HOME GROWN

Preparing for the 2021 Tax Season

By Home Grown Child Care
With Civitas Strategies and Nielsen Training & Consulting

Contents

Introduction

The child care sector is still looking to recover from the devastating impacts of COVID-19. We have endured a global pandemic that not only impacted or threatened our health, but also our livelihoods. Home-based child care providers have felt the impact of the pandemic harder than most industries.

As tax season approaches, many home based child care providers have questions about how to best prepare. For this reason, Home Grown Child Care created a tool for this year to provide up-to-date guidance on how to navigate 2021 tax preparation. Geared to the average home-based child care provider, *Preparing for the 2021 Tax Season* takes you through the steps of getting ready to have your taxes prepared by a professional or completed using online software.

The tool is set up in a simple question-and-answer format based on those frequently posed by other home-based child care providers. To answer the questions, we drew upon official US Internal Revenue Service guidance (including their audit guide for child care providers) as well as other nationally-recognized sources.

If you have additional questions and comments, you can email us at ppp@civstrat.com.

WHY CARE ABOUT YOUR TAXES?

Taxes are an important consideration for any business, and they are a valuable contribution to our government at the national, state, and local levels. From a business perspective, they are also a cost — reducing the hard-earned profit from your enterprise. While you should always pay your fair share of taxes, as your responsibility as a citizen, as a business owner you want to minimize any unnecessary costs, including taxes.

Taxes also impacted, as many of you know, your eligibility for stimulus funding. Many home-based child care providers had incomplete or incorrect returns or were unable to produce copies of their returns. The result was that these providers could not show their eligibility for the stimulus, even though their businesses needed the funds and they had operated within the law. For example, one home-based child care provider had a tax return with an incorrect amount of money listed as received by the business which resulted in a lower payment through the Paycheck Protection Program then they should have received. Another provider never received her tax return back from her tax preparer. The provider's assumption was that she could always get a copy from her preparer if needed. However, when preparing her Paycheck Protection Program application, she found her tax preparer was not answering calls. When she finally did reach her tax preparer, they were hesitant to leave their home to get a copy of the tax return to the provider. The result — the provider missed out on Paycheck Protection Program funding.

Preparing your taxes also effectively means less risk if you are audited. To clarify, your chances of being audited are low. In 2019, only one in every 250 returns were audited and most of these were people who made $200,000 or more and had at least one "red flag" (more on those below). Additionally, it is important to keep in mind that if you are audited, the IRS can be understanding of honest mistakes. The IRS's greatest concern is to stop fraud — the intentional mis-reporting of tax information. However, when honest mistakes are made, the IRS is committed to correcting them, but not criminally prosecuting you for it or forcing you to go bankrupt. Also, when they do find an error it isn't always negative. For example, the IRS recently reported a tax return error for one of the authors of this paper that resulted in them getting additional money back!

PRO-TIP Keeping good records throughout the year will make tax preparation easier.

The best way to avoid question by the IRS is to avoid any issues that increase your chances of an audit, usually referred to as "red flags." The most common red flags for home-based child care providers are:

- Not including all your income on your taxes — such as leaving out a 1099 you received from the Child Care Resource and Referral agency for subsidized care.
- Taking off too many expenses or ones that are really high — like a provider who claimed $40,000 in cell phone expenses for herself each year.
- Taking a very large loss on your business — businesses will take a loss from time to time (we'll talk about that later in this tool) but you want to avoid having losses that are far in excess of what you earned.
- Claiming 100% use of your vehicle — some of you may have a van or car you use for transportation — that's alright; however, reporting that the vehicle is only used for work (and never for personal reasons) can draw attention since it is less common.

As you can see, many of the red flags can be easily avoided through proper preparation for your taxes. New this year, Luminary Evaluation Group created the **Confidence in Quality Tax Prep Rubric© for Child Care Providers** so that a provider or partner can evaluate if their federal tax returns are consistent with best practices for their program type. This rubric was informed by an analysis of a set of child care provider tax returns. It can be used widely, especially by organizations who offer business technical assistance to child care providers, to ensure they are applying these practices. Simply using this tool can do a great deal to ensure you have trouble-free taxes.

What is included on my tax form?

There are a number of different types of business tax forms. Let's go over the most common ones.

A **sole proprietor** is both the owner and the business (that is you don't have a corporation, except potentially an LLC, which we will cover in a minute). Income for a sole proprietorship is reported on a Schedule C as part of your personal 1040 tax return. If you have more than one business activity, you will need more than one Schedule C. For example, a home-based child care provider who also drove for Uber needed to produce a Schedule C for her child care business and also a separate one for her Uber driving.

A **Limited Liability Company** is a company that offers protections from some liabilities and has tax flexibility. At the time of creation and typically once a year, the LLC owner can declare how they will be taxed. Most LLCs with a single owner use the same process as a sole proprietor but they can also declare to use an S-Corporation or C-Corporation process or, if there is more than one owner, a partnership (all are described below).

An **S-Corporation** is a small business corporation type where any profit is "transferred" directly to your personal tax return (so you don't pay corporate taxes on it). An S-corporation uses a Form 1120S (income tax return for S corporation) and will show the "pass through" income to the owner on a Schedule K-1 (individual owner shares).

