

# 2021 Tax Preparation for Home-Based Child Care Providers

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## Introduction

- **Informational Only**
  - This webinar has been prepared for informational purposes only and is not intended to provide, and should not be relied on for tax, legal, or accounting advice.
  - You should consult your own tax, legal, and accounting advisors before engaging in any financial transaction.
- **Subject Material**
  - This webinar is intended for licensed, home-based child care providers who are sole proprietors and file with a Schedule C. It does not apply to corporations, not-for-profits, or license-exempt providers.
  - This webinar only covers aspects of your tax return that are directly tied to your child care business. There are many other credits and deductions that may apply to you as an individual. Please talk to your tax preparer about those.
- **Questions?**
  - Please put questions in the chat.
  - Answers will be provided throughout the presentation and at the end.
  - FAQ will be sent out after presentation to answer additional questions.

## Presentation Outline

- The Basics
  - Recordkeeping
  - Your Child Care Business Tax Return
- 2021 for Child Care Providers
- Looking Ahead

# The Basics

## Recordkeeping

- It's important to keep accurate records because:
  - It will help you understand and improve your business.
  - It will help you increase your net profit and/or reduce your taxes.
  - The IRS requires it.
- You must have a paper or electronic record to prove every number on your tax return.
- Numbers on your tax return must be exact. Estimates are not allowed.
- You should save your records until seven years after your business closes or seven years you sell the house used for child care, whichever comes second.
- You can keep records using any system that works for you:
  - Kid Kare
  - Calendar Keeper
  - Microsoft Excel
  - Paper
- Recordkeeping should be done weekly or monthly, not at the end of the year!

## Schedule C

**SCHEDULE C**  
(Form 1040)

Department of the Treasury  
Internal Revenue Service (99)

**Profit or Loss From Business**  
(Sole Proprietorship)

OMB No. 1545-0074  
**2021**  
Attachment  
Sequence No. **09**

Go to [www.irs.gov/ScheduleC](https://www.irs.gov/ScheduleC) for instructions and the latest information.  
Attach to Form 1040, 1040-SR, 1040-NR, or 1041; partnerships must generally file Form 1065.

Name of proprietor \_\_\_\_\_ Social security number (SSN) \_\_\_\_\_

**A** Principal business or profession, including product or service (see instructions) \_\_\_\_\_ **B** Enter code from instructions \_\_\_\_\_

**C** Business name. If no separate business name, leave blank. \_\_\_\_\_ **D** Employer ID number (EIN) (see instr.) \_\_\_\_\_

**E** Business address (including suite or room no.) \_\_\_\_\_  
City, town or post office, state, and ZIP code \_\_\_\_\_

**F** Accounting method: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) \_\_\_\_\_

**G** Did you "materially participate" in the operation of this business during 2021? If "No," see instructions for limit on losses ☐ Yes ☐ No

**H** If you started or acquired this business during 2021, check here ☐ Yes ☐ No

**I** Did you make any payments in 2021 that would require you to file Form(s) 1099? See instructions ☐ Yes ☐ No

**J** If "Yes," did you or will you file required Form(s) 1099? ☐ Yes ☐ No

**Part I Income**

1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked <input type="checkbox"/>	1	
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	
4	Cost of goods sold (from line 42)	4	
5	<b>Gross profit.</b> Subtract line 4 from line 3	5	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7	<b>Gross income.</b> Add lines 5 and 6	7	

**Part II Expenses.** Enter expenses for business use of your home **only** 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	

## Gross Income

- Gross income means your income **BEFORE** deductions.
- Gross income includes **ALL** of the money that your business earns.
- Includes income from:
  - Parents
  - Food Program
  - State of Michigan
    - DHS
    - Grants
  - Other



## Child-Care-Only Expenses



- These expenses are only purchased because of the business and have no personal use.
  - Expenses that are only for child care are fully deductible.
- Examples:
    - License fees
    - Advertising
    - Child-care-only supplies
    - Insurance for child care
    - Wages and payroll taxes for employees
    - Repairs to child-care-only equipment
    - Gifts
    - Training
    - Other

