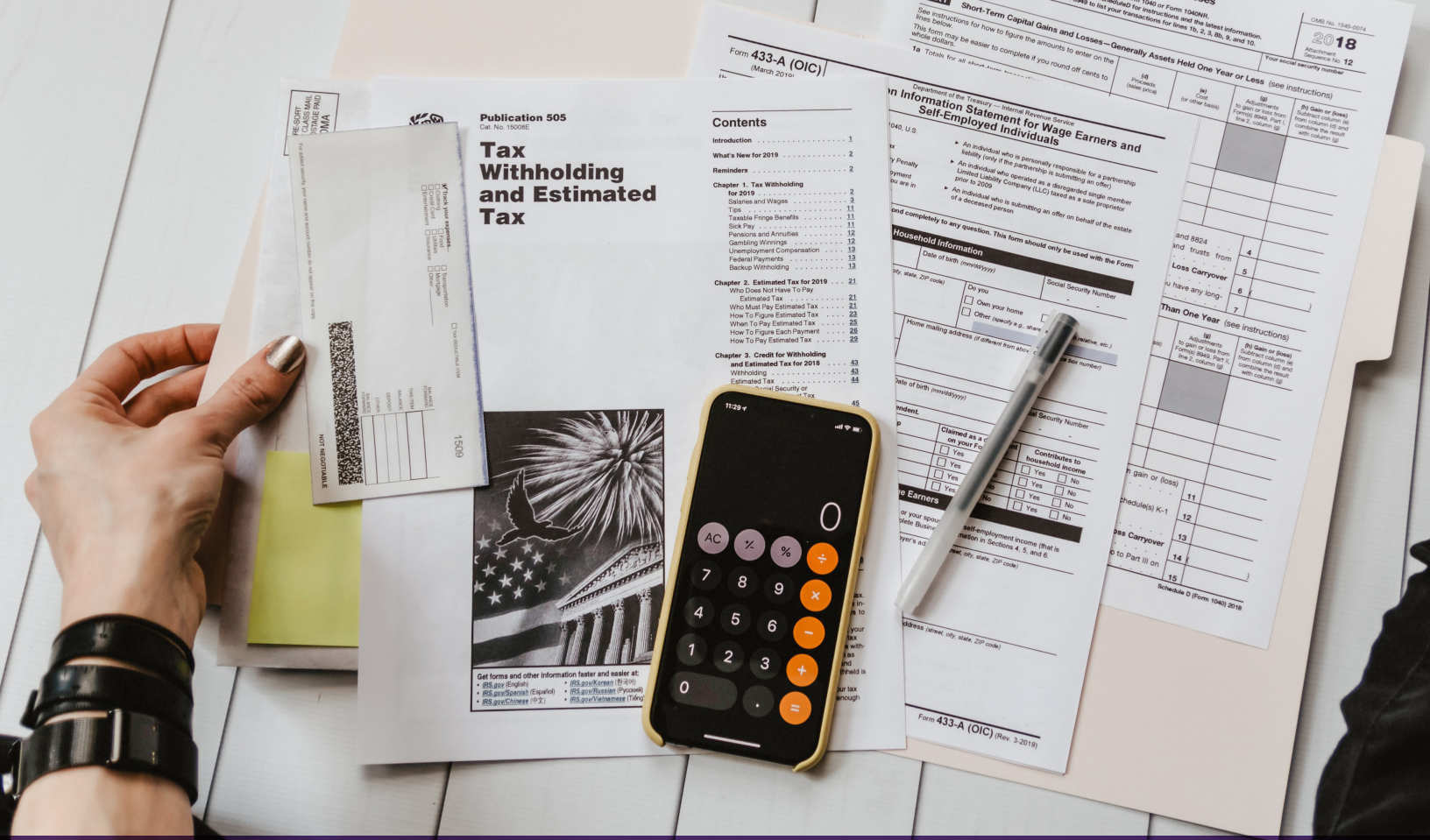

New Jersey Child Care 2019 Tax Analysis Report

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Executive Summary

It is estimated that each year, small businesses spend 2.5 billion hours preparing tax returns or corresponding with the Internal Revenue Service (IRS) about the preparation of their returns. Ninety percent (90%) of small businesses employ tax preparation professionals to prepare their returns, to some extent, and provide representation, if needed, during an audit. The total cost of tax professional services for small businesses amounts to more than $16 billion.[1] While it is nearly impossible for small business owners to know the tax code inside-and-out, there are some tax basics that small business owners should know so that they can advocate for themselves and save money.

Child Care businesses, a significant sector of small business, must view tax preparation strategies as a vehicle to keep critical dollars in their programs. As a small business, every dollar of profit is subject to self-employment tax and income tax. Through employing the basics, providers can reduce their tax liability and ensure they are being fairly treated and not overtaxed.

The review of tax returns was undertaken based on the observations made by Civitas Strategies, through their efforts from April 2020 onward, that child care providers were systematically missing key deductions, even with professionally prepared returns, resulting in lost income. Concurrently, there was evidence of tax preparation errors increasing providers' risk of audit, fines, and penalties. With tight profit margins in child care, any revenue that can be increased or liability that can be mitigated can be critical for the operation's survival.

Accordingly, Luminary Evaluation Group was engaged to conduct an independent evaluation and analyzed 60 provider tax returns. The tax returns consisted of 54 home-based and 6 center-based programs. The goal of this analysis was to study provider financial data, particularly for home-based providers, to understand child care profit and expenses, discover how child care owners are utilizing common business deductions, and to learn what best practices can be shared and what recommendations can be made to inform the larger child care sector based on these findings.

Based on all data analyzed, the team concluded that **home-based child care providers are not maximizing common and relevant business deductions. The combined impact of missed deductions in this group amounts to an estimated $17,555.97**. Additionally, there are numerous audit liabilities that were identified which could result in thousands of dollars in past taxes and penalties.

Acknowledgments

First and foremost, the Luminary Evaluation Group team thanks the many child care leaders who contributed to the development of this evaluation. We would like to first acknowledge our gratitude for Tom Copeland, who generously shared his past experiences in analyzing child care provider tax returns for decades and his wisdom on the topic overall.

We also want to thank a number of early childhood leaders who shaped this process and report:

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- **Beverly Lynn**, Programs for Parents
- **Gregory Nielsen**, Nielsen Training and Consulting
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- **Eve Robinson**, Central New Jersey Family Health Consortium
- **Gary Romano**, Civitas Strategies
- **Louise Stoney**, Opportunities Exchange
- **Alan Taylor**, Southwest Human Development
- **Nancy Thomson**, Child Care Connection
- **Kelly Turner**, Civitas Strategies
- **Kara Waddell**, Child Care Associates

1 William, D. (2020). Is the IRS Targeting Small Businesses? Yep, Says One Expert. https://smallbiztrends.com/2016/09/irs-targeting-small-businesses.html

Introduction

In March 2020, the onset of the COVID-19 pandemic destabilized vulnerable child care systems across the country. In response to this impact, a group of funders sought ways to support child care providers in Essex, Passaic, and Mercer counties in New Jersey. They include:

- The Maher Charitable Foundation
- The Henry and Marilyn Taub Foundation
- The Turrell Fund
- The Nicholson Foundation in New Jersey
- The New Jersey Pandemic Relief Fund

This group of funders consulted with Programs for Parents, 4C's of Passaic, and Child Care Connection (the local Child Care Resource & Referral [CCR&R] agencies), who were working tirelessly to assist both home-based providers and centers through this difficult time. The CCR&Rs communicated the need for additional capacity and expertise to strengthen provider businesses and connect to needed federal funding.