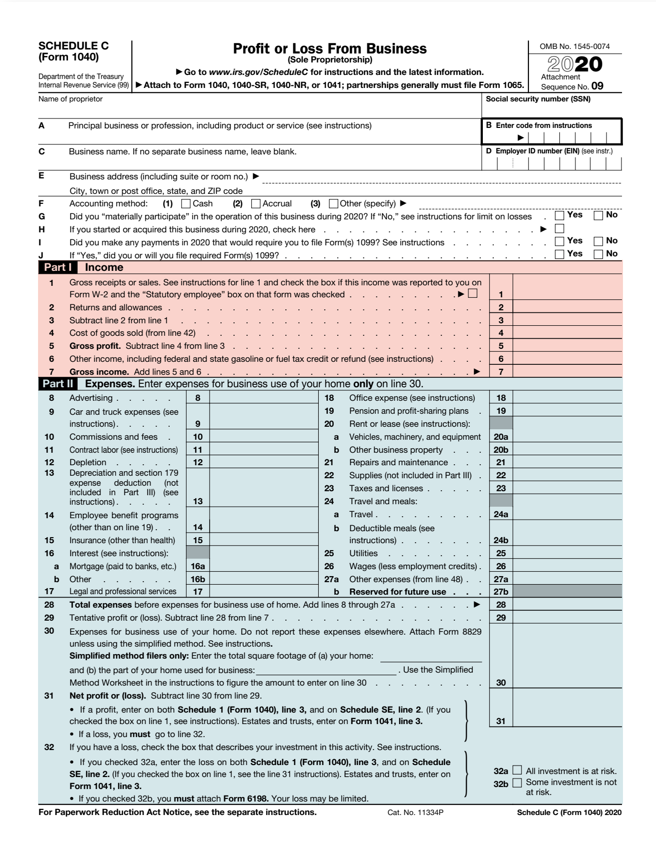
A **C-Corporation** is often called a "regular" corporation. The C-corporation uses Form 1120 (corporation income tax return) and will have profit taxed as a corporation before you can claim it as personal income (and it gets taxed again). Likely few home-based providers will benefit from their business being taxed this way.

A **partnership** is formed between one or more business owners who share the costs and the profit from the business. Partnerships use a Form 1065 to report their earnings.

There are three parts of the forms that they all have in common:

- You first report your revenue, that is all the money you received from your business;
- You then show all your expenses — the things you paid for to keep your business running; and
- Then you calculate the amount that remains — if it is positive, you made a profit; if negative, then a loss.

Schedule C



SCHEDULE C (Form 1040)

Department of the Treasury Internal Revenue Service (99)

Profit or Loss From Business
(Sole Proprietorship)

▶ Go to *www.irs.gov/ScheduleC* for instructions and the latest information.
▶ Attach to Form 1040, 1040-SR, 1040-NR, or 1041; partnerships generally must file Form 1065.

OMB No. 1545-0074
2020
Attachment Sequence No. 09

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 2020? If "No," see instructions for limit on losses . ☐ Yes ☐ No

H If you started or acquired this business during 2020, check here ▶ ☐

I Did you make any payments in 2020 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 ▶ ☐	1
2	Returns and allowances	2
3	Subtract line 2 from line 1	3
4	Cost of goods sold (from line 42)	4
5	**Gross profit.** 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	**Gross income.** 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
			20	Rent or lease (see instructions):	
10	Commissions and fees	10	a	Vehicles, machinery, and equipment	20a
11	Contract labor (see instructions)	11	b	Other business property	20b
12	Depletion	12	21	Repairs and maintenance	21
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13	22	Supplies (not included in Part III)	22
			23	Taxes and licenses	23
			24	Travel and meals:	
14	Employee benefit programs (other than on line 19)	14	a	Travel	24a
15	Insurance (other than health)	15	b	Deductible meals (see instructions)	24b
16	Interest (see instructions):		25	Utilities	25
a	Mortgage (paid to banks, etc.)	16a	26	Wages (less employment credits)	26
b	Other	16b	27a	Other expenses (from line 48)	27a
17	Legal and professional services	17	b	**Reserved for future use**	27b

28	**Total expenses** before expenses for business use of home. Add lines 8 through 27a ▶	28
29	Tentative profit or (loss). Subtract line 28 from line 7	29
30	Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method. See instructions. **Simplified method filers only:** 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
31	**Net profit or (loss).** Subtract line 30 from line 29. • If a profit, enter on both **Schedule 1 (Form 1040), line 3,** and on **Schedule SE, line 2**. (If you checked the box on line 1, see instructions). Estates and trusts, enter on **Form 1041, line 3.** • If a loss, you **must** go to line 32.	31
32	If you have a loss, check the box that describes your investment in this activity. See instructions. • If you checked 32a, enter the loss on both **Schedule 1 (Form 1040), line 3**, and on **Schedule SE, line 2.** (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on **Form 1041, line 3.** • If you checked 32b, you **must** attach **Form 6198.** Your loss may be limited.	32a ☐ All investment is at risk. 32b ☐ Some investment is not at risk.

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11334P **Schedule C (Form 1040) 2020**

Schedule C

Let's take a closer look at the **Schedule C** to show where the different sections are for reporting data on your business. Your tax preparer will enter these numbers, but it can be helpful to know your way around this important document.

Part I is where you tally your sales and report your cost of goods sold so you can see your gross profit.

Part II is where you report your business expenses. There are over a dozen categories to help you stay organized, such as advertising, car and truck expenses, legal and professional services, rent, travel and meal expenses, and other costs.

In the last section, you calculate your net profit (Line 31) by subtracting your total expenses (from Part II) from the total revenue (in Part I).

HOW MUCH MONEY DID I MAKE?

