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**State of Wisconsin  
Governor Scott Walker**

**TO:** Income Maintenance Supervisors  
Income Maintenance Lead Workers  
Income Maintenance Staff  
W-2 Agencies  
Workforce Development Boards  
Job Center Leads and Managers  
Training Staff  
Child Care Coordinators

**FROM:** Kath McGurk, Director  
Bureau of Early Learning and Policy  
Division of Early Care and Education  
Department of Children and Families

<b>DECE/BELP OPERATIONS MEMO</b>					
<b>No: 15-40</b>					
<b>DATE: 11/04/2015</b>					
<b>FS</b>	<input type="checkbox"/>	<b>MA</b>	<input type="checkbox"/>	<b>BC+</b>	<input type="checkbox"/>
<b>SC</b>	<input type="checkbox"/>	<b>CTS</b>	<input type="checkbox"/>	<b>FSET</b>	<input type="checkbox"/>
<b>BC+ Basic</b>	<input type="checkbox"/>	<b>BC+ CORE</b>	<input type="checkbox"/>		
<b>CC</b>	<input checked="" type="checkbox"/>	<b>W-2</b>	<input type="checkbox"/>	<b>EA</b>	<input type="checkbox"/>
<b>CF</b>	<input type="checkbox"/>	<b>JAL</b>	<input type="checkbox"/>	<b>JC</b>	<input type="checkbox"/>
<b>RAP</b>	<input type="checkbox"/>	<b>WIA</b>	<input type="checkbox"/>	<b>Other</b>	<input type="checkbox"/> *
				<b>EP</b>	

**SUBJECT: Identifying Depreciation and CC Invalid Expenses on IRS Tax Forms**

**CHILD CARE SELF-EMPLOYMENT MEMO:** 1 of 3

**CROSS REFERENCE:** CC Self-Employment Memos 2 and 3, CC Manual Sections 1.2.0, 1.6.2.2 and 1.6.2.3. Wisconsin Statutes Section 49.155 (1m)(c)

**EFFECTIVE DATE:** November 9, 2015

**PURPOSE:** To help workers identify depreciation, and expenses that Child Care will not allow when reviewing self-employment tax documents submitted to the Internal Revenue Service (IRS).

**BACKGROUND:** Wisconsin statute 49.155 (1m)(c)1.a. and b. state that for financial eligibility test for farm and self-employment income, include the sum of:

- Net earnings reported to the IRS plus depreciation expenses, personal business and entertainment expenses, personal transportation costs, purchases of capital equipment and payments on the principal of loans.

**NEW POLICY:** Expenses for depreciation, personal business and entertainment, personal transportation costs, purchases of capital equipment and payments on the principal of loans are expenses that Child Care will not allow to be excluded from self-employment income

and must be entered into specific fields in Cares Worker Web (CWW), so the system can subtract it from the gross expenses for child care eligibility determination.

Tax forms submitted to the IRS must be provided in order to make this calculation. Use Self-Employment Income Report Forms (SEIRFs) DCF-F-DWSP2131 or DHS F-00107 and IRS tax forms to show time periods where there is a significant change in income. New businesses are excluded from providing IRS tax documents for the first 6 months of their business and can provide SEIRFs to provide income documentation, however after 6 months, participants are expected to submit filed IRS tax forms, which can include quarterly reported taxes.

***GUIDANCE ON POLICY IMPLEMENTATION:*** If IRS tax or SEIRF forms need clarification, request additional verification and documentation such as receipts, contracts, expenses, etc., document additional verification requests in CWW case comments.

Review the IRS Tax Form screen shots below to identify lines most often used for these invalid child care expenses. However, the agency worker must review all submitted tax documents and lines thoroughly to ensure that no invalid child care expenses are missed for actual cases.

- Depreciation Expenses will be highlighted in purple.
- CC only invalid expenses will be highlighted in yellow.

These screen shots will guide agency workers when entering information on the Self-Employment page in CWW for Depreciation, and CC Only Invalid Expenses.

