Redleaf National Institute
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REDLEAF NATIONAL INSTITUTE

Redleaf Business Bulletin

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This is a special edition of the Redleaf Business Bulletin, a quarterly newsletter sent as a member benefit to members of Redleaf National Institute. Members also receive a 20% discount on Redleaf Press books and many other benefits. We invite you to join us: www.redleafpress.org or 800-423-8309. Readers are free to reproduce copies of this special issue.

IRS Reduces Burden for Family Child Care Providers

No more saving food receipts!

The Internal Revenue Service announced on February 24, 2003 that family child care providers may now choose to use a standard meal allowance rate to claim food deductions instead of keeping detailed records and food receipts. This new rule will significantly reduce the record keeping burden of family child care providers. The IRS estimates that this new rule could save providers approximately 10 million hours of record keeping. As a result of this rule, many providers will claim higher food deductions and reduce their taxes.

The new rate will adopt the Tier I rate from the US Department of Agriculture's Child and Adult Food Program in effect at the beginning of each calendar year. The Tier I rate is the higher of the two different rates of reimbursement under the Food Program.

Standard Meal Allowance Rates
2003—breakfast $.98, lunch $1.80*, snack $.53
2002—breakfast $.96, lunch$1.78*, snack $.53
2001—breakfast $.94, lunch$1.72*, snack $.51
2000—breakfast $.92, lunch$1.69*, snack $.50
These rates are higher for Alaska and Hawaii
***same for a supper meal**

Providers can use the standard meal and snack rates for a maximum of one breakfast, one lunch, one dinner, and three snacks per child per day. Any extra meals or snacks beyond these amounts may not be counted when using the standard meal allowance rate. The rule does not give guidance on what constitutes a meal or a snack. Providers can count meals even if they do not meet the nutrition requirements of the Food Program.

The new rule (IRS Revenue Procedure 2003-22) is effective for 2003. However, if providers use the Tier I rates for prior taxable years to claim food expenses, the IRS will not challenge this method in an audit.

Redleaf National Institute is proud to have made the standard meal allowance rate possible. We submitted the idea in 2002 and traveled to Washington DC to meet with the IRS. Institute members helped support our efforts that lead to this new rule. Over the years the Institute has had success in getting the IRS to clarify a number of family child care tax issues. We will continue our work to advocate on behalf of providers.

Who is Eligible?

All family child care providers are eligible to use this new standard meal allowance rate, whether or not they are licensed, registered, or otherwise regulated by their own state or locality. This includes unregulated providers, providers receiving subsidy from their state to care for one or more low income children, and even illegal providers. Providers who are not on the Food Program may also use this new rate.

Providers will now have a choice in how to claim their food expenses. They can use this new standard meal allowance rate or they can choose to deduct their food expenses using the actual cost of the meals. Each year providers can choose either method and switch back and forth from year to year. Before providers decide which method to use they may want to estimate their own actual food cost per child per meal and compare it with the standard meal allowance rate. If their actual food cost is greater, they should continue to save all business and personal food receipts.

Own Children

Meals served to a provider's own child may not be counted. The exception to this is if a provider has hired her own child to perform work for her business. In this case the actual cost of the food served to the child may be counted separate from the meal allowance rate. The cost of food served to non-family member employees may also be counted as an actual food cost separate from the meal allowance rate. Meals served by a provider to her granddaughter may be counted using the standard meal allowance rate if the grandmother is paid to provide the care and the grandmother is not legally responsible for the upbringing of the grandchild.

Providers may not count meals if the parent of the child supplies the food. If a parent brings part, but not all, of the food for a particular meal, the provider may be able to claim a portion of the meal allowance rate. Providers should use their own reasonable judgment about whether to claim a portion of the meal allowance rate.

Activity Expenses vs. Food

The actual cost of food purchased as part of an activity, rather than as a meal or snack, may be counted as an activity expense, rather than as a food expense. For example, the cost of a cake served at a birthday party or the ingredients of a gingerbread house can be deducted separately. But, an outing to a McDonald's should be counted as a meal, not a separate activity expense, because the food served is taking the place of a regular meal served at the provider's home. Providers should use their best judgment to determine if a food expense should be counted as a meal or an activity expense.

Non-Food Supplies

Providers can continue to claim non-food supplies used for food preparation such as containers, paper products, or utensils. It is important to keep saving receipts for such items. Even though a provider is no longer saving food receipts, she should remember to save any food receipt that also has on it a nonfood item.