The first section of your taxes is all about revenue, that is, how much money you made. Getting this information may be easy if you have an accounting system. If not, no worries, you can use the revenue worksheet below to calculate it.

Start by **gathering your records**. You are likely to have three types of records for your revenue:

1. **1099 forms** — these are evidence that another business paid you for services. Many of you will receive a 1099 for the subsidy care payments you received and for participation in the Child and Adult Care Food Program.
2. **Bank records** — showing the payments of all kinds that you received from parents.
3. **Your own documents** — such as year-end or weekly receipts that show parents paid for care.

Then fill out the revenue worksheets. Include each 1099 and revenue for each child you serve. Also list other income, such as grants, cash parent fees, and others that may not already be accounted for on a 1099.

Do note, if you receive reimbursement for food costs through the Child and Adult Care Food Program, you can report all the reimbursements under the income section of Part I of the Schedule C using the 1099 you received. You can then deduct your food expenses in full in the next section.

Revenue Worksheets

1099 INCOME	
1099 Payer Name	**Amount**
Total (add all of the 1099s)	

PRO-TIP Make sure all your revenue records match. That is, the amount on a year-end receipt to a family should be the same amount they paid per your bank records and is the amount you report to the IRS.

PARENT PAYMENTS & FEES (INCLUDING CASH)	
Parent	**Total Amount Paid**
Total (add all of the parent payments)	

OTHER INCOME (SUCH AS GRANTS NOT ASSOCIATED WITH A 1099)		
Payer Name	**Purpose**	**Amount**
Total (add all of them together)		

TOTAL REVENUE	
Total Payment	**Amount**
Total 1099 Payments	
Total Parent Payments	
Total Other Payments	
Total Revenue (add them all up)	

HOW MUCH MONEY DID I SPEND?

Now that you have your business income, we need to collect your expenses, that is, what you spent money on for your business in 2021. We want to make sure you have records of your costs, ideally receipts showing payment for expenses, but you can also, in most cases, use canceled checks, invoices, or credit card and bank records. It is critical that any proof of an expense show:

- That you paid the expense.
- The amount you paid.
- The date you paid it.
- A description of the item purchased or service received.

The one exception is mileage deduction for your vehicle. In this case, you should have a simple log with:

- The date.
- The distance you went.
- Where you went.
- The purpose (business or personal) as specifically as possible.

ATTACHMENT A at the end of this tool has a log in which you can fill in your vehicle use information.

To collect your expenses, begin with collecting all your receipts. Next, go month by month in your records for 2021 to:

- Review your credit card bills.
- Check app based system payments (such as Venmo, Zelle, PayPal, and Square Cash.
- Look at your bank statements and checks.

With your accumulated expenses you can now **fill out the expense worksheet**. The worksheet uses the expense categories for a Schedule C most relevant to home-based child care providers but they can also be used for any corporate or partnership tax return as well.

Expenses that are for your home and are directly related only to your business can go under your expenses in the table above for the full amount. The IRS defines a direct expense as on that is "incurred exclusively for the business and provide no personal benefit." Some examples of direct expenses in your home are: fixing the bathroom used by the children, getting a new carpet for the play area, and light bulbs for fixtures in a play area. Indirect costs associated with your home, such as homeowner's insurance or your electric costs will be covered under the section on the business use of your home below.

Your tax preparer may want the receipts, copies of payments, and other proof of each expense when you meet with them. Regardless, you should hold onto proof of payment, even if the tax preparer doesn't ask for it (and get it back from them when they are done, if they do).

PRO-TIP The IRS understands you may not have a receipt for every expense, so look closely at one or more documents that show the information they need: That you paid the expense; the amount you paid; the date you paid it, and a description of the item purchased or service received.

PRO-TIP Each year, create a folder for each of the expense categories above. Throughout the year, place receipts in the correct folder and update your expense sheet.

