

2021 Tax Preparation for Home-Based Child Care Providers

Webinar: January 2022

Questions and Answers

This material 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.

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Recordkeeping

1. How long do I need to keep my records?

You need to keep your tax records for 7 years after the return is filed or 7 years after you sell the home used for business, whichever comes second.

2. Do I need to scan my receipts in case of audit?

You need to keep a record to back up every number on your tax return in case of audit. These records can be paper or electronic (scanned).

Income

3. I received my first child care payment at the end of 2021. Do I include that on my 2021 tax return?

Yes. Most child care providers are cash-basis taxpayers. This means you should record income in the calendar year you receive it.

Expenses

4. I bought a new car in 2021. How do I claim this?

For 2021, you will need to know how many business miles you drove in that vehicle and how many total miles were driven in that vehicle. You should have the paperwork from your car purchase available when preparing your tax return. You should also have a list of all of your car expenses for that vehicle for 2021 (gas, insurance, repairs, license plates, etc.). You can choose between deducting actual vehicle expenses or mileage on your 2021 tax return.

5. How do I claim automobile lease payments for a new vehicle on my tax return?

For 2021, you will need to know how many business miles you drove in that vehicle and how many total miles were driven in that vehicle. You should also have a list of all of your actual car expenses

for that vehicle for 2021 (lease payments, gas, insurance, repairs, license plates, etc.). You can choose between deducting actual vehicle expenses or mileage on your 2021 tax return.

- 6.** Do I need to keep track of my starting and ending odometer readings in order to deduct mileage?

No, you do not. In order to deduct mileage, you need to record the following for each business trip: date, business purpose of trip, where you went, how many miles.

- 7.** If I drive to a store and buy both business and personal items, can I deduct the mileage?

If the primary purpose of the trip was a business purpose (to buy business supplies), you can deduct the mileage, even if you also bought personal items on the trip. If the primary purpose of the trip was a personal purpose (to buy personal items), you cannot deduct the mileage, even if you also bought a few business supplies on the trip.

- 8.** If I give parents a discount, how do I report that on my tax return?

If parents pay less than your normal rate because you have offered them a discounted rate, this will be reflected in the reduced income you report on your tax return. On your tax return, you should report only the income you actually receive, not the amount you would have received were it not for the discount.

- 9.** If I refund money to parents, how do I report that on my tax return?

If you refund money to parents, you should report the original income received on Line 1 of your Schedule C (Gross Receipts or Sales). You should report the refund paid to parents on Line 2 of your Schedule C (Returns and Allowances). In this way, you will deduct from income the amount that you refunded to parents.

- 10.** Can I deduct the meals I actually served or only meals reimbursed by the food program?

You may deduct all meals served, even if they are not reimbursed by the food program.

- 11.** Is the standard meal allowance per child or as a whole meal?

The standard meal allowance is per individual meal served. For example, if you are caring for 6 children, you might deduct 6 breakfasts, 6 lunches, and 12 snacks per day, if you served all of those meals.

- 12.** I spend more than the standard meal allowance rate for food. Can I take actual food expenses on my tax return instead?

Yes, you may choose to deduct actual food expenses or the standard meal allowance. You can make this choice each year when you file your tax return. It does not need to be the same every year.

- 13.** May I deduct coffee that serve to parents?

Yes, you may. I would record this expense as refreshments. You should keep track of this separately from meals served to children.

14. Can I deduct the cost of renting a storage unit to store daycare supplies?

Yes, you can deduct the full cost of renting a storage unit used to store exclusively daycare supplies. If you are storing both daycare and personal items in the storage unit, you can deduct a portion of the cost of renting the unit.

Time/Space

15. Are you able to claim the space of your whole basement if you only use a small portion for laundry?

You can claim the entirety of a room as shared space as long as you have regular child care use (at least 2-3 times per week) of any part of that space. If your basement is one open area with laundry in one section, you could count the whole area as shared use space. If your laundry is in a separate room from the rest of your basement, you would determine the usage of each room separately.

