

The Daycare Owner's Financial Clarity Guide

**A practical guide to managing daycare finances,
tracking income sources, and staying organized
all year.**

Presented by: Smart Ledger Bookkeeping Services, LLC

Where Books Come to Balance

Why Daycare Finances Are Uniquely Complex

Running a daycare means managing multiple income streams, subsidy programs, payroll for staff, licensing costs, supply expenses, and strict compliance requirements, all while caring for children every single day.

Financial disorganization in a daycare can mean missed subsidy payments, payroll errors, and tax surprises that threaten the business.

This guide was built to help daycare owners and providers create a stronger financial foundation.

Keep Business Separate from Day One

Daycare owners have a particularly strong tendency to mix personal and business finances, especially home-based providers, where groceries, cleaning supplies, and even the mortgage or rent overlap with the business.

Open a dedicated business checking account and business credit card, and run every tuition deposit, subsidy payment, supply purchase, and grant deposit through it only.

A childcare management platform such as Procare, Brightwheel, or LifeCubby for billing and attendance, paired with a bookkeeping platform like QuickBooks Online, makes it far easier to keep these separate and organized.

Smart Tip

Open a dedicated business checking account this week and move every tuition, subsidy, and grant deposit into it going forward. Mixing finances makes your Time-Space percentage harder to defend in an audit and can undermine your LLC's liability protection.

Daycare Revenue Streams to Track

- Private tuition payments by family
- ACS or childcare subsidy vouchers
- State subsidy and CACFP reimbursements
- After-care and extended hours fees
- Registration and enrollment fees
- Late pickup fees
- Grant income

Smart Tips

Set up separate income categories for subsidy payments and private tuition before your next deposit hits. Mixing them makes it nearly impossible to understand your true occupancy revenue.

Set up a separate category — or a separate account — for every grant you receive, and check its terms before you spend a dollar. Grant income often comes with restricted-use and reporting requirements, and misuse can jeopardize future funding.

Staff Costs Are Your Largest Expense

For most daycare owners, payroll represents 60 to 70 percent of total expenses. Tracking this accurately is essential for understanding profitability, setting tuition rates, and planning for growth.

- Maintain accurate timesheets for all staff
- Track overtime separately from regular hours
- Set aside payroll taxes every pay period — do not wait
- Keep records of any staff stipends or benefits paid
- Classify staff correctly — daycare workers are almost always W-2 employees, not 1099 contractors, given the level of supervision involved

Smart Tip

Add up your full payroll cost, including your own salary, and divide it by your enrollment — then compare that to your current tuition rate. If tuition does not cover it, you may be running your daycare at a loss without knowing it.

Build These Habits Every Month

- Reconcile your business bank account
- Review subsidy payments received vs. expected
- Track outstanding tuition balances by family
- Review supply and food program expenses
- Reconcile CACFP meal counts claimed against actual attendance records
- Set aside estimated quarterly tax payments
- Review your profit and loss statement

Smart Tip

Outstanding tuition balances are a cash flow problem. Review them weekly and follow up consistently. Kindness does not require letting families fall significantly behind.

Quarterly Estimated Tax Payments

Daycare owners rarely have taxes withheld the way an employee would, so the IRS expects payments four times a year, not just once at filing time. Subsidy reimbursements can also lag well behind when services are provided, so it helps to keep a cash reserve sized to bridge that gap and cover these payments on schedule. File using IRS Form 1040-ES

- Q1 payment due April 15
- Q2 payment due June 15
- Q3 payment due September 15
- Q4 payment due January 15 of the following year

Smart Tip

To avoid a penalty, pay at least 100% of last year's tax bill (110% if your prior-year income was over \$150,000) or 90% of this year's actual liability, whichever is smaller. Put all four dates on your calendar the moment tax season ends.

Common Daycare Deductions

- Food and meals served to children
- Educational supplies and learning materials
- Toys and playground equipment
- Staff wages and payroll taxes
- Licensing and inspection fees
- Insurance premiums, including general liability and abuse/molestation liability coverage
- Home daycare square footage deduction if applicable
- Cleaning and sanitation supplies

Smart Tip

Start a daily log today of the hours your home is used for daycare — a notes app or a notebook by the door both work. Without it, the Time-Space percentage deduction will not hold up in an audit, even though it is one of the most valuable deductions available to home-based providers.

Be Tax-Ready All Year

- Maintain enrollment records for all children served
- Track all subsidy income with supporting documentation
- Keep receipts for food, supplies, and equipment
- Retain payroll records and tax filings
- Document all licensing and professional development expenses
- Provide your EIN (or SSN) to parents for Form W-10 so they can claim the Child and Dependent Care Credit
- Issue a 1099-NEC to any contractor paid \$2,000 or more in 2026 (substitute staff, cleaning services, maintenance, IT support)
- Keep records for at least 3-6 years if income was underreported by 25% or more

Smart Tip

Build a single folder — physical or digital — for your Time-Space log, W-10 documentation, and enrollment records, and update it monthly.

Daycare owners are audited at higher rates than many other business types, and organized records are your best protection.

Track the Numbers That Drive Decisions

Your bank balance does not tell you whether your daycare is actually profitable. A handful of numbers, reviewed monthly, will.

- Occupancy rate — enrolled children versus licensed capacity
- Revenue per child, per month
- Cost per child: payroll, supplies, and food divided by enrollment
- Waitlist trends and turnover

Smart Tip

Calculate these four numbers for this month and write them down somewhere you will check again next month. Two daycares charging identical tuition can have very different profitability depending on occupancy and staffing ratios — your bank balance alone will not tell you that.

Need Help Organizing Your Books?

Smart Ledger provides monthly bookkeeping, financial reporting, and operational support built for the unique needs of childcare businesses.

Whether you need monthly maintenance, tax season preparation, or a complete books cleanup, we are here to help.

Our Professional Services:

- Full-Service Monthly Bookkeeping & Bank Reconciliation
- Historical Cleanups & Catch-up Bookkeeping
- Accounts Receivable & Accounts Payable Tracking
- Financial Reporting & Cash Flow Management
- Tax Season Readiness & Year-End Preparation

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