

TurboTax Self-Employed Online Tax Preparation Guide

FOR CHILD CARE BUSINESSES

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Why Tax Prep Software is a Good Idea for Child Care Business Owners

Many child care business owners can prepare their own taxes. Using tax software is a great way to save yourself time and money. It also can give you peace of mind since many calculations are performed for you and there are automated cross-checks to ensure you are properly accounting for your revenue and expenses. According to the IRS, filing electronically helps you [avoid common and costly errors](#). Best of all, it puts you in the driver's seat of this essential business responsibility - filing your annual tax return.

How to Use this Guide

You may feel a bit intimidated by the idea of doing your own taxes for your child care business, but using this guide and other tools built just for you, will prepare you to have a hassle-free experience that can save you money, ward off the risk of audit, and help you set goals to improve your business practices and tax preparation for many years to come. You'll come out of tax season confident about your filing and your understanding of it.

This guide is best for self-employed child care business owners. These may include home-based family child care programs or child care centers that are owned by a sole proprietor.

It's best to use this guide as a reference while you're preparing for and completing your tax filing. The goal of this guide is to allow you to accurately claim your child care business revenue and expenses. Completing the data entry that will form your **Schedule C** is the focus of this guide. We will not review the tax preparation associated with your personal (non-business) taxes. Rest assured, using tax software will allow you to ensure you're accurately claiming your personal credits and other items!

Note that this guide is not tax, financial advice, or an endorsement of TurboTax. The authors are not affiliated with TurboTax.

Introduction to TurboTax and Your Tax Filing

TurboTax offers various versions of its tax product. First, you will need to decide if you want to prepare your taxes using the online version or a software download. For this guide, we used the [online Self-Employed version of the software](#). In this version, you have access to essential forms such as the Schedule C, and the ability to search for business deductions that you can benefit from. Those features are not available through the basic package. This product was priced at \$119, with an additional charge of \$59 for the MAX Defend & Restore protection, in 2021. We would recommend that providers completing their own taxes purchase the Max Defend because it will give you the added

protection of full audit representation, identity theft restoration features, and priority, individual support from a specialist to answer questions as you prepare your filing.

As you navigate through the system, understand that the goal is to ensure you have a fair and accurate return so that you are protected in the event of an audit. The best way to avoid questions 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 child care businesses are:

- Not including all your income on your taxes – such as leaving out a 1099 you received from the Wisconsin Early Childhood Association for the REWARD stipend or other taxable income that came to your program through state funding, like Child Care Counts payments.
- Claiming irrelevant expenses or ones that are unusually 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 but you want to avoid having losses that are far more than what you earned. If you have not turned a profit in three of five consecutive years, you could be at risk of being determined to be a “hobby” and not a business by the IRS (which will change your ability to deduct expenses greatly).
- Claiming 100% use of your vehicle – this is especially true for home-based family child care providers. 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.

To help prepare your taxes with ease, you want to be sure that you have your revenue and expense records up-to-date and handy. Perhaps you have an accounting system where this data can be pulled from or you have a recordkeeping system with this information. You will generally need:

- 1099 forms
- Bank and credit card records
- Canceled checks
- Year-end or weekly receipts that show what parents paid for childcare
- Paid receipts or invoices for goods or services that you purchased
- Payroll records, if applicable
- Mileage records documenting the business use of your vehicle
- Time-Space percentage calculation for family child care providers

First Things First

You will need to enter basic demographic information about yourself (and your spouse and dependents, if you have any):

- Name
- Social Security Number (SSN)
- Date of birth
- Marital status
- Dependents
- Address
- Other information to help determine your personal tax credits, including if you are a U.S. citizen; were a student last year; can be claimed as a dependent on another person's taxes, or have any dependents to claim on your taxes.
- And other information to help determine your personal tax credits and liabilities.

Next, you will also be asked to list your occupation and you can choose **Childcare Provider** from the dropdown list.

Entering Business Income and Expenses

TurboTax will personalize questions and suggested deductions based on your industry. You can enter the type of work you do as “**daycare services**” to get personalized features for your industry. This is also necessary for the **business code 624410** to be automatically applied to your business type. You'll then enter basic information about your business (i.e. – name and address). You'll also enter your Employer Identification Number, EIN, (if you have one), and the number of W-2 employees if you have them. If you don't have an EIN, consider getting one for privacy reasons. But you can only use an EIN if it was created within the tax year. So, if you created an EIN on January 15, 2023, you could not use it for your 2022 tax return.