16. Are you able to claim the space of your whole garage if you only use a small portion for storing toys?

You can claim the entirety of a room, including a garage, as shared space as long as you have regular child care use (at least 2-3 times per week) of any part of that space. If your garage is one open area with toy storage in one section, you could count the whole area as shared use space. If your toy storage is in a separate room from the rest of your garage, you would determine the usage of each room separately.

17. Can I claim my garage if I store toys there year-round?

Yes, you can claim your garage as shared use space if you store child care supplies, including toys, in that garage.

18. Should I count my detached garage toward my time/space percentage?

Yes, you should. The square footage of a detached garage should be included as shared space, exclusive-use space, or personal space when calculating your time/space percentage. This answer is a correction to what was presented in the webinar. For more details, please see this blog post by Tom Copeland (<http://tomcopelandblog.com/should-i-count-my-shed-in-my-time-space-2>) and the IRS Child Care Provider Audit Technique Guide.

19. Should I include a deck in my square footage?

Yes, you should include the square footage of a deck that is attached to your house when calculating your time/space percentage.

20. Should I include a fenced-in part of my yard in my square footage?

No, you should not include any part of your yard when calculating your time/space percentage.

21. If 100% of my house is shared use space, does it matter how many square feet of shared use space are counted?

No, if 100% of your house is shared-use space, the space percentage will not change if you add more shared-use space. 100% shared-use space is very common for home-based child care providers.

Payroll Tax / Employment Law

22. Can I give my assistant a 1099?

No, you cannot. According to IRS rules, child care assistants should always be paid as employees (Form W-2), not as contractors (Form 1099-NEC).

23. How can I find a good company to handle my payroll tax filings for one employee?

You can do your own payroll filings through an online service like QuickBooks Online or Gusto or you can hire a company like Basic in Wyoming, MI (<https://www.basiconline.com/our-services/payroll/>) to do the filings for you. It's a good idea to ask other child care providers if they can recommend their payroll service to you. You might find a great company that way.

Taxes

24. I run a corporation and pay myself on payroll. Does this webinar apply to me?

No. The information in this webinar does not apply to not-for-profit organizations or corporations. This information only applies to sole proprietors. Sole proprietors do not pay themselves on payroll.

25. I am the sole owner of an LLC. Does this webinar apply to me?

Probably. If you file as a sole proprietor (like most single-owner LLCs), this webinar applies to you.

Tax Credits

26. For the Saver's Credit, does the AGI limit apply to only me or to me and my spouse?

If you are Married Filing Jointly, your joint AGI must be below the threshold to qualify for the credit.

27. Does the sick and family leave credit apply only to leave taken for COVID-related reasons? What if I had to take time off for surgery?

This credit only applies if you couldn't work and were not paid because you had COVID, were required to quarantine because of COVID exposure, took care of a family member with COVID, or took care of a child whose school or childcare was closed due to COVID. It does not apply if you took time off work for other reasons.

28. Does the sick and family leave credit apply only to leave taken between January 1 and September 30, 2021? What if I had to take time off for Covid after September 30?

This credit only applies if you couldn't work and were not paid because you had COVID, were required to quarantine because of COVID exposure, took care of a family member with COVID, or took care of a child whose school or childcare was closed due to COVID between January 1 and September 30, 2021. It does not apply if you took time off work after September 30.

29. Why does the sick and family leave credit end on 9/30/21?

This credit ends on 9/30/21 because that is how the federal law covering this credit is written.

30. Where do I find the Child and Dependent Care Credit form to give to parents?

This is a letter or receipt that you should generate, not an IRS form. The letter or receipt should include the following information:

- *Child Care Provider's Name*
- *Child Care Provider's Address*
- *Child Care Provider's SSN or EIN*
- *Child's Name*
- *Parent's Name*
- *Amount Paid for Care during 2021*

31. Can parents claim the full amount that they paid to me on their tax return this year?

Parents can claim up to \$16,000 paid for child care in 2021. They may be eligible for a credit of up to \$8,000 on their tax return(s).

