical question that needs to be answered is: Are these workers or employees or are they independent contractors? The difference has major tax implications:

Employees

- Withhold Social Security & Medicare
- Pay the Employers' portion of Social Security & Medicare
- Pay Federal Unemployment Tax
- Pay State Unemployment Tax
- Pay Minimum Wage
- Purchase Workman's Compensation Insurance

Independent Contractor

- Issue Form 1099-MISC if you pay over $600 in a Calendar Year
- You do not need to withhold or pay any taxes

IRS Definition of an Employee

The IRS *Child Care Providers Audit Techniques Guide* states: "The regulations provide that an employer-employee relationship exists when the business for which the services are performed has the right to direct and control the worker who performs the services. This control refers not only to the result to be accomplished by the work, but also to the means and details by which that result is accomplished. In other words, a worker is subject to the will and control of the business not only as to what work shall be done but also how it shall be done. It is not necessary that the employer actually direct or control the manner in which the services are performed, it the employer has the right to do so."

- Behavioral Control: Training and instruction are an important measure of how much direction and control you exercise over an assistant. The *Guide* says: "The more detailed the instructions that the worker is required to follow, the more control the business exercises over the worker, and the more likely the business retains the right to control the methods by which the worker performs the work. The absence of detail in instructions reflects less control."
- Financial Control: The IRS *Child Care Audit Techniques Guide* says: "The ability to realize a profit or incur a loss is probably the strongest evidence that a worker controls the business aspects of services rendered. Significant investment, un-reimbursed expenses, making services available, and method of payment are all relevant in this regard. If the worker is making decisions which affect his or her bottom line, the worker likely has the ability to realize a profit or loss."
- The Relationship of the Parties: The relationship of the parties is the intent of the provider and the assistant. If you have a contract that describes your assistant as an independent contractor rather than an employee, this can make a difference in a close case. However, a written agreement is not sufficient by itself; the substance of the relationship is more important than what it is called. When the behavioral and financial control factors are considered; it is clear that the substance of this kind of relationship is employee and employer.

Definition of an Independent Contractor

- People who come into your home on special occasions to perform specific services
- Someone who is in the business of providing back-up child care and serves as an assistant for several providers

Hiring Family Members

Many providers hire their own family members and take advantage of IRS rules that allow them to reduce their taxes. Guidelines include:

- Prepare a job description and have a written agreement between you and your family member.
- A child must be capable of doing the work involved
- The work must be directly related to your business – allowance CAN NOT be used as a business deduction. Keep careful records to distinguish payments for business work separate from your child's allowance

Family Members Under Age 18

- Exempt from Social Security and Medicare Taxes
- Exempt from Federal Unemployment Taxes
- Exempt from Workers' Comp and State Unemployment in most states
- Earn up to $6,300 (in 2016) and not have Federal Income Tax due

Family Members Over Age 18

- Treat as any other employee
- No significant tax benefit when hiring spouse unless setting up a medical reimbursement plan
- Exempt from Workers' Comp insurance in most states

**Household Inventory**

Your house & 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 a business expense.

Conduct a thorough room by room inventory and list every item (furniture, appliances, lawn mower, etc) in your house. Consult the Family child Care Inventory Keeper for a room-by-room listing of items.

**Year End Expenses**

Be aware that if you purchase 40% or more of the items that last longer than one year during the last three months of the year, you may not get all the deductions for all of your capital expenses for that year. To avoid this 'mid-quarter convention' rule, plan your purchases before October or after December.

**Time-Space Percentage**

- Single most important number to calculate in the family child care business
- Use to allocate business use of shared business and personal expenses

What Hours Count?

- Caring for children, from when the first child arrives until the last child leaves
- Cleaning up the house for the business
- Cooking for the children in care
- Preparing activities for the children
- Spending time on the internet or computer for business
- 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 CACFP

Time Percent

- # of hours used for business divided by the total number of hours in a year (8760 hours)
- Example: You have worked 3,642 hours in your home for your family child care business
- 3,642 ÷ 8760 = 42%

Space Percent

- # of square feet of home used regularly for business divided by the total # of square feet in the home
- Example: the total square footage of your home is 2,000; the total square footage used regularly for business is 2,000
- 2,000 ÷ 2,000 = 1

Time-Space Percent

Time Percent
X Space Percent
=Time-Space Percent

42% x 1 = 42%

Exclusive Use Rooms

Exclusive Use means the room is NOT used for personal use in the evenings or weekends. Family child care providers who use one or more rooms in their home exclusively for their business should use the following formula:

Space Percent of Exclusive Use Rooms
**Plus**
Time/Space Percentage of Rest of Home
**Equals**
Time/Space Percentage of Entire Home

Example: Home with 2,000 square feet. One room of 144 square feet used 100% for business and the remaining 1,856 square feet are used regularly for business use and personal use. The time percent is 42%.

Step 1: Divide the square feet of the exclusive use space by the total square feet:

144 ÷ 2,000 = 7% space for Exclusive Use Space

Step 2: Divide the square feet of the space used for regular business use by the total square feet:

1,856 ÷ 2,000 = 93% space for Rest of the Home

Step 3: Multiply the Percent from Step 2 by the Time Percent:

93% x 42% = 39% Time-Space for Rest of the Home

Step 4: Add the Percent from Step 1 with the Percent from Step 3:

39% + 7% = 46% Time-Space Percent for Entire Home

**House Improvements**

You should be depreciating a portion of your home as a business expense. The amount of house expenses you can depreciate is the purchase price of the home (minus the value of the land) plus all home improvements made before you went into business. Go back and record all of your house improvements.

Save receipts. Get replacement receipts from contractors, if necessary. As a last resort, photograph the improvements and write down you best recollection of the cost and date it was done. Keep records of house improvements you make after you start your business. When you sell your home you will owe more in taxes.

## Business Income

Business income is all of the money you receive in exchange for providing family child care. It includes the following:

- Fees from Parents for Child Care Services
- Fees from Parents for additional activities
- Reimbursements from CACFP
- Payments from state or private agency for caring for low-income children (any co-payments received from low income parents are also taxable income)
- Fees for family child care related services (such as facilitating a workshop for other child care professionals)
- Grants from state or local organizations

Your major source of income will probably be payments from parents for the care of their children. Since you may have some parents who pay hourly, some who pay based on a part-time daily rate, and others who pay based on a full-time flat rate, it is imperative that you keep accurate attendance and payment records for each child. The parents will also need this information for their tax records.