Method of accounting – This is a required entry on tax filings, businesses must state if they use the Cash or Accrual accounting method. TurboTax will automatically assign the Cash Method which is the most common accounting method for small businesses, including child care businesses. This means that your transactions are accounted for at the time you receive a payment or when you pay an expense. You can edit to change to the accrual or another method if it applies but it is uncommon for child care providers.

Income

Entering your income is pretty straightforward.

The system asks “what type of income did you receive for this work?”.

Your revenue should include all the money you took in for your child care business from all sources, even if you are not issued a 1099. This should include cash and money from cash apps for your business.

The most common response for child care businesses will be:

- **Other Self Employment Income.** This includes cash, checks, and 1099-K app payments received from families.
- **Form 1099 NEC.** Here you will enter details from the 1099 NECs that you receive. That stands for nonemployee compensation. Likely you will receive a 1099 NEC for other business-related payments received. For instance, if you receive a subsidy or any other contract payments, and you were issued a 1099 NEC, you would include those here. This will also include grants and awards, such as the REWARD stipend from the Wisconsin Early Childhood Association, or other taxable income that came to your program through state funding, like Child Care Counts payments, and the food program (CACFP) payments received.

The system also lists **Uncommon Income** as an option. This usually will not be applicable as it is referring to prizes or awards. Be sure to list any grants that you received as Form 1099 NEC income. Doing that will be sure that it is taxed correctly as your self-employed income.

The system will ask if you received payments through Square. If so, there will be an option for you to import those payments directly into TurboTax.

Note – You may have received a Form 1099-K from app-based payment processors like Square, Venmo, and Cash App. This form covers any self-employed income you received through this payment processor for the tax year. **If you automatically import your Square info into TurboTax, don't include the income from your Square 1099-K when you enter your income, as it'll result in this income being reported twice.** This is optional and is meant to make reporting Square income for you, but you do not have to import. You can enter your information manually if that's easier for you.

Here are some helpful worksheets that you can use to organize your income so that you can enter it into the tax system. They can also keep your taxes organized so that you remember what your Schedule C consists of once it's generated:

1099 Income

1099 Payer name	Amount
Total (add all of the 1099s)	

Parent Payments and 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)	

Expenses

You 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 system will first show you suggested expenses based on your industry, Daycare services. TurboTax also provides a downloadable checklist of recommended and less common deductions for child care businesses. **We do not recommend that you use this checklist because it does not provide guidance on the proper calculation of business expenses, which could lead to inaccurate entries. Instead, utilize the charts that you find within this guide which were developed using the [Confidence in Quality Tax Prep Rubric](#)®. We recommend you have this guide handy to cross-reference with the TurboTax categories as you enter your data.**

You will first be able to check off your expenses in the Recommended section, which will be common expenses like Supplies, Home Office (this is the business use of a home for family child care businesses), and other expenses. You will then have the opportunity to check off all other expenses that you have in less common categories. Here, we will review some of the key deductions that you should be aware of with a worksheet that you can enter your expenses into before entering into TurboTax.

Common Expenses

Category	Description	Total Expenses (\$)
Advertising	Here you'll enter costs to promote your business including online and print ad costs, brochures, mailers, flyers, business cards, and website costs.	
Vehicle	You will note if the vehicle is owned or leased by you and if you also used this vehicle for personal trips or exclusively for business. The system works well here because it prompts you to clearly separate business miles driven from personal and performs the standard mileage rate calculation for you. It will also give you an opportunity to maximize this expense by ensuring common fees,	

like parking, tolls, and car loan interest are entered.

Do keep in mind you can track and deduct your mileage for business-related trips even trips that don't involve transporting the children in your care, such as going to Costco to buy child care supplies or driving to a child care training. You can also include in this amount your business portion of car loan interest and parking fees and tolls.

For your mileage, make sure you keep track of the day, purpose, and total miles because you will need to enter that information for this deduction. It can be something as simple as:

June 9 - 3.25 miles going to Walmart for supplies

Next, you will need to determine if you are using the **standard mileage deduction** or **actual expenses** to claim your business vehicle expenses. The system will guide you to the appropriate method based on whether you own or lease the vehicle and the methods that you previously used in past tax years.

