Books by Kelly, LLC

FCC Tax Tidbidts

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Ready or Not: It's Time for Another Tax Return!

Here it is, the beginning of November and all of your receipts are sitting in a shoebox waiting to be organized and categorized, unless of course you are enrolled in the Monthly Bookkeeping Service provided by Books by Kelly. If you are not on the bookkeeping program, this might be the time to start thinking about enrolling.

With the year drawing to a close, now is an ideal time to review your tax situation and evaluate strategies that may help minimize your tax bill. Once December 31 passes, your 2008 tax bill is essentially set.

As is the case year after year, favorable changes to the tax laws made in 2008 are also accompanied by unfavorable modifications. This year end, of course, our unprecedented financial crisis looms large. This crisis generates tax loss situations that we may not have faced in recent years, as well as a more urgent need to maximize current income that involves taking steps to minimize tax payments whenever possible.

One of the biggest benefits to participation in our monthly bookkeeping program is the quarterly review of your tax situation. When we are working with clients on a monthly basis, it provides us the opportunity to maximize your tax deductions and stay 'on top' of your tax situation.

It ensures that you have all of the proper documentation in the event of an audit and provides you the opportunity for less stress at the end of each year.

We offer monthly bookkeeping for individuals as well as family child care providers and other small businesses.

Updates: What Has Kelly Been Up To?

As you may know, Kelly is an Enrolled Agent and an Accredited Tax Preparer.

Kelly is also the President of the Minnesota Chapter of the National Association of Tax Professionals and was recently selected to be among 24 Enrolled Agents across the country to review and write test questions for the Internal Revenue Service Enrolled Agent Exam.

In July, Kelly attended the NATP National Conference & Expo in Atlanta, GA. This conference provided Kelly with more than 30 hours of continuing education in tax law and taxation. Kelly also has earned another 17 hours during September and October and is registered for another 16 hours in November.

BBK Annual Conference: Two for One Extended

Saturday,
January 10, 2009
Granite Falls, MN

The Books by Kelly Annual Conference for Child Care Professionals is scheduled for Saturday, January 10, 2009 in Granite Falls.

Renae Vinton is back to finish what you started last year. Even if you didn't attend last year, this workshop will greatly benefit you. Renae will help you with the communication skills needed to get your needs met when dealing with the parents of the children in your care.

Cindy Goldade is a licensed Brain Gym® consultant. Brain Gym® is a program of easy physical movements that synchronize body and mind to optimize how we learn. This session will be helpful to you with the molding of the young lives that you touch.

Lastly, Kelly Nokleby will be bringing you up to date on the new tax laws for 2008 and helping you to make sure that you have an understanding of what the IRS expects from you as a business owner. There will also be information in regards to retirement and financial planning.

The registration fee for this conference is $60; however the two for one special that expired on November 1, has been **extended to December 15.** Find a friend, come enjoy the day and share the cost!!

Charitable Cash Contributions

"You must have a receipt when making contributions to a school or a church. Cancelled checks are not sufficient records."

Cash contributions include those paid by cash, check, electronic funds transfer, credit card or payroll deduction.

You cannot deduct a cash contribution, regardless of the amount, unless you keep one of the following:

1. A bank record that shows the name of the qualified organization, the date of the contribution, and the amount of the contribution. Bank records may include a cancelled check; a bank or credit union statement; or a credit card statement.
2. A receipt (or a letter or other written communication) from the qualified organization, the date of the contribution, and the amount of the contribution.
3. The payroll deduction records described as follows: A pay stub, Form W-2, or other document furnished by your employer that shows the date and amount of the contribution AND a pledge card or other document prepared by or for the qualified organization that shows the name of the organization.

If you make a cash contribution to a church or a school, bank records are not sufficient records, you MUST have a receipt from the qualified organization stating the amount of the contribution and the date the contribution was made.

There are some contributions you CANNOT deduct. You cannot deduct as a charitable contribution:

A contribution to a specific individual; a contribution to a nonqualified organization; the part of a contribution from which you receive or expect to receive a benefit; the value of your time or services; or your personal expenses.