## Child-Care-Only Expenses: Mileage

- You can deduct actual vehicle expenses OR mileage.
- Most child care providers have a better tax result by deducting mileage.
- Deducting mileage involves less recordkeeping than deducting actual expenses.
- 2021 mileage rate is \$0.56/mile.
- For each trip, you must record:
  - Date
  - Destination
  - Business purpose
  - How many miles
- Other information needed:
  - Make and year of vehicle
  - Number of child care miles driven in year
  - Total miles driven in year
  - License plate fee
  - Car loan interest

## Child-Care-Only Expenses:

### Food

- 2021 Standard Meal Allowance

Meal	Rate
Breakfast	\$1.39
Lunch / Dinner	\$2.61
Snack	\$0.78



- For meals, you may deduct actual expenses OR the standard meal allowance.
- Remember: You can deduct meals that were not reported to the food program! To deduct these, you must keep a record of them.

## Shared Expenses (non-house)

- Shared expenses have both child care and personal use.
  - Kitchen items (dishes, pots and pans)
  - Paper products (paper towels, toilet paper)
  - Cleaning supplies, etc.
- You may deduct the business use portion of these expenses.
- For example
  - \$100 = total shared cleaning supplies
  - 50% child care / 50% personal
  - Take \$50 as expense
- The business use percentage for these shared expenses may be different than your business-use-of-home percentage (time/space).

## Shared Expenses: Equipment

- Equipment includes items that cost more than \$2,500 and that you will use for more than one year.
- Examples: Appliances, Furniture, Computers, etc.
- Equipment can sometimes be deducted in full in the year of purchase.
- Sometimes equipment must be depreciated.
- Depreciation means spreading the expense of a large purchase over several years.
- Information your tax preparer will need about equipment purchases:
  - What equipment did you buy?
  - How much did it cost?
  - What was the date you started using the equipment?
  - What is the percentage of business use?



## Form 8829

Form <b>8829</b>		<b>Expenses for Business Use of Your Home</b>		OMB No. 1545-0074
Department of the Treasury Internal Revenue Service (99)		▶ File only with Schedule C (Form 1040). Use a separate Form 8829 for each home you used for business during the year. ▶ Go to <a href="http://www.irs.gov/Form8829">www.irs.gov/Form8829</a> for instructions and the latest information.		<b>2021</b> Attachment Sequence No. <b>176</b>
Name(s) of proprietor(s)			Your social security number	
<b>Part I Part of Your Home Used for Business</b>				
1	Area used regularly and exclusively for business, regularly for daycare, or for storage of inventory or product samples (see instructions)			1
2	Total area of home			2
3	Divide line 1 by line 2. Enter the result as a percentage			3 %
<b>For daycare facilities not used exclusively for business, go to line 4. All others, go to line 7.</b>				
4	Multiply days used for daycare during year by hours used per day	4	hr.	
5	If you started or stopped using your home for daycare during the year, see instructions; otherwise, enter 8,760	5	hr.	
6	Divide line 4 by line 5. Enter the result as a decimal amount	6		
7	Business percentage. For daycare facilities not used exclusively for business, multiply line 6 by line 3 (enter the result as a percentage). All others, enter the amount from line 3			7 %
<b>Part II Figure Your Allowable Deduction</b>				
8	Enter the amount from Schedule C, line 29, plus any gain derived from the business use of your home, minus any loss from the trade or business not derived from the business use of your home. See instructions.			8
See instructions for columns (a) and (b) before completing lines 9-22.				
9	Casualty losses (see instructions)	9	(a) Direct expenses	(b) Indirect expenses
10	Deductible mortgage interest (see instructions)	10		
11	Real estate taxes (see instructions)	11		
12	Add lines 9, 10, and 11	12		
13	Multiply line 12, column (b), by line 7	13		
14	Add line 12, column (a), and line 13	14		
15	Subtract line 14 from line 8. If zero or less, enter -0-	15		
16	Excess mortgage interest (see instructions)	16		