Expense Worksheet

CATEGORY	DESCRIPTION	TOTAL EXPENSES
Advertising	Costs to promote your business including online and print ad costs, brochures, mailers, and flyers.	
Car & Truck	Expenses related to using your vehicle for business. You will most likely use the total mileage calculation in Attachment A of this document.	
Contract Labor	This is for any contractors you use (workers you pay using a 1099). If you paid a contractor $600 or more in a year, you will need to send them a 1099 form to document the expense (ask your tax preparer about this process).	
Employee Benefit Programs	Do you have a company health or accident insurance program? This includes programs associated with your business (not your personal expense) like accident and health plans, group-term life insurance, and dependent care assistance programs.	
Insurance (other than health)	Include your general liability insurance here and workers compensation insurance if you have employees. Don't include your health insurance (that will be later in this table) or homeowner's insurance (that will be in the section on deducting the business use of your home).	
Interest Paid	Includes interest you paid directly related to your business (we'll talk about mortgage interest later in the section on the business use of your home). Deductible interest can include interest on business credit cards (not personal ones) and business loans such as the Economic Injury Disaster Loan or an SBA 7a loan.	
Legal Fees & Professional Services	Should include any fees paid to a lawyer, accountant, or tax preparer as well as membership fees for professional associations like the National Association of Family Care or the National Association for the Education of Young Children.	
Office Expenses	All office supplies, postage, cleaning supplies and personal protective equipment, apps and software that cost less than $200 (those that are more than $200 will be under Other Expenses). Also add in larger purchases, like computers, telephones, copiers, and furniture that cost less than $2,500. If any single purchase of equipment or furniture is more than $2,500 you will need to use depreciation calculations and should seek guidance from your tax preparer.	
Pension & Profit Sharing	Do you have a company retirement programs? If so include the employer contributions you made for the benefit of your employees to a pension, profit-sharing, or annuity plan (including SEP, SIM-PLE, and SARSEP plans).	
Repairs & Maintenance	Includes any repairs and maintenance of the space your use or your equipment. For example, if you need a plumber to fix the bathroom used only by the children or if you need your work computer fixed.	
Rent or Lease (see instructions)	For equipment only. Rental of your home will be included in the section on deducting the business use of your home.	
Supplies	Includes items you use with the children (such as art supplies), diapers and wipes, toys, and food for snacks and meals that you serve your children. For meals you can use the actual expenses or can use a standard meal and snack rate set by the IRS. The standard rate for 2020 in all states other than AK and HI is: breakfast $1.33; lunch $2.49; dinner $2.49; and snack $0.74. For AK, the rates are: breakfast $2.12; lunch $4.04; dinner $4.04; and snack $1.20. For HI, the rates are: breakfast $1.54; lunch $2.92; dinner $2.92; and snack $0.87.	
Taxes & Licenses	Such as a business registration fee or fee for licensure.	
Travel & Meal	For you as part of your business, such as going to a conference or an off-site meeting. Millage can be included on Attachment A of this tool. Food for the children in your care should be in Supplies.	
Wages	For all W-2 employees. If you received any tax credits for them, such as a Families First Emergency Leave Credit or Employee Retention Tax credit, subtract that amount from your total expense.	
Other Expenses	Covers anything else that is deductible but not listed, the most common will be software or apps that cost more than $200 (otherwise they can be listed as an office expense).	
Total (add up all expenses)		

HOW DO I INCLUDE THE COSTS OF MY HOME?

As a home-based child care provider, if you regularly use your home in your business and are licensed, you can deduct the cost of your home and other related expenses.

To prepare for claiming these deductions on your return, whether you rent or own your home, there are two steps you need to take: 1) determining the space and time used for care and 2) determining the allowable expenses related to providing care in your home.

Let's go through each one and know there is a table to record your answer below:

Step 1: Calculating the space and time use of your home

There are two elements that determine how much of your home expenses be deducted – the space regularly used for care and the amount of time it is used on average. We are going to go through the calculation, but there is also a spreadsheet you can use to make it even easier.

Space

Typically, space is measured in the square feet of your home that is used for care and the total square footage of your home. Regular use includes areas that may be used all day (such as a play area) but also ones that are regularly used for only part of the day. To give an idea of an area that is only used part of the day, the IRS guide to auditing child care providers uses the example of a provider with three children who each nap in different rooms at quiet time (so they can rest better). Though the other rooms are just used at nap time, it is a regular use and can be included in your calculation.

You can then take the space used in your home for care and divide it by the total square footage of your home to get a percentage:

Space used for care ÷ total square footage of your home = percentage of your home that you use for child care

For example: a provider uses 500 square feet of her 1,100 square foot home, regularly for care. If she divides 500 by 1,100 she finds that she gets .454 or 45.4% of her home is used regularly for care.

Time

Time is the total number of hours you used your facility on average. This includes not only the time that you are caring for children, but also the time you used the space for cleaning, cooking, and preparing for the care of your children. You can also include time when your business was closed but you were preparing to open. For example, let's say your business is open and providing care for children 10 hours a day typically. During the hours that you are closed, you clean and set up for two hours a day. Combined, this would give you 12 hours a day that you were using your facility. Then let's say you were closed for four weeks but did 10 hours of work in this time to maintain the space and prepare for re-opening. Your total hours would be:

12 hours a day x 5 days a week x 48 weeks +10 hours when you were closed = 2,890 hours

You can create a percentage of the business use of your home by dividing your total hours used for care by 8,760 (the total hours in a year).

For example, our provider above uses her home for care 2,890 hours a year. When you divide 2,890 by 8,760 you find that .329 or 32.9% of the time, her home is used for business.

Calculating space and time for the percentage of your home expenses that are deductible is done by multiplying the percentage of space used in your home by the time it is used.

In our examples above, the provider is using 45.4% of her home for care that is provided 32.9% of the year. If she multiplies 45.4% times 32.9% she gets 14.9%. So, she can deduct 14.9% of her home expenses. Do know your tax preparer is likely to do this calculation automatically, but we want to show you the details of how it works.

We also have a spreadsheet that can make these calculations easier.

Business Use of Your Home: Calculating Space & Time

DESCRIPTION	EXAMPLE	YOUR HOME
Square feet regularly used for care	500	
Total square feet of your home	1,100	
Divide spaced used by care by the total square feet in your home for a percentage	45.4%	
Total time spent a year for care (including cleaning and other time associated with the business)	2,890	
Total hours in a year	8,760	8,760
Divide the time spent for care by the total number of hours in a year to create a percentage	32.9%	
Multiply the space percentage by the time percentage	14.9%	

Step 2: Collecting allowable expenses for your home

Expenses that are for your home and directly related to your business can go under your expenses for the full amount (as we mentioned under the section on expenses). Now we want to focus on collecting indirect expenses related to your home, such as electricity usage, which is partially for your business, but also partially for your own use.

The table below includes many of the indirect home based business expenses you can collect by looking at your receipts, bank accounts, credit care bills, checks, invoices, and app pay services (like Zelle and Venmo).

PRO-TIP Make sure, just like with any expense, you have records of indirect expenses for your home.