Some of the common things that clients try to deduct as charitable contributions that do not qualify include: Monies contributed to benefits to raise funds for an individual's medical costs; the cost of meals or other personal expenses while performing services for a qualified organization; and costs of raffles, bingo, lotteries set up as fundraisers; purchases made as part of school and/or church fundraisers.

The Importance of Attendance Records

Attendance Records are one of the most important to keep...

Of all the records that family child care providers must keep, tracking the attendance of the children in your care may be one of the most important.

Our clients that are on the monthly bookkeeping program are required to complete an attendance worksheet each month. This requirement is in place for your protection. I strongly recommend that you consider having parents sign in and out each day. Such records will be final proof that a child was in attendance for the day and would offset a parent's faulty memory.

If the IRS audits a family child care provider's food expenses, the auditor will be looking for evidence that the provider served each meal and snack that was claimed. Auditors may be suspicious of providers who show perfect attendance records on Food Program claim forms and additional meal count records. Therefore, providers may want to keep such daily sign in and sign out records so as not to be second-guessed.

Keep in mind that your time calculation of your time/space percentage should be consistent with your attendance records for the time claimed when children are present.

The Time/Space Percentage: Time

"You cannot count the time when you are available for care, but when the children are actually present in your care."

Your time percent is calculated by adding up the number of hours you are using your home for business purposes and dividing that number by the total number of hours in the year. There are 8,760 hours in a year. (8,784 in 2008 because of Leap Year). In determining the number of hours your home is used for business it can be helpful to divide business hours into two categories: working hours when the children are there and the hour when children are not there but you are engaged in business activities.

Hours when children are present in your home: You can count all of the hours children are in your home, from the moment the first child arrives until the last child leaves. If your contract says you are open from 7am to 5pm (10 hours), but children occasionally arrive early or leave early, you need not adjust your working time of 10 hours. But, if the last parent always is 15-30 minutes late picking up their child, you should count the extra minutes. An extra 30 minutes a day is equal to an additional 1.5% of time a year. It doesn't matter if you are not paid for the extra time.

If your contract says you are open from 7am to 5pm, but the first child never arrives until 7:30am, you cannot count the time between 7am and 7:30am. It's not important when you are available for care, but when the children are actually present in your care. If you are doing business activities during the first 30 minutes, then you could count the time. If one child stays an extra two hours at the end of the day, then you count the time. If the child stays overnight, you can count this time, as well.

Hours when children are not present in your home: You can count the hours spent on the following activities when children are not present in your home:

- Cleaning your home for the business
- Preparing meals for the children in your care
- Keeping business records
- Planning menus and preparing shopping lists
- Conducting interviews with prospective parents
- Talking to parents on the phone about business
- Reading magazines to find recipes
- Working at your computer on business activities (including time on the internet)
- Any other activity that you do in your home for your business

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Do not count the time spent away from your home; even if you are engaged in a business activity. This includes trips to training workshops, transporting children to school or shopping. These hours do not count because you are not using your home for business purposes. Do not count hours cleaning or doing paperwork if children are in your home because you cannot count time twice.

Ideally, you should keep a daily record of all the hours you work. Most of our clients do a pretty good job of keeping track of the hours the children are present in their home (remember the attendance records???), but most do a poor job of tracking business hours after the children leave.

It is to your great financial benefit to carefully and accurately calculate your Time Percent.

Clients on the monthly bookkeeping program maintain records to help them achieve the highest time percentage legally possible and to have the documentation to back up the claim in the event of an audit.

Tax Organizers: An Important Tool

"You will be asked for more documentation when your income tax returns are prepared."

If you are not enrolled in the Monthly Bookkeeping program, your Annual Tax Organizer will be distributed in December. The tax organizer is provided to you to help prepare for the upcoming preparation of your tax returns.

The tax organizer provides space for you to enter your 2008 data. As you receive your 2008 tax documents, collect them and keep them with the organizer. Keep in mind that there is a provision for many financial institutions that extended the date that documents need to be sent to taxpayers from January 31 to February 15; so you may not have all of your tax documents as quickly as you have had in past years.