To meet this need, Civitas Strategies was engaged in April 2020 to provide technical assistance to providers as they applied for the Paycheck Protection Program (PPP). The PPP is a forgivable federal loan program designed to provide funding to small businesses (defined as those with 1 to 500 employees). Throughout the course of the technical assistance engagement, Civitas Strategies collected child care tax returns to aid in the PPP application. To apply for the PPP, 2019 taxes were needed.

When additional federal stimulus became available in 2021, the Civitas Strategies team was once more engaged to help providers apply for Round 2 of the PPP, as well as Employee Retention Tax Credits and Families First Coronavirus Relief Leave. In this round of funding, the Civitas Strategies team was granted permission to voluntarily receive providers' tax returns as part of the effort, as well as permission to use them in research. Though a relatively small number of returns were shared (n=60), it is one of — if not the most — extensive tax data set for child care to date.

FIGURE 1 Observations

Observation 1
Key deductions are being missed that can reduce tax burden.

Observation 2
Deductions were misused, creating legal and financial liabilities.

Observation 3
Better supports and advice are needed for providers.

Evaluation Methodology

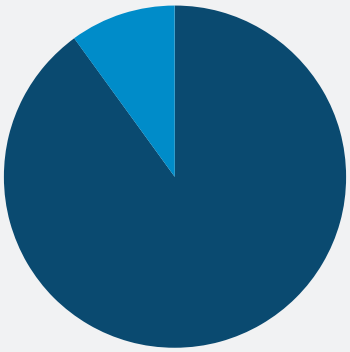
The evaluation relied on a data set of tax returns primarily from 2019. These returns were voluntarily offered by providers in the assessment of eligibility and application for stimulus funding with the caveat that they could be used for research. Though a biased sample, it is a rare collection of data within the child care field.

The evaluation consisted of recording entries from the Schedule C tax form — *Profit or Loss from Business (Sole Proprietors)* and was focused on answering the following key questions:

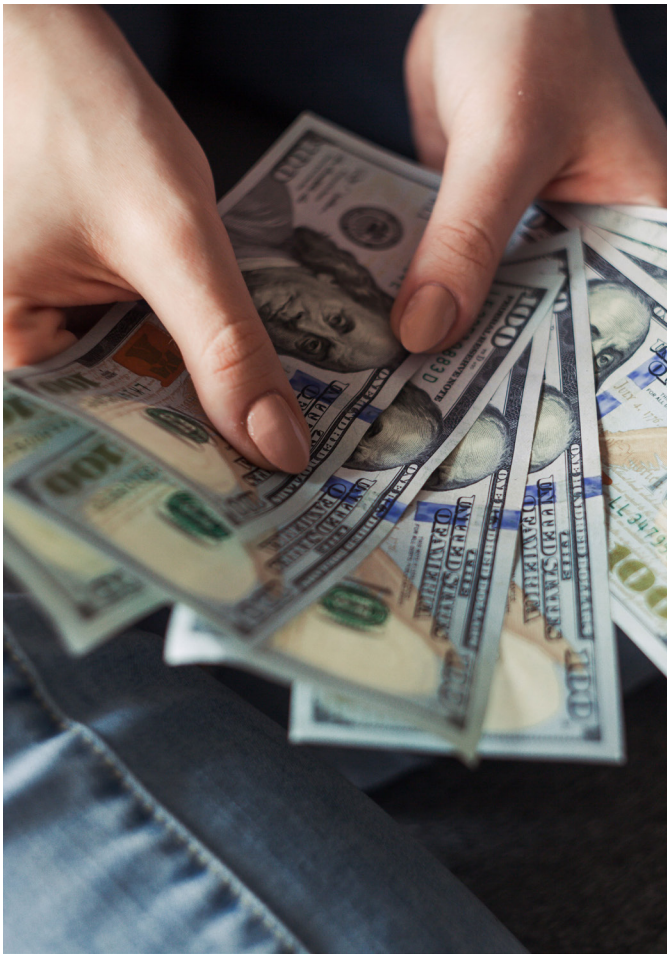
- Are providers accurately capturing costs by claiming expenses in common categories — utilities, supplies, rent, insurance, licensing fees, etc.?
- How aggressively are providers using other expenses?
- How are home providers utilizing Time-Space? What is the average amount claimed for business use of home?
- How are providers using the wages deduction?
- Are providers using unusual categories like management fees or professional fees?
- Are programs potentially leaving cash revenue or expenditures unreported?
- What is the average (and range) of profit margins for centers? Homes? Are they running at a significant loss?

Each return was individually reviewed using the Confidence in Quality Tax Prep Rubric© based on the research questions.

FIGURE 2 Tax Returns Analyzed by Provider Type (n=60)



Homes — 54
Centers — 6



Observations

The review of the data resulted in three observations, specifically:

1. Key deductions are being missed that can reduce tax burden.
2. Deductions were misused, creating legal and financial liabilities.
3. Better supports and advice are needed for providers.

Observation 1:
Key deductions are being missed that can reduce tax burden.

Early in the analysis it became clear that providers were inconsistently using deductions. Most cases were missing opportunities to reduce their tax burden (and increase income), creating potential legal and tax liabilities through errors in many cases. Though businesses generally want to generate profit (i.e., a financial gain from their business), when it comes to taxation, they want to minimize the amount of net profit since it reduces their tax burden.

Taxes can quickly add up for small business owners. All but one of the providers in our sample were sole proprietors. In their case, 92.35% of the net profit is first subject to a self-employment tax of 15.3%. Then, the remaining profit is subject to taxation as income. These amounts can add up quickly. One other business was a limited liability corporation taxed as an S Corporation — this decreases the tax burden since the net profit is only taxed as ordinary income (though limited liability corporations do also have higher costs to maintain).

FIGURE 3 Calculating Taxable Income

Net Revenue is determined by taking all revenue from the business and subtracting expenses.

Varied Profit Margins

Overall, there were a varied range of gross receipts (the business' income), expenses (the operating costs), and profit (the revenue left after paying expenses) for the home and center-based tax returns analyzed.

Among the pool of providers, the ranges of these financial data sets varied greatly. There was a home-based provider that only took in $744 for the year while another logged $67,843 in gross receipts. One claimed $57,789 in expenses while several others claimed none. One provider logged what appeared to be $40,000 in income. On the other hand, a separate provider logged a significant deficit, with a net profit of -$9,327. Some observations were made regarding the extreme variations in income and expenses, which are noted further in this report.