**Self Employment** Cancel

Total: 1

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**Effective Period**

\* Begin Month: 02 / 2015      End Month: MM / YYYY      Last Updated: 02/24/2015

Delete Reason:

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**Additional Information**

\* Individual: **KESHA JONES 34F PP**      Sequence: 1

Business Name:       Business Tax ID:

\* Business Type: AV - COSMETICS - SALES/AVON      \* Business Ownership Type: SP - Sole Proprietorship

Business Start Month: 02 / 2013      Significant Change Month: MM / YYYY

Most Recent Business Taxes Filed Year: 2013

\* Self-Managed? Yes

Monthly Hours: 10      Verification: SE - SELF-EMPLOYMENT RECORDS

\* Number of Months For Average: 12

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**Details**

Gross Income: \$  .       Verification:

Gross Expenses: \$  .       Verification:

**Depreciation Amount:** \$  .

Other Disallowed Expenses: \$  .

**CC Only Invalid Exp.:** \$  .       Delete

When reviewing self-employment **Schedule C (Form 1040)** typically the following information is included:

- Depreciation will be found on line 13,
- any other invalid child care expenses could be found on line 24 and 30 (personal business and entertainment, personal transportation costs, purchases of capital equipment and payments on the principal of loans).

<b>SCHEDULE C</b> <b>(Form 1040)</b>		<b>Profit or Loss From Business</b> (Sole Proprietorship)		OMB No. 1545-0074			
Department of the Treasury Internal Revenue Service (99)		► Information about Schedule C and its separate instructions is at <a href="http://www.irs.gov/schedulec">www.irs.gov/schedulec</a> . ► Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.		<b>2014</b> Attachment Sequence No. <b>09</b>			
<b>Part II Expenses.</b> Enter expenses for business use of your home <b>only</b> on line 30.							
8	Advertising . . . . .	8		18	Office expense (see instructions)	18	
9	Car and truck expenses (see instructions) . . . . .	9		19	Pension and profit-sharing plans . . . . .	19	
10	Commissions and fees . . . . .	10		20	Rent or lease (see instructions):		
11	Contract labor (see instructions)	11		a	Vehicles, machinery, and equipment	20a	
12	Depletion . . . . .	12		b	Other business property . . . . .	20b	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions) . . . . .	13		21	Repairs and maintenance . . . . .	21	
14	Employee benefit programs (other than on line 19) . . . . .	14		22	Supplies (not included in Part III) . . . . .	22	
15	Insurance (other than health)	15		23	Taxes and licenses . . . . .	23	
16	Interest:			24	Travel, meals, and entertainment:		
a	Mortgage (paid to banks, etc.)	16a		a	Travel . . . . .	24a	
b	Other . . . . .	16b		b	Deductible meals and entertainment (see instructions) . . . . .	24b	
17	Legal and professional services	17		25	Utilities . . . . .	25	
28	<b>Total expenses</b> before expenses for business use of home. Add lines 8 through 27a . . . . . ►	28		26	Wages (less employment credits) . . . . .	26	
29	Tentative profit or (loss). Subtract line 28 from line 7 . . . . .	29		27a	Other expenses (from line 48) . . . . .	27a	
30	<b>Expenses for business use of your home.</b> Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions). <b>Simplified method filers only:</b> enter the total square footage of: (a) your home: _____ and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30 . . . . .	30		27b	<b>Reserved for future use</b> . . . . .	27b	
31	<b>Net profit or (loss).</b> Subtract line 30 from line 29. • If a profit, enter on both <b>Form 1040, line 12</b> (or <b>Form 1040NR, line 13</b> ) and on <b>Schedule SE, line 2</b> . (If you checked the box on line 1, see instructions). Estates and trusts, enter on <b>Form 1041, line 3</b> . • If a loss, you <b>must</b> go to line 32.	31					

When reviewing self-employment **Form 1065** typically the following information is included:

- Depreciation will be found on line 16,
- Any other invalid child care expenses could be found on line 20 or on schedule K-1 line 13. Review K-1 attachments to apply the appropriate percentage of the client's ownership interest and to identify any personal business and entertainment, personal transportation costs, purchases of capital equipment and payments on the principal of loans.

