



Opening a Licensed Child Care Center *continued*

Research Legal, Tax, and Insurance Considerations

Choose a Legal Structure

Decide on the legal structure of your business. You may need legal advice to decide how to set up your business. Some local [Child Care Resource and Referral \(CCR&R\)](#) agencies may have trainings or information to help you with these business practices.

Here are some ways in which you can structure your child care business:

- **Sole proprietorship.** You own an unincorporated business by yourself.
- **Incorporation.** Your business is set up so shareholders exchange money, property or both for the corporation's capital stock. This structure protects your personal assets.
- **Partnership.** You join with two or more persons to own your child care business. You divide your profits and losses among partners.
- **Tax-exempt organization.** As a tax-exempt organization, any money after expenses is returned to the operation of the program. To claim this status, you must meet Internal Revenue Service (IRS) eligibility requirements.

Taxes

As a small business, you will need to file business income tax information with local, state, and federal agencies unless your business is tax-exempt. Taxes should be a part of any budget for a child care business. You may want to consult with a tax professional, such as an accountant or a lawyer that specializes in business practices, to help you.

Purchase Insurance

Insurance requirements will vary by state. Contact your local [Child Care Resource and Referral \(CCR&R\)](#) agency or your [state child care licensing office](#) for information on the type of insurance that is required in your state.

Insurance protects you when emergencies or natural disasters occur. There are different types of insurance that you will want to investigate, even if it is not required by your state's licensing regulations.

Business Owner's Insurance generally is a combination of liability and property insurance. Buying the package is usually less expensive than buying two separate policies.

- **General Liability Insurance** covers bodily injury or property damage that occurs during the course or because of your business.
- **Property Insurance** covers all of your business equipment inside and outside of your program.

Professional Liability Insurance insures you and your staff for losses due to your negligence while performing your business. Coverage for sexual abuse and molestation is generally included in professional liability insurance but verify this with your insurance agent. **Sexual or physical abuse coverage** insures you for loss if one or your employees or others with access to children in your program abuses a child in your care.

Worker's Compensation Insurance is required in many states. This insurance pays benefits when an employee is injured while working.

Resource: Legal and Insurance Considerations

Starting a business will require you to think about legal and insurance issues to make sure you are covered in case of an accident or injury. Your local [Child Care Resource and Referral \(CCR&R\)](#) agency or your local or [state child care licensing office](#) will be able to help you think through some of these considerations.

These questions will help you think about some of the important legal and insurance questions before you open your child care business. You may also want to consult a lawyer and a tax professional before you start your child care business.

Legal Considerations

| | Yes | No | Comments |
|---|-----|----|----------|
| Have you consulted a lawyer to help set up the legal structure of your business? | | | |
| Have you decided whether to operate as a non-profit or a for-profit? | | | |
| Have you decided on a business structure? Sole proprietor (self-employed) Partnership Limited Liability Company (LLC) Corporation | | | |
| Have you created a business name? | | | |
| Have you registered the business name with your state/county/city? | | | |
| Do you need to obtain a business license number, if required? | | | |
| Have you consulted with a tax professional to help you with payroll taxes and business income taxes? | | | |

Legal and Insurance Considerations *continued*

Insurance Considerations

| | Yes | No | Comments |
|---|-----|----|----------|
| Have you talked to your state licensing agency or your local Child Care Resource and Referral agency to understand what insurance coverage you might need? | | | |
| Have you obtained at least two quotes from insurance agents that represent different insurance companies for comparison? | | | |
| Have you purchased business liability insurance, which should include general liability and property insurance? | | | |
| Have you purchased professional liability insurance and does this insurance cover you if one of your employees or others with access to the children in your program abused a child in your care? | | | |
| If you are providing transportation, have you purchased commercial automobile coverage? | | | |
| Have you purchased worker's compensation insurance? | | | |