TABLE 1 **Home Providers:** Average, Median & Range of Revenue, Expense & Profit (n=54)0

	AVERAGE	MEDIAN	RANGE MIN	RANGE MAX
Gross Receipts	$28,248.20	$27,998.00	$774.00	$67,843.00
Expenses	$13,849.85	$10,486.50	—	$57,789.00
Profit	$12,968.19	$11,893.00	$(9,327.00)	$40,000.00
Profit Margin	51%	54%	-41%	100%

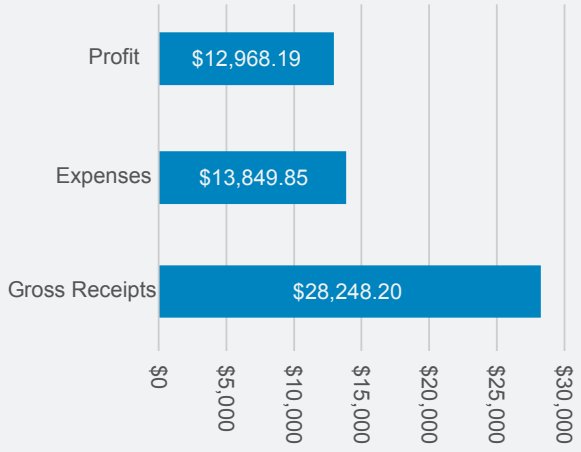
TABLE 2 **Center Providers:** Average, Median & Range of Revenue, Expense & Profit (n=6)

	AVERAGE	MEDIAN	RANGE MIN	RANGE MAX
Gross Receipts	$172,113.00	$136,756.50	$34,116.00	$441,335.00
Expenses	$129,572.50	$107,522.50	$4,195.00	$343,013.00
Profit	$40,657.67	$28,663.50	$(34,050.00)	$138,690.00
Profit Margin	15%	23%	-48%	59%

Center-based programs in the pool of tax returns also had varied financial results. The lowest amount of gross receipts was $34,116 for the year, while the highest gross receipts tallied $441,335. This range is also present in the expenses line item for centers, with the lowest expense line item totaling $4,195 and the highest totaling $343,013. While the average profit margin for centers was 15% (which is still a bit higher than expected for typical centers[2]), it's important to note that this included one provider with a profit margin of -48% and one of 59%.

The average gross receipts for homes were $28,248.20. The average expenses for a home program were $13,849.85, leaving a profit of $12,968.19. This is an average profit margin of 51%.

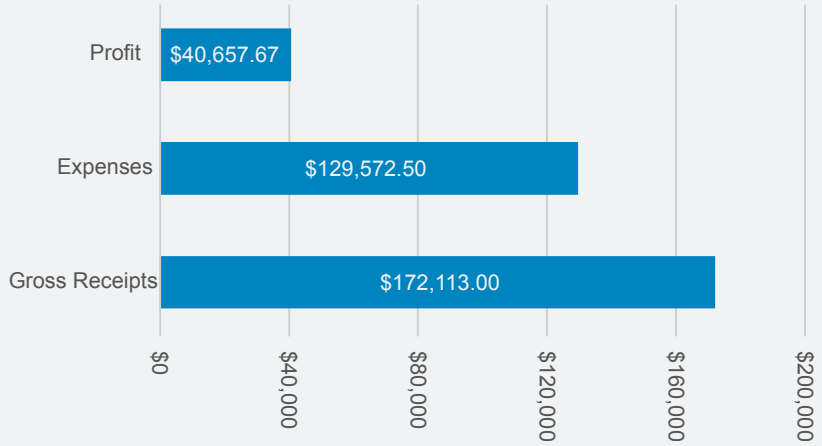
FIGURE 4 **Home Providers:**
Average Gross Receipts, Expenses & Net Profit (n=54)



The variation in income and expenses observed in this data set is consistent with what other thought leaders in ECE business practices have seen over the years. Such variations make statistical measures, such as averages and medians, less useful, however they are helpful in this analysis to reinforce basic truths regarding the low income for child care providers and how inconsistently they are reporting expenses.

The average gross receipts for centers were $172,113. The average expenses for a center program totaled $129,572.50, leaving a profit of $40,657.67. This is an average profit margin of 15%.

FIGURE 5 **Center Providers:**
Average Gross Receipts, Expenses and Net Profit (n=6)



The varied profit margins point to a few opportunities and liabilities for providers. First, the unusually high average profit margins could mean that some providers are underutilizing deductions. Since the regulatory environment for child care is, relative to other industries, strict, there are likely similar costs for all providers. When there is great variation in profit, as seen here, that can indicate that some providers are not taking all appropriate deductions.

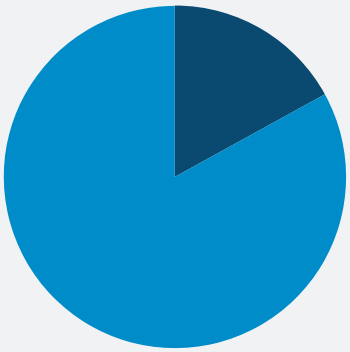
2 Early Childhood Education Fiscal Hub Report (2019) https://williampennfoundation.org/sites/default/files/reports/ECE_Fiscal_Hub_Report_FINAL.pdf

In the data set, 18 providers (30%) took a low number of deductions, which we defined as 35% or less of revenue as expenses for this study. All of these were home-based programs and included four providers that claimed zero deductions. Thirteen percent (13%) of providers took a high number of deductions, which we defined as 85% or more of revenue as expenses for this study. This included six home-based providers and two centers. In many instances, these providers' expenses exceeded their business revenue, indicating that they operated at a loss for that year. Because of the lack of expenses claimed, the four providers without expenses had a 100% profit margin (on paper) that was subject to self-employment and income taxes. These providers had an average profit of $17,428 which would first be subject to the full self-employment tax of $2,666 plus income tax at the provider's ordinary tax rate. Even using the lowest tax rate of 10% would result in an additional $1,743 in taxes owed. The missed deductions were clear (as shown in **FIGURE 6**) when it comes to the use of the Time/Space Calculation for business use of the home, for which 83% of home-based providers did not utilize this allowance at all.

83% of home-based sole proprietors did not utilize the Time/Space expense line.

The IRS allows for a deduction of the business use of your home. However, the IRS requires that you calculate the amount of space used for business and the amount of time it is used to distinguish business use and costs from personal ones. To claim a deduction for the business use of their home, child care providers can determine the amount using Form 8829, or they can elect to use a simplified method provided by the IRS.

FIGURE 6 Use of Time/Space for Home Providers (n=54)



Used Home Space — 17%
Did Not Use Home Space — 83%

The simplified method is performed by multiplying $5 by the provider's time percentage (total hours of the year the home is used for business) by the square footage of the area of the home used for business purposes. The total area cannot exceed 300 square feet, and the maximum deduction using the simplified method is $1,500.[3]

For many child care providers, the simplified method represents less than their real costs, so they should use the Time-Space method to determine the business use of their home through Form 8829:

Space

Typically, space is measured using the square feet of your home regularly used for care and the total square footage of the home. Regular use includes areas that may be used all day (such as a play area) as well as areas that are regularly used for only part of the day (rooms for naps, preparing food, etc.).

Providers can then take the space used in their home for care and divide it by the total square footage of their 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

Time

Time is the total number of hours a provider used their facility on average. This includes not only the time that they are caring for children, but also the time they used the space for cleaning, cooking, bookkeeping, and preparing for the care of children.

 # hours a day care provided x 5 days a week x 48 weeks + # hours when facility is closed but preparing for care = Total # of hours used for care

Total # of hours used for care/8,760 (the total hours in a year) = Time percentage of business use of home

Time/Space Calculation[4]

Multiply the space percentage by the time percentage.

This percentage is then used to calculate the percentage of home expenses that can be claimed for business use, such as mortgage, rent, utilities, home insurance, telephone, and cable.

3 Internal Revenue Service, 2019 Instructions for Schedule C https://www.irs.gov/pub/irs-prior/i1040sc--2019.pdf

4 Time/Space Calculation is the method used by the US Internal Revenue Service to determine the business use (and deductibility) of a home that also has personal use. In recognition of Tom Copeland's abilities to communicate with providers, we have used his expression "time/space calculation" since it is more widely used and understood in child care.

