

Family Child Care Provider Guide



The Internal Revenue Service, Small Business Self-Employed, Taxpayer Education and Communication, Cleveland, Ohio created this document. It is intended to assist Ohio Family Child Care Providers in the preparation of their Form 1040 and related forms and schedules.

Any comments concerning this document may be e-mailed to clevtec@irs.gov

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Introduction

This guide provides the basic information you need to address federal tax issues arising from the operation of your business. The primary focus is on **Child Care Providers** who operate their in-home businesses as sole-proprietors on the cash method, with a calendar year ending December 31. If your business is organized as a corporation, partnership, or other tax entity, refer to Publications 541 or 542. You should also contact your state and local tax agencies to determine if other regulations and or reporting requirements are necessary.

This guide is meant to provide a general explanation of the federal tax laws that may apply to your business. References to more detailed publications and other resources available from the Internal Revenue Service are included throughout this guide.

Whether you prepare your own tax returns or hire tax professionals, you should be informed about the tax rules and regulations to minimize errors and misunderstandings that can cost you both time and money. In addition, by understanding the tax rules, you will discover that you may be eligible for special credits, such as the Earned Income Tax Credit.

We wish you great success in your business venture and hope you will find this guide helpful.

Child Care Provider Check List

What Must I Know? / What Records Must Be Kept?	Where To Find the Answer
<p>Gross Receipts:</p> <ul style="list-style-type: none"> Do you have bank statements, both personal and business? Do you have documentation of who your clients are and the amount they paid you? Do you have records of any government subsidies you received? 	<p>See Income on Page 8</p>
<p>Allowable Business Expenses:</p> <ul style="list-style-type: none"> Do you have the required licenses, approvals, registrations, and certifications? Do you have documentation in the form of cancelled checks, receipts, statements, or invoices of expenses (e.g. insurance, food, utilities, repairs, improvements, etc.)? Do you have documentation to substantiate your deduction for mileage (e.g. mileage log, calendar notation, cancelled checks, etc.)? 	<p>See Business Expenses on Page 9</p>
<p>Business use of the home documentation: (Caution: you must comply with applicable state regulations for business deduction to be allowable.)</p> <ul style="list-style-type: none"> Do you have a floor plan or other significant documents to reflect the square footage of the residence? Do you have documentation of the total number of hours the facility was used for day care during the year? (Caution: If child care was started or stopped during the year, see instructions for Form 8829.) If you are a homeowner, do you have a copy of the escrow and/or closing statement to verify the cost of the property? Do you have mortgage statements or receipts showing the paid property tax and interest amounts should be provided to verify these deductions? If you are renting your home, do you have substantiation of the expenses and a copy of the rental agreement? 	<p>See Business Use of the Home on Page 15</p>

<p>Earned Income Tax Credit Eligibility Checklist: If you are eligible, complete EIC Worksheet B.</p>	<p>See Earned Income Credit on Page 17</p>
<p>Taxes and Payments: Was your net profit more than \$400.00? If yes, complete Schedule SE. Are you required to make estimated tax payments? If yes, complete Form 1040ES.</p>	<p>See Self Employment Tax on Page 17 See Estimated Tax on Page 20</p>

Who Is A Child Care Provider?

There are several types of child care providers. Below are short definitions of the most common types of providers.

Family Day Care: Family Day Care is *childcare provided in the home of the provider*, is non-medical, and is for less than 24 hours. In some states, a provider must attend an orientation and/or complete an application-processing seminar to obtain a license. Regulatory requirements may differ from state to state. The provider might be approved, certified, registered, licensed, or exempt from regulation under applicable state or local laws.

Child Care Centers: Many childcare centers are organized as corporations or partnerships. Care is usually provided in separate facilities, apart from the owner's residence. There may be more than one facility within a corporation or partnership. These centers are regulated in most states.

Home Care: Some children are cared for in their own home by a paid housekeeper, maid, governess, au pair, or nanny. The home caregiver is generally paid as a household employee. The parents show the wages on Schedule H, attached to their Form 1040. Home care is not a childcare provider business. The nanny, housekeeper, etc. receives wages, but does not incur expenses as a childcare provider. For a more detailed discussion of childcare performed in the child's home, see **Publication 926, Household Employer's Tax Guide** and **Publication 503, Child and Dependent Care Expenses**.

Other: There are other types of child care providers such as after-school programs, church programs, or other tax-exempt entities.

Regulatory Requirements

Before we go more deeply into the tax implications of your new business, we should mention something that is very important about this type of business -- STATE REGULATIONS. Many businesses are regulated in some way by state or local governments. However, child care businesses operating in the provider's home must be especially aware of their state and local regulations.

Many states not only define what a child care operation is, but require that a child care provider be licensed, registered, approved, attend an orientation or seminar, or comply with other regulations. These requirements may vary considerably from state to state. One source for information on state childcare licensing regulations is the National Resource Center for Health & Safety in Child Care. Their Web address is <http://nrc.uchsc.edu>, and their phone number is

1-800-598-KIDS. You can also locate your particular state agency in the government section of your telephone book. You should become familiar with these requirements as they may have an effect on your federal taxes.

The Internal Revenue Code provides that if, for example, you use your home for the business of childcare and you have NOT complied with the state laws, then your office in the home deductions are denied for federal income tax purposes.

Sole Proprietorships

A sole proprietorship is an unincorporated business that is owned by one individual. It is the simplest form of a business organization to start and maintain. The business has no existence apart from you, the owner. Its liabilities are your personal liabilities and you undertake the risks of the business for all your assets, whether or not used in the business. You include the income and expenses of the business on your own tax return. Most home-based childcare providers operate their businesses as a sole-proprietorship.

Accounting Period

When preparing your income tax return, you must use your books and records for a specific interval of time called an accounting period. The annual accounting period for your income tax return is called a “tax year.” You choose a tax year when you file your first income tax return. A “calendar” tax year is 12 months, beginning January 1 and ending December 31. If you filed your first income tax return using the calendar tax year and you later begin business as a sole proprietor, you must continue to use the calendar year.

Accounting Method

An accounting method is a set of rules used to determine when and how income and expenses are reported. You choose an accounting method for your business when you file your first income tax return for the business. After that, if you want to change your accounting method, you must generally get IRS approval by filing Form 3115, *Application for Change in Accounting Method*. The most common and simplest method of accounting is the cash method. Using the cash method, income is reported when it is received and expenses are deducted when they are paid. Record in your journal or ledger the amount you receive when you have actual or *constructive receipt* and not when someone owes it to you.

Constructive receipt of income

You have constructive receipt of income when an amount is credited to your account or made available to you without restriction. You do not need to have possession of it.

Example

Frances Jones, a childcare provider, was entitled to receive an \$800 payment in December, 2002. One of her customers offers to pay the amount on December 30, 2002; but, Frances asks that payment be delayed until January, 2003. Frances must include the \$800 in her 2002 income because the \$800 was constructively received in 2002. If, however, the payment for services was not due and paid until January, 2003, it would be included as income for 2003.

Example

Receipt of a valid check by the end of the tax year is constructive receipt of income in that year, even if you do not cash or deposit the check until the following year.

Tax Form Requirements

Tax forms that might be attached to your return or may be required to be filed are addressed in the table below:

Which Forms Must I File?

If You Are A:	You May Be Liable For:	Forms and Due Dates:
Sole Proprietor	Income tax Self-employment tax Estimated tax	1040, Schedule C, and Form 8829, Business Use of Home. Due no later than April 15 th following the close of the tax year. If you are a fiscal year taxpayer, your return is due no later than the 15 th day of the 4 th month following the end of your tax year. 1040 and Schedule SE. Due date same as above. 1040ES. Quarterly payments are due by April 15, June 15, September 15, and January 15. If you are a fiscal year taxpayer, then due dates will be different.

An Employer?

It is important to know whether you are an employer for tax purposes. A person who works for you may be classified as a common-law employee, or an independent contractor. The definition for common-law employees provides that anyone who performs services for you is your employee, if you can control what they do and how they do it. An independent contractor performs services for you, but is not under your direct control. Classification of the people who provide services for you determines which forms you must file and what taxes you must pay.

For more information, refer to **Publication 15, Circular E, Employer's Tax Guide**.

Identification Numbers and Form W-10

The two most common kinds of a taxpayer identification number (TIN) are the social security number (SSN) and the employer identification number (EIN). As a day care provider, you must provide your TIN, along with your name and address to your customers, so that the IRS can process their tax returns. To facilitate meeting this reporting requirement, you can elect to complete **Form W-10, Dependent Care Provider's Identification and Certification**

Record Keeping

Record keeping is one of the most important tasks you'll face as a small business owner. It is one that many small business owners find challenging. You spent many hours learning your trade, not bookkeeping; however, you'll find that a good record keeping system will enable you to monitor the progress of your business. It will help you understand past business accomplishments and guide you towards future growth. There is no need for you to have an accounting degree to be a good record keeper. Most office supply stores have software or computer programs that you can use and will help you to get organized.

A good record keeping system is the foundation for most of your financial decisions. You need reliable financial statements to apply for loans, establish credit, as well as prepare tax returns. The following list gives some tips on how to keep good records:

- Keep receipts and records of business and personal expenses separate.
- If possible, keep only one checking account for your business and keep it separate from your personal accounts.
 - Deposit all income into the account (whether in cash or by check).
 - Record the source and nature of each deposit.
 - Pay for all business expenses with checks written on the business account.
 - Record the purpose of the expense on the memo area of your check.
 - Reconcile the bank statement each month.
- Record the number of **business** miles driven each day.
- Keep necessary supporting documents such as statements and/or receipts of purchases. A check alone may not prove that an expense is deductible.
- Record the related check number on receipts.
- Summarize your income and expenses often, at least once each month.

Manual Records

Data Cards

Most childcare operations maintain a card file system containing pertinent information for each child attending the childcare center. Information recorded may include:

- The child's full name, date of birth, relevant medical information
- Parents' full names, address, telephone number
- Schedule -- hourly, daily, weekly, monthly, etc. (refer to worksheet 3)
- Special instructions
- Names, addresses and telephone numbers of others who may be authorized by the parents to drop-off and pick up the child
- Record of weekly rate, regular and special charges, and payments made

Attendance Lists

An attendance list showing the names of each child in attendance on each and every day should be kept for safety and accountability purposes. Most states and other government agencies that impose regulations or provide financial subsidies usually want this information, and payments are often made based on actual, substantiated attendance.