## Time/Space Percentage

- Your business-use-of-home or time/space percentage determines your deduction for house expenses.
- This percentage is unique to your business and changes each year.
- Information you'll need to calculate your time/space percentage:
  - TIME: Child care hours
  - SPACE: Percentage of your home used for child care

## Time/Space Percentage:

### Time

- Child care hours include:
  - All hours spent caring for children
  - All hours spent doing child care work at home when children are not present
    - Cleaning
    - Meal prep
    - Curriculum planning
    - Recordkeeping
- Child care hours do not include:
  - Hours that you were open for business but no children were present and you were not doing child care work
  - Holidays, if you were closed
  - Hours spent doing child care work NOT at home
    - Grocery shopping
    - Attending classes outside your home
- Track your hours carefully for 2 months and then multiply that number by 6 for total hours for the year.



## Time/Space Percentage:

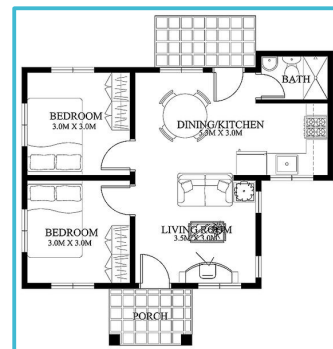
### Space (1 of 2)

- Exclusive use space is used exclusively for child care. This is a strict rule.
  - Child care room
- Shared space is used for both child care and for personal use.
  - Kitchen
  - Laundry room
  - Bedroom where children nap or records are maintained
- Shared space does not need to be licensed for child care. It only needs to have regular business use (at least 2-3 times/week.)
- Personal space is not used for child care at all or less than 2-3 times/week.
- For many child care providers, the entire house is shared space.

## Time/Space Percentage:

### Space (2 of 2)

- To calculate your space percentage, your tax preparer will need to know:
  - Square footage of exclusive use space
  - Square footage of shared use space
  - Square footage of entire house
- When calculating the square footage of your house, include all attached spaces (garage, basement, etc.), but not unattached spaces (shed, pole barn, etc.)

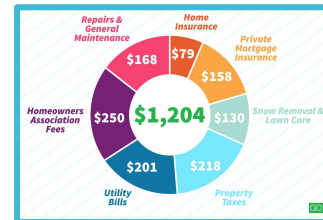


## Time/Space Percentage: Calculation

$$\text{Child care hours} / \text{total hours} \times \text{space percentage} = \text{time/space percentage}$$

- Example Calculation:
  - **TIME:** 2761 hours spent doing child care work during 2021
  - **TIME:** 8784 total hours during the year
  - **SPACE:** 100% of house is shared use
  - **CALCULATION:**  $2761 / 8784 \times 1.00 = 0.314$
  - In this example, the time/space percentage for 2021 is 31.4%

## Time/Space Percentage: House Expenses



- House expenses include:
  - Rent or mortgage interest and depreciation of house
  - Property taxes
  - Homeowners or renters insurance
  - Home repairs and maintenance
  - Utilities (except home phone), etc.
- The time/space percentage of house expenses can be deducted.
- If total house expenses are \$10,000 and time/space percentage is 31%, \$3,100 could be deducted on as a business-use-of-home expense.