Average Amount Claimed for Business Use of Home

The average amount of the Time/Space deduction claimed among the 9 providers using this expense was $6,597.38. If using the simplified method, the total would not exceed $1,500. Because we only had access in most cases to the Schedule C, and not the Form 8829 *Expenses for Business Use of Your Home* tax forms, we cannot conclude if the providers who used this expense did so correctly. Based on the high average dollar amount and the state of their returns, we believe it is likely that the calculation is not being performed correctly for those who are using it.

Consistently Missed Common Deductions

Home-based providers consistently did not claim common business expenses. Only 41% of providers claimed utility expenses, just 22% claimed office expenses, and a little more than half (54%) claimed supply expenses. Just 9% of home-based providers claimed taxes and licenses, and only 20% claimed repairs and maintenance.

Taking into consideration the average amount of these expenses in this data set, if providers claimed these common expenses, they would total $10,958.59. When you add the average time-space expense claimed to this, the total of missed common expenses reaches $17,555.97. Using these expenses would have lowered a provider's taxable income by $17,555.97.

TABLE 3 The Impact of Deductions on Tax Liability

SAMPLE REVENUES	DEDUCTIONS CLAIMED	NET PROFIT SUBJECT TO TAX	TAX LIABILITY
$40,000	0	$40,000	Higher
$40,000	$10,000	$30,000	Lower

Commonly Claimed Business Expenses for Providers

FIGURE 7 shows commonly available small business deductions for sole proprietors, partnerships, and LLCs.

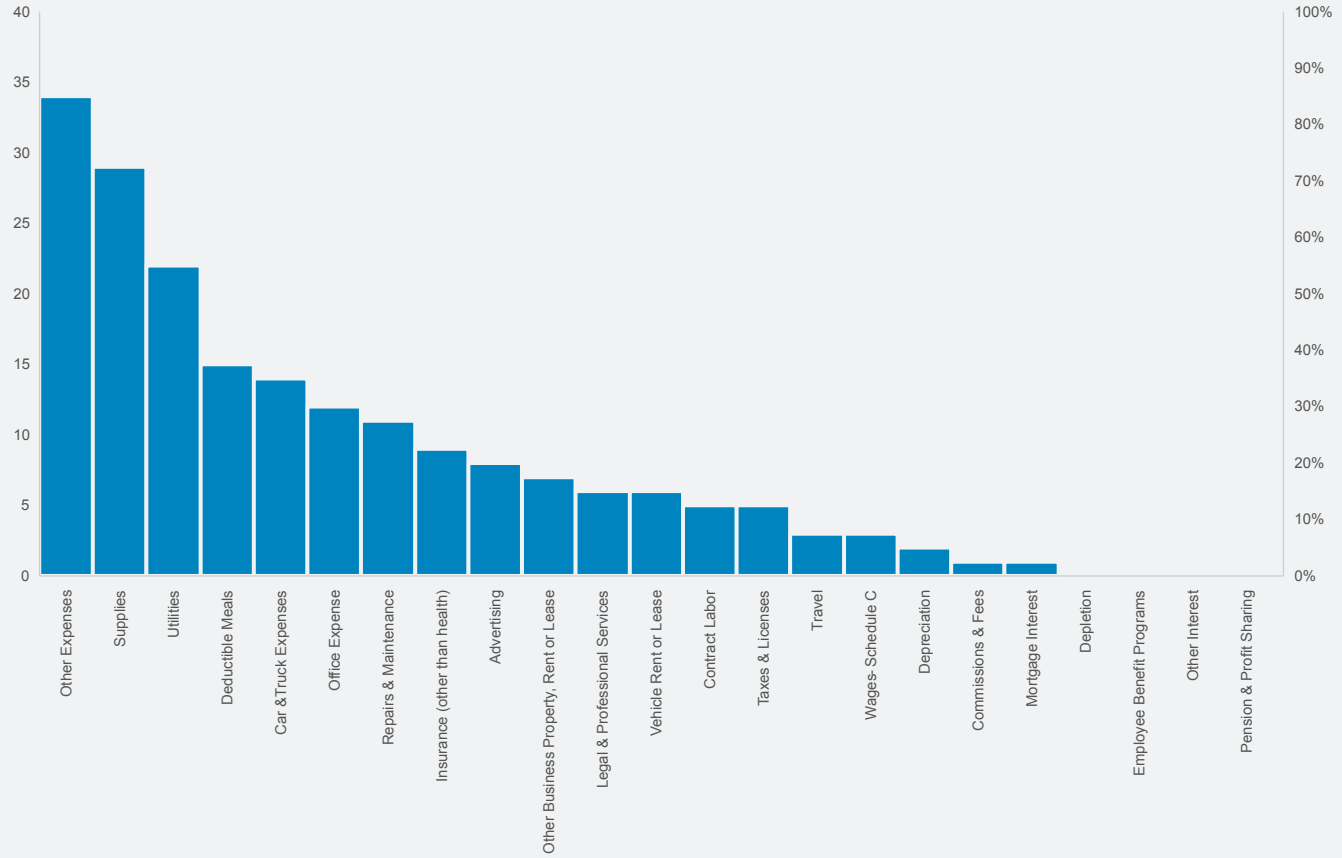
FIGURE 7 Common Small Business Tax Deductions

Home-Based Providers

FIGURE 8 displays the business expenses claimed for home-based providers. The top expense claimed was "Other Expenses" which typically included expenses for telephone, cable, supplies such as diapers, meals and snacks for children, and utilities. These expenses should be claimed on their proper expense line item on the Schedule C, however, to accurately capture usage and costs.

The next most common expenses were Supplies, Utilities, Deductible Meals, and Car and Truck Expenses.

FIGURE 8 **Home Providers:** Business Expenses Claimed (n=54)