Ledgers

Ledgers are usually sheets of paper with several different columns that can be used for a variety of purposes. A Cash Receipts and Disbursement (Expense) Ledger is a very good tool to record all money received and all expenses paid out with columns for different type of expenses. These can then be reconciled each month to the bank records.

Ledgers can be used for recording almost all record keeping data and will prove invaluable at tax preparation time.

Receipt Folders

Maintain receipts, invoices, or other documentation of expenses in folders or large envelopes categorized by the type of expense (one suggestion is to begin with the categories of deductions on the Schedule C). Try *not* to keep receipts for all categories in the same folder. This makes reconciling and tracing a difficult task for you or your accountant, especially at tax time.

Log Books

Maintain a logbook for all business miles you put on your vehicle so you can substantiate your deductions for business use of your vehicle. Your log should show the date and purpose of the trip and the actual miles driven for business use. Subtract any personal miles driven in the same trip. For example, if you need to go to the grocery store to pick up groceries for breakfast, lunch, and afternoon snacks for the next few days for the children under your care, then you would record that mileage to and from the grocery store as business mileage, even if you did some personal shopping. However, if you went from the grocery store to another store solely for personal purposes and returned to your residence, then only the mileage to the grocery store would be considered business and should be logged. Remember, the purpose of the logbook is to provide a record of your business mileage incurred on your vehicle that could result in a business expense deduction. Accuracy and reasonableness are key.

Regulatory

Maintain any special records that may be required by State or other regulatory agencies.

Computer Records

In addition to manual records, many people also use computers for record keeping. Computers can make the job of keeping good financial records easier. Be sure the software program used is capable of recording, analyzing, and providing the necessary information to meet your tax and business needs. Of course, with any important information, be sure to do regular backups of the data files.

How Long Must I Keep My Records?

In general, you must keep all records to prove your income and deductions for three years after you file your tax return. However, if you have employees, you need to keep all employment tax records for four years. When you purchase equipment or other property that you will use in your business, you must keep records on this property for at least three years after you stop using the item in your business. As a general rule, keeping records for seven years is a conservative approach.

Income

Sources

Your Business Income may come from three main sources:

- Fees for your services, special trips, events, parties, late pickup, etc.
- Government Subsidies: federal food program reimbursements to the extent the subsidies exceed food costs (see below).
- Interest from business savings accounts or investments.

Gross receipts are reported on line 1 of **Schedule C, Profit or Loss from Business**.

Method of Payment

Generally, you will receive three types of payment for your in-home childcare services:

- Cash;
- Checks;
- Subsidy Payments from the *U.S. Department of Agriculture, Child and Adult Care Food Program (CACFP)*.

The most common type of payments are cash and checks. Subsidy payments are federal food program reimbursements (normally arranged through your state and local agencies) for purchasing food for meals and snacks. Payments are based on set rates per meal and changed periodically. You should contact your state child welfare agency to see if you qualify.

Example

Frances Jones, a childcare provider, has three customers for whom she provides daycare services. Customer A pays \$40 in cash daily, Customer B pays \$40 by check daily, and Customer C pays \$200 by check weekly. Frances also receives a subsidy check of \$600 each month from the state (\$150 x 4 weeks). Frances is required to keep a record of all payments received. She can simply record the payments received in a notebook or receipts book.

For the week, Frances will have receipts of:

Customer:	Payment:	Weekly Receipts:
A	\$40 cash x 5 days	\$200 Cash
B	\$40 check x 5 days	\$200 Checks
C	\$200 check x 1 week	\$200 Check
Food Subsidy	\$600 check / Month	\$600 Check *
	Receipts for Week	\$1,200.00

* For tax purposes, only the difference between the total annual food subsidy and the total annual food costs will be shown as income or expense on your Schedule C.

Consider the following items before figuring your gross income:

- At the end of each business week, make sure your records balance with your actual cash and credit receipts for the week. Refer to Worksheet 4, at the end of this guide.
- When you file Schedule C–EZ or Schedule C, your gross receipts are generally the total income received from your childcare business operations.
- List any additional income on line 6 of Schedule C, such as interest earned on your business checking account.

Business Expenses

You may be able to subtract from your business income the ordinary and necessary expenses that you actually pay in conducting your business. An expense does not have to be indispensable to be considered necessary. The following is a list of some common expenses and their impact on your childcare business. It is not all-inclusive and some examples may or may not apply to your business. Refer to Worksheet 1, at the end of this guide.

Your business expenses are claimed on **Schedule C, Profit or Loss from Business**, under Part II, Expenses.

NOTE: *If you have an expense that is partly for business and partly personal, separate the personal portion from the business portion before recording the expense.*

Bad Debts

A “cash method” taxpayer should not have a bad debt expense because income is recorded only when it is received. Since income was not recorded because you were never paid, there is no bad debt deduction. You cannot take a bad debt deduction for money owed to you. If and when it is finally paid, you must show it as income in the year actually received.

Car & Truck

Car and truck expenses include the costs associated with your vehicle used for business purposes, such as taking the children on field trips, picking up groceries and supplies, (be careful to determine business vs. personal use) or going to a business meeting.

Expenses for mileage should be allocated between business and personal. However, if you travel to a single destination and engage in both personal and business activities, the expense can only be subtracted, if the trip is related primarily to your business. If the trip is primarily personal in nature, the expense is not allowable, even though you engage in business while at such destination. Whether a trip is related primarily to business or is primarily personal in nature depends on the facts and circumstances of each case. If a trip involves multiple locations, then only the mileage to/from the business-only destination is deductible.

Methods for Subtracting Car and Truck Expenses

You can use one of the following methods to figure your expenses.

- Standard mileage rate.
- Actual expenses.

Standard mileage rate

You may be able to use the standard mileage rate to figure the allowable costs of operating your car or van for business purposes. For 2002, the standard mileage rate is 36.5 cents a mile for all business miles. To compute your deduction, multiply the standard mileage rate by your ***business miles***. You should maintain a logbook to document your actual business miles. A logbook is simply a written record of the number of miles driven, the date the trip was taken, and the business purpose of the trip. If you choose to use the standard mileage rate for a year, you cannot subtract your actual expenses for that year, except for business-related parking fees, tolls, interest on vehicle loan, and vehicle property tax.

If you choose to use the standard mileage rate for a car or truck you own, you must choose to use it in the first year the car is available for use in your business. In later years, you can choose to use either the standard mileage rate or actual expenses. If you want to use the standard mileage rate for a car you lease, you must use it for the entire lease period for leases that began on or before December 31, 1997.

Actual expenses

If you do not use the standard mileage rate, you may use your actual car or truck expenses to reduce your business income. You must maintain the records of all your vehicle expenses, including the business miles versus total miles driven. These expenses, including the vehicle cost or other basis, must be substantiated. You would then compute a business use percentage and apply that percentage to the total vehicle expenses. The cost of the vehicle should be depreciated. (See the depreciation discussion later.)

Example. You drove your van 20,000 miles during the year. 12,000 miles were for driving children to and from school as part of a morning and afternoon program and 8,000 miles were for personal use. You can claim only 60% (12,000 divided by 20,000) of the cost of operating your van as a business expense.

NOTE: Remember, you are only entitled to deduct a percentage of the total vehicle expenses based on how much your vehicle is used in your business. Your business use can vary from year to year. It is your responsibility to keep track of your business use.

TIP: If you qualify to use either method, choose the method that that will give you the larger expense. For more information refer to **Publication 463, *Travel, Entertainment, Gift and Car Expenses***.

Start-up Costs

Start-up costs are expenses incurred prior to opening the business. These may include advertising costs, inspection fees, travel expenses, professional fees, and training expenses paid or incurred prior to opening day. ***Start-up expenditures cannot be deducted as a current expense.*** These capitalized expenses may be amortized over a 60-month period, if you elect to claim the amortization. The election must be made on a timely filed return for the tax year in which the business begins. Refer to Worksheet 2, at the end of this guide.

The amortization of start-up costs is computed on part VI, of **Form 4562** and listed as Other Expenses in Part V, of **Schedule C**. You make this election by attaching the completed Form 4562 to your return.

Gifts

Gifts to the children or their parents are limited to a deduction of \$25 per client per year and must meet certain record keeping requirements. See **Publication 463, *Travel, Entertainment, Gift and Car Expenses***, for further information.

Insurance

Business insurance is an allowable deduction. This expense normally includes general business liability coverage, asset insurance for large assets used by the facility, and other property related insurance costs. Insurance expense is covered in greater detail in **Publication 535, *Business Expenses***.

Health insurance deduction for the self-employed

You may qualify to deduct a percentage of the amount you paid during the year for medical insurance and qualified long-term care insurance for yourself and your family. For additional information regarding this deduction, see **Publication 535, *Business Expenses***.

Interest

You can generally expense on Schedule C all interest you pay during the tax year on debts related to your business. Interest is deductible in your business, if you use the proceeds of the loan for a business purpose. It does not matter what type of property secures the loan. You can expense interest on a debt only if you meet all of the following requirements.

- You are legally liable for that debt.
- Both you and the lender intend that the debt be repaid.
- You and the lender have a true debtor-creditor relationship.

If a loan is part business and part personal, you must divide the interest between personal and business.

Example

In 2002, you paid \$600 interest on a car loan. During 2002, you used the car 60% for business and 40% for personal purposes. You are claiming actual expenses on the car. You can only deduct \$360 (60% of \$600) for the 2002 tax year on Schedule C. The remaining interest of \$240 is a nondeductible personal expense.

For more information about expensing interest, see chapter 5 in **Publication 535, *Business Expenses***.

Legal and Professional Fees

Legal and professional fees, such as fees charged by accountants and/or tax preparers, directly related to operating your business can be expensed. However, you usually cannot expense legal fees you pay to acquire business assets. They must be added to the basis (cost) of the property. If the fees include payments for work of a personal nature (such as making a will), you can take a business expense only for the part of the fee related to your business. The personal portion of legal fees for producing or collecting taxable income, doing or keeping your job, or for tax advice may be deductible on Schedule A (Form 1040), if you itemize your deductions. For more information, see **Publication 529, *Miscellaneous Deductions***.

Pension Plans

You can set up and maintain a small business retirement plan for yourself. For more information on retirement plans for small business, see **Publication 560, *Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans)***.

Rent Expense

Rent is any amount you pay for the use of property you do not own. In general, you can deduct the amount paid for rent only if it is for property that you use in your business.