Form W10

The Form W-10 is the form that you can give to your daycare parents for their income taxes. Use the amounts from the cash flow report to fill out the Form W-10, making sure you list the children in your care, the amount paid to you, sign your name & date it and make your parents' sign their name and date it. Make sure to keep 1 copy for your files.

Parents who want to claim the child care tax credit must obtain the social security number or taxpayer identification number of their providers by having their providers fill out Form W-10 Dependent Care Provider's Identification and Certification. Providers face a penalty of $50 for not giving out their number when a parent asks them to fill out this form. Even providers who do not file tax returns or do not meet state regulations must fill out this form if parents ask them to. It is the responsibility of the parent to give the provider Form W-10. **You are not responsible for tracking down parents and giving them a completed form.** If you have a taxpayer identification number (EIN), you must give this number, not your social security number, to the parents who have children in your care.

Providers complete Form W-10 by entering name, address, social security number (or taxpayer identification number), and signature. Providers should be aware that it will do them no good to refuse to sign Form W-10, pay a $50 penalty, and hope to hide from the IRS the fact that they might not be reporting all their income. Not signing this form may, by itself, cause the IRS to audit your tax return.

Parents do not file Form W-10 with their tax return. Instead, they keep it for their records. When they file their Form 2441 Child and Dependent Care Expenses, they take the information from Form W-10 and record the provider's name, address, identification number and the amount paid to each provider. The IRS will be able to use this form to check whether or not listed providers filed tax returns and reported their income.

Over the years, some parents have overstated the number of their dependent child care expenses and some providers have understated the amount of their child care income. By requiring parents to list the social security number or taxpayer identification number of each provider, the IRS has eliminated much of this false reporting. Providers should be aware, however, that some parents may report child care expenses on their Form 2441 that are higher than what they paid a particular provider. This can happen when parents use two providers in one year, but report all of their child care expenses next to the name of only one provider because they have the social security number or taxpayer identification number of only one provider.

To protect themselves, providers should keep careful record of how much each parent has paid them over the past year. In addition, providers should get a signed receipt from each parent that indicates how much was paid in 2014, and should keep the receipt with their records.

# Vehicle Expenses

There are two rules to remember about claiming expenses for your vehicle. The first one is that the trip's "primary purpose" must be for business; the second one is that you need to keep "sufficient evidence" in the form of written records to support your deductions.

**The Primary Purpose of the Trip:** The first rule is that all trips in which the primary purpose is business may be claimed as a business trip. If you take a trip for both business and personal reasons, you may still deduct the entire mileage as a business expense if the trip is primarily for business purposes.

The hardest kind of trip to judge is when you drive to the grocery store to buy groceries for both business and personal use; you cannot claim a portion of the trip: it's all or nothing. There is no hard rule about whether you can deduct the mileage for this kind of trip. However, there are some factors that might make it more clearly a business trip:

- You purchased more groceries for your business than for personal use.
- You made other personal trips to the grocery store; this trip was for regular business shopping.
- You spent more time shopping for business items than for personal items.

Never try to claim every trip to the grocery store as a business trip, even if you always buy more business food than personal food. The IRS will say there must be some personal trips for food. If you have children of your own and are always buying business and personal food at the store, the conservative position would be to claim every other trip as a business trip. If you business food expenses represent 75% of your total food bill, perhaps you could claim 75% of your grocery store trips as primarily business.

**The IRS Audit Guide on Mileage:** The *IRS Child Vehicle Providers Audit Techniques Guide* states: "Deductions for mileage should be allocated between business and personal expenses. If, however, a taxpayer travels to a single destination and engages in both personal and business activities, the expense is deductible only if the trip is related primarily to the taxpayer's trade or business. If the trip is primarily personal in nature, the expense is not deductible even though the taxpayer engages in business while at such destination. Whether a trip is related primarily to the taxpayer's trade or business or is primarily personal in nature depends on the facts and circumstances in each case. The amount of time during the period of the trip spent on personal activity compared to the amount of time spent on activities directly relating to the taxpayer's trade or business is an important factor in determining whether the trip is primarily personal."

**Written Records:** The second rule about claiming vehicle expenses is that you must keep written records that provide "sufficient evidence" of your business trips. There are many types of records that qualify as sufficient evidence, including receipts, canceled checks, bank deposit slips, field trip permission forms, entrance tickets, mileage logs and photographs. To provide written evidence of trips for which you have no receipts, such as trip to the park, school and library, you have to be more creative. You can ask parents to write you a note saying that you took their child to the park. You can use a calendar to record these trips. Some providers track their business mileage by recording all their business trips in a log book they keep in their vehicle.

You don't have to keep a log and record your beginning and ending odometer readings every time you drive. You just need to record your business trips and the number of round-trip miles to each destination. If you use more than one vehicle in your business, also record which vehicle you use for each business trip. Here's a convenient four-step way to keep records of your business miles:

**Step One:** Save all your receipts and other records of your purchases. Each month record – on your calendar or in a mileage book – any trips for which you don't have any written records. It's best to record your mileage as soon as possible after taking the trip; don't wait until the end of the year to try to remember all of your business trips. Update your records at least monthly. If you use more than one vehicle for business, record which vehicle you use for each trip.

**Step Two:** At the end of the year, go back through your calendar and your written records, and make a list of all the destinations and how many times you traveled to each one. Also, record the beginning and ending odometer reading for each vehicle you drove for business during the year. For each vehicle, subtract the beginning mileage from the ending mileage to get the total number of miles you drove that vehicle in the year.

**Step Three:** To create a master mileage list, drive from your house to the first destination on your list and record the round-trip mileage. Repeat this step for each destination on your list. Save a copy of your master mileage list to use for future tax returns. Once you have measured the mileage to and from each destination, the mileage will remain the same as long as you live at the same address. If you use the Internet you may want to take advantage of online services that track the mileage between two destinations (see MapQuest: www.mapquest.com or Maps On Us: www.mapsonus.com, or look for map directions on excit.com, yahoo.com or msn.com).