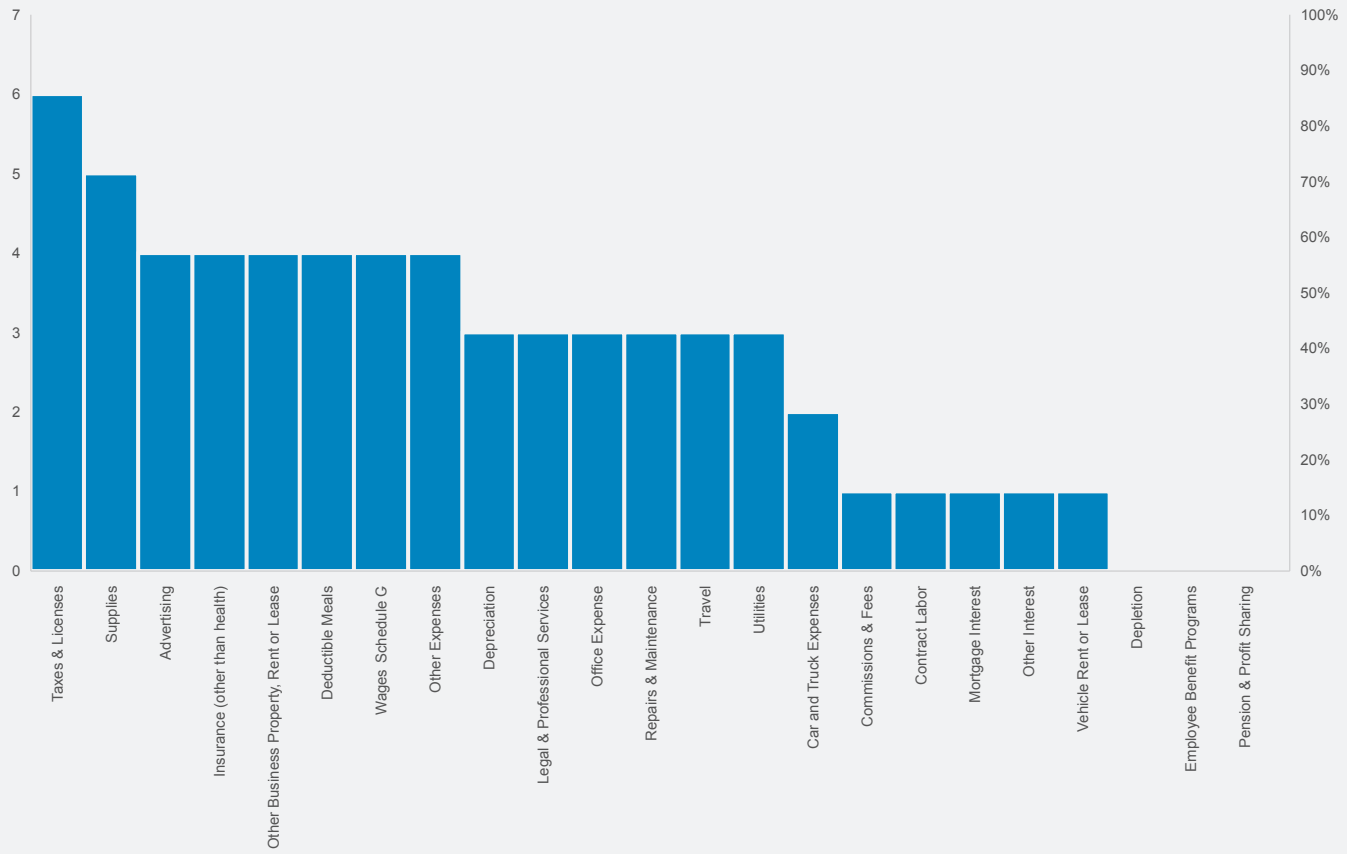


Center-Based Providers

FIGURE 9 displays the business expenses claimed for center-based providers. Overall, the center-based providers had consistent behavior across the categories of expenses. However, there was still inconsistent use of common business expenses claimed, such as Utilities (50%).

The most claimed business expense was Taxes and Licenses, which 100% of programs claimed, followed by Supplies, which five of the six programs claimed. Other common expenses claimed for centers were Advertising, Insurance, Other Business Property Rent or Lease, Wages, Deductible Meals, and Other Expenses.

FIGURE 9 Business Expenses Claimed (Center Providers) (n=6)



Observation 2:
Deductions were misused, creating legal and financial liabilities.

"Indeed, the chances of a Schedule C [IRS profit or loss form filed by sole proprietors and other self-employed taxpayers] being audited are almost twice as great as a small corporation being audited," —Donald T. Williamson, professor of taxation at American University's Kogod School of Business, Washington, D.C.[1]

Providers are engaging in dangerous behavior, which can lead to time-consuming audits and costly penalties.

In addition to providers not claiming business expenses that they should, there were consistent instances of providers improperly claiming certain business expenses.

FIGURE 10 Deductible meals, explained.

For instance, one of the top expenses claimed among home-based providers was Deductible Meals (Line 24b). According to the IRS, this includes expenses for meals while traveling away from home for business. Your deductible business meal expenses are a percentage of your actual business meal expenses or standard meal allowance, usually 50%. Fifteen of the fifty-four home-based providers claimed this expense for an average amount of $2,908.47. This includes a home-based provider who claimed $10,988 for this expense. This could cause a red flag, triggering an audit alert due to the use of this deduction, which is meant to be for the owner's personal business meals at 50% cost. Centers on the other hand, averaged $1,337.50 for the deductible meals expense, with the highest amount being just $1,833. Based on the consistent use of this deduction among home-based providers, it can be concluded that they are erroneously using this line for their food costs associated with children's meals.

Vehicle Rent or Lease (Line 20a) was used by 11% of the home-based providers with an average expense of $6,823.17. According to the IRS, this expense should only be for the business portion of the rent or lease for the vehicle. Based on the high dollar amount for the expense, and burden of recording, it is likely that home-based providers are not calculating only the business use of the vehicle.

Car and Truck Expenses (Line 9) was used by 26% of home providers for an average amount of $2,792. While this is a deduction that providers can and should take, there is a burden of recording that is clear by the IRS and necessary to justify the deduction total. We would caution providers to ensure they are adhering to the guideline set forth for the calculation of this expense and that they have the proper documentation to justify it in the event of an audit.

While not common across the group of returns analyzed, it is worth mentioning other notable misuses of business expenses. One home provider claimed $10,000 in commission and fees, and two home providers claimed depreciation for an average of $8,704. These are not commonly associated with running in-home child care programs and could raise an automated audit alert.

Questionable Application of Wages

Throughout the technical assistance conducted by Civitas Strategies, some providers reported paying wages in cash but not reporting them. Though this reduces their near-term tax burden, it is a long-term audit liability. Further, at least one provider admitted to reporting substantial cash wages paid as "wages" to get the deduction — essentially paying untaxed wages but claiming them as taxable in an effort to reduce tax liability. Not paying payroll taxes on wages is clearly illegal and can result in paying penalties and interest if audited.

Some home-based providers (9%) reported using contractor labor. Just one center provider in the data set used contractor labor, however they did not claim any employee wages paid. This could mean they are relying exclusively on contractors to staff their program (which is unlikely). This brings up questions since providers indicated in conversations around the stimulus that they were using 1099 contractors in ways that were consistent with actual employees. Misclassification of a contractor can cost providers a great deal of money and time. If they make a mistake, even an "honest one" where they just feel that they didn't know, they can be liable for:

- 100 percent of the employer taxes they should have been contributing all along.
- A portion of the employee's contribution to payroll taxes. (Yes, the employer must pay a portion of the taxes they would never have paid in the first place.)
- Penalties and interest.
- The price of any missed benefits and other compensation, such as paid time off, that the worker didn't get as a contractor.

Use of Owner's Pay as a Strategy to Reduce Tax Liability

Many of the child care owners are not paying themselves effectively. In our set, one reported paying themself as a contractor but did not report the income. In other cases, we observed that sole proprietors and LLC providers are not taking the opportunity to reduce their tax burden by paying themselves. Currently, these business owners are subject to self-employment tax as well as income tax. They could elect to be an S Corporation and pay themselves a reasonable wage (resulting in a deduction) using a low-cost system like Gusto. They could then take the remaining profits (after paying themselves) as a capital gain, after having a 20% pass through income deduction. An extreme example of this is "LSV," a center provider in our data set. They reported almost $140,000 in net profit. This provider could have paid themselves a "reasonable wage" per US IRS guidance and reduced this burden.

Observation 3

Better supports and advice are needed for providers.

Ninety percent (90%) of small businesses employ tax preparation professionals to prepare their returns, to some extent, and provide representation, if needed, during an audit.[5] That is, they are not preparing their taxes themselves manually or online, nor are they using tax services offered by community-based organizations. While we are unable to capture the exact number of providers in this study that used professional tax preparation services, we believe the number to be a significant portion. Anecdotally, the Civitas Strategies team learned in talking with providers through their stimulus effort that most are using local preparers based on recommendations from friends and families, or because of limited access to services (as one provider said, "She is the only person around."). In some cases, providers are paying significant amounts for preparation. Again, it is anecdotal, but in the course of their work with providers, the Civitas Strategies team heard of tax preparation costs ranging from $700 to $1,000. Providers are getting the short end of the stick, unfortunately, as they entrust these professionals to compile accurate returns while maximizing opportunities to reduce their tax liability. They are paying professionals, while unknowingly exposing themselves to audits and paying more tax than they should.