Rent on your home

If you rent your home and use part of it as your place of business, you may be able to deduct the rent you pay for the business portion. You must meet the requirements for business use of your home. For more information, see *Business Use of Your Home*, later.

Rent paid in advance

Generally, rent paid in your business can only be deducted in the year paid. If you pay rent in advance, you can only expense the amount that applies to your use of the rented property during the tax year. The remainder of the payment can be claimed over the period to which it applies.

Repairs/Maintenance

Repairs and maintenance expenses incurred in your business are an allowable expense. This may include personal equipment that would be used in the operation of your business, but only to the extent of the business use percentage.

Supplies

Expenses incurred for diapers, cleaning, craft, or educational items, etc. for your clients' children are an allowable expense. Be sure to reduce this expense by any items used by your own children.

Taxes

You can expense various taxes directly attributable to your business. Generally, you can expense state or local income taxes you paid regarding your business. **Do not expense federal income tax.**

Self-employment tax

You will report one-half of your self-employment tax on line 27, of Form 1040. Self-employment tax is explained later.

Personal property tax.

You can expense on Schedule C any tax imposed by a state or local government on personal property used in your business. You can also deduct registration fees for the right to use property within a state or local area.

Example. Mary Jane drove her car 7,000 business miles out of a total of 10,000 miles. She paid \$25 for the state license tags and \$20 for the city registration sticker. She also paid \$235 in city personal property tax on the car, for a total of \$280. She is claiming actual car expenses and can subtract 70% of her car business expenses (70% of the \$280, or \$196.)

Licenses

Expenses for your business license, or certification/registration fees are allowable.

Utilities

Expenses for water, electricity, gas, cable television, garbage pickup, etc., will normally be part of your business use of the home expenses described later.

Telephone

The monthly expense for basic local telephone service is a nondeductible personal expense, even though the state requires the provider to have a telephone in order to be licensed. Additional telephone charges incurred for business purposes or for a second phone line exclusively for the business, are deductible to the extent substantiated.

Meals

Food bought for meals and snacks provided for your child-care recipients are an allowable expense on Schedule C. You can never subtract the cost of food consumed by you or your family as a business expense.

Keep a record (with receipts) of food purchased for your child-care recipients. ***This record should be separate from your family household food expenses.*** Reimbursements you receive from a sponsor under the Child and Adult Food Care Program of the Department of Agriculture are taxable only to the extent they exceed your expenses for food for eligible children. If your reimbursements are more than your expenses for food, show the difference as income in Part I of Schedule C. If your food expenses are greater than the reimbursements, show the difference as an expense in Part V of Schedule C. Do not include payments or expenses for your own children if they are eligible for the program. Follow this procedure even if you receive a Form 1099 reporting a payment from the sponsor.

The following table lists the expenses that are 100% deductible for business and expenses that must be allocated based on business use:

Miscellaneous Expenses – May be 100% Allowable	Business Portion Only Percentage of Expenses
Accounting Services Advertising – telephone directory ads, flyers, brochures, etc. Arts and Crafts Supplies Answering Service Bank charges for Day Care checking accounts Books and magazines for Day Care children or Day Care purposes Business Association Dues Educational Expenses (classes related to Day-Care purposes, i.e. CPR Course.) Field trips and projects Fire Extinguishers (Day-Care) Food Expenses (Day-Care) Gifts (limit \$25.00 per child per year) Insurance (Day Care liability) Interest on Business Debts Licensing Fess and physicals Office Supplies Substitute Child Care Provider Fees Toys (Day Care Children) Telephone (Day Care long distance charges – charges that apply specifically to Day Care)	Appliance repairs Basic cable television costs Cleaning Supplies Computer software for business Home repairs (may be an item for depreciation) Household maintenance and supplies Laundry supplies Maid Service Mileage (must keep accurate daily log of business miles. This will determine business percentage. This must be maintained for both standard mileage and actual expenses.) Property taxes Home mortgage interest Home insurance Utilities (gas, heating oil, electricity, water, garbage removal)

Depreciation

Depreciation is the deduction that is allowed for assets used in a trade or business that have a useful life of more than one year, such as cars, trucks, cribs, TV's, VCR's, special backyard playground equipment, and fencing. Generally, you cannot deduct the entire cost of assets in the year of purchase. Instead, the costs of business assets are depreciated over a set period of time called a recovery period. In other words, the deduction is spread over the period the equipment is expected to produce income for you.

For assets that are used for both business and personal purposes, you must compute the business and personal use percentage of each asset.

While you generally cannot deduct the cost of assets in the year of purchase, there is a provision for certain types of assets (within certain limitations) that may allow you to do just that. It is called the Internal Revenue Code section 179 Deduction. See **Publication 946, *How to Depreciate Property*** for more information.

Your depreciation and section 179 deduction is computed on **Form 4562, *Depreciation and Amortization***, and claimed on line 13 of **Schedule C, *Profit or Loss from Business***.

The following table shows what can and cannot be depreciated:

What can be depreciated	What cannot be depreciated
<p>You must depreciate property if it meets all the following requirements:</p> <ul style="list-style-type: none"> • It is used in business. • It has a useful life that extends substantially beyond the year it is placed in service. In other words, it must be expected to last more than one year. • It is something that wears out, decays, gets used up, becomes obsolete, or loses its value from natural causes. 	<p>You cannot depreciate any of the following items:</p> <ul style="list-style-type: none"> • Property placed in service and disposed of in the same year. • Land. • Repairs and replacements that do not increase the value or lengthen the property’s useful life. Instead expense these amounts and place on line 21 of Schedule C.

Examples of Depreciable Items are the Business Portion of the Following:

- VCR Movies
- Automobile used in Day Care – if you are using the standard mileage rate deduction, then depreciation is not allowed
- Carpets
- Fencing
- Furniture – Cribs, playpens, car seats, etc.
- Home – excluding land
- Major appliances

NOTE: *If the depreciable item is used partly for business and partly personal, you can only depreciate the business portion.*

Business Use of the Home

Your expense for business use of your home is calculated on Form 8829, and then transferred to Schedule C, Part II, line 30. The space used in your home on a regular basis for providing childcare, is deductible as a business expense even though you use the same space for nonbusiness purposes. To qualify for this business expense, you must meet the following requirements:

1. You must be in the business of providing care for children.
2. You must have applied for, been granted, or be exempt from having a license, certification, registration, or approval as a childcare provider under state law. You do not meet this requirement if your application was rejected or your license or other authorization has been revoked.

Figuring the deduction

To use the business use of the home deduction, you will need to know the area of your home used for childcare, and the entire size of your home. In addition, you need to keep track of the number of hours per day and the number of days per year that your home is used for child care activities. This time calculation could include hours used to conduct business activities after the children are gone (i.e., administrative duties, cleaning, etc.). This information is used to compute the business percentage on Form 8829. If there is an area of your home used **exclusively** for childcare, see the special computation required in the Form 8829 instructions.

TIP: Contact your county auditor for assistance in determining your square footage.

Examples of Business Use Expenses

If you qualify to claim business use of the home expenses, you can use the business portion of these expenses to figure your business use of the home deduction. These expenses include the following:

- Real estate taxes
- Deductible mortgage interest
- Casualty losses
- Depreciation **
- Insurance
- Rent
- Repairs
- Security system
- Utilities

Depreciation allowed or allowable on your home will decrease its basis. For additional information please refer to **Publication 551, *Basis of Assets*.

If your gross income is less than your total business expenses, your deduction for certain expenses related to the business use of your home is limited. This is taken into consideration on Form 8829; however, more information is available in **Publication 587, *Business Use of the Home***.

Net Profit Or Loss

After figuring your business income and expenses, you are ready to figure the net profit or net loss from your business. You do this by subtracting business expenses from business income. If your expenses are less than your income, the difference is net profit and becomes part of your income on page 1, of Form 1040.

If your expenses are more than your income, the difference is a net loss. You usually can deduct your net loss from gross income on Form 1040. Refer to Worksheet 4, at the end of this guide.

Self-Employment Tax

Self-employment tax is essentially the self-employed person's contribution to the Social Security System. It is computed on your net profit, if over \$400. It is computed only for one person -- the owner of the business. It cannot be split between you and another person, such as your spouse, even if that person works with you in the business.

Self-employment tax is calculated on Form 1040, **Schedule SE, *Self-Employment Tax***. Instructions are on the form and more information is contained in **Publication 533, *Self-Employment Tax***.

Self-employment tax is 15.3% of your Schedule C profit. The form calculates this tax for you. In addition to this tax, you get a deduction for one-half of this tax on the front of your 1040 tax return, as an adjustment to your total income. Line instructions on Schedule SE will tell you where to insert the figures. This deduction reduces your overall taxable income.

Child Tax Credit

The child tax credit is a tax credit for certain individuals who have a qualifying child. This credit can reduce your income tax. Definitions of a qualifying child and a worksheet for calculating this credit are contained in the Form 1040 instructions. This credit is shown on line 48 of Form 1040.

In some instances, individuals may get less than the full amount of the child tax credit and may be eligible for the Additional Child Tax Credit. The additional child tax credit may give you a refund even if you do not owe any income tax. This part of the credit is computed on **Form 8812, *Additional Child Tax Credit***, and claimed on line 63 of Form 1040. You may also need to refer to **Publication 972, *Child Tax Credit***, for additional worksheets and information.

Earned Income Tax Credit

The earned income credit (EIC) is a tax credit for certain people who work and have earned income under a yearly threshold. A tax credit usually means more money in your business. It reduces the amount of tax you owe. The EIC may also give you a refund.