Record Keeping

To use the standard meal allowance rate providers must maintain records that include the name of each child, dates and hours of attendance in care, and the number of breakfasts, lunches, suppers, and snacks served. The Revenue Procedure contains a meal and snack log that providers can use to track this information. Although providers are not required to use this log they should keep records during the year that contain the same information. Providers can use record keeping systems such as the Calendar-Keeper, the Calendar-Keeper Software, or other records such as Food Program monthly claim forms, sign in and sign out sheets, parent contracts, and other methods. The most difficult record to keep is probably hours of attendance. Although the IRS log asks providers to track this on a daily basis, providers who keep reasonable attendance records and whose meal counts are not inconsistent with these records should not have a problem if audited.

Here is an example of the type of summary record a provider should have at the end of 2003 to use this new rule:

Breakfasts	
760 reimbursed	
+ 25 non-reimbursed	
785 total x $.98 =	$769.30
Lunches	
912 reimbursed	
+ 0 non-reimbursed	
912 total x $1.80 =	$1,641.60
Snacks	
1,678 reimbursed	
+ 1,714 non-reimbursed	
3,392 total x $.53 =	$1,797.76
Suppers	
0 reimbursed	
+ 36 non-reimbursed	
36 total x $1.80 =	$64.80
Total:	$4,273.46
Actual cost of food served to employees	$248.50
Total deductible food expenses	$4,521.96

Some providers and tax preparers currently calculate their food expenses using a flat rate per meal that is higher than the Tier I rate. There is no IRS-approved meal allowance rate other than the Tier I rate as announced in this new rule. Providers who use some other flat rate should expect a challenge from the IRS if they are audited. They should keep the same records as required by this new rule, plus all business and personal food receipts.

Food Program

This new IRS rule does not change any Food Program regulations. Providers can still only be reimbursed for three food servings per child per day and providers on Tier II will not be reimbursed at the higher Tier I rate. Participation of the Food Program makes even more sense under this new rule. Food Program rules have always required providers to keep track of children's attendance and meal counts (up to three servings a day). Because of this, providers on the Food Program already have most of the records required by the IRS under this new rule. The additional records needed from Food Program participants are hours of attendance and the additional meals and snacks not reimbursed by the Food Program. Perhaps the best place to report this information is on the Food Program monthly claim form. If your Food Program sponsor does not want you to record non-reimbursable meals on this form (for example, an extra afternoon snack), you could enter these meals on your copy of the monthly form.

Providers who keep their food costs low will benefit greatly with this new rule. Providers who spend less on food than the Tier I rate will be able to claim higher food deductions than they can using the actual cost method.

Claiming Food Program Reimbursements

The new rule says, "A family day care provider who receives a reimbursement for a particular meal or snack, however, may deduct only the portion of the applicable standard meal or snack rate that exceeds the amount of the reimbursement." This statement can be confusing. It assumes that a provider is not reporting as income her reimbursements from the Food Program. This advice of reporting on the net food deduction is similar to advice found in IRS Publication 587 Business Use of Your Home. In our experience, IRS auditors always want to see the entire Food Program reimbursements reported as income and all food deductions reported as an expense. We strongly advise providers to follow this advice from auditors. Note: Food Program reimbursements received by a provider for her own children are not taxable income. Food served to these children cannot be counted as a deduction.

Amending Your Tax Return

Because the new rule allows providers to use the Tier I rate retroactively, some providers may want to consider amending their tax return and claim a higher food expense using the Tier I rate. Before a provider amends her tax return she should consider whether she has records showing children's attendance, hours of operation, and meal counts. Providers can amend their tax return up to three years after filing their taxes.

If you have questions about this new rule, feel free to contact us at Redleaf National Institute (651-641-6675; rni@redleafinstitute.org; www.redleafinstitute.org). Tom Copeland is director of the Institute and Mari Millard is the associate director. Redleaf National Institute has been the leading educator of and advocate for the business interests of family child care providers since 1992.

Q&A About the IRS Standard Meal Allowance Rate

Q: I am a provider on Tier II. Can I use the Tier I rate to claim my food expenses or do I have to be on Tier I before I can?

A: Under the IRS rule, all providers, whether they are reimbursed as Tier I, Tier II, or both, are entitled to claim food expenses using the Tier I reimbursement rate. You can use the Tier I reimbursement rate for food expenses even if you are not on the Food Program.

Q: I thought that I could only claim food expenses that were more than my Food Program reimbursement. Does this new rule change this?

A: There has always been a lot of confusion about how to report Food Program reimbursements and food expenses on the tax form. The best advice is this: report all your Food Program reimbursement as income on Schedule C (line 6). There is an exception: do not report as income any reimbursements you get for your own children. Claim as a food expense all the food served to the children in your care (not counting your own children). Your food expenses might be more or less than your Food Program reimbursements. You can also claim deductions for meals that you were not reimbursed and for food that does not meet the nutrition standards of the Food Program. The new rule makes it easier to calculate your food expenses by using the Tier I rate for all the meals you served.