Concurrently, as this analysis shows, there are many deductions being missed. Further, there are legal and financial liabilities being generated. Though some of these issues may rest with provider's choices in what they report to their tax preparer, the greater burden is on the preparers themselves, many of whom do not appear to be acting in the best interest of their clients.

Even with new information on what to look for in provider's taxes coming from this study, providers will likely need to: a) understand which deductions they should look for (and the tax form lines they are on) so they can increase accountability with preparers, and b) have options beyond their immediate area for preparers that are lower cost and provide a more effective service.

5 William, D. (2020). Is the IRS Targeting Small Businesses? Yep, Says One Expert. https://smallbiztrends.com/2016/09/irs-targeting-small-businesses.html

Recommendations

Much can be concluded from the ability to analyze such a wide set of provider tax returns. The majority of providers appear to have used professional tax services to prepare their returns, yet most, if not all, contained obvious errors. If used correctly, tax returns can provide a vehicle to put much-needed dollars back into child care programs to benefit the operators (who are often not paying themselves) and the children in their care. However, when not done properly, providers lose out by paying professional preparation fees (totaling 3% or more of their profit) in addition to potentially missed deductions of $17,555.97 on their Schedule C. That is equivalent to 60% of the average gross revenue for home-based child care providers in missed deductions. The tax impact of these missed deductions may be mitigated, in part, by other factors on the individual's tax return (such as a spouse's income, child care credits, or a mortgage deduction).

While the subject of tax preparation can be daunting, with appropriate education and resources, providers can be empowered to take an active part in understanding their taxes and apply best practices to reduce their tax liability. Accordingly, Luminary Evaluation Group created the Confidence in Quality Tax Prep Rubric© under a Creative Commons CC BY-NC license allowing use and adaption with attribution for non-commercial purposes. This rubric can be evolved over time, but its purpose is to allow a provider to evaluate if their returns are consistent with best practices for their program type. This rubric can be used widely, also by organizations who offer business technical assistance to child care providers, to ensure they are applying these practices. Providers can then use this rubric to guide tax preparation with their paid preparer, or feel empowered to submit their own returns and save several hundred dollars. 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 money they overpaid in already returns that were previously submitted.

Highlighting the use of tax savings as a financial strategy to strengthen child care businesses is crucial, as these savings can benefit providers by allowing them to stay in business longer and using the savings to improve their financial situations (i.e., invest in higher quality elements for their program, stay current on bills, maintain their facility, etc.). Luminary presents the following recommendations to guide future policy and programmatic efforts to have a sustained impact on child care businesses based on the evaluation findings:

1. Offer resources, webinars, and targeted technical assistance for child care providers on tax preparation tips and the use of the Time/Space deduction for home-based child care providers.
2. Design materials for child care providers to share with their tax preparer on common expenses, emphasizing the use of the Time/Space deduction (including widespread use of the rubric).
3. Improve financial recordkeeping for child care providers to streamline tax preparation efforts. Offer tools and technical assistance with recommendations that will improve accuracy and understanding of taxes (i.e., formatting recordkeeping categories to align with tax expense lines).
4. Implement provider shared service for tax preparation services. This can help save on tax preparation costs, increase accuracy of returns, and allow for knowledge sharing to further inform the sector. We suggest including well-informed providers who can help prepare the taxes of their peers.

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 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 exceed 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©

2021 Form 1040 Schedule C Tax Form Rubric

LINE ENTRIES	COMMONLY USED FOR CHILD CARE BUSINESSES?	NOTES
LINE 1 **Gross Receipts**	**Required**	Enter all revenue earned for the year, including all parent fees paid, subsidy revenue, food program.
LINE 4 **Cost of Goods Sold**	**No**	Use of this line could trigger an audit alert since it would be extremely uncommon (if ever used) in child care.
LINE 5 **Gross Profit**	**Required**	This will usually be equal to Line 1.
LINE 8 **Advertising**	**Yes**	Enter all expenses for ads, flyers, business cards, and promotional materials.
LINE 9 **Car & Truck Expenses**	**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.**
LINE 10 **Commissions & Fees**	**No**	Providers using this expense are encouraged to seek professional advice.
LINE 11 **Contract Labor**	**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?
LINE 12 **Depletion**	**No**	Providers using this expense are encouraged to seek professional advice.
LINE 13 **Depreciation**	**Yes, use caution**	Depreciation must be applied only for business use of certain property. Providers using this expense are encouraged to seek professional advice.
LINE 14 **Employee Benefit Programs**	**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.
LINE 15 **Insurance (other than health)**	**Yes**	Enter amounts paid for liability insurance and any other business-related insurance.
LINE 16A **Mortgage Interest**	**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.
LINE 16B **Other Interest**	**No**	This refers to other interest such as credit card interest. Providers using this expense are encouraged to seek professional advice.
LINE 17 **Legal & Professional Services**	**Yes**	Enter amounts paid for legal and other services such as accounting, consulting, tax preparation, etc.
LINE 18 **Office Expense**	**Yes**	Enter amounts paid for office supplies and postage.
LINE 19 **Pension & Profit Sharing**	**No**	This must be a company-sponsored program (i.e., not the provider's personal or spouse's retirement plan). Providers using this expense are encouraged to seek professional advice.

LINE ENTRIES	COMMONLY USED FOR CHILD CARE BUSINESSES?	NOTES
LINE 20A **Vehicle Rent or Lease**	**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.
LINE 20B **Other Business Property Rent or Lease**	**Yes**	Enter the amounts paid for renting business property.
LINE 21 **Repairs & Maintenance**	**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.
LINE 22 **Supplies**	**Yes**	Enter the amounts for materials and supplies (i.e., classroom supplies, learning materials, toys, diapers and wipes, cleaning supplies, etc.)
LINE 23 **Taxes & Licenses**	**Yes**	Enter the amounts for license fees.
LINE 24A **Travel**	**Yes**	Enter amounts for lodging and transportation associated with business travel (i.e., conference attendance).
LINE 24B **Deductible Meals**	**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.**
LINE 25 **Utilities**	**Yes**	Enter amounts paid for utilities for the child care facility. For home-based providers this is likely included their time/space calculation already.
LINE 26 **Wages**	**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.
LINE 27A **Other Expenses**	**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.
LINE 28 **Total Expenses**		This is the sum of all claimed Schedule C expenses.
LINE 30 **Business Use of Home (Yes or No?)**		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.
LINE 30 **Time/Space Calculation ($)**		Amount calculated from worksheet.
LINE 31 **Net Profit or Loss**		This is your revenue minus expenses.

Confianza en la Calidad de la Rúbrica de Preparación de Impuestos©
para Proveedores de Cuidado Infantil

Luminary Evaluation Group creó Confianza en la Calidad De la Rúbrica de Preparación de Impuestos© para Proveedores de Cuidado Infantil para que un proveedor o socio pueda evaluar si sus declaraciones de impuestos federales son consistentes con las mejores prácticas para su tipo de programa. Esta rúbrica fue informada por un análisis de un conjunto de declaraciones de impuestos de proveedores de cuidado infantil. Puede ser utilizado ampliamente, especialmente por organizaciones que ofrecen asistencia técnica comercial a los proveedores de cuidado infantil, para garantizar que estén aplicando estas prácticas. Los proveedores también pueden usar esta rúbrica con su preparador pagado para guiar la preparación de impuestos o sentirse facultados para presentar sus propias declaraciones y ahorrar varios cientos de dólares en tarifas. La rúbrica también se puede usar para revisar retroactivamente las declaraciones de impuestos presentadas anteriormente. A través de esta oportunidad para la evaluación de impuestos pasados, los proveedores pueden buscar errores y enmendar las declaraciones por hasta tres años, recibiendo dinero de vuelta que pagaron en exceso en las declaraciones ya presentadas. Esta rúbrica ha sido creada bajo una licencia Creative Commons CC BY-NC que permite su uso y adaptación con atribución y con fines no comerciales.