EIC Eligibility Checklist

You may claim the EIC if you answer Yes to all of the following questions. *

1. Do you, your spouse, and your qualifying child each have a valid SSN that allows you to work?
 2. Is your filing status married filing jointly, head of household, qualifying widow(er), or single?
Caution: If you are a nonresident alien, answer YES only if your filing status is married filing jointly and you are married to a U.S. citizen or resident alien.
 3. Answer YES if you are not filing Form 2555 or Form 2555-EZ. Otherwise, answer NO.
 4. Is your investment income \$2,450 or less?
 5. Is your total earned income at least \$1 but less than:
 \$10,710 if you do not have a qualifying child,
 \$28,281 if you have one qualifying child, or
 \$32,121 if you have more than one qualifying child?
 6. Is your modified AGI less than:
 \$10,710 if you do not have a qualifying child,
 \$28,281 if you have one qualifying child, or
 \$32,121 if you have more than one qualifying child?
 7. Answer YES if you (and your spouse if filing a joint return) are not a qualifying child of another person. Otherwise, answer NO.
- STOP: If you have a qualifying child, answer questions 8 and 9 and skip 10–12. If you do not have a qualifying child, skip questions 8 and 9 and answer 10–12. *
8. Does your child meet the age, residency, and relationship tests for a qualifying child?
 9. Is your child a qualifying child only for you? Answer YES if your qualifying child is also a qualifying child for another person but your modified AGI is higher than the other person's.
 10. Was your main home (and your spouse's, if filing a joint return) in the United States for more than half the year?
 11. Were you (or your spouse if filing a joint return) at least age 25 but under age 65 at the end of 2001?
 12. Answer YES if you (and your spouse if filing a joint return) cannot be claimed as a dependent on anyone else's return. Answer NO if you (or your spouse if filing a joint return) can be claimed as a dependent on someone else's return.

***PERSONS WITH A QUALIFYING CHILD:** If you answered YES to questions 1 through 9, you can claim the EIC. Remember to fill out Schedule EIC and attach it to your Form 1040 or Form 1040A. You cannot use Form 1040EZ.

PERSONS WITHOUT A QUALIFYING CHILD: If you answered YES to questions 1 through 7, and 10 through 12, you can claim the EIC.

If you answered NO to any question that applies to you: You cannot claim the EIC.

There is a special EIC Worksheet you need to complete in order to determine the amount of your credit. Below is a copy of the EIC Worksheet for self-employed persons.

EIC Worksheet **B**—Earned Income Credit (EIC)

Keep for Your Records

Use this worksheet if you were self-employed, or you are filing Schedule SE because you had church employee income, or you are filing Schedule C or C-EZ as a statutory employee.

TIP: You can tear this worksheet from the booklet before you begin 

- ✓ Complete the parts below (Parts 1–3) that apply to you. Then, go to Part 4.
- ✓ If you are married filing a joint return, include your spouse's amounts, if any, with yours to figure the amounts to enter in Parts 1 through 3.

<p>Part 1</p> <p>Self-Employed and People With Church Employee Income Filing Schedule SE</p>	<p>1a. Enter the amount from Schedule SE, Section A, line 3, or Section B, line 3, whichever applies.</p> <p>1b. Enter any amount from Schedule SE, Section B, line 4b and line 5a.</p> <p>1c. Add lines 1a and 1b.</p> <p>1d. Enter the amount from Schedule SE, Section A, line 6, or Section B, line 13, whichever applies.</p> <p>1e. Subtract line 1d from 1c.</p>	<p>1a</p> <p>+ 1b</p> <p>= 1c</p> <p>- 1d</p> <p>= 1e</p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td style="width: 50px; height: 20px;"> </td></tr> </table>					
<p>Part 2</p> <p>Self-Employed NOT Filing Schedule SE</p> <p><small>For example, your net earnings from self-employment were less than \$400.</small></p>	<p>2. Do not include on these lines any statutory employee income or any amount exempt from self-employment tax as the result of the filing and approval of Form 4029 or Form 4361.</p> <p>a. Enter any net farm profit (or loss) from Schedule F, line 36, and from farm partnerships, Schedule K-1 (Form 1065), line 15a.*</p> <p>b. Enter any net profit (or loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), line 15a (other than farming); and Schedule K-1 (Form 1065-B), box 9.*</p> <p>c. Combine lines 2a and 2b.</p> <p><small>*Also enter any Schedule K-1 amounts on the appropriate line(s) of Schedule SE, Section A. Put your name and social security number on Schedule SE and attach it to your return.</small></p>	<p>2a</p> <p>2b</p> <p>= 2c</p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td style="width: 50px; height: 20px;"> </td></tr> <tr><td style="width: 50px; height: 20px;"> </td></tr> <tr><td style="width: 50px; height: 20px;"> </td></tr> </table>					
<p>Part 3</p> <p>Statutory Employees Filing Schedule C or C-EZ</p>	<p>3. Enter the amount from Schedule C, line 1, or Schedule C-EZ, line 1, that you are filing as a statutory employee.</p>	<p>3</p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td style="width: 50px; height: 20px;"> </td></tr> </table>					
<p>Part 4</p> <p>All Filers Using EIC Worksheet B</p> <p><small>If line 4d includes income on which you should have paid self-employment tax but did not, the IRS may reduce your credit by the amount of self-employment tax not paid.</small></p>	<p>4a. Combine lines 1e, 2c, and 3.</p> <p>b. Enter your nontaxable earned income from Worksheet 2, line 12.</p> <p>c. Enter your taxable earned income from Worksheet 2, line 8.</p> <p>d. Combine lines 4a, 4b, and 4c. This is your total earned income.</p> <p>5. If you have:</p> <ul style="list-style-type: none"> • 2 or more qualifying children, is line 4d less than \$32,121? • 1 qualifying child, is line 4d less than \$28,281? • No qualifying children, is line 4d less than \$10,710? <p><input type="checkbox"/> Yes. If you want the IRS to figure your credit, see page 25. If you want to figure the credit yourself, enter the amount from line 4d on line 6 (page 31).</p> <p><input type="checkbox"/> No.  You cannot take the credit. Put "No" directly to the right of line 61a (Form 1040); or line 39a (Form 1040A); or on line 9b (Form 1040EZ).</p>	<p>4a</p> <p>+ 4b</p> <p>+ 4c</p> <p>= 4d</p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td style="width: 50px; height: 20px;"> </td></tr> </table>					

For more information regarding the earned income tax credit or if your earned income tax credit was denied for any reason after 1996, please see **Publication 596, Earned Income Credit**.

Estimated Tax Payments

When you are an employee of someone else, they generally withhold taxes from your gross pay each pay period and you receive the net income in a paycheck or by cash. Estimated tax payments for a business owner are essentially the same as withholding, except as a small business owner, you no longer have the convenience of having your employer withhold income tax from your income.

The federal income tax system, which in this case includes the self-employment tax, is a pay-as-you-go system. As a business owner, you may need to make estimated tax payments during the year using **Form 1040-ES, *Estimated Tax for Individuals***.

General rule

The total amount you must pay is the *smaller* of:

- 1) 90% of your total expected tax for the current year; or,
- 2) 100% of the total tax shown on your prior year tax return. Your prior year tax return must cover all 12 months.

How To Figure Estimated Tax

To figure your estimated tax, you must figure your expected adjusted gross income, taxable income, taxes, deductions, and credits for the year. Refer to **Form 1040-ES, *Estimated Tax for Individuals***. This form includes a worksheet to help you figure your estimated tax. Keep the worksheet for your records.

When To Start

You do not have to make estimated tax payments until you have income on which you will owe the tax. If you have income subject to estimated tax during the first payment period, you must make your first payment by the due date for the first payment period. You can pay all your estimated tax at that time, or you can pay it in four installments. If you choose to pay in installments, make your remaining installment payments by the due dates (see chart on page 5) for the later periods.

Payment Methods

There are several methods available for making estimated tax payments:

- Mailing a check or money order – Made payable to United States Treasury along with the appropriate payment voucher included in the 1040-ES package;
- Credit Card – American Express, Discover Card or MasterCard accepted by service providers for a convenience fee;
- Electronic Funds Transfer Payment System (EFTPS) – A fast, easy, secure, convenient way to make your payments. You can use the phone or the Internet to make your payments 24 hours a day, 7 days a week from anywhere. The system has a payment scheduling capability that will allow you to schedule your payment instructions up to 365 days in advance. For further information or to request an enrollment form, please call **EFTPS Customer Service** at 1-800-945-8400 or 1-800-555-4477.

All of these methods are described in detail in **Pub 505, *Tax Withholding and Estimated Tax***.

Estimated Tax Payments Not Required

You do not have to make estimated tax payments if you have withholding in each payment period that is at least one-fourth of your required annual payment or your required annualized income installment for that period. You also do not have to make estimated tax payments if the amount you will owe with your return will be under \$1,000.

Penalties

Penalty for Late Filing

The penalty for late filing is 5% of the tax due on the return you filed late for each month or part of a month you filed late, up to 25% of the tax due. If you don't file your tax return within 60 days of the due date, the penalty is \$100 or 100% of the tax due on your return whichever is less.

Penalty for Late Payment

The penalty for late payment is 1/2% of the tax due for each month or part of a month your payment is late, up to 25% of the tax due. The penalty increases to 1% per month if we send a notice of intent to levy, and you don't pay the tax due within 10 days from the date of the notice. The combined late filing and the late payment penalties are limited to 5% of the unpaid tax for that month.

Interest Rate on Penalties

The interest rate on penalties is the same as the underpayment interest rate. Interest will continue to be charged on the entire amount you owe, including accrued interest and penalty, until the balance is paid in full.

Penalty for Failure to Furnish a Taxpayer Identification Number

Section 6109(a) requires a provider of dependent care services to furnish a valid taxpayer identification number, even if you are not required to file a return. Failure to provide the taxpayer identification number could result in a penalty.

Penalty for Underpayment of Estimated Tax

Failure to pay enough estimated tax by its due date may result in an underpayment of estimated tax penalty. Making estimated tax payments also avoids the problem of owing a large amount of money when you file your income tax return. If your income changes significantly each period, you may want to annualize your income to avoid an underpayment of estimated tax penalty. Please see *Publication 505, Tax Withholding and Estimated Tax* for more information regarding the penalty and how to annualize your income.

Comprehensive Example Annie Care, TLC Day Care

Annie Care is a Family Day Care provider for the tax year 2001. She files as Head of Household. She is unmarried and paid more than half of the cost of keeping up a home for a qualifying child. Annie has two children James (15) and Ida (13).

Annie has been in business for one year. Annie did not pay estimated taxes in 2001 and she claims the standard deduction.

Below is a list of Annie's expenses. She keeps track of her expenses by placing them in separate envelopes with the applicable receipt or proof of the expense (cancelled checks, cash register tapes, invoices, etc). Annie keeps her Day Care income in a receipt book and gives the original copy of the receipt to the parents. She receives \$6,000 of reimbursements from the Federal Food Program and has a separate record of that income.

Annie does not have any employees. She has given each parent a Form W-10 for their information in filing their tax returns.