**Step Four:** For each vehicle you use for business, multiply the mileage to and from each destination by the number of trips to each destination that year. Add the miles for all the destinations to get your business miles for the year. Divide your business miles by the total umber of miles you drove that vehicle. This is your business-use percent for that vehicle. Repeat this step for each car you used for business.

The IRS Audit Guide on Trips: The IRS *Child Care Providers Audit Techniques Guide* states: "Trips for the benefit or entertainment of a particular child at the request of a parent would not generally be the responsibility of the child care provider (for example, trips to and from school, field trips, medical facilities, etc.). If this situation occurs, refer to any individual contractual arrangement. Obtain necessary logbooks. For personal vehicles used in the business, verify business percentages with the insurance policy." You can protect yourself from the IRS assumption that transporting children is a non-deductible personal service by putting the following language into your contract: "Provider may transport children to a variety of locations, including school, park, library, field trips, and so forth. All such transportation is part of the service offered by the provider under this contract and is included in the parent fee." Most providers do not have a reference in their car insurance policy to using the car for business purposes. You may want to put such a notation in your policy, although if you keep good written records of a business trip, you shouldn't worry about making any changes to your insurance policy.

## Calculating Your Car Expenses

When calculating expenses associated with driving your vehicle for business purposes, you have two methods to choose from:

- the standard mileage rate method
- the actual vehicle expenses method

Most providers probably use the standard mileage rate to record vehicle expenses because it requires less record keeping. However, if you have recently bought a new vehicle and drive it a lot for business, it may be better to claim the actual vehicle expenses method. You may want to figure your vehicle expenses using both methods and then choose the method that gives you higher deductions. You don't need to have a business sign on your vehicle in order to claim vehicle expenses using either method.

In the first year you use your vehicle for business, the method you choose to claim your vehicle expenses is important. If you wish to use the standard mileage rate method in the future, you must choose this method in the first year. If you choose the actual expenses method in the first year, you cannot switch to the standard mileage rate in later years.

**The Standard Mileage Rate Method:** When you are using the standard mileage rate you simply claim as an expense the number of business miles you drove that year multiplied by the standard IRS mileage rate. This rate is adjusted annually; in 2015 it is 57.5 cents per mile. This rate is intended to cover all the major costs of operating a vehicle, such as gas, repairs, insurance and depreciation. Here's an example of how to claim vehicle expenses using the standard mileage rate method:

| | | | |
|---|---|---|---|
| Al's Grocery Store | 26 trips x 3 miles | 78 miles | |
| First Bank | 12 trips x 2 miles | 24 miles | |
| Como Park | 12 trips x 5 miles | 60 miles | |
| Tots Toy Store | 10 trips x 4 miles | 40 miles | |
| Safeway Grocery Store | 26 trips x 2 miles | 52 miles | |
| Other Trips (list) | | 1,746 miles | |
| Total Business Miles | | 2,000 miles | |
| Total Miles | | 12,400 miles | |
| (2,000 business miles + 10,400 personal miles) | | | |
| Business Use Percent | | | 16% |
| (2,000/12,400) | | | |
| 2,000 miles x $.54 (2016 rate) | | | $1,080.00 |
| Parking | | | $ 3.00 |
| ($.25 parking meter x 12 trips to bank) | | | |
| Vehicle Loan Interest ($500 x 16% business use of vehicle) | | | $ 80.00 |
| Total Vehicle Deduction | | | $ 1,163.00 |

In addition to the standard mileage rate, you may also claim expenses for parking fees; tolls; and ferry, bus, subway, taxi and train fares. You may also claim casualty and theft losses for your vehicle, a portion of your state and local personal property taxes for your vehicle and a portion of any vehicle loan interest, based on the percentage of miles driven for your business.

Some tax preparers and IRS auditors are unaware that child care providers are entitled to claim these last two deductions even when using the standard mileage rate. You can refer them to IRS Publication 463 Travel, Entertainment, Gift and Car Expenses, which states: "However, if you are self-employed and use your car in your business, you can deduct that part of the interest expense that represents your business use of the car…If you are self-employed and use your car in your business, you can deduct the business part of state and local personal property taxes on motor vehicles on Schedule C."

If you use the standard mileage rate, you cannot claim the costs of business vehicle insurance or vehicle repairs – even if they were related to driving your vehicle for business – since the mileage rate is supposed to cover these costs. If you want to deduct these expenses, you must use the second method of claiming vehicle expenses. This is true even if you purchase a special insurance policy or rider to cover using your vehicle for business. If you drive more than one vehicle for your business at different times, you can claim the standard mileage rate for the business miles you drove with each vehicle.

**The Actual Vehicle Expense Method:** Using the actual vehicle expense method allows you to deduct the business portion of all the actual expenses of operating your vehicle. When using this method, you must keep careful records to document all your vehicle expenses. Although most of your expenses will be general operating expenses that apply only partly to your business, you may also have some expenses that qualify as 100% business use. The expenses you can deduct may include the following:

| | | |
|---|---|---|
| antifreeze | lease payments | tune-up |
| battery | license fees | wash and wax |
| commercial car license | lube | windshield wiper fluid |
| depreciation | membership in auto clubs | any other operating expense |
| garage rent | oil | |
| gasoline | state and local vehicle property tax | |
| ice scraper | tire chains | |
| insurance | tires | |
| interest on the vehicle loan | | |

**How to Calculate Your Actual Vehicle Expenses:** At the end of the year, calculate the percentage of miles you drove your vehicle for your business (your business-use percent), using the four-step process described above. Next, total all your vehicle expenses, except those that are 100% for business. Multiply this total by your business-use percent. Add to this any expenses that are 100% business use (such as the additional child care insurance in the example below). In this example, the provider's actual vehicle expenses add up to $630.

| | |
|---|---|
| Gasoline | $575 |
| Oil | $20 |
| Repairs | $205 |
| Insurance | $500 |
| Taxes and License | $100 |
| Car Loan Interest | $250 |
| Total | $1,650 |
| X 20% business use percent | $330 |
| Additional child care vehicle insurance (100% business use) | $300 |
| Total | $630 |

**Depreciation:** If you use the actual vehicle expenses method, you can also take a depreciation deduction on your vehicle. To do this, you claim your vehicle's fair market value at the time you began using it for business, spread over a number of years. For example: according to the 2007 rules, if your vehicle was worth $6,000 when you began using it for business and your business-use percent was 20%, you could claim $1,200 as a business expense over five years.