Indirect Home-Based Business Expenses

INDIRECT EXPENSE	NOTES	AMOUNT
Rent	The full amount you paid over the year	
Mortgage Interest & Mortgage Insurance Payments	Not mortgage principal	
Electricity		
Gas		
Oil		
Water		
Telephone & Cable		
Common Area Repairs	Such as repairing the front steps of your home if they are used by families at drop off or maintenance on your furnace	
Cleaning & Lawn Care Services		
Homeowner's Insurance		
Total		

How do I handle Paycheck Protection Program, grants, and other stimulus money?

Many home based child care providers have benefited from many federal and state stimulus programs in 2020. The funding programs do have different tax implications, so it is helpful to review some of the most common ones.

STIMULUS CHECKS

The stimulus checks received for you and your family members are not taxable. For many people these were the $600 payments directly received from the federal government. They should not be included as income in your taxes.

PAYCHECK PROTECTION PROGRAM LOANS ➜

The Paycheck Protection Program (PPP) was used by a number of home based providers to have additional funds to weather the pandemic. PPP funds, at the federal level are not taxed. The loan revenue should not be included on your federal tax return and the forgiveness of the loan should not be included either. However, some states are taxing loan forgiveness or not allowing you to deduct the expenses for which you used PPP funds. In these states you will need to report loan forgiveness or exclude expenses paid for by your PPP. This is still an evolving situation with some states having declined taxing the PPP and others saying it is likely, but not definitively. A list of where each state stands as of this time can be found below.

STABILIZATION GRANTS

Many state and local governments used stimulus funding to provide one time grants to providers, often referred to as "stabilization grant" for personal protective equipment or other needs through the pandemic. This revenue should be noted as income for your business (and will be treated as any other source of income).

ADDITIONAL SUBSIDY & EMERGENCY WORKER FUNDING

Many home based child care providers received additional subsidy funds (for example, based on pre-COVID enrollment or at a higher rate) or for the care of emergency worker children (at times at a higher rate than the "typical" subsidy). In both cases, these funds need to be recorded as revenue for your business and are likely already included in a 1099 you received from the Child Care Resource and Referral agency or other entity that paid you.

PPP Forgiveness Taxation as of August 23, 2021

Alabama
Forgiveness not taxable, expenses deductible

Alaska
Forgiveness not taxable, expenses deductible

Arizona
Forgiveness not taxable, expenses deductible

Arkansas
Forgiveness not taxable, expenses deductible

California
Forgiveness not taxable, expenses *likely* deductible

Colorado
Forgiveness not taxable, expenses deductible

Connecticut
Forgiveness not taxable, expenses deductible

Delaware
Forgiveness not taxable, expenses deductible

District of Columbia
Forgiveness not taxable, expenses deductible

Florida
Forgiveness **taxable**, expenses deductible

Georgia
Forgiveness not taxable, expenses deductible

Hawaii
Forgiveness not taxable, expenses **not** deductible

Idaho
Forgiveness not taxable, expenses deductible

Illinois
Forgiveness not taxable, expenses deductible

Indiana
Forgiveness not taxable, expenses deductible

Iowa
Forgiveness not taxable, expenses deductible

Kansas
Forgiveness not taxable, expenses deductible

Kentucky
Forgiveness not taxable, expenses deductible

Louisiana
Forgiveness not taxable, expenses deductible

Maine
Forgiveness not taxable, expenses deductible

Maryland
Forgiveness not taxable, expenses deductible

Massachusetts
2020 forgiveness not taxable for corporations; not taxable for individuals.

2021 forgiveness taxable for individuals. Expenses not deductible for corporations; deductible for individuals.

Michigan
Forgiveness not taxable, expenses deductible

Minnesota
Forgiveness not taxable, expenses deductible

Mississippi
Forgiveness not taxable, expenses deductible

Missouri
Forgiveness not taxable, expenses deductible

➜

IN-KIND SUPPLIES

In cases where you received these supplies (rather than a grant to buy the supplies), there may not be a tax liability for you, but you should consult with your Accountant or tax preparer to determine the best way to record the donation.

ECONOMIC INJURY DISASTER LOANS & OTHER SMALL BUSINESS ADMINISTRATION LOANS

Many home based child care providers received Economic Injury Disaster Loans (EIDL). This loan is intended to help your business through a disaster, in this case, the COVID-19 pandemic. The EIDL had two components. First, an advance that was a grant to the recipient of up to $10,000. The advance is not taxable and should not be included in your revenue. Second, the EIDL also included an option for a loan, that is traditional business debt. The EIDL loan is not considered revenue so does not get reported as income. Additionally, the interest payments on an EIDL are tax deductible.

FAMILIES FIRST CORONAVIRUS ACT LEAVE

Some home based child care providers used Emergency and Family Leave through the Families First Coronavirus Act. If you used it for a W-2 employee, you can access the resulting credits through your employer social security tax account. If you are a sole proprietor who claimed the credit you need to alert your tax preparer to the need to use Form 7202: Credits for Sick Leave and Family Leave for Certain Self-Employed Individuals. To help you with this process, we have created Attachment B, which provides a way to share the data (and how to use the credit) with your tax preparer.

PRO-TIP There is much that is still evolving on stimulus and taxes- don't hesitate to email us with questions (ppp@civstrat.com) and follow Home Grown's Social media and newsletter for updates.