Information on the Claimed Expenses:

Advertising: Business cards, brochures, yellow pages - \$250

Car & Truck: Business use of car @ 34.5 cents per mile (2001 Rate) - \$2,622

Commissions & Fees: Bank Charges on business account - \$50

Depreciation: Form 4562 prepared for purchase of desk, chair, file cabinet, 6 cribs, 6 playpens, and 6 highchairs used 100% for Day Care - \$600

Insurance: Childcare liability insurance policy. (Homeowners/renters insurance is claimed on Form 8829) - \$350

Legal and Professional: Preparation of tax returns, contracts, etc. - \$150

Office Expenses: Paper for record keeping, receipt books, photocopies, calendars, notebooks, pencils, etc. - \$100

Rent-Equipment: Rental of play equipment, cleaning equipment used in day care - \$100

Repairs-Maintenance: Cost of repairs for equipment in children's play area. (This expense cannot be duplicated on the form 8829. Must relate to the Day Care.) - \$116

Supplies: Dixie Cups, paper towels, small toys, toilet paper, coloring books, crayons, etc. - \$500

Taxes and Licenses: Childcare licensing fees - \$50

Travel: Travel to childcare provider convention - \$200

Meals: Meals while attending childcare provider convention - \$50

Other: Small gifts for Day Care Children - \$75
Day Care Food - \$6,500

Annie's completed Form 1040 and required schedules are shown on the following pages.

Form 1040 Department of the Treasury—Internal Revenue Service **2001** IRS Use Only—Do not write or staple in this space.

Label (See instructions on page 19.) Use the IRS label. Otherwise, please print or type.

Label Here

For the year Jan. 1–Dec. 31, 2001, or other tax year beginning 2001, ending 2001	OMB No. 1545-0047
Your first name and initial Annie	Last name Care
Your social security number 111 11 1111	
If a joint return, spouse's first name and initial	Last name
Spouse's social security number	
Home address (number and street). If you have a P.O. box, see page 19. 54 Elm Street	Apt. no.
City, town or post office, state, and ZIP code. If you have a foreign address, see page 19. Colorado Springs, CO 80901	

Important! You must enter your SSN(s) above.

Presidential Election Campaign (See page 19.) Note. Checking "Yes" will not change your tax or reduce your refund. Do you, or your spouse if filing a joint return, want \$3 to go to this fund? You Yes No Spouse Yes No

Filing Status Check only one box.

- Single
- Married filing joint return (even if only one had income)
- Married filing separate return. Enter spouse's social security no. above and full name here.
- Head of household (with qualifying person). (See page 19.) If the qualifying person is a child but not your dependent, enter this child's name here.
- Qualifying widow(er) with dependent child (your spouse died). (See page 19.)

Exemptions

6a Yourself, if your parent (or someone else) can claim you as a dependent on his or her tax return, do not check box 6a.

b Spouse

c Dependents:

(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) If qualifying child for credit (see page 20)
James	Care	222 22 2222	Son	<input checked="" type="checkbox"/>
Ida	Care	333 33 3333	Daughter	<input checked="" type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>

If more than six dependents, see page 20.

No. of boxes checked on 6a and 6b: **1**

No. of your children on to whom:

- lived with you: **2**
- did not live with you due to divorce or separation (see page 20):

Dependents on to whom not entered above: Add numbers entered on lines above: **3**

d Total number of exemptions claimed: **3**

Income Attach Forms W-2 and W-2G here. Also attach Form(s) 1099-R if tax was withheld. If you did not get a W-2, see page 21. Enclose, but do not attach, any payment. Also, please use Form 1040-V.

7 Wages, salaries, tips, etc. Attach Form(s) W-2	7	
8a Taxable interest. Attach Schedule B if required	8a	
b Tax-exempt interest. Do not include on line 8a	8b	
9 Ordinary dividends. Attach Schedule B if required	9	
10 Taxable refunds, credits, or offsets of state and local income taxes (see page 22)	10	
11 Alimony received	11	
12 Business income or (loss). Attach Schedule C or C-EZ	12	15472
13 Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>	13	
14 Other gains or (losses). Attach Form 4797	14	
15a Total IRA distributions	15a	
b Taxable amount (see page 23)	15b	
16a Total pensions and annuities	16a	
b Taxable amount (see page 23)	16b	
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17	
18 Farm income or (loss). Attach Schedule F	18	
19 Unemployment compensation	19	
20a Social security benefits	20a	
b Taxable amount (see page 20)	20b	
21 Other income. List type and amount (see page 27)	21	
22 Add the amounts in the far right column for lines 7 through 21. This is your total income	22	15472

Adjusted Gross Income

23 IRA deduction (see page 27)	23	
24 Student loan interest deduction (see page 28)	24	
25 Archer MSA deduction. Attach Form 8853	25	
26 Moving expenses. Attach Form 3903	26	
27 One-half of self-employment tax. Attach Schedule SE	27	1093
28 Self-employed health insurance deduction (see page 30)	28	936
29 Self-employed SEP, SIMPLE, and qualified plans	29	
30 Penalty on early withdrawal of savings	30	
31a Alimony paid b Recipient's SSN	31a	
32 Add lines 23 through 31a	32	2029
33 Subtract line 32 from line 22. This is your adjusted gross income	33	13443

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 72. Cat. No. 113208 Form 1040 (2001)

Tax and Credits		34	Amount from line 33 (adjusted gross income)	34	13443
35a Check if: <input type="checkbox"/> You were 65 or older. <input type="checkbox"/> Blind. <input type="checkbox"/> Spouse was 65 or older. <input type="checkbox"/> Blind. Add the number of boxes checked above and enter the total here		35a			
b If you are married filing separately and your spouse itemizes deductions, or you were a dual-status alien, see page 31 and check here		35b			
36 Itemized deductions (from Schedule A) or your standard deduction (see left margin)		36		6650	
37 Subtract line 36 from line 34		37		6793	
38 If line 34 is \$95,725 or less, multiply \$2,800 by the total number of exemptions claimed on line 6d. If line 34 is over \$95,725, see the worksheet on page 32		38		8700	
39 Taxable income. Subtract line 38 from line 37. If line 38 is more than line 37, enter -0-		39		0	
40 Tax (see page 33). Check if any tax is from a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972		40		0	
41 Alternative minimum tax (see page 34). Attach Form 6251		41			
42 Add lines 40 and 41		42		0	
43 Foreign tax credit. Attach Form 1116 if required		43			
44 Credit for child and dependent care expenses. Attach Form 2441		44			
45 Credit for the elderly or the disabled. Attach Schedule R		45			
46 Education credits. Attach Form 8863		46			
47 Rate reduction credit. See the worksheet on page 36		47			
48 Child tax credit (see page 37)		48			
49 Adoption credit. Attach Form 8839		49			
50 Other credits from: a <input type="checkbox"/> Form 3800 b <input type="checkbox"/> Form 8396 c <input type="checkbox"/> Form 8801 d <input type="checkbox"/> Form (specify)		50			
51 Add lines 43 through 50. These are your total credits		51			
52 Subtract line 51 from line 42. If line 51 is more than line 42, enter -0-		52		0	
Other Taxes					
53 Self-employment tax. Attach Schedule SE		53		2186	
54 Social security and Medicare tax on tip income not reported to employer. Attach Form 4137		54			
55 Tax on qualified plans, including IRAs, and other tax-favored accounts. Attach Form 5329 if required		55			
56 Advance earned income credit payments from Form(s) W-2		56			
57 Household employment taxes. Attach Schedule H		57			
58 Add lines 52 through 57. This is your total tax		58		2186	
Payments					
59 Federal income tax withheld from Forms W-2 and 1099		59			
60 2001 estimated tax payments and amount applied from 2000 return		60			
61a Earned income credit (EIC)		61a	3737		
b Nontaxable earned income (61b)		61b			
62 Excess social security and RRTA tax withheld (see page 51)		62			
63 Additional child tax credit. Attach Form 8812		63	438		
64 Amount paid with request for extension to file (see page 51)		64			
65 Other payments. Check if from a <input type="checkbox"/> Form 2439 b <input type="checkbox"/> Form 4136		65			
66 Add lines 59, 60, 61a, and 62 through 65. These are your total payments		66		4175	
Refund					
67 If line 66 is more than line 58, subtract line 58 from line 66. This is the amount you overpaid		67		1989	
68a Amount of line 67 you want refunded to you		68a		1989	
b Routing number					
c Type <input type="checkbox"/> Checking <input type="checkbox"/> Savings					
d Account number					
69 Amount of line 67 you want applied to your 2002 estimated tax		69			
Amount You Owe					
70 Amount you owe. Subtract line 66 from line 58. For details on how to pay, see page 52		70			
71 Estimated tax penalty. Also include on line 70		71			
Third Party Designee					
Do you want to allow another person to discuss this return with the IRS (see page 53)? <input type="checkbox"/> Yes. Complete the following. <input type="checkbox"/> No					
Designee's name		Phone no.	Personal identification number (PIN)		
Sign Here		Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.			
Your signature		Date	Your occupation	Daytime phone number	
Spouse's signature, if a joint return, both must sign		Date	Spouse's occupation		
Paid Preparer's Use Only		Preparer's signature	Date	Check if self-employed <input type="checkbox"/>	Preparer's SSN or PIN
Firm's name (or yours if self-employed), address, and ZIP code		EIN	Phone no.		

Schedule C

SCHEDULE C (Form 1040)

Department of the Treasury
Internal Revenue Service 6951

Profit or Loss From Business

(Sole Proprietorship)

▶ Partnerships, joint ventures, etc., must file Form 1065 or Form 1065-B.

▶ Attach to Form 1040 or Form 1041. ▶ See instructions for Schedule C (Form 1040).

OMB No. 1545-0044

2001

Attachment
Sequence No. 09

Name of proprietor Annie Care		Social security number (SSN) 111 11 1111
A Principal business or profession, including product or service (see page C-1 of the instructions) Day Care		B Enter code from pages C-7 & 8 ▶ 6 2 4 4 1 0
C Business name, if no separate business name, leave blank. TLC Day Care		D Employer ID number (EIN), if any
E Business address (including suite or room no.) ▶ City, town or post office, state, and ZIP code		
F Accounting method: (1) <input checked="" type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ▶		
G Did you "materially participate" in the operation of this business during 2001? If "No," see page C-2 for limit on losses. <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No		
H If you started or acquired this business during 2001, check here <input type="checkbox"/>		

Part I Income

1	Gross receipts or sales. Caution. If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see page C-2 and check here <input type="checkbox"/>	1	25134
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	25134
4	Cost of goods sold (from line 42 on page 2)	4	
5	Gross profit. Subtract line 4 from line 3	5	25134
6	Other income, including Federal and state gasoline or fuel tax credit or refund (see page C-3)	6	
7	Gross income. Add lines 5 and 6	7	25134

Part II Expenses. Enter expenses for business use of your home only on line 30.

