

The Business Side of Kith and Kin

Those who get paid for caring for children in their home are running a business. It doesn't matter if it's called Kith and Kin, Exempt Care, Legally Unlicensed Care, or Family, Friends and Neighbor Care. It doesn't matter if the person is only caring for relatives, or for one child of a friend. It doesn't matter if the amount of money paid for child care is less than \$100 a year.

If money is exchanged for the care of children in the home of the caregiver, then the caregiver must face a variety of business responsibilities. Kith and Kin caregivers are often unaware of their business responsibilities when they decide to care for children. This lack of understanding can create problems of federal and state taxes, exposure to the loss of homeowner's insurance, greater risks of liability lawsuits, and conflicts with parents over payment.

Taxes

Anyone who earns money caring for children in their home is responsible for reporting this income to the IRS and to their state. Caregivers can also deduct business expenses, which will reduce their taxes on this income. If a caregiver is in compliance with their state regulations, she can deduct the same expenses for her business as a licensed caregiver.

In other words, if state regulations say that a person is exempt from these regulations if she cares for children from one unrelated family, then this person can deduct the exact same business expenses as a fully state licensed provider. If a state has a system for certifying or registering Kith and Kin caregivers and a person complies with these rules, then the caregiver may deduct all business expenses, which include food, toys, supplies, car mileage, furniture depreciation, and house-related expenses such as utilities, property tax, house rent, house insurance, mortgage interest, house repairs, and house depreciation.

Kith and Kin caregivers who take advantage of claiming all of these business deductions on their tax return may discover that they have more deductions than their income. In this situation caregivers should not show business losses year after year because the IRS will not allow it. Showing a very small profit each year is acceptable. Some caregivers (grandmothers, for example) may earn little other money besides child care fees, and as a result they may owe little, if any, federal or state income taxes. However, caregivers who show a profit of above \$400 will always owe Social Security taxes.

Some Kith and Kin caregivers may also be eligible for other federal and state programs that assist low-income families (Temporary Assistance for Needy Families, Food Stamps, General Assistance, Supplemental Security Income, and

more). The income eligibility for these programs is based on a caregiver's "net income," not their "gross income." "Net income" is defined as business income minus business expenses. As a result of the many deductions Kith and Kin caregivers can claim, their "net income" is likely to be very low and it is unlikely that any benefits they receive from such programs will affect them.

Insurance

Caregivers who bring children into their home expose themselves to greater risks of injury to children, lawsuits, and property damage. Virtually any injury to a child will be the responsibility of the caregiver. Licensed providers can protect themselves by purchasing business liability insurance, but Kith and Kin caregivers generally cannot get such insurance if they do not meet the highest regulation standards of their state. Many assume that their relatives and/or friends will not sue them if their child is injured. This can lead to tragic consequences.

In addition, although some homeowner's policies will cover the home and the contents of the home if the provider cares for fewer than six children, some policies don't provide coverage if the homeowner cares for even one child. In one state a provider's roof suffered hail damage and a contractor was fixing it when he noticed a sign in the window that said "Day Care." The contractor told the insurance company that there was a day care business in the home and the company refused to fix the damage because the homeowner's insurance policy did not cover day care.

Most Kith and Kin caregivers have no idea that they may lose their homeowners insurance coverage by caring for just one child. Therefore, all Kith and Kin caregivers should talk with their homeowners insurance agent to make sure they are covered while caring for children.

There is a similar problem with car insurance if a Kith and Kin caregiver is using it on a regular basis to transport children or for other business purposes. Most car insurance policies do not cover providers who use their vehicle on a regular basis in their business or will charge high commercial insurance rates. Again, talk with your car insurance agent about how you use your car for your business.

Contracts

A Kith and Kin caregiver may believe there is no need to prepare a written agreement with the parent describing the basic responsibilities of parent payment and caregiver work hours. However, the lack of such an agreement can create problems. Failure by the state to pay for care on behalf of a low-income parent may leave the caregiver in the lurch unless they have a written contract that states that it is ultimately the parent's responsibility to pay for the care. A clear but simple contract can eliminate confusion and make it easier for the caregiver to enforce their agreement.

What Can Be Done

Business responsibilities are probably the last thing that Kith and Kin caregivers think about when they start caring for children. But these responsibilities won't go away, and ignoring them can have significant financial consequences. Caregivers should take advantage of the tax deductions when filing their business tax forms (Schedule C and Form 8829). Caregivers should talk to their homeowner's and car insurance agents about the impact of caring for even one child on their policies, and they should use a contract with parents. Those public and private agencies that work with Kith and Kin caregivers should share this basic business information to help them understand their responsibilities and protect themselves.

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