Once you begin using your vehicle in your business, the clock begins to run on this five-year time period, even if you are using the standard mileage rate method. If you start using the standard mileage rate method and then switch to the actual vehicle expenses method, this will affect your depreciation deduction. (Remember, you can't switch the other way.) In other words, if you begin your business in 2003 using the standard mileage rate method and switch to the actual vehicle expense method in 2006; you will still not be able to depreciate your vehicle after 2008.

**If You Lease Your Vehicle:** If you lease the vehicle that you use for business, you may use either method. If you use the actual vehicle expenses method, you should claim the business-use percent of the cost of the lease, plus any out-of-pocket expenses that are not covered by the lease, such as gas, oil changes or car washes. If the lease is really a purchase contract (also known as a capital lease), you must use the actual vehicle expenses method and claim the cost of the purchase contract by depreciating the vehicle. This is true even if you don't buy the vehicle.

**If Someone Else Owns the Vehicle You Are Using:** If you are not married and are using a vehicle tat is not registered to you, you cannot claim any vehicle expenses. For example, if you use your boyfriend's vehicle, you cannot claim vehicle expenses, even if he drives the car on your business trips. If you pay your boyfriend for the use of the vehicle (or for chauffeuring your business trips), you could deduct this expense as rent on Schedule C; however, your boyfriend would have to report these payments as income on his Form 1040. The same principle applies if you pay anyone else for the use of his or her vehicle. If you are married, you can claim business expenses for your vehicle and your spouse's vehicle, even if your name is not on the vehicle registration.

**Vehicle Insurance:** You should check to see if the business use of your vehicle is covered by your insurance policy. If it isn't, get the proper insurance, even if it's not deductible. You could also check with each child's parents to see if their vehicle insurance covers their child while riding in your vehicle, but it's best to have you own insurance that provides enough coverage to cover the risk of transporting the children.

If the parents are paying you separately to transport their children to school or home, you may have to get a commercial transportation license. (This license is only deductible if you use the actual vehicle expenses method.) To avoid this issue, have parents pay you just on fee for child care, and include transportation in it.

# Business Expenses

### Understanding your Business Expenses

In order to claim an expense for your business, you should use a three-step process that involves determining the answers to the following questions:

1. Is the expense deductible?
2. How much of the expense is deductible?
3. When is the expense deductible?

### Is the expense deductible?

You are entitled to a business deduction for all the expenses that are "ordinary and necessary" costs of operating your business. An ordinary expense is one that is "common and accepted" in a family child care business. A necessary expense is one that is "helpful and appropriate" in a family child care business.

An expense does not have to be indispensable for it to be considered "necessary." In other words, you can deduct the cost of a dishwasher that is used in your business, even if you could wash the dishes by hand. The definition of an ordinary and necessary expense can vary from one person to another, depending on specific circumstances.

If an expense is used only for personal purposes, it is not deductible as a business expense. These items might include clothing, cigarettes, jewelry, china, eye-glasses, antiques, hobby expenses, personal hygiene products, etc.

Few of the deductions for family child care businesses are listed in the Internal Revenue Code or in IRS Publications; there is no mention of bicycles, toilet paper or paper towels. Although the rule of "ordinary and necessary expenses" applies to all businesses, it requires interpretation to establish what it means for family child care businesses.

It is important to understand how the "ordinary and necessary expenses" rule affects family child care differently from other businesses. Family child care providers use hundreds of items around the house for business because their home IS the business. For example, the items in your bathroom that might be used for your business could include the towels, washcloths, rug, toilet paper, light bulbs, hand soap, toothpaste, toothbrushes, medicines, and bathroom scale. No other business operated out of a home could claim these items as business deductions; and you could repeat the process in every room of your home.

Since a family child care provider must maintain a living room, playroom, kitchen, bathroom, garage, dining room, laundry room, bedroom and so on, for the use of the children she cares for, virtually all of the items in these rooms can be considered "ordinary and necessary" business expenses. You will find that some tax preparers and IRS officials try to deny that such items are deductible, since they are considered to be personal expenses for almost every other kind of business. If you face this; you should be firm in pointing out how hundreds of household items are "ordinary and necessary" expenses.

When interpreting the "ordinary and necessary" rule you should apply commonsense approach and use the standard of reasonableness. Providers should always consider what a reasonable businessperson would do in their situation. For example, some providers buy hundreds of dollars' worth of toys each year, despite the fact that they are claiming little, if any, profit. Although toys are generally deductible, there comes a point when deducting too many toys may not be a reasonable business deduction.

**How much of the expense is deductible?**
Every business expense falls into one of two categories:

- 100% (exclusive) business use
- Shared business & personal use

Exclusive Business Use
Exclusive business use means just that; if you buy a computer to do your business records and use it even once for personal purposes, you can't claim it as a 100% business expense. If your own child uses the item after business hours, then it cannot be claimed as 100% business use. Items that are 100% business use might include baby supplies (if your own children are older), a swing set (if you don't have children of your own at home), art & craft supplies, food for the children and the furniture in a room that is used exclusively for the business.

Can you claim a board game as 100% business expense if your own children play with it during business hours with the other children in your care? The assertive answer would be yes. Your argument would be that the board game is being used for business purposes during business hours. The conservative answer would be no. Any personal use, no matter when, is still personal use. Clearly, if your own child plays with the board game after the other children are gone, it is no longer just an exclusive business expense.

Shared Expenses
The other types of expenses are those that are used both for business and personal purposes. Many of these shared expenses are household items such as cleaning supplies, kitchen utensils and small toys. They typically also include furniture, appliances and the expenses that are associated with your home; such as property tax, mortgage interest, utilities, etc. There are two ways to calculate the amount of the shared expenses that you can claim; you can either use your Time-Space Percentage or the actual business use percent.

The simplest method is the Time-Space Percentage. However, there are some situations in which you may want to use the actual business-use percent. If you use the actual business-use percent; you must keep some type of record to show how you determined it.

It doesn't matter why an expense was originally incurred. A business expense is deductible based on how much it is used for business, not why it was originally purchased. In other words, if you buy a toy for your child's birthday, it is a personal expense and not deductible for your business. However; as soon as your child starts to share that toy with the other children in your care, it becomes a business expense, and part of its cost (the Time-Space Percent) becomes deductible.