Hay una serie de términos diferentes que están asociados con el proceso de declaración de impuestos. Para ayudar a que este proceso sea más comprensible, hemos creado este **glosario** que incluye algunos de los más comunes.

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Glosario

Dinero que entra en su negocio

Ingresos/Ingresos es el ingreso total que su empresa obtiene mediante la venta de materiales o la prestación de un servicio. Esto se reflejará en la Línea 7.

La ganancia neta, también conocida como **ingreso imponible**, es la cantidad de dinero que queda después de que todos los costos de su negocio se deducen de todos sus ingresos. Esto se reflejará en la Línea 31 como un monto positivo en dólares. Beneficio = ingresos *menos* gastos.

Dinero que sale/ costos para llevar a cabo su negocio

Una **pérdida** es cuando sus costos para realizar negocios exceden los ingresos que había entrado. Esto es lo opuesto a la ganancia, reflejada en la Línea 31 como una cantidad negativa en dólares.

Los gastos se refieren a cualquier cantidad de dinero que gaste en cualquier cosa dentro de su negocio. El IRS clasifica los gastos permitidos en las Líneas 8 a 27a.

La depreciación es una forma de asignar los costos de un activo fijo durante el período en el que el activo es utilizable para el negocio. Usted registra la transacción completa cuando se compra el activo, pero el valor del activo se reduce gradualmente restando una parte de ese valor como gasto de depreciación cada año. Las cosas notables que se deprecian son: vehículos, casas u otros edificios, muebles y equipos. Las empresas ingresarán sus gastos de depreciación en la Línea 13.

Dinero que debe como resultado de hacer negocios

La obligación tributaria para los propietarios únicos es la cantidad de impuestos que deben pagar. En su caso, el 92,35% de su beneficio neto está sujeto en primer lugar a un impuesto sobre el trabajo por cuenta propia del 15,3%. Luego, la ganancia restante se grava como ingreso, a su tasa impositiva individual. Como puede ver, cuanto menor sea su ganancia, menor serásu obligacióntributaria.

Dinero que el gobierno le debe a su negocio

Las deducciones pueden ayudar a reducir su obligación tributaria. Puede deducir ciertos gastos que restarán el costo de los gastos de sus ingresos imponibles. Los gastos permitidos ya están categorizados en las Líneas 8 a 26, sin embargo, es posible que tenga otros gastos que no encajan en esas categorías. Esos otros gastos deberían ir en la Línea 27a. El resultado de usar deducciones es una menor obligación tributaria para usted, o incluso un reembolso de impuestos.

Se le debe un **reembolso** si las deducciones de su negocio exceden su obligación tributaria. La diferencia volverá a usted en forma de efectivo.

Descargo de responsabilidad: *La información en esta rúbrica no constituye asesoramiento fiscal. Las personas siempre deben buscar asesoramiento profesional o orientación real del Servicio de Impuestos Internos (IRS) si tienen alguna pregunta con respecto a sus declaraciones de impuestos.*

Confianza en la calidad de la Rúbrica de Preparación de Impuestos©

Rúbrica del Formulario 1040 Anexo C del Formulario de Impuestos de 2021

ENTRADAS DE LÍNEA	¿USO COMÚN PARA EMPRESAS DE CUIDADO INFANTIL?	NOTAS
LÍNEA 1 **Ingresos Brutos**	**Obligatorio**	Ingrese todos los ingresos obtenidos para el año y debe incluir todas las tarifas de los padres pagadas, los ingresos del subsidio, el programa de alimentos.
LÍNEA 4 **Costo de los Materiales Vendidos**	**No**	El uso de esta línea podría desencadenar una alerta de auditoría, ya que sería extremadamente poco común (si alguna vez se usa) en el cuidado infantil.
LÍNEA 5 **Beneficio Bruto**	**Obligatorio**	Esto generalmente será igual a la Línea 1.
LÍNEA 8 **Publicidad**	**Sí**	Ingrese todos los gastos de anuncios, volantes, tarjetas de visita y materiales promocionales.
LÍNEA 9 **Gastos de Carros y Camiones**	**Sí, tenga cuidado**	Los proveedores pueden deducir los gastos reales de operación del automóvil para negocios (gas, petróleo, reparaciones, seguros, matrículas, peajes y estacionamiento, etc.) calculando el porcentaje de tiempo que el vehículo se utiliza para negocios. Alternativamente, pueden realizar el cálculo de la tasa estándar: multiplique el número de millas comerciales recorridas por 56 centavos y agregue a esta cantidad la parte de su negocio de intereses de préstamos para automóviles y tarifas y peajes de estacionamiento. **Debe poder documentar cómo llegó al total ingresado.**
LÍNEA 10 **Comisiones y Honorarios**	**No**	Se recomienda a los proveedores que utilizan este gasto que busquen asesoramiento profesional.
LÍNEA 11 **Mano de Obra Contratada**	**Sí, tenga cuidado**	Ingrese todos los pagos realizados a 1099 contratistas. Los proveedores deben tener en cuenta no clasificar erróneamente a los empleados como contratistas. Para obtener más información sobre la clasificación de trabajadores, consulte ¿Cuándo es alguien un contratista o empleado?
LÍNEA 12 **Agotamiento**	**No**	Se recomienda a los proveedores que utilizan este gasto que busquen asesoramiento profesional.
LÍNEA 13 **Depreciación**	**Sí, tenga cuidado**	La depreciación debe aplicarse solo para el uso comercial de cierta propiedad. Se recomienda a los proveedores que utilizan este gasto que busquen asesoramiento profesional.
LÍNEA 14 **Programas de Beneficios para Empleados**	**Sí,tenga cuidado**	Si ofrece beneficios para empleados, ingrese los montos pagados por los beneficios para empleados (es decir, planes de salud, seguro complementario, seguro de vida). Este no es un gasto típico para los proveedores a domicilio. Se recomienda a los proveedores que utilizan este gasto que busquen asesoramiento profesional.
LÍNEA 15 **Seguro (distinto de la salud)**	**Sí**	Ingrese los montos pagados por el seguro de responsabilidad civil y cualquier otro seguro relacionado con el negocio.
LÍNEA 16A **Intereses Hipotecarios**	**Sí**	Ingrese los montos pagados en intereses hipotecarios sobre una propiedad comercial propia. Para los proveedores basados en el hogar, es probable que esto ya sea parte de su cálculo de tiempo/espacio.
LÍNEA 16B **Otros Intereses**	**No**	Esto se refiere a otros intereses, como los intereses de la tarjeta de crédito. Se recomienda a los proveedores que utilizan este gasto que busquen asesoramiento profesional.
LÍNEA 17 **Servicios Legales y Profesionales**	**Sí**	Ingrese los montos pagados por servicios legales y de otro tipo, como contabilidad, consultoría, preparación de impuestos, etc.
LÍNEA 18 **Gastos de Oficina**	**Sí**	Ingrese los montos pagados por suministros de oficina y franqueo.
LÍNEA 19 **Participación en las Pensiones y los Beneficios**	**No**	Este debe ser un programa patrocinado por la compañía (es decir, no el plan de jubilación personal o del cónyuge de los proveedores). Se recomienda a los proveedores que utilizan este gasto que busquen asesoramiento profesional.