8	Advertising	8	250	19	Pension and profit-sharing plans	19	
9	Bad debts from sales or services (see page C-3)	9		20	Rent or lease (see page C-4):	20a	100
10	Car and truck expenses (see page C-3)	10	2622	20b	a Vehicles, machinery, and equipment	20b	
11	Commissions and fees	11	50	21	b Other business property	21	116
12	Depreciation	12		22	Repairs and maintenance	22	500
13	Depreciation and section 179 expense deduction (not included in Part III (see page C-3))	13	600	23	Supplies (not included in Part III)	23	50
14	Employee benefit programs (other than on line 19)	14		24	Taxes and licenses	24a	200
15	Insurance (other than health)	15	350	24b	Travel, meals, and entertainment:	24b	
16	Interest:	16a		24c	a Travel	24c	50
	a Mortgage (paid to banks, etc.)	16a		24d	b Meals and entertainment	24d	25
	b Other	16b		24d	c Enter nondeductible amount included on line 24b (see page C-5)	24d	25
17	Legal and professional services	17	150	24d	d Subtract line 24c from line 24b	24d	25
18	Office expense	18	100	25	Utilities	25	
26	Wages (less employment credits)	26		26	Other expenses (from line 48 on page 2)	26	
27	Other expenses (from line 48 on page 2)	27	575	27		27	575
28	Total expenses before expenses for business use of home. Add lines 8 through 27 in columns	28	5688	28		28	5688
29	Tentative profit (loss). Subtract line 28 from line 7	29	19446	29		29	19446
30	Expenses for business use of your home. Attach Form 8829	30	3974	30		30	3974
31	Net profit or (loss). Subtract line 30 from line 29. • If a profit, enter on Form 1040, line 12, and also on Schedule SE, line 2 (statutory employees, see page C-5). Estates and trusts, enter on Form 1041, line 3. • If a loss, you must go to line 32.	31	15472	31		31	15472
32	If you have a loss, check the box that describes your investment in this activity (see page C-6). • If you checked 32a, enter the loss on Form 1040, line 12, and also on Schedule SE, line 2 (statutory employees, see page C-5). Estates and trusts, enter on Form 1041, line 3. • If you checked 32b, you must attach Form 6198.	32a	<input type="checkbox"/> All investment is at risk.	32b	<input type="checkbox"/> Some investment is not at risk.		

For Paperwork Reduction Act Notice, see Form 1040 instructions.

Cat. No. 11334P

Schedule C (Form 1040) 2001

Schedule C, page 2

Part III Cost of Goods Sold (see page C-6)

33 Method(s) used to value closing inventory: a Cost b Lower of cost or market c Other (attach explanation)

34 Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation Yes No

35 Inventory at beginning of year. If different from last year's closing inventory, attach explanation	35		
36 Purchases less cost of items withdrawn for personal use	36		
37 Cost of labor. Do not include any amounts paid to yourself	37		
38 Materials and supplies	38		
39 Other costs	39		
40 Add lines 35 through 39	40		
41 Inventory at end of year	41		
42 Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on page 1, line 4	42		

Part IV Information on Your Vehicle. Complete this part **only** if you are claiming car or truck expenses on line 10 and are not required to file Form 4562 for this business. See the instructions for line 13 on page C-3 to find out if you must file.

43 When did you place your vehicle in service for business purposes? (month, day, year) ▶ **02 / 01 / 2001**

44 Of the total number of miles you drove your vehicle during 2001, enter the number of miles you used your vehicle for:

a Business **7600** b Commuting **1000** c Other **4000**

45 Do you (or your spouse) have another vehicle available for personal use? Yes No

46 Was your vehicle available for personal use during off-duty hours? Yes No

47a Do you have evidence to support your deduction? Yes No

b If "Yes," is the evidence written? Yes No

Part V Other Expenses. List below business expenses not included on lines 8-26 or line 30.

Gifts for Day Care Children		75
Day Care Food Expenses:		
Deductible Food Costs	\$6500	
Less: Federal Food Reimbursements	(6000)	500
48 Total other expenses. Enter here and on page 1, line 27	48	575



Schedule SE

SCHEDULE SE (Form 1040) <small>Department of the Treasury Internal Revenue Service 309</small>	Self-Employment Tax ▶ See instructions for Schedule SE (Form 1040). ▶ Attach to Form 1040.	<small>CMB No. 1040-0074</small> <div style="font-size: 2em; font-weight: bold; text-align: center;">2001</div> <small>Attachment Sequence No. 17</small>
Name of person with self-employment income (as shown on Form 1040) Annie Care		Social security number of person with self-employment income ▶ 111 : 11 : 1111

Who Must File Schedule SE

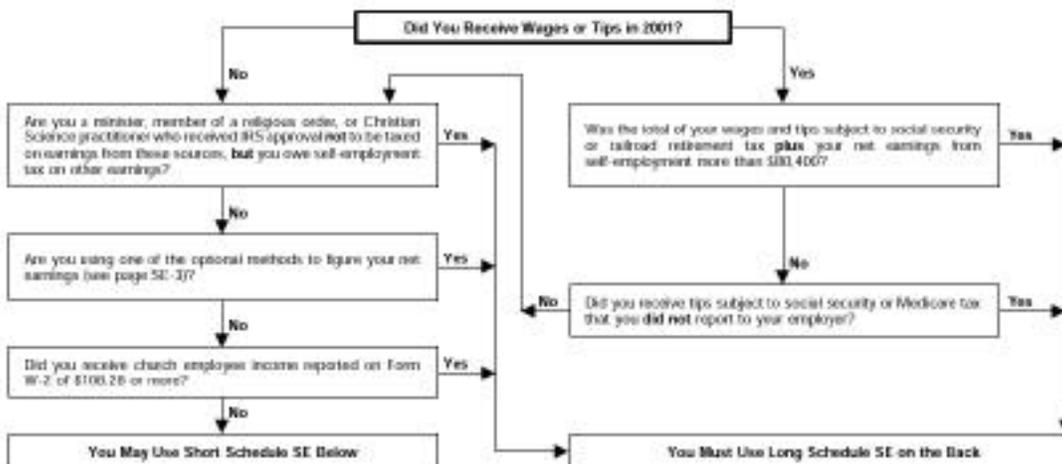
You must file Schedule SE if:

- You had net earnings from self-employment from **other than** church employee income (line 4 of Short Schedule SE or line 4c of Long Schedule SE) of \$400 or more **or**
- You had church employee income of \$108.28 or more. Income from services you performed as a minister or a member of a religious order is **not** church employee income. See page SE-1.

Note. Even if you had a loss or a small amount of income from self-employment, it may be to your benefit to file Schedule SE and use either "optional method" in Part II of Long Schedule SE. See page SE-3.

Exception. If your only self-employment income was from earnings as a minister, member of a religious order, or Christian Science practitioner and you filed Form 4361 and received IRS approval not to be taxed on those earnings, **do not** file Schedule SE. Instead, write "Exempt-Form 4361" on Form 1040, line 53.

May I Use Short Schedule SE or Must I Use Long Schedule SE?



Section A—Short Schedule SE. Caution. Read above to see if you can use Short Schedule SE.

1 Net farm profit or (loss) from Schedule F, line 3b, and farm partnerships, Schedule K-1 (Form 1065), line 15a	1		
2 Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), line 15a (other than farming); and Schedule K-1 (Form 1065-B), box 9. Ministers and members of religious orders, see page SE-1 for amounts to report on this line. See page SE-2 for other income to report	2	15472	
3 Combine lines 1 and 2	3	15472	
4 Net earnings from self-employment. Multiply line 3 by 92.35% (.9235). If less than \$400, do not file this schedule; you do not owe self-employment tax ▶	4	14268	
5 Self-employment tax. If the amount on line 4 is: • \$80,400 or less, multiply line 4 by 15.3% (.153). Enter the result here and on Form 1040, line 53. • More than \$80,400, multiply line 4 by 2.9% (.029). Then, add \$9,969.60 to the result. Enter the total here and on Form 1040, line 53.	5	2186	
6 Deduction for one-half of self-employment tax. Multiply line 5 by 50% (.5). Enter the result here and on Form 1040, line 27	6	1093	

Schedule EIC

SCHEDULE EIC
(Form 1040A or 1040)

Department of the Treasury
Internal Revenue Service (999)

Earned Income Credit
Qualifying Child Information

Complete and attach to Form 1040A or 1040
only if you have a qualifying child.



OMB No. 1545-0044

2001

Attachment
Sequence No. **43**

Name(s) shown on return

Annie Care

Your social security number

111 11 1111

Before you begin: See the instructions for Form 1040A, lines 39a and 39b, or Form 1040, lines 61a and 61b, to make sure that (a) you can take the EIC and (b) you have a qualifying child.



- If you take the EIC even though you are not eligible, you may not be allowed to take the credit for up to 10 years. See back of schedule for details.
- It will take us longer to process your return and issue your refund if you do not fill in all lines that apply for each qualifying child.
- Be sure the child's name on line 1 and social security number (SSN) on line 2 agree with the child's social security card. Otherwise, at the time we process your return, we may reduce or disallow your EIC. If the name or SSN on the child's social security card is not correct, call the Social Security Administration at 1-800-772-1213.