On the other hand; if you buy some baby wipes for the children in your care, but end up using some of them for your own child; you cannot deduct 100% of the cost on the basis that you had intended to use them exclusively for your business. For the purposes of business deductibility, what actually matters is how the items ends up being used; not why it was bought in the first place.

**When is the expense deductible?**
Can you deduct this expense all in one year; or do you need to claim it over a number of years? The answer to the third question can be complicated. The basic rules are as follows:

- If you purchase an item after your business begins that costs less than $200 or that lasts less than one year, you can deduct it in the year you purchased it.
- If you purchase an item after your business began that costs more than $200 and lasts longer than one year, you must depreciate it.
- If you purchase an item before you go into business and later start to use it in your business, you must either depreciate it or apply a special start-up rule.

If you buy a crib for $85 after your business begins, you can claim all of the cost in the year purchased. If you buy two cribs for $85 each, you can still claim the cost in one year, because each item is treated separately.

Depreciation is the process of claiming the cost of an expense over a number of years. Technically, the Internal Revenue Code says that all items lasting longer than one year must be depreciated, but as a practical matter the IRS regularly allows providers to deduct expenses less than $200 in the year purchased if the provider is in business. However, you will not find this rule of thumb written down anywhere.

One exception to the general rule that items over $200 must be depreciated is the cost of repairs, which can be claimed in one year. If you were to clean and repair your furnace and the bill was $375, you can claim it all in that year.

# Regular Business Expenses

**Advertising:** Below is a list of some of the kinds of advertising expenses that you might incur for your business: answering service; balloons; bumper stickers; business cards; business flyers and door hangers; buttons; cost of designing a business logo; cost of designing a web page; finder's fee for parents who refer another parent to your program; membership dues to your local Chamber of Commerce or other business organization; name badges; newspaper classified ads; parent newsletters; parties and picnics for parents of the children in your care; photo album or scrapbook to display photos and other information about your business during parent interviews; photographs you take of the children in your care that you share with their parents; printing and typesetting expenses for marketing materials; radio ads; registration fee to register your business name in your state; rubber stamps with your business name and return address for mailing letters; tote bags; T-shirts for the children in your care or T-shirts you wear to advertise your business; welcome mat; yard, magnetic, car and window signs; Yellow Pages listing; any other forms of business advertising.

**Bad Debts:** Some providers believe that if a parent leaves owing them money, they can claim this as a bad debt loss, but this is not so. The only situation in which you can claim a bad debt loss is when a parent pays you by check, you report this money as income on your tax return, and the check bounces in the next tax year. This rarely happens. If a family leaves without paying you, just don't report the money they owe you as income. As a result, you will have a lower taxable income.

**Employee Benefit Programs:** This refers to benefit programs for the employees you hire for your business. When you hire employees, you do not have to pay them any benefits beyond their wages. If you do offer benefits, such as health and dental care or retirement plans, however, you can claim 100% of these expenses here.

**Insurance:** The cost of worker's compensation insurance for yourself and your employees is 100% tax deductible. You can also deduct the cost of any family child care liability and accident insurance policy. You can also deduct the business portion of any insurance you carry on your personal property, using your time-space percentage. Renters can deduct the cost of renter's insurance on their personal property. The cost of car insurance is not deductible unless you use the actual car expense method. The cost of life insurance and disability income insurance for you is not deductible.

**Interest:** You may deduct the cost of interest that is charged on items you use in your business. For example, if you purchase a swing set for $700 on your credit card, use the swing set only for business, and pay $50 in interest for this item during the year, your can deduct the full $50. If your own children also use the swing set, you can deduct the time-space percentage of the interest. If you can show that the swing set was used more than your time-space percentage would indicate, you can claim a higher percent of the interest.

**Legal & Professional Services:** Tax preparation fees to file your business tax forms are deductible as a business expense. The cost of hiring a payroll service to fill out federal and state forms for your employees is deductible. Professional assistance for your business, such as accounting, legal services and bookkeeping services, is also deductible as a business expense. Legal fees and court costs for suing a parent for nonpayment in small claims court are also 100% deductible.

**Office Expenses**: Below are examples of the kinds of business expenses that you can include under the category of office expenses: **Bank Charges:** You can deduct all the costs associated with keeping a separate business checking account, including the cost of printing checks. If your bank charges a per-check service fee, you may also deduct a portion of the costs of your personal checking account. If a parent's check bounces and the bank charges you a fee, ask the parent to reimburse you for the fee. If you can't reclaim this fee from the parent, you can deduct it as a business expense. **Books:** Tax publications and child care related books – such as first aid and medical emergency books – are all 100% tax deductible. This would also include all of the books that can be purchased through Books by Kelly. If you have young children of your own, your encyclopedia and children's books are only partly deductible using the time-space percentage. **Computer Related Items:** You can deduct the portion of the cost of computer software and related items based on the percent of time you use your computer for business. Deductible items may include Microsoft Word, Excel, QuickBooks, Quicken, computer disks, paper, printer cartridges and other computer supplies. You can also deduct the cost of subscriptions to online services, email and internet access fees. **Dues:** The membership fees and dues for local child care associations and organizations such as the National Association for the Education of Young Children, the National Association for Family Child Care, and Redleaf National Institute are fully deductible. Dues for membership in personal organizations such as country clubs, community centers, Sam's Club are not deductible. **Magazines:** You may deduct the cost of any magazines used in your business. For example, Sesame Street; Scholastic; Disney Magazine; Jack & Jill; Highlights for Children; Parents; Working Mother; Family Circle; Pre-K Today; etc. **Other:** In addition to the major categories listed above, there is a wide range of other items and services that can be claimed as office expenses: adding machine & tape; bulletin board; business forms; business stationary; calendar and/or planner; cellophane tape; chalkboard; correction fluid; envelopes; erasers; fax machine; file cabinets; file folders; greeting cards for the parents or their children; ledger; notebooks/notepads/folders; paper; paper clips; parent newsletters; pencils; pencil sharpener; pens; photocopying costs; pocket calculator; postage stamps; post-it notes; receipt books; stapler/staples; storage boxes; etc.