## Schedule SE

<b>SCHEDULE SE</b> (Form 1040)		<b>Self-Employment Tax</b>		OMB No. 1545-0074 <b>2021</b> Attachment Sequence No. <b>17</b>
Department of the Treasury Internal Revenue Service (99)		▶ Go to <a href="https://www.irs.gov/ScheduleSE">www.irs.gov/ScheduleSE</a> for instructions and the latest information. ▶ Attach to Form 1040, 1040-SR, or 1040-NR.		
Name of person with self-employment income (as shown on Form 1040, 1040-SR, or 1040-NR)		Social security number of person with self-employment income ▶		
<b>Part I Self-Employment Tax</b>				
<b>Note:</b> If your only income subject to self-employment tax is <b>church employee income</b> , see instructions for how to report your income and the definition of church employee income.				
<b>A</b> If you are a minister, member of a religious order, or Christian Science practitioner <b>and</b> you filed Form 4361, but you had \$400 or more of <b>other</b> net earnings from self-employment, check here and continue with Part I . . . . . <input type="checkbox"/>				
Skip lines 1a and 1b if you use the farm optional method in Part II. See instructions.				
<b>1a</b> Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A . . . . .		<b>1a</b>		
<b>b</b> If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code AH . . . . .		<b>1b</b> ( )		
Skip line 2 if you use the nonfarm optional method in Part II. See instructions.				
<b>2</b> Net profit or (loss) from Schedule C, line 31; and Schedule K-1 (Form 1065), box 14, code A (other than farming). See instructions for other income to report or if you are a minister or member of a religious order . . . . .		<b>2</b>		
<b>3</b> Combine lines 1a, 1b, and 2 . . . . .		<b>3</b>		
<b>4a</b> If line 3 is more than zero, multiply line 3 by 92.35% (0.9235). Otherwise, enter amount from line 3 . . . . .		<b>4a</b>		
<b>Note:</b> If line 4a is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.				
<b>b</b> If you elect one or both of the optional methods, enter the total of lines 15 and 17 here . . . . .		<b>4b</b>		
<b>c</b> Combine lines 4a and 4b. If less than \$400, <b>stop</b> ; you don't owe self-employment tax. <b>Exception:</b> If less than \$400 and you had <b>church employee income</b> , enter -0- and continue . . . . .		<b>4c</b>		
<b>5a</b> Enter your <b>church employee income</b> from Form W-2. See instructions for definition of church employee income . . . . .		<b>5a</b>		
<b>b</b> Multiply line 5a by 92.35% (0.9235). If less than \$100, enter -0- . . . . .		<b>5b</b>		
<b>6</b> Add lines 4c and 5b . . . . .		<b>6</b>		

## Self-Employment Tax

- Self-employment tax is how self-employed people pay Social Security and Medicare taxes.
- Self-employment tax about 15% of your net income.
- For example, if your net income is \$20,000, your self-employment tax would be about \$3,000.
- Remember: Paying into the Social Security system means that you are likely to be able to collect Social Security when you retire or become disabled. The more you pay in, the larger your future benefit.

I love my boss  
  
 I'm self employed

## Retirement Contributions

- As a self-employed person, you can save for retirement by putting money into an IRA.
- Traditional and SEP IRA contributions are tax-deductible, so they help you save on taxes now.
- ROTH IRA contributions are not tax-deductible, but instead help you save on taxes later.
- If your AGI is \$39,500 or less, you might also qualify for a Saver's Credit of up to \$1,000.
- The due date to make a 2021 IRA contribution is April 18, 2022.
- The contribution limits for each type of IRA depend on your annual income.
- Talk to your tax preparer and financial advisor about which is best for you this year.

## 2021 for Child Care Providers

## PPP Loans

- The Paycheck Protection Program was part of CARES Act.
- Through this program, some businesses received forgivable loans from Small Business Administration in 2021.
- If you received a PPP loan in 2021:
  - If it was not forgiven, it's a loan, not income, and should not be reported on your tax return.
  - If it was forgiven, it's not taxable income, but may need to be reported as non-taxable income on your tax return. Prepare your return carefully if you received a PPP loan.

## Unemployment

- Unemployment compensation is taxable income in 2021.
- Unemployment compensation is not self-employment income, so no self-employment tax is due on this income.
- If you received UIA in 2021, you will receive Form 1099-G from MIWAM or in the mail in January.
- If you repaid money to UIA in 2021, this may be deductible on your tax return.
- If you received UIA in 2021 and purchased health insurance through healthcare.gov (Obamacare), you may qualify for extra Premium Tax Credit.