Qualifying Child Information

Child 1

Child 2

	First name	Last name	First name	Last name
1 Child's name If you have more than two qualifying children, you only have to list two to get the maximum credit.	James Care		Iida Care	
2 Child's SSN The child must have an SSN as defined on page 42 of the Form 1040A instructions or page 44 of the Form 1040 instructions unless the child was born and died in 2001. If your child was born and died in 2001 and did not have an SSN, enter "Died" on this line and attach a copy of the child's birth certificate.	222 22 2222		333 33 3333	
3 Child's year of birth	Year 1 9 8 6 <i>If born after 1982, skip lines 4a and 4b; go to line 5.</i>		Year 1 9 8 8 <i>If born after 1982, skip lines 4a and 4b; go to line 5.</i>	
4 If the child was born before 1983— a Was the child under age 24 at the end of 2001 and a student?	<input type="checkbox"/> Yes. <i>Go to line 5.</i>	<input type="checkbox"/> No. <i>Continue.</i>	<input type="checkbox"/> Yes. <i>Go to line 5.</i>	<input type="checkbox"/> No. <i>Continue.</i>
b Was the child permanently and totally disabled during any part of 2001?	<input type="checkbox"/> Yes. <i>Continue.</i>	<input type="checkbox"/> No. <i>The child is not a qualifying child.</i>	<input type="checkbox"/> Yes. <i>Continue.</i>	<input type="checkbox"/> No. <i>The child is not a qualifying child.</i>
5 Child's relationship to you (for example, son, daughter, grandchild, foster child, etc.)	Son		Daughter	
6 Number of months child lived with you in the United States during 2001 • If the child lived with you for more than half of 2001 but less than 7 months, enter "7". • If the child was born or died in 2001 and your home was the child's home for the entire time he or she was alive during 2001, enter "12".	12 months <i>Do not enter more than 12 months.</i>		12 months <i>Do not enter more than 12 months.</i>	



You may also be able to take the additional child tax credit if your child (a) was under age 17 at the end of 2001, (b) is claimed as your dependent on line 6c of Form 1040A or Form 1040, and (c) is a U.S. citizen or resident alien. For more details, see the instructions for line 40 of Form 1040A or line 63 of Form 1040.

For Paperwork Reduction Act Notice, see Form 1040A or 1040 instructions.

Cat. No. 13339A

Schedule EIC (Form 1040A or 1040) 2001



Do not use this worksheet if you answered “Yes” to question 1, 2, or 3 on page 37. Instead, use Pub. 972.



1. Number of qualifying children: _____ × \$600. Enter the result.

1	1200
---	------

2. Enter the amount from Form 1040, line 42.

2	0
---	---

3. Add the amounts from Form 1040:

Line 43 0

Line 44 + 0

Line 45 + 0

Line 46 + 0

Line 47 + 0

Enter the total.

3	0
---	---

4. Are the amounts on lines 2 and 3 the same?

Yes.

You cannot take this credit because there is no tax to reduce. However, see the **TIP** below before completing the rest of your Form 1040.

No. Subtract line 3 from line 2.

4	
---	--

5. Is the amount on line 1 more than the amount on line 4?

Yes. Enter the amount from line 4. Also, see the **TIP** below.

No. Enter the amount from line 1.

This is your child tax credit.

5	
---	--

Enter this amount on Form 1040, line 48.



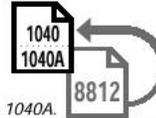
You may be able to take the **additional child tax credit** on Form 1040, line 63, if you answered “Yes” on line 4 or line 5 above.

- First, complete your Form 1040 through line 62.
- Then, use Form 8812 to figure any additional child tax credit.

Form 8812, Additional Child Tax Credit

Form **8812**

Additional Child Tax Credit



OMB No. 1545-1620

2001

Attachment Sequence No. **47**

Department of the Treasury
Internal Revenue Service

Complete and attach to Form 1040 or Form 1040A.

Name(s) shown on return

Annie Care

Your social security number

111 11 1111

Part I All Filers

1	Enter the amount from line 1 of your Child Tax Credit Worksheet on page 38 of the Form 1040 instructions or page 37 of the Form 1040A instructions. If you used Pub. 972, enter the amount from line 8 of the worksheet on page 3 of the publication	1	1200
2	Enter the amount from Form 1040, line 48, or Form 1040A, line 31	2	-0-
3	Subtract line 2 from line 1. If zero, stop ; you cannot take this credit	3	1200
4	Enter your total taxable earned income. See the instructions on back	4	14379
5	Is the amount on line 4 more than \$10,000? <input type="checkbox"/> No. Leave line 5 blank and enter -0- on line 6. <input checked="" type="checkbox"/> Yes. Subtract \$10,000 from the amount on line 4. Enter the result	5	4379
6	Multiply the amount on line 5 by 10% (.10) and enter the result Next. Do you have three or more qualifying children? <input checked="" type="checkbox"/> No. If line 6 is zero, stop ; you cannot take this credit. Otherwise, skip Part II and enter the smaller of line 3 or line 6 on line 13. <input type="checkbox"/> Yes. If line 6 is equal to or more than line 3, skip Part II and enter the amount from line 3 on line 13. Otherwise, go to line 7.	6	438

Part II Certain Filers Who Have Three or More Qualifying Children

7	Enter the total of the withheld social security and Medicare taxes from Form(s) W-2, boxes 4 and 6. If married filing jointly, include your spouse's amounts with yours. If you worked for a railroad, see the instructions on back	7	
8	1040 filers: Enter the total of the amounts from Form 1040, lines 27 and 54, plus any uncollected social security and Medicare or RRTA taxes included on line 58. 1040A filers: Enter -0-.	8	
9	Add lines 7 and 8	9	
10	1040 filers: Enter the total of the amounts from Form 1040, lines 61a and 62. 1040A filers: Enter the total of the amount from Form 1040A, line 39a, plus any excess social security and RRTA taxes withheld that you entered to the left of line 41 (see the instructions on back).	10	
11	Subtract line 10 from line 9. If zero or less, enter -0-	11	
12	Enter the larger of line 6 or line 11 here Next, enter the smaller of line 3 or line 12 on line 13.	12	

Part III Your Additional Child Tax Credit

13	This is your additional child tax credit	13	438
----	-----------------------------------------------------------	----	------------



Enter this amount on Form 1040, line 63, or Form 1040A, line 40.

For Paperwork Reduction Act Notice, see back of form.

Cat. No. 10644E

Form **8812** (2001)

Form 8829, Expenses for Business Use of Your Home

Form 8829 Department of the Treasury Internal Revenue Service	Expenses for Business Use of Your Home ▶ File only with Schedule C (Form 1040). Use a separate Form 8829 for each home you used for business during the year. ▶ See separate instructions.	OMB No. 1545-1206 2001 Attachment Sequence No. 66
----------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------------

Name(s) of proprietor(s): **Annie Care** Your social security number: **111 11 1111**

Part I Part of Your Home Used for Business

1 Area used regularly and exclusively for business, regularly for day care, or for storage of inventory or product samples. See instructions	1	1850
2 Total area of home	2	2400
3 Divide line 1 by line 2. Enter the result as a percentage	3	77 %
• For day-care facilities not used exclusively for business, also complete lines 4-6. • All others, skip lines 4-6 and enter the amount from line 3 on line 7.		
4 Multiply days used for day care during year by hours used per day	4	3360 hr.
5 Total hours available for use during the year (165 days x 24 hours). See instructions	5	8,760 hr.
6 Divide line 4 by line 5. Enter the result as a decimal amount	6	.38
7 Business percentage. For day-care facilities not used exclusively for business, multiply line 6 by line 3 (enter the result as a percentage). All others, enter the amount from line 3 ▶	7	29 %

Part II Figure Your Allowable Deduction

8 Enter the amount from Schedule C, line 29, plus any net gain or (loss) derived from the business use of your home and shown on Schedule D or Form 4797, if more than one place of business, see instructions. See instructions for columns (a) and (b) before completing lines 9-20.	8	19446																																																																																																												
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 5%;"></th> <th style="width: 30%;">(a) Direct expenses</th> <th style="width: 30%;">(b) Indirect expenses</th> <th style="width: 35%;"></th> </tr> </thead> <tbody> <tr> <td>9 Casualty losses. See instructions</td> <td></td> <td></td> <td></td> </tr> <tr> <td>10 Deductible mortgage interest. See instructions</td> <td></td> <td style="text-align: right;">5365</td> <td></td> </tr> <tr> <td>11 Real estate taxes. See instructions</td> <td></td> <td style="text-align: right;">1194</td> <td></td> </tr> <tr> <td>12 Add lines 9, 10, and 11.</td> <td></td> <td style="text-align: right;">6559</td> <td></td> </tr> <tr> <td>13 Multiply line 12, column (b) by line 7</td> <td></td> <td style="text-align: right;">1902</td> <td></td> </tr> <tr> <td>14 Add line 12, column (a) and line 13.</td> <td></td> <td></td> <td style="text-align: right;">1902</td> </tr> <tr> <td>15 Subtract line 14 from line 8. If zero or less, enter -0-</td> <td></td> <td></td> <td style="text-align: right;">17544</td> </tr> <tr> <td>16 Excess mortgage interest. See instructions</td> <td></td> <td></td> <td></td> </tr> <tr> <td>17 Insurance</td> <td></td> <td style="text-align: right;">400</td> <td></td> </tr> <tr> <td>18 Repairs and maintenance</td> <td></td> <td style="text-align: right;">680</td> <td></td> </tr> <tr> <td>19 Utilities</td> <td style="text-align: right;">117</td> <td style="text-align: right;">2400</td> <td></td> </tr> <tr> <td>20 Other expenses. See instructions</td> <td></td> <td></td> <td></td> </tr> <tr> <td>21 Add lines 16 through 20</td> <td style="text-align: right;">117</td> <td style="text-align: right;">3480</td> <td></td> </tr> <tr> <td>22 Multiply line 21, column (b) by line 7</td> <td></td> <td style="text-align: right;">1009</td> <td></td> </tr> <tr> <td>23 Carryover of operating expenses from 2000 Form 8829, line 41</td> <td></td> <td></td> <td></td> </tr> <tr> <td>24 Add line 21 in column (a), line 22, and line 23</td> <td></td> <td></td> <td style="text-align: right;">1126</td> </tr> <tr> <td>25 Allowable operating expenses. Enter the smaller of line 15 or line 24</td> <td></td> <td></td> <td style="text-align: right;">1126</td> </tr> <tr> <td>26 Limit on excess casualty losses and depreciation. Subtract line 25 from line 15.</td> <td></td> <td></td> <td style="text-align: right;">16418</td> </tr> <tr> <td>27 Excess casualty losses. See instructions</td> <td></td> <td></td> <td></td> </tr> <tr> <td>28 Depreciation of your home from Part III below</td> <td></td> <td style="text-align: right;">946</td> <td></td> </tr> <tr> <td>29 Carryover of excess casualty losses and depreciation from 2000 Form 8829, line 42</td> <td></td> <td></td> <td></td> </tr> <tr> <td>30 Add lines 27 through 29</td> <td></td> <td></td> <td style="text-align: right;">946</td> </tr> <tr> <td>31 Allowable excess casualty losses and depreciation. Enter the smaller of line 26 or line 30</td> <td></td> <td></td> <td style="text-align: right;">946</td> </tr> <tr> <td>32 Add lines 14, 25, and 31</td> <td></td> <td></td> <td style="text-align: right;">3974</td> </tr> <tr> <td>33 Casualty loss portion, if any, from lines 14 and 31. Carry amount to Form 4684, Section B</td> <td></td> <td></td> <td></td> </tr> <tr> <td>34 Allowable expenses for business use of your home. Subtract line 33 from line 32. Enter here and on Schedule C, line 30. If your home was used for more than one business, see instructions. ▶</td> <td></td> <td></td> <td style="text-align: right;">3974</td> </tr> </tbody> </table>				(a) Direct expenses	(b) Indirect expenses		9 Casualty losses. See instructions				10 Deductible mortgage interest. See instructions		5365		11 Real estate taxes. See instructions		1194		12 Add lines 9, 10, and 11.		6559		13 Multiply line 12, column (b) by line 7		1902		14 Add line 12, column (a) and line 13.			1902	15 Subtract line 14 from line 8. If zero or less, enter -0-			17544	16 Excess mortgage interest. See instructions				17 Insurance		400		18 Repairs and maintenance		680		19 Utilities	117	2400		20 Other expenses. See instructions				21 Add lines 16 through 20	117	3480		22 Multiply line 21, column (b) by line 7		1009		23 Carryover of operating expenses from 2000 Form 8829, line 41				24 Add line 21 in column (a), line 22, and line 23			1126	25 Allowable operating expenses. 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Part III Depreciation of Your Home