In general, standard is usually better if you drove a lot of miles. This will get you the miles driven multiplied by the IRS mileage reimbursement rate. The IRS standard mileage rate was \$0.56 per mile from January 1, 2022, to June 30, 2022, and then increased to \$0.585 (that is 58.5 cents) per mile through December 31, 2022, due to increased fuel prices. In addition to those standard miles, you can claim the business portion of car loan interest, parking fees, and tolls paid. However, if you use standard mileage, you cannot deduct other costs associated with your car, including gas, repairs/maintenance, insurance, depreciation, license fees, tires, car washes, lease payments, towing charges, auto club dues, etc.

Actual expenses might get you a bigger tax break if you had higher repair, gas, and insurance

	expenses for the year. With actual expenses, you need to keep track of all payments associated with the business use of the vehicle, including car loan payments.	
Communications	You want to be sure that you are deducting your business communication costs. This is a common expense for child care businesses. Some examples include cell phone service, internet service, second phone line, any fees for things like call waiting or voicemail, long-distance calls, fax, and Video-conferencing services. If you're a home-based provider and you also use these services for personal use, you will need to perform your time-space percentage on those expenses and enter only the amount associated with business use into the system. TurboTax will not apply it for you.	
Supplies	TurboTax will give examples of supplies that you may have used for your child care. Supplies include items you use with the children (such as art supplies), diapers and wipes, toys, learning materials, and cleaning supplies. For home-based providers, TurboTax will allow you to enter in the amount of your expenses but will not apply your time-space percentage to them. This means if you spent \$100 on supplies that were used 100% for your business, enter \$100 in TurboTax. If you spent \$1,000 on supplies that were used for both business and personal use and your time-space percentage is 35%, enter \$350 into TurboTax.	
Office Expenses	This deduction is pretty straightforward, and TurboTax gives examples of what this may include. Here's where you want to include amounts paid for office supplies (such as ink, toner, paper, staples, writing utensils, office furnishings, etc.) and postage, as well as your business communication service costs (such as cell phone service, internet service, second phone line, fax,	

	<p>and video conferencing services). It is rare for providers not to have some expenses in this category.</p> <p>Home-based providers should be mindful of how they enter their office expenses, however. If the expenses were 100% business use, then you can enter the full amount of your expense to deduct. If the expense were for both personal and business use, you will first apply your time-space percentage, then enter that amount as your expense.</p>	
Employee Wages and work credits	<p>Make sure that the wages you enter are only for W-2 employees reported to the government. As a sole proprietor, you cannot pay yourself as an employee. You can take money out of the business, but your “pay” is considered the amount on Line 31 (your net profit or loss) so there’s no need to enter money you took out for yourself throughout the year here.</p>	
Contract labor	<p>The system asks if you made any payments that required you to issue a form 1099. If you issued a form 1099 to someone that you contracted to perform a service, like cleaning, or a substitute, and you paid them more than \$600, you will enter the amount paid.</p> <p>Note – In some cases, child care providers issue 1099 to employees, or helpers and substitutes. If you issued any 1099, enter it as contract labor but be mindful that you are classifying your employees properly. Typically, if you direct how someone works, they are an employee. For more information on classifying staff, see When is Somone a Contractor or an Employee?</p>	
Legal and Professional Services	<p>Include any fees you paid to a lawyer, accountant, or tax preparer, for business use only, as well as membership fees for professional memberships like the National Association of Family Care or the National Association for the Education of Young Children.</p>	

Taxes and Licenses	<p>You can enter taxes (and local taxes, excluding federal taxes) and business license fees here. These should only be taxes and fees that are 100% related to your business. For example, your licensing fee so you can operate a home-based business or a child care business would be entered.</p>	
Utilities	<p>This applies to you if you have a separate office or other business property that's not part of your home. Home-based providers will include their utilities costs in a different part of the program, which covers business use of the home. Many providers will have utility costs which include utilities such as gas, electricity, internet, or water. This also includes trash collection, pest control service, and security alarm monitoring service.</p>	
Employee Benefits	<p>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. If you offer child care or education assistance, include that here.</p>	
Business Insurance	<p>This is for insurance other than health. Include your general liability insurance, renter's, fire/theft/flood, and worker's compensation insurance if you have employees. Home-based providers should not include your homeowner's/renter's insurance (that will be in the section on deducting the business use of your home).</p>	
Health Insurance Premiums	<p>Here you will enter the total amount of health insurance premiums you paid for yourself, your spouse, and your dependents (under age 27) in 2021. You can deduct up to 100% of health insurance premiums for you, your spouse, and your dependents if you're self-employed and have a net profit from the business for which you created the plan. This does not include any</p>	

