

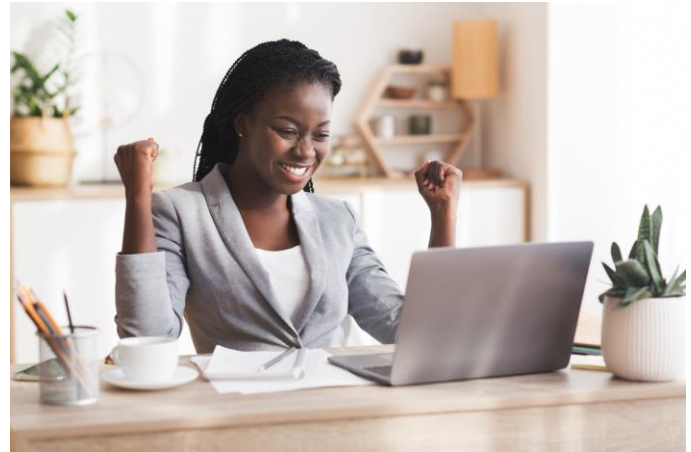
COVID-19: Child Care & Recordkeeping

Maintaining Good Records Saves Money

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In Brief: Good recordkeeping practices are essential for operating a small business (for both center-based child care programs and home-based child care programs). Financial records not only help child care programs to keep track of incoming revenue and expenses, but also with the COVID-19 pandemic – child care providers may have received grants or loans related to business relief or support to maintain operations during COVID for which records must be kept.



As with random tax audits that could occur through the Internal Revenue Service (IRS), federal or state agencies could also perform random audits of grants or loans related to COVID-19 funding that has been made available to child care providers. For these reasons, keeping good records is critical for every child care program.

How Keeping Good Records Can Help Child Care Providers

Keeping good records can help child care providers understand in real-time the cash flow of operating a child care business (revenues vs. expenses). Good records can also enable child care providers to maximize income (e.g., keeping track of deductible expenses, which help reduce tax liability and lower a provider's taxes that are owed).

Grants and Loans. During 2020 and 2021, Congress increased child care funding to states to help stabilize the child care market (e.g., help providers stay open for business) and to help meet additional expenses related to COVID-19 (e.g., PPE, cleaning supplies, and other expenses related to the need for social distancing and promoting the health and safety of providers and children in child care). For example, the Department of Human Services, Division of Family Development, has issued grants to help child care providers meet operating expenses and to help pay for PPE and cleaning supplies or other expenses related to COVID-19.

Some providers were able to access U.S. Small Business Administration Paycheck Protection Program (PPP) forgivable loans, which also helped to meet staffing and fixed operating costs. PPP loans used for allowable business expenses are also deductible business expenses on 2020 tax returns.

Regardless of the source of funding, it is critical to protect yourself for any potential audits that could occur of your business operation by keeping good records. This doesn't really require "extra" recordkeeping, it just solidifies the need for all businesses (including child care centers and family child care homes) to keep records to inform your business practices (know in real-time revenue and expenses and any gaps) as well as to be prepared in the event of an audit (audits are random, which means businesses may never be audited or they could be audited randomly). It's best to be prepared, which is what makes recordkeeping important for any business.

Types of Records to Keep

In general, business owners can choose how they want to keep records (e.g., through an online accounting system, spreadsheets, or paper files, etc.). However, what is important is to have a record that includes substantiating documentation and to organize your records by category of the expense. For example,

Gross receipts involve the source of funding (e.g., parent payments, payments from a state agency, payments from a federal agency such as through the SBA PPP program, or other source of income). Sources of income can be documented by bank deposit slips or records of the income received, which include the date received, the amount, and the source of funds.

Business expenses involve purchases or expenses related to operating your child care business. Documentation should record the amount paid, the date, the vendor or place you made the purchase from, and the expense for which that payment was made (e.g., the purchase of a portable water station to help promote the health and safety of children in your care during the pandemic, supplies to operate your child care business, deep cleaning services, or other expenses related to operating your business). Common forms of documentation:

- Receipt
- Cancelled check
- Credit/debit card statement
- Written record
- Photograph

The Length of Time You Should Keep Records

The IRS, federal and state agencies, or insurance policies could have varying requirements related to the length of time that business owners should keep records. It's good practice to keep your records, including copies of your tax returns, for at least 7 years – or seek advice from your tax preparer as to how long your records should be retained.

Tracking COVID-19 Expenses

Many child care providers may have received coronavirus relief funds or grants from state agencies to help meet operating costs during the pandemic. For these funds, it is important to track the date on which such funding was received and the amount. Also, for the use of those funds, expenses within broad categories should be tracked such as

- PPE and cleaning supplies
- Classroom equipment, supplies and materials (including toys) for the children in your program
- Home modifications
- Cleaning Services, Air Quality or Ventilation Improvement
- Liability Insurance (COVID-19 specific)
- Other COVID expenses

To help support recordkeeping for COVID related expenses, [this template](#) may be helpful (or modify the template to best meet your business needs).

Additional information: [IRS Publication 583](#) (Starting a Business and Keeping Records), [IRS Publication 334](#) (Tax Guide for Small Businesses – For Individuals Who Use Schedule C), and other [IRS Publications](#).