**Rent of Business Property:** You may deduct the cost of renting items for your business, such as videos, computer games, a carpet cleaning machine or party equipment. If your own children use these items after the other children have left, you should claim only your time-space percentage of the rental cost.

**Repairs and Maintenance of Personal Property**: Personal property includes all items that are not permanently attached to your home or land, such as furniture and appliances. The cost of making repairs to personal property that was damaged or worn out by your business is fully deductible. For example, if a child in your care damages your microwave or DVD player, you can deduct the full cost of the repair as a business expense. If your own child causes the damage, you could deduct only your time-space percentage of the cost. If you hire someone to clean your rugs or do your laundry (such as a cleaning service, diaper service or dry cleaner) you may deduct at least part of the cost as a business expense. Repair and maintenance expenses can include the following: carpet/rug cleaning expenses; flashlight and batteries; pest control; poison prevention stickers; recovering sofa, couch or chair; repairs of a television, VCR, DVD, computer, toaster, furniture, appliances, toys, etc; salt for water softener; service contracts on appliances.

**Supplies: Arts & Crafts:** Crayons; markers; poster board; paints; coloring books; art & craft supplies; paint brushes; chalk/chalkboard; clay; construction paper; glue; paper; paste; stencils; stickers; yarn; etc. **Baby:** diapers; diaper pail; baby wipes; bibs; tippy cups; changing pad; bottles; nipples; bottle/nipple brush; diaper bags; rubber gloves used for diaper changing; baby intercom/monitor system; baby swing; baby walker; booster seat; cribs/mattresses; high chair; infant seat; playpen; potty chair; stroller; car seat; etc. **Cleaning:** air fresheners; bleach; broom; cleansers; clothes hamper; clothes iron; clothespins; dishwasher detergent; dust mop; dustpan; electric dust buster; fabric softener; furniture polish; Laundromat costs; pail or bucket; rubber/latex gloves; rug cleaner; scouring pads; soap; sponges; stain removers; toilet bowl cleaner; vacuum cleaner; vacuum bags; wastebasket; wet mop; window cleaner; etc. **Education:** preschool programs; books; educational video & audio cassettes; board games; flannel board; flannel board stories & accessories; puzzles; science materials; puppets; musical instruments; song books; props for pretend play; dress up clothes; etc. **Household:** any item purchased to make your home more accessible to a disabled child or parent; home decorations; candles; flashlight; bedding; towels; bath mat; bathroom scale; camping equipment; clocks; extension cords; fireplace fixtures; flowers; flower boxes; mirrors; nightlights; indoor or outdoor thermometer; shelving; sleeping bags; space heater; storage containers; telephone; tools; umbrella; sheets; window shades/blinds; wall posters; baking dishes; beater; blender; toaster; bowls; cookbooks; cookie sheets; cookie cutters; cutting board; dish towels; dishes; electric can opener; food processor; flyswatter; garbage can; glassware; knives; measuring cups & spoons mixer; popcorn popper; iron; potholders; pots & pans; serving dishes; silverware; tablecloths; Tupperware; utensils; waffle iron; charcoal; washcloths; batteries; garden hose; shovel; rake; etc. **Movies:** home videos or DVDs purchased for home viewing. **Music:** CD's or audio cassettes purchased for listening. **Paper:** Kleenx tissue; paper towels; toilet paper; garbage bags; napkins; paper cups; paper plates; plastic silverware; food storage bags; straws; aluminum foil; etc. **Safety:** safety barriers (gates); safety caps for electrical outlets; safety locks for medicine and poison; safety locks for fire arms; first-aid kits; cotton swabs; medicine; fire extinguisher; thermometer; sun screen; insect repellant; fire alarm; fire escape ladder; syrup of ipecac; etc

**Taxes and Licenses:** If you pay payroll taxes for your employees (Social Security, Medicare, federal unemployment, state unemployment, and so forth), you may deduct the full cost of these expenses. All fees and costs you incur to become licensed or regulated are also 100% deductible.
This would include the following: background checks; fingerprinting fee; fire or health department inspection fees; licensing fees; medical exams & X-rays; recharging or testing fire extinguishers; social service department fees; tuberculosis test; water testing; zoning fees; etc. You can deduct all the sales tax you pay on business purchases (although it is easier to include this in the cost of the purchase rather than claim it separately). Your quarterly estimated income tax payments cannot be claimed as a business expense.

**Travel/Lodging:** If you travel away from home overnight and the primary purpose of your trip is business, you may deduct the costs associated with the trip. Such trips might include travel to a family child care conference, field trips with the children in your care, or business workshops. You may deduct the full cost of your transportation – car expenses, car rental, airplane, bus, train, taxi and so on – and lodging. Other deductible costs for overnight business travel include: hotel tips or long-distance calls to check on your business. The cost of hiring someone to care for your own children while you are away on business is not a business expense, but can be claimed toward your personal child care tax credit.

**Meals & Entertainment:** If you travel away from home overnight and the primary purpose of your trip is business, you may deduct 50% of your actual food and entertainment costs, or you can claim the standard meal allowance, which is $51 per day in most areas of the United States. However, the standard meal allowance is also subject to the 50% rule, so if you use it the amount you can actually deduct for one day is $25.50. You don't need any receipts to claim the standard allowance, but it doesn't cover travel to Alaska and Hawaii. Each year you must choose between actual expenses and the standard meal allowance for all your food expenses; you can not use both methods in the same year.

**Telephone:** The monthly cost of the first telephone line in your home is not a deductible business expense, even if the phone was only installed in order to meet regulation requirements. If you install a second phone line, you may deduct the business portion of this cost, based on the amount of time you spend on business versus personal calls. You can also deduct a portion of the cost of purchasing the phone itself. If you use a cell phone or pager for business purposes, you can deduct a portion of the monthly costs. The following telephone-related costs are all deductible: long-distance business calls; custom calling features (such as call waiting, call forwarding, caller ID and custom ringing); headset for a cordless phone; repair fees for the phone and phone lines; linebacker maintenance fees; an answering machine or service; a separate business listing in the White Pages; Yellow Pages advertising; and a TDD to receive calls from deaf parents or children.