We realize that the annual tax organizer that you receive each year is lengthy, however it does include important information and instructions pertaining to new tax laws and expense deductions that may be helpful to you. It is important that you take the time to read through the documents to make sure that your allowed tax deductions are maximized.

If you are enrolled in the monthly bookkeeping program, you will not receive your tax organizer until January after your December bookkeeping has been completed.

Bookkeeping clients will receive a tax organizer that is mostly completed because we already have the majority of the information in our office. Your personal bookkeeper will highlight the items that are missing, you will be asked to review your tax organizer and provide the missing information before your income tax returns can be completed.

As the probability of random audits increase, we want to make sure that you have all of the proper documentation necessary for the information included on your income tax returns. You will be asked for more documentation when your income tax returns are prepared. You need to include all of your tax documents, it will no longer be acceptable to our office for you to just provide numbers. For example, we will need to see your Form 1098, Mortgage Interest Statements. Copies of these documents need to be in our files. I will not put mortgage interest on your tax return without seeing the document. It is our goal to make sure that you are completely protected in the event of an audit.

Hiring Your Own Children

Many small business owners take advantage of the tax benefits of hiring their own children to work for their business. The wages paid to your own children can be deducted as a business expense. If your child is under age 18, these wages are not subject to Social Security or Medicare taxes, and your child does not have to file a tax return unless they earn more than $5,350. Wages paid to spouses or children 18 or older are subject to Social Security and Medicare Tax.

When hiring your own children, you can pay them to do work for your business, but you cannot pay them to do personal household chores. What is the difference?

A recent article written by Tom Copeland from Resources for Child Caring reported on a recent US Tax Court case that gives some guidance to the answer to this question.

The Alexanders ran several businesses out of their home (not family child care) and hired several of their children to help them out. The IRS concluded that most of the tasks the children performed were in the nature of routine family chores, such as cleaning, vacuuming, taking out the garbage, mowing the lawn and helping with their parents' shopping trips. "Such chores are part of parental training and discipline rather than the services rendered by an employee for an employer," the court said.

For wages to a child to be deductible the employer must meet certain requirements:

- Specific employment tax forms must be filed
- The work performed should be related to the business, not personal activities
- Wages paid should be based on the actual work performed, not a pre-determined amount paid on a monthly or weekly basis
- The employer must keep accurate records of the actual hours worked
- Personal household chores are not considered wages

The IRS will closely scrutinize family childcare providers who hire their own children or spouse. This is because some providers are tempted to gain a tax benefit without following the proper rules.

Tom Copeland states that childcare providers can learn from the Alexander case while distinguishing it from their own situation. Unlike other home-based businesses, family child care providers must clean and maintain their home to run a successful business. Some household chores could be considered "ordinary and necessary" for a family child care business and not for other businesses.

For providers to be able to deduct wages paid to their own children (or spouse), they need to identify each activity spent by their employee as a business, not personal activity. For example, cleaning the kitchen and bathroom could be a business or personal activity. To count these as business hours, providers need to show that their child cleaned these areas more often than they would have been cleaned if there was no business. This means you should keep track of the times spent cleaning these areas for personal reasons.

Let's say a child spent a half hour cleaning the kitchen and bathroom in the morning before the children arrived or in the evening after the children left. A provider could count this half hour as business work IF she also kept records showing that someone cleaned these areas some other time during the week.

It's not enough for a provider to try to deduct the wages paid to their own child who mows the lawn by saying that she must maintain an outside play area for the children in her care. Unless you can show that you are mowing the lawn more times because you are in business, it is not a good practice to count these hours as a business activity. The same reasoning should be applied to washing windows, taking out the garbage, etc. Such activities are primarily personal, even though a provider can argue that she must maintain a clean home for her business.

It's only the EXTRA time above what would normally be done as a homeowner that can be counted as a business activity. If you aren't keeping careful track of how often you are cleaning areas for both personal and business reasons, it is a good idea not to try to deduct the wages paid to your own children when they do the cleaning.

