

## The Tax Consequences of Food Program Participation

Family child care providers will always benefit financially by being on the Food Program. Here are the tax consequences of a provider who joins the Food Program at the lower Tier II level or at the higher Tier I level, based on a provider caring for four children. The rates below are for July 1, 2020– June 30, 2021.

	Tier I Higher Food Program Payment	Tier II Reduced Food Program Payment	Not on Food Program
Parent fees (4 children @ \$150/week)	\$31,200	\$31,200	\$31,200
Food Program Reimbursements	+4,971	+2,382	+0
<b>Total Income</b>	<b>\$36,171</b>	<b>\$33,582</b>	<b>\$31,200</b>
Business Expenses	-10,000	-10,000	-10,000
Food Expenses	-5,000	-5,000	-5,000
Profit	21,171	18,582	16,200
Federal Taxes (24%)	-5,081	-4,460	-3,888
<b>Cash on Hand at End of Year</b>	<b>\$16,090</b>	<b>\$14,122</b>	<b>\$12,312</b>

Note: A provider on the Food Program is always entitled to claim food expenses in the same way as if she wasn't on the Food Program. This means providers can deduct as a food expense meals that are reimbursed by the Food Program. As the example shows, providers who receive the reduced reimbursed payment from the Food Program are still better off than if they receive no reimbursements. The provider on the Tier II rate has \$1,810 (\$14,122-\$12,312) more in her pocket after taxes than the provider not on the Food Program. It's true that a provider's taxes will go up after joining the Food Program, but her profit and after-tax income will also go up.

The Tier I rate (2020-2021): \$1.39 breakfast; \$2.61 lunch/supper; \$.78 snack.

The Tier II rate (2020-2021): \$.50 breakfast; \$1.58 lunch/supper; \$.21 snack.

We assume the provider served a breakfast, lunch, and snack each day.

We based the federal tax rate on 12% federal income tax, plus 12% net Social Security tax.

For further information, see the latest edition of the Family Child Care Tax Workbook and Organizer by Tom Copeland.