**Wages:** Many providers hire assistants or substitutes to work with the children in their care. From a tax standpoint the critical question is: Are these workers your employees or are they independent contractors? The difference has major tax implications: If the workers are your employees, you must withhold Social Security and Medicare taxes and pay federal unemployment tax and the employer portion of their Social Security and Medicare tax. You will probably have to pay them the minimum wage. You may also have to withhold state and federal income taxes from the worker's wages. Your state laws may require you to pay state unemployment taxes and purchase worker's compensation insurance. If the workers are independent contractors, you do not need to withhold or pay any taxes for them. You will need to issue Form 1099 – Misc if you pay an independent contractor over $600 in one year. Keep in mind that almost anyone who works for you, for any number of hours, will generally be considered an employee by the IRS.

**Activity Expenses/Field Trips:** Family childcare providers are in the business of celebrating birthdays and holidays with the children in their care. Parents will expect you to hold celebrations and parties to teach children about traditions, customs, sharing and other cultures. Therefore, the expenses of these activities, including the gifts you give to the children, are activity expenses and should be claimed as such. When you throw parties and celebrations for the children in your care ( or for their parents), you can deduct the full cost of all your expenses, including food; snacks; balloons; paper tablecloths; prizes; streamers; hiring a clown or storyteller; etc. Other activity expenses might include the following: film and film developing; fees for field trips; music lessons; swim lessons; recreation center fees, movies; etc. Keep in mind that the fees paid for field trips for your own children are not a deductible expense.

**Gifts:** Any gifts purchased for daycare children, parents or helpers. There is a $25.00 maximum allowance per person, per year.

**Toys:** Toys are deductible according to the percentage of time they are used for your business. If you have children of your own, the IRS may question whether the toys you buy are really business deductions. You can strengthen your case by saving all of the receipts for the toys you buy for your own children. Also, don't try to claim 100% of toys that are also used by your own children after business hours. The IRS *Child Care Providers Audit Techniques Guide* recognizes that toys can be a significant expense for providers and tells auditors to look for "large, unusual, questionable, and personal items."

**Training/Education:** The benefits of professional development in the family child care field are obvious. To the provider, it offers knowledge and skills that can enrich her career. To the child in care, it can mean a better educational environment when the provider is able to transmit the knowledge she has learned. To the parents of children in care, it can be a strong indicator of quality care. Such indicators will likely grow in importance as parents look for objective standards to help them select a caregiver for their child.

I strongly recommend that all family child care providers take every opportunity to improve their skills by enrolling in professional development classes and obtaining educational credentials such as the National Association for Family Child Care (NAFCC) accreditation, Child Development Associate (CDA), and post-secondary degrees in the early childhood field.

**Deducting the Cost of Education**

Although it might seem at first to be a simple matter, the question of whether or not professional development classes and credential are deductible is actually quite complicated.

Classes or workshops that you take to get ready to care for children are deductible, but classes or workshops that you are required to take by state law before you can get a state license are not deductible. So if you take a class on child development before you are licensed, it is deductible. However, if state law says that you have to have taken a class in child development before you can get licensed, then it's not deductible. IF state law says you must take 10 hours of training a year after you get licensed, then the cost of classes you take before and after you are licensed are deductible.

Any training you receive after you meet your state's child care regulations is deductible as long as the training is related to your business (not classes on chemistry or engine repair!). Such training classes are deductible even if they don't qualify for training credit according to your local regulation requirements. In other words, if you take a class on record keeping that doesn't count towards your state training requirements, this class is still deductible.

All costs associated with obtaining NAFCC accreditation or a CDA are always deductible. Education expenses related to child development, taxes, CPR, parent communication, nutrition, or any other class to increase your skills to run your business are deductible. Classes in a second language are deductible only if you use this skill to build your business or if you teach the language to children.

**College Education**

You cannot deduct the cost of classes you take to receive a post-secondary undergraduate degree if this is your first post-secondary degree. The reason you cannot deduct this is because the degree qualifies you for a new occupation. Such classes are not deductible even if the class helps you maintain or improve your skills as a provider.

If you take college classes that do not lead to a degree (a class on child development, for example), then they are deductible. If you already have a post-secondary degree and you are taking classes that qualify you for a second college degree (a degree in early childhood development or a masters degree in education, for example), then these classes are deductible.

**Scholarships**

If you receive a grant or scholarship (TEACH, etc.) to take training classes or attend business conferences, the money you receive is taxable income. But you can also deduct the cost of the conference or classes that you take. If the grant does not cover the full cost of the training, you can still deduct the full cost. If you never actually receive the scholarship (the granting organization pays for the training directly), you should still report this as income and claim the cost of the training as an expense.

## Home Expenses

**Home Expenses are the costs that you incur to keep and maintain your home. You can deduct the business portion (the Time/Space %) of these expenses. If you don't own a home, you may claim the business portion of any expenses paid for your living quarters, such as rent, utilities and renter's insurance.**

**Casualty Losses:** A casualty loss is the damage, destruction or loss of property that results from an identifiable event that is sudden, unexpected or unusual, such as an earthquake, tornado, flood, storm, fire, car accident or act of vandalism. If your home or care insurance completely covers the damage you incurred, you don't have a business expense. However, if you have an insurance deductible of $250 and you pay this amount, it is a business expense.

**Mortgage Interest Paid and Real Estate Taxes:** You are always entitled to claim the business percent of your mortgage interest payments and real estate taxes, even if this creates a loss for your business. You will deduct your time-space percentage of these expenses, and if you itemize deductions, you can deduct the remainder on Schedule A.

**Homeowner's Insurance:** You can claim the time-space percentage of home insurance (including flood insurance), which provides you with financial protection in case of damage to your home. Other kinds of insurance policies (renter's insurance, liability, medical, etc) are not included with the home expenses.

**Home Repairs and Maintenance:** Home repair and maintenance expenses are the costs you incur to maintain your home's present value. You can claim the time-space percentage of these expenses: asphalt repair of driveway; carpet-cleaning service; corner wall guards; cupboard latches and locks; deck staining; dehumidifier; electrical fuse replacement; floor sanding; furnace cleaning/inspection/repairs; homeowner's association dues; house-cleaning service; humidifier; lead paint removal; light fixture repair; painting the interior or exterior of the house; patching walls & floors; plumbing repairs; radon or lead testing & abatement; roof shingle repair; rubber stair treads; screen repair; tree removal/trimming; wallpapering; window repair; etc. There is a difference between home repairs and home improvements. Home repairs are expenses that you incur simply to maintain your home's present value. Home improvements are expenses that increase the value of your home or prolong its useful life; these costs must be depreciated over a number of years.