## Sick and Family Leave Credits

- A self-employed person who could not work between 1/1/2021 and 9/30/2021 might be eligible for the Sick or Family Leave Credits because she:
  - Had COVID;
  - Was required to quarantine;
  - Missed work to get vaccinated;
  - Took care of household member with COVID; or
  - Took care of child whose school or childcare was closed.
- Tax credit of 66% -100% of "average daily self-employment income" for each day of leave up to 60 days.
- Documentation of the reason and dates is required to claim the credits.

## Child and Dependent Care Credit

- For 2021 only, the child and dependent care credit was expanded to allow taxpayers to claim a credit for more child care expenses and receive a bigger deduction.
- Parents will need a receipt or letter from you, their child care provider, to claim this credit.
- That letter or receipt must show:
  - Your name
  - Your address
  - Your EIN or SSN
  - The parent's name
  - How much that parent paid to you in 2021

# Looking Ahead

## Child Care Stabilization Grants

## Taxable Income

- Child Care Stabilization Grants were sent to child care providers in January 2022.
- There will be another round of grants in March 2022.
- Grants are taxable income, so set aside money to pay the tax on this income.
  - Ask your own tax preparer how much to set aside,
  - OR set aside 40% of the grants you receive for taxes. This is the worst case scenario.
- You can send in estimated tax payments so that you won't owe when you file your 2022 return. Talk to your tax preparer about this.
- For taxes, you should report grant income on your tax return like other income and take expenses in same way as other expenses.



## Child Care Stabilization Grants

### Reporting

#### Hack Your Grant Reporting!

**Before** you apply for the Spring 2022 Grant (March 20 – May 20):

1. File your 2021 tax return.
2. Find the number of your 2021 Schedule C Line 31.
3. If the operational funds portion of your grant (everything except bonuses) is less than or equal to that amount, report to MDE that you used the entire operational portion of your grant for salaries.
4. Report to MDE that you paid staff bonuses to the correct number of staff members (you and any employees) on the report.
5. Upload a copy of your 2021 Schedule C to MDE.

**You're done! It's so easy**



## Child Care Stabilization Grants

### Reporting

#### Example:

- You are a home-based child care provider. Your 2021 Schedule C Line 31 shows \$34,000. You received a grant of \$10,020 (\$1,000 staff bonus + \$9,020 operational funds).
- Report to MDE:
  - \$9,020 in salaries
  - 1 staff bonus of \$1,000
  - Upload your 2021 Schedule C.
- **You're done! It's so easy!**
- NOTE: If the operational funds portion of your grant (everything except bonuses) is more than the amount on your 2021 Schedule C Line 31, look at your other expenses between March 11, 2021 and today and use any allowable expenses from that time to complete your grant reporting.





## Child Care Stabilization Grants

### Reporting

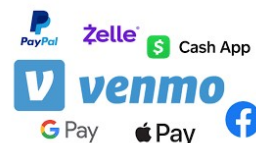
#### Remember:

- Grant reporting does not affect your tax return in any way.
- When you file your taxes, you will report your income and expenses the same way as any other year.
- Your tax will be based on your net profit no matter how you did your grant reporting.
- $\text{Net Profit} = \text{Income} - \text{Expenses}$



## Electronic Payment Apps

- Starting in 2022, electronic payment apps like Venmo, Zelle, and PayPal will send you a 1099-K after the year ends if you received \$600 or more through that app during the year.
- This does not mean you will pay more tax.
- You are required to report all income, whether you receive a Form 1099 or not, so this will not change your taxable income.
- If you also use electronic payment apps for personal reasons (gifts, etc.), it is recommended that you have separate payment apps for business and personal money.



## Build Back Better



- Build Back Better is a bill in Congress. It has not passed and may or may not pass in the future.
- It includes enormous funding for and changes to the child care industry.
- Details are not included here because this bill will not pass as currently written. However, you should be aware that if Build Back Better eventually passes, it would affect your business.

Thank you!  
Questions?

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