	<p>premiums you may have paid through a spouse's health insurance offering through their employer.</p> <p>If you or your spouse could participate (even if you declined coverage) in an employer's health plan or in a subsidized program, like the Affordable Care Act, at any time during a given month, you can't take the deduction for that month.</p> <p>The deduction may be limited if the business has low net earnings. This means that you may not be able to deduct 100% of your premiums. This entry should be reduced by any reimbursement received. These deductions are figured as part of your Form 1040, not as part of Schedule C.</p>	
Building or Land Rental	<p>This is rent paid for property used for work only, not for an office in your home. Rental of your home will be included in the section on deducting the business use of your home.</p>	
Credit card, loan, and other interest	<p>This includes interest you paid directly related to your business (for home-based providers, mortgage interest is reported in the section on the business use of your home).</p> <p>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.</p>	
Repairs and maintenance	<p>This includes any repairs and maintenance of the space you use or your equipment. Repairs and maintenance are required for you to conserve or maintain your property – these are repairs that do not add value to the property. Home-based providers should not enter repairs and maintenance expenses here because they will be reported in the section on the business use of your home.</p>	

Less common expenses

Category	Description	Total Expenses (\$)
Business Travel	If you traveled for work or paid for business travel expenses for your staff, you will include those costs here. This does not include expenses for mileage or local meals but rather if you had to travel for a conference, training, or business meeting. Include costs like airfare, hotels, rental cars, taxis, ride-share services, and baggage fees.	
Equipment Rental Expenses	This only applies to the rental of business equipment such as copiers, office furniture, computers, printers, etc.	
Employee Pension Plan	These are contributions to your employees' retirement accounts, not your own. Costs include SEP IRAs and SIMPLE IRAs. Sole Proprietors will enter their company retirement in Part II - line 15 of Form 1040 Schedule 1.	
Other Miscellaneous Expenses	<p>Enter amounts for all other expenses that do not fall into any of the other categories, like CPR/first aid training and certification, postage, and the business portion of your tax return software costs.</p> <p>Typically, there are existing categories for many of the expenses that providers list in "Other Expenses". For example, diapers and wipes are often included in Other Expenses, but they can also fit under "Supplies." In cases where there are a large number of or a lot of expenses in Other Expenses, the IRS may do a manual check of your return. Therefore, it is best to keep this expense category to a minimum if possible</p>	

Common but often misunderstood expenses

Here we will walk you through three important and often misunderstood expenses for child care businesses. Properly claiming these deductions can be a significant financial strategy for your business however you want to be sure that you are calculating these correctly and have the necessary records on file to back your use of them. They are:

1. Meals
2. The business use of the home (also known as home office)
3. Depreciation/Assets

Meals (100% limit)

This allows providers to enter the cost of fully deductible meals which includes:

- Meals served to children (this includes meals that you were reimbursed for by the Food Program (CACFP).
- Your or your staff's business meals (i.e. while on business travel, business meetings, or conferences). For tax years 2021 and 2022, your business meals are 100% deductible if food and beverages were purchased from a restaurant.

We will primarily focus on the **meals served to children**. The process for reporting meals served to children differs for home-based family child care programs vs. child care centers.

Child Care Centers

Child care centers must report their actual food expenses when claiming the cost of meals served to children. You must still report the reimbursements received from the food as income.

For example, if your total food costs for the year were \$15,000 and you received \$11,000 as a reimbursement, you will still enter \$15,000 as your meals expense and \$11,000 as a revenue line entry labeled "CACFP" or "Food program".

If you used a food sponsor, you will report your expenses paid and income received from the sponsor, even if you did not receive a 1099 at the end of the year.

Family Child Care Homes

Only home-based providers are allowed to use the standard meal and snack rates for reporting their children's meals expense. This makes your recordkeeping easier than tracking actual expenses.

Tax Year 2022 standard meal and snack rates:

	Breakfast	Lunch/Supper	Snack
Tier 1	\$1.40	\$2.63	\$0.78
Tier 2	\$0.51	\$1.59	\$0.21

According to the [IRS Child Care Audit Guide](#), the allowed rate is based on the Tier I rate under the CACFP. The provider may use the standard meal and snack rate for a maximum of one breakfast, one lunch, one dinner, and three snacks per eligible child per

day. There is still a recordkeeping requirement, which includes the name of each eligible child, dates and hours of attendance in the home-based family child care program, and the type and quantity of meals and snacks served. This limit is higher than the amount of meals that CACFP reimburses, so it is advantageous for providers to track and claim all of their meals served.