35 Enter the smaller of your home's adjusted basis or its fair market value. See instructions	35	152176
36 Value of land included on line 35	36	7000
37 Basis of building. Subtract line 36 from line 35	37	145176
38 Business basis of building. Multiply line 37 by line 7	38	42101
39 Depreciation percentage. See instructions	39	2.247 %
40 Depreciation allowable. Multiply line 38 by line 39. Enter here and on line 28 above. See instructions	40	946

Part IV Carryover of Unallowed Expenses to 2002

41 Operating expenses. Subtract line 25 from line 24. If less than zero, enter -0-	41	
42 Excess casualty losses and depreciation. Subtract line 31 from line 30. If less than zero, enter -0-	42	



Form 4562, Depreciation and Amortization

Form 4562 (Rev. March 2002) Department of the Treasury Internal Revenue Service (991)	Depreciation and Amortization (Including Information on Listed Property) ▶ See separate instructions. ▶ Attach to your tax return.	OMB No. 1545-0172 2001 Attachment Sequence No. 67
-------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------

Name(s) shown on return Annie Care	Business or activity to which this form relates TLC Day Care	Identifying number 111-11-1111
----------------------------------------------	------------------------------------------------------------------------	------------------------------------------

Part I Election To Expense Certain Tangible Property Under Section 179
 Note: If you have any listed property, complete Part V before you complete Part I.

1 Maximum amount. See page 2 of the instructions for a higher limit for certain businesses	1	\$24,000
2 Total cost of section 179 property placed in service (see page 3 of the instructions),	2	
3 Threshold cost of section 179 property before reduction in limitation	3	\$200,000
4 Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4	
5 Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see page 3 of the instructions	5	

(a) Description of property	(b) Cost (business use only)	(c) Elected cost
6		
7 Listed property. Enter the amount from line 20	7	
8 Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8	
9 Tentative deduction. Enter the smaller of line 5 or line 8	9	
10 Carryover of disallowed deduction from line 13 of your 2000 Form 4562,	10	
11 Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instructions)	11	
12 Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11	12	
13 Carryover of disallowed deduction to 2002. Add lines 9 and 10, less line 12 ▶	13	

Note: Do not use Part II or Part III below for listed property. Instead, use Part V.

Part II Special Depreciation Allowance and Other Depreciation (Do not include listed property.)

14 Special depreciation allowance for certain property (other than listed property) acquired after September 10, 2001 (see page 3 of the instructions)	14	
15 Property subject to section 168(i)(1) election (see page 4 of the instructions)	15	
16 Other depreciation (including ACRS) (see page 4 of the instructions)	16	

Part III MACRS Depreciation (Do not include listed property) (See page 4 of the instructions.)

Section A

17 MACRS deductions for assets placed in service in tax years beginning before 2001	17	
18 If you are electing under section 168(j)(4) to group any assets placed in service during the tax year into one or more general asset accounts, check here ▶ <input type="checkbox"/>		

Section B—Assets Placed in Service During 2001 Tax Year Using the General Depreciation System

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only—see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
19a 3-year property						
b 5-year property						
c 7-year property		4100	7	HY	2000B	600
d 10-year property						
e 15-year property						
f 20-year property						
g 25-year property			25 yrs.		S/L	
h Residential rental property			27.5 yrs.	MM	S/L	
i Nonresidential real property			39 yrs.	MM	S/L	

Section C—Assets Placed in Service During 2001 Tax Year Using the Alternative Depreciation System

20a Class life					
b 12-year			12 yrs.		S/L
c 40-year			40 yrs.	MM	S/L

Part IV Summary (See page 6 of the instructions.)

21 Listed property. Enter amount from line 28,	21	
22 Total. Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations—see inst.	22	600
23 For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs	23	

Monthly Expense

Worksheet 1

MONTHLY EXPENDITURES		AMOUNT SPENT	
Advertising			
Telephone directory ads, flyers, brochures, etc.		1.	
Car Expenses			
Gas/Mileage (i.e. Field trips etc.)		2.	
Food (final cost after all reimbursements from federal or state agencies)		3.	
Gifts (limit \$25.00 per child, per year)		4.	
Insurances			
Liability		5.	
Other Insurances		6.	
Outside Services			
Accounting Service		7.	
Answering Service		8.	
Laundry Service		9.	
Maid Service		10.	
Substitute Child Care Service		11.	
Other (list)		12.	
Office Expenses			
Association and Membership Dues		13.	
Financial Institution Bank Charges		14.	
Magazine Subscriptions		15.	
Pens, Paper, Postage Stamps		16.	
Supplies			
Activity Supplies (i.e. arts and crafts, science, etc.)		17.	
Books, VCR Tapes, Cassette Tapes and CDs		18.	
Toys		19.	
Other (list)		20.	
Training and Education			
CPR Course		21.	
Other (list)		22.	
The following items can only be expensed based on the business use percentage:	Total Expense	Business Percentage	Report Business % Cost Only in this Column
Appliance repairs			23.
Home mortgage Interest			24.
Cleaning supplies			25.
Home repairs			26.
Household maintenance and supplies			27.
Property taxes			28.
Home insurance			29.
Utilities (gas, electricity, basic cable, and telephone)			30.
TOTAL MONTHLY EXPENDITURES (add lines 1-30)			31.

Start-Up Expense

Worksheet 2

START-UP EXPENSES	AMOUNT SPENT
Advertising	
Telephone directory ads, flyers, brochures, etc.	1.
Dues and Fees	
Association and Membership Dues (list)	2.
Business License	3.
Childcare License	4.
Child Abuse Index Fee	5.
Fingerprinting Fee	6.
Fire Inspection	7.
Other (list)	8.
Professional Fees	
Attorney Fees	9.
Accounting Fees	10.
Other (list)	11.
Inspection Fees	
State	12.
County	13.
Office (list)	14.
Travel Expenses	
Training and Educational Classes	15.
Other (list)	16.
Training and Education	
CPR Class	17.
Other (list)	18.
TOTAL START-UP COSTS (add lines 1-)	19.
MONTHLY START-UP COST (divide line 19 by 60 months)	20.

Childcare Payment Schedule

Worksheet 3

Name Of Child	Week 1	Week 2	Week 3	Week 4	Week 5	Total for the month per child
1.	Check amount \$					1.
	Date Paid					
	Check Number					
	Late Fee					1a.
2.	Check amount \$					2.
	Date Paid					
	Check Number					
	Late Fee					2a.
3.	Check amount \$					3.
	Date Paid					
	Check Number					
	Late Fee					3a.
4.	Check amount \$					4.
	Date Paid					
	Check Number					
	Late Fee					4a.
Total Revenue Earned for the Month <i>(add lines 1-4a)</i>						5.

Income Profitability

Worksheet 4

1. Enter Total Monthly Revenues Earned from Worksheet 3, line 5	1.
2. Enter Total Monthly Expenses from Worksheet 1, line 31	2.
3. Enter Total Monthly Start-up Costs from Worksheet 2, line 20	3.
4. Add Monthly Expenses (line 2), plus Monthly Start-up Costs (line 3)	4.
5. Subtract Monthly Expenses (line 4) from Monthly Revenue (line 1)	5.
<i>(This amount is your net income or profit)</i>	
6. Amount set aside for federal, state and local taxes	6.
7. Net income or loss after taxes (subtract line 6, from line 5).	7.

Small Business Tax Education Program

Child Care Providers, who are Small business owners, can learn about business taxes through a unique partnership between the IRS and local organizations. Through workshops, instructors provide training on starting a business, recordkeeping, preparing business tax returns, self-employment tax issues, and employment taxes. Some courses are offered free as a community service. Courses given by an educational institution may include costs for materials and tuition. Other courses may have a nominal fee to offset administrative costs for sponsoring organizations. For more information about this program, call the IRS at **1-800-829-1040** Monday through Friday during regular business hours and ask for your Taxpayer Education and Communication Department.

IRS Help by phone

(For Tax Assistance by phone.....1.800.829.1040
(To Order Forms by phone1.800.829.3676
(Tele-Tax Recorded Information1.800.829.4477
(Automated Refund Information.....1.800.829.4477
(IRS Tax Fax (forms by fax).....1.703.368.9694
(not toll free)

IRS on the Internet

: World Wide Webwww.irs.gov
: Small Business/Self Employed.....www.irs.gov/smallbiz
: Modem1.703.321.8020
(not toll free)

Other Useful Web Sites

: Immigration and Naturalization Service
www.ins.usdoj.gov
: Small Business Administration
www.sbaonline.sba.gov
: U.S. Business Advisor
www.business.gov
: Simplified Tax and Wage Reporting System (STAWRS)
www.treas.gov/stawrs/
: Department of Commerce
www.doc.gov
: Social Security Administration
www.ssa.gov
: Government Printing Office
www.gpo.gov