**Utilities:** You can claim the time-space percentage of your utility expenses, unless you can show that your business-use percent of a particular expense is higher than that. For example, if you have no children of your own and only use the Disney Channel for your business, you can claim 100% of its cost. Some examples of utility expenses: cable television; electricity; kerosene to heat the home; natural gas; oil to heat the home; propane gas to heat the home; recycling fees; satellite television; sewage disposal; trash removal; water; wood to heat the home.

**Rent:** If you rent your home or apartment, you can claim the time-space percentage of the rent you have paid.

**House:** Based on the value of your home when you started your daycare business, it will be depreciated over 39 years.

## Depreciation

**Depreciation – Most items that cost more than $200 and last longer than one year gradually wear out, which means their value decreases over the years. That is why the tax laws require you to claim these items by deducting their value over time.**

**Automobile:** You can only claim depreciation for your car if you are using the actual expenses method, and most providers use the standard mileage rate method, which is designed to include the depreciation. According to the 2010 rules, cars must be depreciated over five years. If you start using the standard mileage rate method and switch to the actual expenses method in a later year, you can then start claiming depreciation on the car. However, the five-year depreciation period starts running the year that you first use the car for business.

**Personal Property**: The term *personal property* refers to items that are used in your business and are not attached to your home or land. Most providers use a significant amount of personal property for their business, and this makes it worthwhile to keep accurate records and depreciate these expenses. There are three categories of personal property and each category has different depreciation rules: computer equipment; property used for entertainment/recreation/amusement; all other personal property.

**Computer Equipment:** This category includes computers, printers, scanners, printer stands and computer tables. According to 2010 rules, the items in this category must be depreciated over five years. Do not use your time-space percentage for this expense category. Instead, record how much time you use your personal computer for business purposes (including children's games, business record keeping, menu planning, internet research or marketing) and how much time you use it for personal purposes. Divide the number of hours you use the computer for business by the total number of hours you use the computer to compute an actual business-use percentage.

**Equipment for Entertainment, Recreation or Amusement:** This category includes items such as TV's, VCR's, DVD players, video recorders, cameras, camcorders, radios, pianos & other musical instruments, video games, etc. According to the 2010 rules, the items in this category must be depreciated over seven years. Do not use your time-space percentage for these items. You must keep track of how much time you use each of these items for business in the same way described above for you computer.

**All other Personal Property:** The last category of personal property includes all personal property that wasn't covered in the first two categories. However, if any of these items (such as built-in appliances) are permanently attached to the home, they must be depreciated as home or home improvement items rather tan personal property items. According to the 2010 rules, the items in this category must be depreciated over seven years. Some of the items in this category include: bean bag cushion; bed & headboard; bedside table; bookshelves/cases; buffet; bureau; carpet sweeper; cellular phone; chairs; changing table; chests; climbing apparatus; clothes dryer; coffee tables; couch; dehumidifier; desk; dining-room table & chairs; dishwasher; draperies/curtains/blinds; dressers; electric heating unit; end tables; entertainment center; fans; fax machine; file cabinet; fireplace hardware & screen; freezer; general furniture; grill; hand tools; jungle gym; ladder; lamps; lawn furniture; lawn mower/spreader/sprinkler; mats; mattresses; microwave; mirrors; outdoor play equipment; outdoor shed; photocopier; picnic table; pillows; planters; playground equipment; playhouse; porch/deck furniture; power tools; refrigerator; rocking chair/recliner; rugs/carpets; sewing machine; slide; snow blower; sofa; space heater; steam cleaner; stove; stroller; swing set; tables; telephone; tiller; trash compactor; vacuum cleaner; wall decorations; wall pictures/paintings; washing machine; water softener; window air conditioner; workbench; etc.

**Land Improvements:** Land improvements are expenses that increase the value of your property and will remain attached to the land after you leave. If the item does not have a secondary purpose or is not attached to your home it is not deductible. Land improvements may include the following: basketball stand, build-in sandbox, cement slab, cement stairs & railings, drilling a well, fence, fence around a pool, landscaping adjacent to home, lawn sprinkler system, new driveway, patio, play equipment that is permanently attached to the land, retaining wall adjacent to the home, septic tank installation, sidewalk or walkway, sod adjacent to home, swimming pool, trees/shrubs/bushes adjacent to home, water/well pump, wood chips for outdoor play equipment.

**Home Improvements:** Home improvements are expenses for permanent improvements or modifications that increase the value or prolong the useful life of your home. Don't confuse home repairs with home improvements. A repair (such as painting or fixing a broken pipe) merely protects or maintains the current value of your home. According to 2010 rules, home improvements must be depreciated over 39 years. Home improvements may include the following: acoustical ceiling tiles; architect fees; attic fan; awnings; built-in appliances; built-in cabinets/bookshelves; built-in mirrors; carport; ceiling fan/replacement; central air conditioning; central cleaning system; chimney damper;

circuit breaker; closet shelves; cupboards; deck; doorbell; doors/replacement; duct work; fireplace/heater insert; fireplace/mantel; floodlights; furnace; fuse box; garage; garage door opener/replacement; garbage disposal; gutters & drain pipes; insulation; intercom system; kitchen countertop; lawn sprinkler system; mailbox; new plumbing or electrical to bring house up to code; new room addition; paneling; patio & cover; permanent light fixture; porch; remodel of kitchen/bathroom; replacement screens; replacement windows; screen doors; security locks; security system; shed; siding; storm or screen windows; water filtration system; waterproofing; weather stripping; wired-in smoke detectors; etc

**Home:** Your home is probably the most expensive item you will depreciate, and therefore it requires special attention. You will always be better off financially if you depreciate your home. There are two important reasons for taking depreciation on your home. By taking depreciation on your home, you will probably reduce your taxable income by hundreds of dollars every year you are in business. The depreciation you claim on your home is subject to taxes when you sell it, and the IRS rules state that if you are entitled to claim home depreciation, you will be treated as though you did claim it. This means that you will have to pay tax on this amount even if you didn't claim it.