If you are paying your children for activities that are obviously for business purposes, you will still need to document the activity. For example, if your child is responsible for helping to serve snacks to the children in the afternoon, you need to list this business activity.

Although it may seem to be a lot of work, hiring your children is a rewarding learning experience for them.

Benefits of Participating in the Bookkeeping Program

We have personal bookkeepers on staff to individually handle your account. You will have access to your personal bookkeeper via phone, fax, mail and email.

While using our bookkeeping program, you will develop excellent record keeping skills. Your personal bookkeeper will work with you as much as necessary for those habits to develop.

You will receive quarterly reports designed to help you follow your business' progress. You will also receive a mid-year profit and loss statement and tax projection.

At the end of the year, family child care clients will receive a Form W10 accompanied by a cash flow report showing the parent income received for the year to provide to your clients for their tax records.

Remember the tax organizer you have to complete at the end of each year? When you participate in the monthly bookkeeping program, we complete the majority of your tax organizer because we already have the information in our office.

"In the event of an audit, you are protected"

Bookkeeping Program Offers Audit Protection

In the event of an audit, you are protected. Kelly is an Enrolled Agent which gives her the privilege of practicing, that is representing taxpayers, before the Internal Revenue Service. Enrolled Agents are unrestricted as to which taxpayers they can represent, what types of tax matters they can handle and which IRS offices they can practice before. Practice before the IRS includes all matters connected with a presentation to the IRS on behalf of the taxpayer. Examples include preparing and filing documents, communicating with the IRS, and representing a client at meetings.

If you are enrolled in the bookkeeping program, your personal bookkeeper will make sure that the deductions taken on your tax return are allowable deductions with the proper documentation to substantiate the expense.

Monthly Bookkeeping Fees

Bookkeeping Fees will not increase for 2009

Even though all of your other operating expenses have increased, we have made the decision to keep your monthly bookkeeping fees at $45 per month. If you are an imaging client, the additional fee each month will remain at $10 for that service. We will; however begin to enforce the other fees that are listed in your bookkeeping contract.

You will be charged an hourly rate for the time your bookkeeper spends straightening receipts and getting your monthly bookkeeping packet ready to work on. Please make sure your receipts are not just stuffed into your envelope.

You will also be charged an hourly rate for entering income/expenses after the calendar year books have been closed; for example adding expenses from receipts after your tax organizer has been completed; entering additional expense receipts in excess of 100 entries monthly; balancing income & expense discrepancies when brought to our attention after 30 days of receiving the quarterly cash flow reports; and maintenance of your account due to your mishandling of information. Mishandling of information could include listing payments on utility bills that do not match the actual payments being made; causing your bookkeeper to spend additional time verifying payments recorded match the utility companies' records.

If you operate a separate business, you will be charged an additional $10 per month to keep track of the income and expenses for that business.

Bookkeeper's Blog

The personal bookkeepers at Books by Kelly have had some observations that warrant mentioning. This information will be helpful to our bookkeeping clients, but is of interest to the clients that choose to do their own bookkeeping, as well.

Attendance Sheet:

- Do Not Pre-Fill
- Make sure the hours children are present match your calendar
- List children's first AND last names

Calendar: It is very important that your calendar and the hours children are present on your attendance sheet match. If the hours do not match, they will be adjusted according to the attendance sheet. You should only record the actual hours that children are present. DO NOT list the hours you are available for child care.

When recording additional time, be sure it is outside of the hours that children are present.

When documenting additional time when children are not present in your home, make a notation of what type of activity you are engaged in (i.e. DC laundry, DC bookkeeping, Personal Laundry, etc)

Do not pre-fill your calendar.

Home Repairs vs Home Improvement: Please use the change forms included in your yearly notebook inserts when doing any major repairs or home improvements to your home. If we do not have the correct information when categorizing your expenses, the expense deduction may not be taken correctly. You should also attach a note to the BACK of receipts for home repairs or home improvement projects to let your bookkeeper know what the items are being used for. There is a significant tax difference in Household Maintenance/Repairs and Home Improvements so your bookkeeper needs to know what you are doing to maintain and improve your home.

