



# Income Tax Deductions for Food

## NO MORE SAVING OF FOOD RECEIPTS!

The Internal Revenue Service announced on February 24th that family child care providers may now choose to use a standard meal allowance rate to claim food deductions instead of keeping detailed records and food receipts. This new rule will greatly reduce the amount of record keeping for family child care providers. The IRS estimates that this new rule could save providers about ten million hours of record keeping.

The new rate will use the Tier I rate from the Child and Adult Food Program in effect at the beginning of each calendar year.

The rate that can be used for calendar year 2003 is

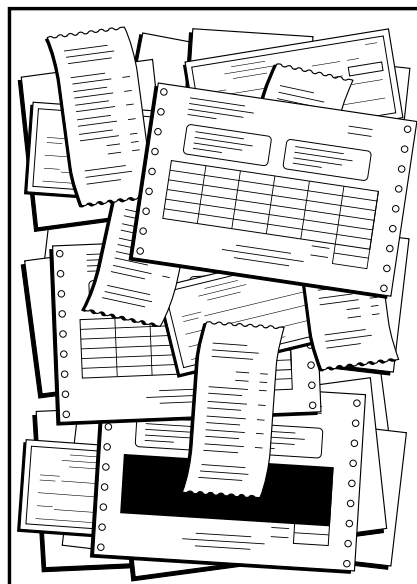
\$ .98 for breakfast

\$ 1.80 for lunch or supper

\$ .53 for a snack

The rates are higher for Alaska and Hawaii. The Tier I rate is the higher of the two different rates of reimbursement under the Food Program.

Providers can use the standard meal and snack rates for a maxi-



mum of one breakfast, one lunch, one dinner, and three snacks per child per day. Any extra meals or snacks beyond these amounts may not be counted when using the standard meal allowance rate. Providers can count meals even if they do not meet the nutrition requirements of the Food Program.

The new rule (IRS Revenue Procedure 2003-22) is effective for 2003. However, if providers use the Tier I rates for prior taxable years to claim food expenses, according to the IRS, they will not challenge this method in an audit.

Providers can use the following rates to claim food expenses for 2002:

\$.96 for breakfast

\$1.78 for lunch or supper

\$.53 for a snack

## WHO CAN USE THIS NEW TAX RATE?

All family child care providers are eligible to use this new standard meal allowance rate, whether or not they are licensed, registered, or otherwise regulated by their own state or locality. This includes unregulated providers, providers receiving subsidy from their state to care for one or more low-income children, and even illegal providers. Providers who are not on the Child Care Food Program may also use this new rate.

Providers will now have a choice in how to claim their food expenses. They can use this new standard meal allowance rate or they can choose to deduct their food expenses using the actual cost of the meals. Each year providers can choose either method and switch back and forth from year to year.

To use the standard meal allowance rate, providers must maintain records that include the name of each child, dates and hours of attendance in care, and the number of breakfasts, lunches, suppers, and snacks served. The Revenue Procedure contains a meal and snack log that providers can use to track this information. Although providers are not required to use this log, they should keep records during the year that contain the same information. Providers can use record-keeping systems such as the Calendar-Keeper, the Calendar-Keeper software, or other records such as Food Program monthly claim forms, sign-in and sign-out sheets, parent contracts, and other methods. The most difficult record to keep is probably hours of attendance. Although the IRS log asks providers to track this on a daily basis, providers who keep reasonable attendance records and whose meal counts are not inconsistent with these records should not have a problem if audited.

## **CAN YOU CLAIM FOOD FOR YOUR OWN CHILDREN?**

Meals served to a provider's own child may not be counted. The exception to this is if a provider has hired her own child to perform work for her business. In this case the actual cost of the food served to the child may be counted separate from the meal

allowance rate. The cost of food served to non-family member employees may also be counted as an actual food cost separate from the meal allowance rate. For example, meals served by a provider to her granddaughter may be counted using the standard meal allowance rate if the grandmother is paid to provide the care and the grandmother is not legally responsible for the upbringing of the grandchild.

Providers may not count meals if the parent of the child supplies the food. If a parent brings part, but not all, of the food for a particular meal, the provider may be able to claim a portion of the meal allowance rate. Providers should use their own reasonable judgment about whether to claim a portion of the meal allowance rate.

## **ACTIVITY EXPENSE VS. FOOD EXPENSE**

The actual cost of food purchased as part of an activity, rather than as a meal or snack, may be counted as an activity expense, rather than as a food expense. For example, the cost of a cake served at a birthday party or the ingredients of a gingerbread house can be deducted separately. But an outing to a Chuck E. Cheese restaurant, where there are a lot of non-food activities, should be counted as a meal, not a separate activity expense. This is because the food served is taking the place

of a regular meal served at the provider's home. Providers should use their best judgment to determine if a food expense should be counted as a meal or an activity expense.

## **NON-FOOD SUPPLIES**

Providers can continue to claim non-food supplies used for food preparation such as containers, paper products, or utensils. It is important to keep saving receipts for such items. Even though a provider is no longer saving food receipts, she should remember to save any food receipt that also has on it a non-food item.

Some providers and tax preparers currently calculate their food expenses using a flat rate per meal that is higher than the Tier I rate. There is no IRS-approved meal allowance rate other than the Tier I rate as announced in this new rule. Providers who use some other flat rate should expect a challenge from the IRS if they are audited. They should keep the same records as required by this new rule, plus all business and personal food receipts.

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