ENTRADAS DE LÍNEA	¿USO COMÚN PARA EMPRESAS DE CUIDADO INFANTIL?	NOTAS
LÍNEA 20A **Alquiler o Arrendamiento de Vehículos**	**Sí**	Ingrese la parte comercial del costo de alquiler o arrendamiento de su vehículo. Para un carro de empresa, esto sería el 100% de los costes. Para el uso del vehículo personal para fines relacionados con el negocio, ingrese solo los costos relacionados con el negocio.
LÍNEA 20B **Alquiler o Arrendamiento de Otros Bienes Comerciales**	**Sí**	Ingrese los montos pagados por el alquiler de propiedades comerciales.
LÍNEA 21 **Reparaciones y Mantenimiento**	**Sí**	Ingrese los montos por reparaciones y mantenimiento realizados en el centro de cuidado infantil. Los proveedores en el hogar deben incluir reparaciones hechas a los espacios utilizados para el cuidado infantil. Si la reparación es de un área común, eso se capturaría en el cálculo de tiempo/espacio.
LÍNEA 22 **Suministros**	**Sí**	Ingrese las cantidades de materiales y suministros (es decir, suministros para el aula, materiales de aprendizaje, juguetes, pañales y toallitas, artículos de limpieza, etc.)
LÍNEA 23 **Impuestos y Licencias**	**Sí**	Introduzca los importes correspondientes a las tasas de licencia.
LÍNEA 24A **Viajes**	**Sí**	Ingrese los montos para alojamiento y transporte asociados con los viajes de negocios (es decir, asistencia a conferencias)
LÍNEA 24B **Comidas Deducibles**	**Sí, tenga cuidado**	Ingrese los montos de sus comidas durante un viaje de negocios o reuniones relacionadas con los negocios. **Tenga en cuenta que esta Línea no debe usarse para reclamar gastos de alimentos para las comidas de los niños. Esos gastos pueden ir en la Línea 27a Otros gastos.**
LÍNEA 25 **Servicios Públicos**	**Sí**	Ingrese los montos pagados por los servicios públicos para el centro de cuidado infantil. Paralos proveedores basados en elhogar, es probable que esto ya incluya su cálculo de tiempo/espacio.
LÍNEA 26 **Salarios**	**Sí, tenga cuidado**	Ingrese los salarios y salarios totales para el año para los empleados W-2 y para usted mismo, si se paga a sí mismo a través de la nómina. Para obtener más información sobre cómo pagarse a sí mismo, consulte Pagarse a Sí Mismo: Una Guía para Propietarios Únicos
LÍNEA 27A **Otros Gastos**	**Sí**	Ingrese los montos para todos los demás gastos que no caen en las categorías anteriores (es decir, gastos de desarrollo profesional, cuotas de membresía, eventos especiales para los niños, gastos de alimentos para niños, etc.).
# de Gastos Reclamados		Este número nunca debe ser cero. Siempre habrá gastos que reclamar para su pequeña empresa.
LÍNEA 28 **Gastos Totales**		Esta es la suma de todos los gastos reclamados del Anexo C.
LÍNEA 30 **Uso Comercial del Hogar (¿Sí o no?)**		Los proveedores basados en el hogar que operan desde su residencia principal siempre deben reclamar el uso comercial del hogar. **Esto se aplica a los gastos que tienen un uso personal y comercial compartido.** Si un proveedor tiene un gasto que es 100% de uso comercial, ese gasto debe reclamarse completamente en la Línea de gastos aplicable. El uso comercial del hogar generalmente no se aplica a los programas basados en el centro.
Porcentaje de Tiempo/Espacio (%)		Para calcular el tiempo y el espacio, vea esta Cálculo de Tiempo/Espacio.
LÍNEA 30 **Tiempo/Espacio ($)**		Cantidad calculada a partir de la hoja de cálculo.
LÍNEA 31 **Ganancias o Pérdidas Netas**		Estos son sus ingresos menos gastos.

About Luminary Evaluation Group

Luminary Evaluation Group is a program evaluation firm that helps nonprofits and funders identify what is working, what is not working, and what options exist to enhance programming. At the core of our collaborative process is deep contextual exploration, anchored by qualitative data collection and analysis. We listen, observe, and build reciprocal relationships with our clients, and facilitate sharing and exploration between stakeholders. Our deep contextual knowledge of nonprofit programs, challenges, and goals allows us to work with stakeholders to identify useful questions for the base of the evaluation protocol, and to understand the issues and contexts of a given evaluation project. This enables us to develop an appropriate evaluation plan to reflect the reality of a program, capture existing knowledge, and produce essential new insights. Our clients report being able to clearly see actionable next steps from evaluation findings.

SERVICES

- **Program Evaluation**
  We help nonprofits assess their impact and make data-driven decisions based on findings and recommendations.
- **Evaluation Capacity Building**
  Organizations often conduct data collection and assessment with their own staff. We help them build evaluation plans and ongoing practices that they can implement.
- **Logic Models**
  A solid logic model is the foundation impact. We help organizations build and refine logic models.
- **Model Capture**
  Good programs need good materials. We help organizations codify and articulate their program models by designing user-friendly and attractive written manuals and guides.
- **Surveys, Interviews, and Focus Groups**
  As part of Luminary's commitment to equity and culturally responsive practices, surveys are available in all languages. We also offer focus groups and qualitative interview services in both English and Spanish.

Contact Us

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LUMINARY
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TEAM

Alison LaRocca, Managing Director

Alison has spent her career working at the intersection of nonprofit research, senior level advisement, and strategy. Alison is the Managing Director of Luminary Evaluation Group. Luminary's mission is to improve the lives of children and families by conducting high-quality, participatory research for funders and nonprofit organizations of every size, capacity, and budget who are interested in understanding, articulating, and growing their impact. In this role, Alison brings her particular expertise in participatory evaluation and human centered design, instrument development, data collection, and quantitative and qualitative data analysis. As an evaluator, Alison helps clients communicate research effectively to key stakeholders and other broad audiences. Specifically, she supports organization leaders as they work to use data effectively, incorporate evidence-based practices into programs and policies, assess effectiveness, and improve outcomes. Alison is a graduate of Williams College and holds a Master's in Elementary Education from Merrimack College.

LaToshia DeVose, Senior Consultant

LaToshia has 11 years of experience working in various capacities on initiatives geared toward increasing child care program capacity. She is a firm believer that every business operator has the ability to manage an effective business and that every child deserves a quality education. Previously, she served as the ECE Business Development Director with Public Health Management Corporation in Philadelphia. In that role, LaToshia provided leadership and coordination on the Fund for Quality, a high quality child care facility expansion program. During her tenure on that project, over 2,500 new child care seats were created to serve children from low-income families. LaToshia also oversaw the implementation of a local child care facility's improvement grant fund for several years in addition to managing a replication organizational TA/facility program in Washington, D.C. Through this work, tens of thousands of child care seats were improved and/or sustained.

Erin Murphy, Consulting Associate

Erin is a Consulting Associate with Luminary Evaluation Group, leading all product design efforts. Erin's superpower is making the team's analyses and client reports even more accessible through the use of highly effective, user-friendly structure and design. Her comprehensive understanding of copywriting, copyediting, and design skills are showcased in numerous complex projects for a range of clients in all sectors. Erin holds a Bachelor of Fine Arts in Communication Design from the Massachusetts College of Art and Design.