Montana
Forgiveness not taxable, expenses deductible

Nebraska
Forgiveness not taxable, expenses deductible

Nevada
N/A

New Hampshire
Forgiveness not taxable, expenses deductible

New Jersey
Forgiveness not taxable, expenses deductible

New Mexico
Forgiveness not taxable, expenses deductible

New York
Forgiveness not taxable, expenses deductible

North Carolina
Forgiveness not taxable. expenses **not** deductible

North Dakota
Forgiveness not taxable, expenses deductible

Ohio
Forgiveness not taxable, expenses deductible for individuals

Oklahoma
Forgiveness not taxable, expenses deductible

Oregon
Forgiveness not taxable, expenses deductible

Pennsylvania
Not taxable for corporations; taxable for individuals. Expenses not deductible for corporations; deductible for individuals.

Rhode Island
Forgiveness under $250,000 is not taxable; Forgiveness over $250,000 is taxable. Expenses are deductible.

South Carolina
Forgiveness not taxable, expenses deductible

South Dakota
N/A

Tennessee
Forgiveness not taxable, expenses deductible

Texas
Forgiveness not taxable, expenses deductible

Utah
Forgiveness **taxable**, expenses deductible

Vermont
Loans forgiven in 2020 will not be taxable; loans forgiven in 2021 will be taxed but expenses can be deducted

Virginia
Forgiveness will not be taxable and expenses are deductible up to $100,000

Washington
Forgiveness not taxable, expenses **not** deductible

West Virginia
Forgiveness not taxable, expenses deductible

Wisconsin
Forgiveness not taxable, expenses deductible

Wyoming
N/A

How do I find a good tax preparer?

When searching for a tax preparer, you will find a range of options and costs with a variety of skill levels and experience to choose from. Finding a preparer who is right for you may take a little bit of research but is well worth the effort. As important as proper tax preparation is, you will want to find to find someone with whom you are comfortable. Here are some things to consider when making your choice.

MAKE SURE YOUR TAX PREPARER IS QUALIFIED.

- All tax preparers should have an IRS Preparer Tax Identification Number (PTIN). Paid tax preparers are required to register with the IRS so be sure to ask for this in advance as they are not allowed to prepare your tax return without one.
- As tax law can be confusing, ask if your tax preparer has any professional credentials. This can include enrolled agents (licensed by the IRS), certified public accountants, or attorneys. Other qualified preparers may be participants in the Annual Filing season Program, bookkeepers, certified financial planners.
- You can search for qualified tax preparers in your area on the IRS Directory of Federal Tax Return Preparers.

LOOK AT YOUR TAX PREPARER'S HISTORY AND EXPERIENCE.

- Experience counts when looking for a qualified tax preparer. In addition to checking for length of previous experience, make sure your tax preparer has knowledge that is relevant to your specific circumstances.
- Tax law is complex and always changing. Ask if your tax preparer is part of any professional organizations or takes and continuing education classes to keep up-to-date.
- Make sure your tax preparer knows your state and local tax requirements in addition to federal return requirements.
- Ask your tax preparer about recommendations specific to 2021 tax return filing. The most experienced tax preparers will still need to keep apprised of the tax situations unique to 2021.

OTHER QUESTIONS TO ASK

- Is my tax preparer available year-round after tax season?
- Do they have a clear, upfront fee schedule?
- Do they know how to deal with an audit?
- Exactly how much time do they require to prepare and deliver a tax return?
- How do you get a copy of your tax return?

PRO TIP Make sure your tax preparer reviews all the documents in your tax return filing with you and explains what each form is and why it is used. Also make sure that you review how to make changes to your tax return in case there is a mistake and what your audit chances look like. Remember, a good tax preparer will want to make sure that you feel comfortable and satisfied with the information you receive so do not hesitate to ask them questions.

How do I choose an online tax program?

Some people choose to use an online tax program in place of a tax preparer. There are many programs available that are easy to use, accessible, and often cheaper than hiring a tax preparer. Just as you would when choosing a tax preparer to hire, you will want to do a little of your own research to find the program that is best for you. Two main factors to consider are your comfort level with technology and your overall tax knowledge as some programs are better for beginners than others. While we do not endorse any particular online tax program, here are a few popular options:

- Turbo Tax — easy to use, provides many tips and tools for beginners.
- H&R Block — covers variety of filing options, great for simple filing.
- TaxSlayer — great for self-employed, best for users who are comfortable filing their own taxes.

Once my taxes are completed, what do I do next?

Once your taxes are finished, there are a few more things that you should do. First, make sure that you get written confirmation that your state and federal taxes were submitted, either by your tax preparer or through your online tax program. Additionally, you will want to make sure you have your own hard copy of your filed tax return as well as all the documents that were included in your filing. As we mentioned previously, aside from the fact that it is just a good idea to have a copy for your records, you never know when you might need to get a copy quickly. While several of the online tax programs allow you to login at any time and print a copy of your return, tax preparers may or may not be easy to reach outside of tax season. In addition to the hard copy of all the documents in your tax return, it is recommended to have electronic copies as well, especially with the increasingly widespread use of digital platforms for funding opportunities. Finally, make sure all the original documents submitted to your tax preparer are returned to you and keep all receipts, proof of payments, 1099s, and all other tax-related documentation for 4 years.