<b>Form 1065</b> Department of the Treasury Internal Revenue Service		<b>U.S. Return of Partnership Income</b>		OMB No. 1545-0123		
		For calendar year 2014, or tax year beginning _____, 2014, ending _____, 20_____.		<b>2014</b>		
		▶ Information about Form 1065 and its separate instructions is at <a href="http://www.irs.gov/form1065">www.irs.gov/form1065</a> .				
<b>A</b> Principal business activity	<b>Type or Print</b>	Name of partnership		<b>D</b> Employer identification number		
<b>B</b> Principal product or service		Number, street, and room or suite no. If a P.O. box, see the instructions.		<b>E</b> Date business started		
<b>C</b> Business code number		City or town, state or province, country, and ZIP or foreign postal code		<b>F</b> Total assets (see the instructions) \$ _____		
<b>Deductions</b> (see the instructions for limitations)	<b>9</b>	Salaries and wages (other than to partners) (less employment credits) . . . . .			<b>9</b>	
	<b>10</b>	Guaranteed payments to partners . . . . .			<b>10</b>	
	<b>11</b>	Repairs and maintenance . . . . .			<b>11</b>	
	<b>12</b>	Bad debts . . . . .			<b>12</b>	
	<b>13</b>	Rent . . . . .			<b>13</b>	
	<b>14</b>	Taxes and licenses . . . . .			<b>14</b>	
	<b>15</b>	Interest . . . . .			<b>15</b>	
	<b>16a</b>	Depreciation (if required, attach Form 4562) . . . . .		<b>16a</b>		
	<b>b</b>	Less depreciation reported on Form 1125-A and elsewhere on return		<b>16b</b>		<b>16c</b>
	<b>17</b>	Depletion ( <b>Do not deduct oil and gas depletion.</b> ) . . . . .			<b>17</b>	
	<b>18</b>	Retirement plans, etc. . . . .			<b>18</b>	
<b>19</b>	Employee benefit programs . . . . .			<b>19</b>		
<b>20</b>	Other deductions (attach statement) . . . . .			<b>20</b>		
<b>21</b>	<b>Total deductions.</b> Add the amounts shown in the far right column for lines 9 through 20.			<b>21</b>		

The amount attributed to a particular partner is based on the share of the business identified in **Schedule K-1 (Form 1065)**. The IRS requires that a Schedule K-1 be attached for each member of the partnership. If the worker isn't able to identify the amount attributable for the Wisconsin Shares applicant or participant, ask the participant for clarification.

<p><b>Schedule K-1 (Form 1065)</b> <span style="float:right; font-size: 2em; font-weight: bold;">2014</span></p> <p>Department of the Treasury Internal Revenue Service</p> <p style="text-align: right;">For calendar year 2014, or tax year beginning _____, 2014 ending _____, 20____</p> <p><b>Partner's Share of Income, Deductions, Credits, etc.</b> <span style="float:right;">▶ See back of form and separate instructions.</span></p>		<p style="text-align: right;"><input type="checkbox"/> Final K-1    <input type="checkbox"/> Amended K-1    OMB No. 1545-0123</p> <p><b>Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items</b></p> <table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="width:5%; text-align: center;"><b>1</b></td> <td style="width:75%;">Ordinary business income (loss)</td> <td style="width:10%; text-align: center;"><b>15</b></td> <td style="width:10%;">Credits</td> </tr> <tr> <td style="text-align: center;"><b>2</b></td> <td>Net rental real estate income (loss)</td> <td></td> <td></td> </tr> <tr> <td style="text-align: center;"><b>3</b></td> <td>Other net rental income (loss)</td> <td style="text-align: center;"><b>16</b></td> <td>Foreign transactions</td> </tr> <tr> <td style="text-align: center;"><b>4</b></td> <td>Guaranteed payments</td> <td></td> <td></td> </tr> <tr> <td style="text-align: center;"><b>5</b></td> <td>Interest income</td> <td></td> <td></td> </tr> <tr> <td style="text-align: center;"><b>6a</b></td> <td>Ordinary dividends</td> <td></td> <td></td> </tr> <tr> <td></td> <td>Qualified dividends</td> <td></td> <td></td> </tr> <tr> <td></td> <td>Royalties</td> <td></td> <td></td> </tr> <tr> <td></td> <td>Net short-term capital gain (loss)</td> <td></td> <td></td> </tr> <tr> <td style="text-align: center;"><b>9a</b></td> <td>Net long-term capital gain (loss)</td> <td style="text-align: center;"><b>17</b></td> <td>Alternative minimum tax (AMT) items</td> </tr> <tr> <td style="text-align: center;"><b>9b</b></td> <td>Collectibles (28%) gain (loss)</td> <td></td> <td></td> </tr> </table>		<b>1</b>	Ordinary business income (loss)	<b>15</b>	Credits	<b>2</b>	Net rental real estate income (loss)			<b>3</b>	Other net rental income (loss)	<b>16</b>	Foreign transactions	<b>4</b>	Guaranteed payments			<b>5</b>	Interest income			<b>6a</b>	Ordinary dividends				Qualified dividends				Royalties				Net short-term capital gain (loss)			<b>9a</b>	Net long-term capital gain (loss)	<b>17</b>	Alternative minimum tax (AMT) items	<b>9b</b>	Collectibles (28%) gain (loss)		
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<p><b>Part I Information About the Partnership</b></p> <p><b>A</b> Partnership's employer identification number</p> <p><b>B</b> Partnership's name, address, city, state, and ZIP code</p> <p><b>C</b> IRS Center where partnership filed return</p> <p><b>D</b> <input type="checkbox"/> Check if this is a publicly traded partnership (PTP)</p>		<p><b>Part II Information About the Partner</b></p> <p><b>E</b> Partner's identifying number</p>																																													