Q: I compared what I would get as a food deduction under the new rule with what I estimated I actually spent on food. My deductions would be less if I used the new rule. Can I continue to use my own method of estimating food expenses?

A: Yes. If you see that you can get a higher food deduction by using your own method to estimate your actual food costs, you don't have to use the new rule. Providers who live in areas with a higher cost of living, or providers who spend more on food may be better off not using the new rule. If you are using your own method to estimate your food expenses be sure to keep attendance records, meal counts, and business and personal food receipts. For a detailed explanation of how to calculate your own food expenses, see *Family Child Care Record Keeping Guide* (Redleaf Press).

Q: My tax preparer has always advised me to consider food expenses a "wash." So I don't report the Food Program reimbursements or any food expenses on my tax return. What do you think of this?

A: This is not a good idea. Most providers spend more on food than they get from the Food Program. This is because many providers serve extra meals and snacks that are not reimbursed by the Food Program, they serve non-nutritious food on occasion, and sometimes children eat more than one serving at a meal. If you are a Tier II provider you are probably spending hundreds and hundreds of dollars more on food than you get from the Food Program. So, if you don't report either your reimbursements or your food expenses on your tax return you are probably paying more in taxes than you should.

Q: Each day I serve breakfast, lunch and two snacks. Does this rule say I can count one more snack and supper towards my food expenses, even though I didn't actually serve this food?

A: No. You can only count meals that you actually served.

Q: I care for a child who is over age 12 and is not eligible to

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participate on the Food Program. Can I still count the meals that this child eats as part of the standard meal allowance calculation?

A: Yes.

Q: If I don't save food receipts any more, how am I going to be able to claim trips to the grocery store as a business trip?

A: To claim a trip to the grocery store as a business trip you need to show that the "primary" purpose of the trip was business. Buying more business food than personal food is evidence that the trip was primarily for the business. If you are no longer saving your food receipts, it will be more difficult to show this. If you have cancelled checks that show both business and personal trips to the grocery store then it will be easier to claim the business trips. You could make a notation on your calendar of all the grocery store trips you make (business and personal). If you can't keep track of this for the entire year, try to carefully record this on your calendar for at least two months each year. In other words, if you recorded that you took 10 trips to the grocery store that were primarily for your business and another 5 personal trips, you would claim an average of 5 business trips a month for the year, or 60 trips. Never claim 100% of your trips to the grocery store as business trips.

Provider Feedback

"Thank you for your work in getting the standard meal rates passed. What a relief, and it will be so much easier!" –Bev Trower, Provider

"Thank you very much for the email informing me about the new changes in keeping grocery records. I just became a licensed provider and was concerned about how to keep track of the food expenses. I am very excited about having a set standard rate to claim for meals served. Thank you for all you do to advocate for child care providers." –Amy Stensvad, Provider

"Tom Copeland and Mari Millard, Thanks so much for going to bat for us providers! Your efforts are appreciated." –Provider

"Thanks so much Tom Copeland for all you do to promote family child care, especially where it counts, in the pocketbook! The new IRS ruling looks to be a real time saver (and money) for providers across the US! Thanks!" –Sherry L. Engelbert, CDA Provider, Ottawa, Kansas

Calendar-Keeper Software version 4.0 Updated for 2003-2004

Calendar-Keeper Software helps you manage your childcare business quickly and effectively, so you can spend more time doing what you love – being with the children.

With this easy-to-use PC-platform software you will be able to organize information, track expenses, and bill customers – it's like having a professional bookkeeper on staff! Here is just a sampling of the ways in which the *Calendar-Keeper* Software can help you organize and track information for your business:

- Tally meal counts including Food Program records to meet the new IRS standard meal allowance roles
- Track business expenses and your time-space percentage for accurate tax reporting
- Keep attendance records including "flex-tracking" for families
- Plan menus, check nutrition information, and create shopping lists
- Electronic User's Manual allows instant access to quick "how-to" tips and as well as step-by-step instructions
- FREE technical support for the first 30 days

Visit www.redleafpress.org and download a free 30-day trial of the software. See how the *Calendar-Keeper* software can reduce your workload for only $169.95 – that's just $.23 cents per day over a two-year period. And, your purchase is tax-deductible!

Simply your life and put this powerful business management tool to work for you today! Call 800-423-8309 or fax 800-641-0115 for more information, or to place your order. Remember, RNI members save 20% off the catalog price!

***Calendar-Keeper* Software 4.0**

"I could not function daily without the C-K Software... It is my organizer, meal planner, and record keeper. ...It has already helped to clear one dispute over money. Thanks for the office tools every provider needs and [for] making it all so easy to use and affordable!"
–Kay Gillock, Gillock Gang's Home Childcare