



The Tax Consequences of Food Program Participation

Family child care providers who join the Food Program at the lower Tier II rate will still benefit financially. Here are the tax consequences of the two-tiered based on a provider caring for four children:

	Tier I Higher	Tier II Reduced	No Food Program
Parent Fees (4 children)	\$22,000	\$22,000	\$22,000
Food Program Reimbursements	+ 4,222	+ 2,028	+ 0
Total Income	26,222	24,028	22,000
Business Expenses	- 10,000	- 10,000	- 10,000
Food Expenses	- 4,000	- 4,000	- 4,000
Profit	12,222	10,028	8,000
Federal Taxes (37%*)	- 4,522	- 3,710	-2,960
Cash on Hand at End of Year	\$7,700	\$6,318	\$5,040

Note: As the example shows, providers who receive lower reimbursements from the Food Program are still better off than if they receive no reimbursements. The provider in this example who remains on the Food Program will have \$1,278 (\$6,318-5,040) more cash on hand at the end of the year than if they left the Food Program.

*Based on 25% federal income tax, plus 12% net social security tax.