You may have to ask the participant what percentage of the business they own if it isn't clearly identified.

<p><b>G</b> <input type="checkbox"/> General partner or LLC member-manager    <input type="checkbox"/> Limited partner or other LLC member</p> <p><b>H</b> <input type="checkbox"/> Domestic partner    <input type="checkbox"/> Foreign partner</p> <p><b>I1</b> What type of entity is this partner? _____</p> <p><b>I2</b> If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here <input type="checkbox"/></p> <p><b>J</b> Partner's share of profit, loss, and capital (see instructions):</p> <table border="1" style="width:100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">Beginning</th> <th></th> <th style="text-align: center;">Ending</th> </tr> </thead> <tbody> <tr> <td>Profit</td> <td style="text-align: center;">%</td> <td style="text-align: center;">%</td> <td style="text-align: center;">%</td> </tr> <tr> <td>Loss</td> <td style="text-align: center;">%</td> <td style="text-align: center;">%</td> <td style="text-align: center;">%</td> </tr> <tr> <td>Capital</td> <td style="text-align: center;">%</td> <td style="text-align: center;">%</td> <td style="text-align: center;">%</td> </tr> </tbody> </table> <p><b>K</b> Partner's share of liabilities at year end:</p> <p>Nonrecourse . . . . . \$ _____</p> <p>Qualified nonrecourse financing . . . . . \$ _____</p> <p>Recourse . . . . . \$ _____</p>		Beginning		Ending	Profit	%	%	%	Loss	%	%	%	Capital	%	%	%	<table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="width:5%; text-align: center;"><b>11</b></td> <td style="width:75%;">Other income (loss)</td> <td style="width:10%;"></td> <td style="width:10%;"></td> </tr> <tr> <td style="text-align: center;"><b>12</b></td> <td>Section 179 deduction</td> <td></td> <td></td> </tr> <tr style="background-color: #ffff00;"> <td style="text-align: center;"><b>13</b></td> <td>Other deductions</td> <td></td> <td></td> </tr> <tr> <td style="text-align: center;"><b>14</b></td> <td>Self-employment earnings (loss)</td> <td></td> <td></td> </tr> <tr> <td style="text-align: center;"><b>19</b></td> <td>Distributions</td> <td></td> <td></td> </tr> <tr> <td style="text-align: center;"><b>20</b></td> <td>Other information</td> <td></td> <td></td> </tr> </table>	<b>11</b>	Other income (loss)			<b>12</b>	Section 179 deduction			<b>13</b>	Other deductions			<b>14</b>	Self-employment earnings (loss)			<b>19</b>	Distributions			<b>20</b>	Other information		
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**CONTACTS:** For Wisconsin Shares Child Care policy questions outside of Milwaukee County contact your Bureau of Regional Operations (BRO), Child Care Coordinators at [http://dcf.wisconsin.gov/regional\\_operations/pdf/contact\\_list.pdf](http://dcf.wisconsin.gov/regional_operations/pdf/contact_list.pdf)

For Child Care CARES/CWW, CSAW and CCPI Processing Questions statewide and policy questions in Milwaukee County contact the Child Care Help desk at: [childcare@wisconsin.gov](mailto:childcare@wisconsin.gov) or (608) 264-1657.

\*Program Categories – FS – FoodShare, MA – Medicaid, BC+ – BadgerCare Plus, SC – Senior Care, CTS – Caretaker Supplement, CC – Child Care, W-2 – Wisconsin Works, FSET – FoodShare Employment and Training, BC+ Core – BadgerCare Plus Core, CF – Children First, EA – Emergency Assistance, JAL – Job Access Loan, JC - Job Center Programs, RAP – Refugee Assistance Program, WIA – Workforce Investment Act, Other EP – Other Employment Programs.

DCF/DECE/BELP/MRD