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## BUILDING A BUSINESS

# In-home child care: Claim federal tax deduction

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If you're an in-home child care provider, you may be able to claim a tax deduction on the part of your home you use for caring for children.

According to the Internal Revenue Service, you qualify for the deduction on part of your home if you are in the business of providing child care and meet state law for operating as a child care facility. If you use a space exclusively for child care, you may deduct all the allowable expenses up to the deduction limit. If you and your family use the space occasionally, you figure the percentage of time you use space for child care.

Find instructions for figuring the deduction and sample calculations on the IRS website, in the section titled "Publication 587 Business Use of Your Home," [www.irs.gov/publications/p587/ar02.html#en\\_US\\_2015\\_publink1000226361](http://www.irs.gov/publications/p587/ar02.html#en_US_2015_publink1000226361).

If you have questions, consult an accountant, preferably one familiar with the child care facility deduction. ■

# What's your bias—optimist or pessimist?

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**T**-shirts! That's what we need to sell," says Mattie enthusiastically. "We could have a bunch made and then sell them to parents."

"No, I don't think so," says Audrey. "Most people have lots of T-shirts and don't want any more."

"But T-shirts are popular," Maggie counters. "All the athletic teams sell them. So do colleges and schools, musicians, even coffee shops."

"Do we know the cost of making them?" asks Tameka. "What price would we ask? How many would we have to sell to make a profit?"

"I'm sure we would make money," Mattie says, "because I just know that parents would love them. And I have a great idea for the design."

"Wait, let's review," says Miranda. "I started this conversation because our program had a financial loss last year—not much of a loss, but a loss nonetheless. I asked that we consider several ways to avoid a loss next year—rethinking our budget, raising fees, asking for donations in the community, writing a grant proposal, having fundraisers, and so forth. Before we get too far down any one road, we need to be clear about our goal."



**W**e all know people like Mattie. We admire their ideas, enthusiasm, and conviction, and it's tempting to get swept away in the moment.

Actually, Mattie offers a good example of what is known as an **optimist bias**. As explained in a recent journal article, human beings "exhibit a pervasive and surprising bias: when it comes to predicting what will happen to us tomorrow, next week, or fifty years from now, we overestimate the likelihood of positive events, and underestimate the likelihood of negative events. For example, we underrate our chances of getting divorced, being in a car accident,

or suffering from cancer. We also expect to live longer than objective measures would warrant, overestimate our success in the job market, and believe that our children will be especially talented. This phenomenon is known as the optimism bias, and it is one of the most consistent, prevalent, and robust biases documented in psychology and behavior economics" (Sharot 2011).

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## A LEADER CAN ASK TO HEAR ALL VIEWPOINTS.

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Mattie's opposite would have a **pessimist bias**—that is, seeing things as going wrong, looking at the worst possible outcome, and shying away from taking any risk.

Fortunately, in the scenario above, Miranda brings everyone back down to earth by focusing on the group's goal. In situations like this, groups can benefit from a leader who tries to keep things in perspective. A leader can ask to hear all viewpoints, reminding the optimist to be grounded in reality, inviting the pessimist to let go of debilitating fear, and encouraging all to seek a balance.

### References

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- Townsend, Gerald. May 5, 2014. Behavioral Finance 101—Optimists and Pessimists, *BOOM! Magazine*, [www.boomnc.com/featured-articles/behavioral-finance-101-optimists-pessimists/](http://www.boomnc.com/featured-articles/behavioral-finance-101-optimists-pessimists/). ■

# Basics for bosses: What is the minimum wage?

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**M***inimum wage* is the lowest hourly amount an employer may pay its workers in the United States, although certain exemptions apply. Currently the minimum wage is \$7.25 an hour.

The law requires that employers provide employees a written earnings statement that allows employees to determine whether they have been paid correctly for a given pay period.

In Texas, exempted employees include those in religious and nonprofit organizations, professionals, and family members. For more information about rights and duties under the minimum wage law, see the website of the Texas Workforce Commission website at [www.twc.state.tx.us/jobseekers/texas-minimum-wage-law](http://www.twc.state.tx.us/jobseekers/texas-minimum-wage-law).

**History.** The United States created its first minimum wage during the Great Depression of the 1930s. Before that time, labor unions had tried to create a base wage but were not successful. Consequently, some workers toiled away in factories for long hours, in hazardous conditions, and for pennies a week. (For an insight into these conditions, read *The Jungle*, a groundbreaking novel by Upton Sinclair published in 1906.)

The Depression forced many people to move from farms to cities looking for jobs. That enormous demand allowed employers to pay low wages to desperate workers who took whatever they could find. Running for reelection in 1936, President Franklin D. Roosevelt promised action. After a landslide win, he signed the Fair Labor Standards Act in 1938.

The FLSA created a mandatory federal minimum wage to “maintain a standard of living necessary for health, efficiency, and general well-being, without substantially curtailing employment.” The law included worker protections, such as a 40-hour work week (a concept Henry Ford had pioneered in his

factories in 1914), overtime pay, and a ban on child labor.

The original minimum wage was 25 cents an hour, which seems ridiculous today until we remember how much money could buy at the time. In subsequent years, Congress raised the minimum wage but not by much. In 1979, the minimum wage had risen to only \$2.90 despite increases in inflation and the cost of living. Increases finally came in the 1990s, but women workers still took the brunt of the decline in purchasing power. The current minimum wage of \$7.25 an hour became effective in July 2009.

**State and local action.** Government inaction at the federal level has prompted state and local governments to go above the minimum. Today, according to [minimum-wage.org](http://minimum-wage.org), 25 states have a minimum wage of \$8 or more. See a list of states and their minimum wage for 2016 at [www.minimum-wage.org/wage-by-state.asp](http://www.minimum-wage.org/wage-by-state.asp).

At the current rate, an employee working 40 hours a week for 52 weeks would earn \$15,080 a year before taxes or tax credits. At \$10.10 an hour, a person working full-time with two children would make \$20,200, just above the current federal poverty level of \$20,160 for a three-person household. See the 2016 federal poverty guidelines at <https://aspe.hhs.gov/poverty-guidelines>.

Several big cities, including New York and Los Angeles, will phase in a \$15 minimum for city workers. San Marcos, Texas, requires a \$15 minimum plus benefits to companies that want tax breaks.

While many child care workers in Texas earn the minimum wage, some facilities pay their employees more based on experience and education. As of May 2015, for example, the hourly mean (or middle) was \$9.73. See [www.bls.gov/oes/current/oes399011.htm](http://www.bls.gov/oes/current/oes399011.htm). In other words, half of all child care workers earn less than that amount, and half earn more. ■