Attachment A: Mileage Log

DATE	DISTANCE	LOCATION	PURPOSE
11/2/2020	5.5 miles	Burbank Wal-Mart	Picking up supplies

TOTAL DISTANCE (ADD UP ALL YOUR ENTRIES)	MULTIPLY BY THE IRS PER MILE RATE	TOTAL EXPENSE AMOUNT
	0.56	

Attachment B: Supplemental Worksheet for Form 7202 IRS Credits for Sick Leave and Family Leave

In accordance with the Families First Coronavirus Leave Act, sole proprietors must use Form 7202 IRS to report the number of days unable to perform services between the dates of January 1, 2021 through September 30, 2021 as a result of government-ordered closures, COVID-19 related self-quarantine, caring for an individual under quarantine, or caring for a child whose school, place of care, or childcare provider was unavailable due to COVID-19. Use the worksheet below to complete Form 7202 IRS and enter the resulting total on Line 12b on Schedule 3 (1040) Additional Credits and Payments as a qualified sick and family leave credit.

In the table below, enter leave taken between January 1, 2021 through September 30, 2021 *due to COVID-19 related government-ordered business closures or COVID-19 related self-quarantine.* Enter the total on Line 1 of Form 7202 IRS.

FORM 7202 IRS: LINE 1		
Start Date	**End Date**	**Total Days**
TOTAL (add all rows):		

In the table below, enter leave taken between January 1, 2021 through September 30, 2021 *due to care of an individual under COVID-19 related quarantine, care of a child whose school, place of care, or childcare provider was closed due to COVID-19.** Enter the total on Line 2 of Form 7202 IRS.

FORM 7202 IRS: LINE 2		
Start Date	**End Date**	**Total Days**
TOTAL (add all rows):		

* A child must be under 18 years of age or incapable of self-care due to mental or physical disability.

Attachment C: Confidence in Quality Tax Prep Rubric© for Child Care Providers

Luminary Evaluation Group created the Confidence in Quality Tax Prep Rubric© for Child Care Providers so that a provider or partner can evaluate if their federal tax returns are consistent with best practices for their program type. This rubric was informed by an analysis of a set of child care provider tax returns. It can be used widely, especially by organizations who offer business technical assistance to child care providers, to ensure they are applying these practices. Providers can also use this rubric with their paid preparer to guide tax preparation or feel empowered to submit their own returns and save several hundred dollars on fees. The rubric can also be used to retroactively review past submitted tax returns. Through this opportunity for the assessment of past taxes, providers can search for errors and amend returns for up to three years, receiving back money they overpaid in already submitted returns. This rubric has been created under a Creative Commons CC BY-NC license allowing use and adaption with attribution and for non-commercial purposes.

There are a number of different terms that are associated with the tax return process. To help make this process more understandable, we have created a **glossary** which includes some of those that are most common.

Disclaimer: The information in this rubric does not constitute tax advice. Individuals should always seek professional advice or actual guidance from the Internal Revenue Service (IRS) if they have any questions regarding their tax returns.

GLOSSARY

Money coming into your business

Revenue/Income is the total income your business makes by selling goods or delivering a service. This will be reflected on Line 7.

Net Profit, also known as **Taxable Income**, is how much money is left after all your business costs are deducted from all of your revenue. This will be reflected on Line 31 as a positive dollar amount. Profit = revenue *minus* expenses.

Money going out/costs to conduct your business

A **Loss** is when your costs to conduct business exceeds the income that you had come in. This is the opposite of profit, reflected on Line 31 as a negative dollar amount.

Expenses refer to any amount of money that you spend on anything within your business. The IRS categorizes allowable expenses on lines 8 through 27a.

Depreciation is a way to allocate the costs of a fixed asset over the period in which the asset is useable to the business. You record the full transaction when the asset is bought, but the value of the asset is gradually reduced by subtracting a portion of that value as a depreciation expense each year. Noteworthy things that depreciate are: vehicles, homes or other buildings, furniture, and equipment. Businesses will enter their depreciation expenses on Line 13.

Money you owe as a result of doing business

Tax Liability for sole proprietors is the amount of tax they are required to pay. In their case, 92.35% of their net profit is first subject to a self-employment tax of 15.3%. Then, the remaining profit is taxed as income, at their individual tax rate. As you see, the lower your profit, the lower your tax liability will be.

Money the government owes your business

Deductions can help reduce your tax liability. You can deduct certain expenses which will subtract the cost of the expenses from your taxable income. Allowable expenses are already categorized on Lines 8 through 26 however you may have other expenses that do not fit into those categories. Those other expenses should go on Line 27a. The result of using deductions is a lower tax liability for you, or even a tax refund.

A **Refund** is owed to you if your business deductions exceed your tax liability. The difference will come back to you in the form of cash.