Payroll: When paying your own children, you need to keep job descriptions of the business responsibilities they have (see article on page 5).

Keep in mind that most people you hire to come into your home to help with your child care are, by law, employees and need to be treated as such.

Business Mileage: You **MUST** record the vehicle you use on **ALL** receipts and Books by Kelly worksheets when applicable in order to claim the business mileage for that trip. If there is no vehicle recorded, no mileage will be given. *Starting in 2009, if you own more than one vehicle you will need to mark your receipts, even if you usually drive the same vehicle.*

Utility/Medical/Phone Bills: When sending in statements such as utility, medical or phone/cell phone, make sure you note the date and amount paid. Send ALL of the bills, even if no payment was made so your bookkeeper has the breakdown of charges when the bill is paid. The FULL statement/bill is required to accurately document the expenses. Do not list the payments on your expense worksheet; send the entire bill. You do have the option to email the bills to your bookkeeper to reduce the size of the packets that are being mailed. If you have interest in this option, contact your personal bookkeeper.

Receipts: When clarifying items on your receipts, attach a note to the **BACK** of the receipt. Do **NOT** write on the front, except for the vehicle driven, which should be recorded at the bottom of the receipt. Your bookkeeper needs the front of the receipt to categorize the expenses.

Please make sure that your receipts are not just stuffed into your purse and then stuffed into your envelope. This often causes your receipts to fade and smudge. If your bookkeeper can't read the receipt, the IRS can't read the receipt and will not acknowledge the expense; even if it is a deductible one!

Expenses shared with friends and family: If you purchase something from another person or reimburse an individual for something they purchased for you (example: someone picks items up at Sam's Club for you or you purchase as a group and pay one individual), you MUST have a signed receipt from that individual stating that he or she was reimbursed. The receipt must include the date and amount paid.

"If your bookkeeper can't read the receipt, the IRS can't read the receipt and will not acknowledge the expense, even if it is a deductible one"

Minnesota K-12 School Expenses: MN Residents are allowed a subtraction/credit for qualifying expense related to their own children in grades K-12. These expenses include instruction for fine arts but not for sports. When you incur K-12 school or fine art expenses, send your receipt marked with the child's name. DO NOT record the expense on the expense worksheet. The State of Minnesota requires receipts in order to take the expense deduction.

If your receipt has supplies for more than one child, you need to indicate which supplies are for which child. We can not split the cost of 12 notebooks equally between 3 children; you must indicate how many notebooks belong to each child.

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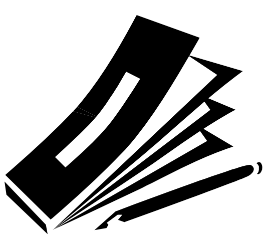
End-of-Year Parent Receipts



We recommend that providers give parents an end-of-the year receipt for child care services paid. You should have your clients sign the receipt and keep a copy for your files. The receipt should contain your social security or taxpayer identification number. By doing this, you will reduce the possibility that your client's records do not match yours in the event of an audit. The receipt will also protect you if a parent tries to claim a different amount on their tax return.

We suggest that you use the Form W-10 as a receipt by entering the amount paid on the form. We have electronic copies of the form available for your use. Simply send an email to info@booksbykelly.com with "Form W10" in the subject line and we will email the form for you to use.

Technically, parents are supposed to give the Form W-10 to providers, but very few parents understand this.

Sometimes clients have left your business before the end of the year. In this case, mail two copies of your receipt and ask them to sign and return one copy to you. If the parent left owing you money, you may not want to give the parent a receipt or your identification number. If you refuse to give the parent a receipt or your identification number, they can still claim the child care tax credit by showing that they made a good faith effort to get the number. Most parents, however, do not realize this and may pay you if you refuse to give out your number until you have been paid.

Be aware that you must provide the information if you are given a Form W-10 requesting the information or you may be subject to penalties from the IRS.