Child Care Stabilization Grant

32. How do you recommend we do our Child Care Stabilization Grant reporting?

- *File your 2021 tax return.*
- *Find the number on your 2021 Schedule C Line 31.*
- *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.*
- *Report to MDE that you paid staff bonuses to the correct number of staff members (you and any employees) on the report.*
- *Upload a copy of you 2021 Schedule C to MDE.*
- *You're done!*

33. How do I prove that I used my grant money to pay myself salary equivalent?

You should upload your 2021 Schedule C to the MDE website to prove this.

34. If I do my grant reporting this way, how do I report it to my tax preparer?

You do not need to tell your tax preparer how you did your grant reporting. Grant reporting does not affect your taxes in any way.

35. If I do my grant reporting this way, will it increase my tax liability?

Grant reporting does not affect your taxes in any way. Your tax will be based on your net profit (income minus expenses) no matter how you did your grant reporting.

- 36.** What if my 2021 net profit (the number on Line 31 of Schedule C) is less than the operational funds portion of my grant?

If your 2021 net profit is less than the operational funds portion of your grant, you will not be able to do your grant reporting this way. You should look at your other expenses between March 11, 2021 and the date you do the reporting and use any allowable expenses from that time. Please contact Great Start to Quality with any questions about grant reporting.

- 37.** Does the Child Care Stabilization Grant apply to license-exempt providers?

No, it does not. However, another grant will be announced soon for license-exempt providers. You can find more details here: <https://www.michigan.gov/mde/>.

- 38.** Am I allowed to report that I used the grant money to pay my taxes?

No, you are not allowed to report that you used the grant money to pay your taxes. This is because income taxes are a personal expense, not a business expense.

- 39.** I am in Texas. Do I do my Child Care Stabilization Grant reporting the same way?

No, you do not. This section of the webinar only applies to child care providers in Michigan. You should consult with the entity that paid the grant to you about how your grant reporting should be done.

Other

- 40.** If I already receive Social Security, can I still put money into an IRA?

You are allowed to put money into an IRA any year that you have earned income, even if you are already collecting Social Security. Self-employment income is one type of earned income.

- 41.** May I have more than one type of IRA, like a Roth IRA and a SEP IRA?

Yes, you may have more than one type of IRA. You may also contribute to more than one type of IRA in a year, as long as your total contributions are under the limit and the amount contributed to each type of IRA is under the limit for that type.

- 42.** I have a personal bank and a business bank. Where should I open my IRA?

You can open an IRA at either of these banks or a different bank or credit union or financial institution. Your IRA does not need to be at the same bank as your business.

- 43.** If I have another type of business, should I report that self-employment income on the same Schedule C as my child care income?

No, you should prepare a separate Schedule C for each unrelated business that you own.

- 44.** Are EIDL loans treated the same as PPP loans for tax purposes?

No, they are not. You should talk to your tax preparer about both types of loans to make sure you are reporting (or not reporting) them correctly.

45. Will I receive a tax form showing my PPP loan forgiveness?

No, you will not. You should use your own records to report your PPP loan forgiveness, if necessary.

46. Should I use an EIN instead of my SSN? How do I apply for an EIN?

It is recommended that you use an EIN instead of your SSN when reporting to parents how much they paid to you. This is recommended to help prevent identity fraud. You can apply for an EIN for free through the IRS's website here: <https://www.irs.gov/businesses/small-businesses-self-employed/apply-for-an-employer-identification-number-ein-online>

47. Do you recommend that I do my taxes with TurboTax?

No, I do not. I recommend that you hire a tax professional to prepare your tax return for you. However, if you do choose to prepare your own tax return with TurboTax, I recommend that you read Tom Copeland blog post on this topic and take his advice: <https://tomcopelandblog.com/a-guide-to-turbo-tax-2021>

48. How can I find a good tax preparer?

The best way to find a good tax preparer is by word of mouth. Ask other child care providers in your area if they would recommend their tax preparers. If so, contact one of those tax preparers to ask if that preparer is taking new clients.

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