Confidence in Quality Tax Prep Rubric©

A 2021 Form 1040 Schedule C Tax Form Rubric

LUMINARY
EVALUATION GROUP, LLC

LINE ENTRIES	COMMONLY USED FOR CHILD CARE BUSINESSES?	NOTES
Gross receipts (Line 1)	**Required**	Enter all revenue earned for the year and should include all parent fees paid, subsidy revenue, food program.
Cost of goods sold (Line 4)	**No**	Use of this Line could trigger an audit alert since it would be extremely uncommon (if ever used) in child care.
Gross profit (Line 5)	**Required**	This will usually be equal to Line 1.
Advertising (Line 8)	**Yes**	Enter all expenses for ads, flyers, business cards, and promotional materials.
Car and truck expenses (Line 9)	**Yes, use caution**	Providers can deduct the actual expenses of operating their car for business (gas, oil, repairs, insurance, license plates, tolls, parking, etc.) by calculating the percentage of time that the vehicle is used for business. Alternatively, they can perform the Standard Mileage rate calculation: multiply the number of business miles driven by 56 cents and add to this amount your business portion of car loan interest and parking fees and tolls. **You must be able to document how you came to the total entered.**
Commissions and fees (Line 10)	**No**	Providers using this expense are encouraged to seek professional advice.
Contract labor (Line 11)	**Yes, use caution**	Enter all payments made to 1099 contractors. Providers should be mindful not to misclassify employees as contractors. For more information on classifying workers, see When Is Someone a Contractor or Employee?
Depletion (Line 12)	**No**	Providers using this expense are encouraged to seek professional advice.
Depreciation (Line 13)	**Yes, use caution**	Depreciation must be applied only for business use of certain property. Providers using this expense are encouraged to seek professional advice.
Employee benefit programs (Line 14)	**Yes, use caution**	If you offer employee benefits, enter amounts paid for employee benefits (i.e., health plans, supplemental insurance, life insurance). This is not a typical expense for home-based providers. Providers using this expense are encouraged to seek professional advice.
Insurance (other than health) (Line 15)	**Yes**	Enter amounts paid for liability insurance and any other business-related insurance.
Mortgage Interest (Line 16a)	**Yes**	Enter amounts paid in mortgage interest on an owned business property. For home-based providers this is likely a part of their time/space calculation already.
Other interest (Line 16b)	**No**	This refers to other interest such as credit card interest. Providers using this expense are encouraged to seek professional advice.
Legal and professional services (Line 17)	**Yes**	Enter amounts paid for legal and other services such as accounting, consulting, tax prep, etc.
Office expense (Line 18)	**Yes**	Enter amounts paid for office supplies and postage.
Pension and profit sharing (Line 19)	**No**	This must be a company sponsored program (i.e., not the providers' personal or spouse's retirement plan). Providers using this expense are encouraged to seek professional advice.
Vehicle Rent or lease (Line 20a)	**Yes**	Enter the business portion of your vehicle rental or lease cost. For a company car, this would be 100% of costs. For use of personal vehicle for business-related purposes, enter business related costs only.
Other business property rent or lease (Line 20b)	**Yes**	Enter the amounts paid for renting business property.

Repairs and maintenance (Line 21)	**Yes**	Enter amounts for repairs and maintenance made in the child care facility. Home based providers should include repairs made to spaces used for child care. If the repair is of a common area, that would be captured in the time/space calculation.
Supplies (Line 22)	**Yes**	Enter the amounts for materials and supplies (i.e. – classroom supplies, learning materials, toys, diapers and wipes, cleaning supplies, etc.)
Taxes and Licenses (Line 23)	**Yes**	Enter the amounts for license fees.
Travel (Line 24a)	**Yes**	Enter amounts for lodging and transportation associated with business travel (i.e., conference attendance).
Deductible meals (Line 24b)	**Yes, use caution**	Enter the amounts for your meals while on business travel or business-related meetings. **Note that this Line should not be used to claim food expenses for children's meals. Those expenses can go on Line 27a, Other expenses.**
Utilities (Line 25)	**Yes**	Enter amounts paid for utilities for the child care facility. For home-based providers this is likely included their time/space calculation already.
Wages (Line 26)	**Yes, use caution**	Enter the total salaries and wages for the year for W-2 employees and yourself (if you pay yourself through payroll). For more information on paying yourself, see Paying Yourself: A Guide for Sole Proprietors.
Other expenses (Line 27a)	**Yes**	Enter amounts for all other expenses that do not fall into the above categories (i.e., professional development expenses, membership fees, special events for the children, children's food expenses, etc.).
# of expenses claimed		This number should never be zero. There will always be expenses to claim for your small business.
Total expenses (Line 28)		This is the sum of all claimed Schedule C expenses.
Business Use of Home (Yes or No?) (Line 30)		Home-based providers operating from their primary residence should always claim business use of home. **This applies to expenses that have a shared personal and business use.** If a provider has an expense that is 100% business use, that expense should be fully claimed on the applicable expense line. Business use of home does not typically apply to center-based programs.
Time/space percentage (%)		To calculate time/space, view this worksheet.
Time/Space ($) (Line 30)		Amount calculated from worksheet.
Net profit or loss (Line 31)		This is your revenue minus expenses.

About the Organizations

The mission of **Home Grown** is to increase access to and the quality of home-based child care. Home Grown envisions a country in which all children have the care they need to reach their full potential (cognitive, social, emotional, health and wellness). Providers offer quality child care and parents have equitable access to quality child care for their children. To achieve this vision, Home Grown will remove policy barriers, strengthen home-based child care practices and business models, and support the growth and recognition of the sector so that all providers offer quality care and parents choose quality care.

To learn more about Home Grown, visit homegrownchildcare.org.

Civitas Strategies is a national management consultancy established in 2009 to increase the impact of public serving organizations. Civitas Strategies strives to improve outcomes for marginalized children and families through high quality management consulting services including strategic planning, evaluation, and talent recruitment and management.

To learn more about Civitas Strategies' services and work, visit www.civstrat.com.

Nielsen Training & Consulting, LLC offers custom training and consulting solutions that empower organizations to translate vision into reality. As a former nonprofit CEO with over a decade of executive experience, Gregory Nielsen partners with organizations to develop healthy, dynamic Boards and expertly navigate changes across the organizational life cycle from startup to collaboration to merger. He is deeply committed to helping leaders and organizations excel in their work. Gregory is a military veteran, having previously served as an officer and attorney in the United States Army.

To learn more about Nielsen Training & Consulting's services and work, visit www.nielsenconsults.com.