IMPORTANT NOTE - TurboTax provides inaccurate guidance when it comes to providers that participate in the food program who are reimbursed for food costs. The system advises “if you are reimbursed for meals or snacks, you can deduct only the portion of the standard allowance that exceeds the reimbursement”. The IRS does not recommend using this method. Instead, they recommend reporting your full food costs as an expense and your full food program reimbursements as income. So, providers should enter their full costs, not only the difference between their costs and reimbursements.

While TurboTax provides the current standard meal rates for the tax year, when you enter your costs, you will need to multiply the total meals and snacks served to children for the year by these rates and enter the amount into the system.

	Total number of meals served	Rate	Total amount to enter into the system
Breakfast		X	=
Lunch/Supper		X	=
Snack		X	=

You should use the rates in effect at the start of the tax year. So for 2022, you would use the 2021-2022 rates since they were in force on January 1, 2022, the start of the year.

Figure 1: Highlighted inaccurate guidance from TurboTax, providers should in fact enter their full expenses and full reimbursement

Standard Meal and Snack Rates

The **maximum for each child** is one breakfast, one lunch, one dinner and three snacks per day. Deduct only the meals and snacks that you **actually serve** each child.

If you are reimbursed for meals or snacks, you can deduct only the portion of the standard allowance that exceeds the reimbursement.

Enter the total amount on the next screen.

Home Office/Business Use of Home

Keep in mind that you can deduct space in your home used exclusively for your child care business. This can include a home office, even if it is just part of a larger room or a storage area where you keep supplies for your business. TurboTax does a great job of guiding home-based providers through the [Time-Space Calculation](#). We recommend that you first calculate your Time-Space Percentage on your own, then enter that data into TurboTax and ensure they match. The TurboTax calculation may be a slight percentage point off, but it's as close as they can get – still use it!

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 regulated, 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 duties related to your business 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

Two elements 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.

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. If a space is used 3 or more times per week, it could be considered “regularly used for business”. As a reminder, children do not have to have access to the space in order to count it as regular use. Areas for child care material storage, a laundry area, and the garage (if it stores a vehicle used for business, lawn mower, or children’s toys). Garages, whether attached or detached, should be included in the total square footage 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: $\text{Space used for care} \div \text{total square footage of your home} = \text{percentage of your home that you use for child care}$

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 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 the time when your business was closed but you were preparing to open. For example, let’s say your business is open and provides 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 during this time to maintain the space and prepare for re-opening. Your total hours would be:

$12 \text{ hours a day} \times 5 \text{ days a week} \times 48 \text{ weeks} + 10 \text{ hours when you were closed} = 2,890 \text{ hours.}$

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 percentage of time the home is used.

In our examples above, the provider is using 45.4% of her home for care that is provided 36.5% 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.

We also have a [spreadsheet](#) that can make these calculations easier.

Business Use of Your Home: Calculating Space & Time

How much space (in square feet) do you exclusively use for your child care? Exclusive use areas are only used for child care business purposes and no personal purposes whatsoever. If no exclusive use, enter 0.	
How much space (in square feet) do you regularly use for your child care? Regular use areas are shared for both personal and child care business purposes.	
What is the total square footage of your home? Include square footage of your basement, garage, porch, and deck in addition to the interior of your home. Do not count patios or yard space, even outdoor play areas.	
Exclusively used space percentage - Divide space used exclusively by the total square feet in your home for a percentage	
Regularly used space percentage - Divide space used regularly by the total square feet in your home for a percentage	
Total time, in hours, spent a year for care. This can include activities such as bookkeeping and paying bills, planning lessons/activities, purchasing supplies online, communicating with families, any online trainings, and cleaning. Keep track of these other non-direct child care tasks for your records. The best way to figure out your total time is to multiply the average number of hours you work each week and multiply it by the number of weeks you provide care during the year. Exclude any days you were closed and did not perform any business activities. For YoungStar, you must track your time for one full month in the first six months and one full month in the last six months, then extrapolate from there.	
Total hours in a year	8,760

Divide the time spent for care by the total number of hours in a year to create a percentage.	
<p>Multiply your regularly used space percentage by the time percentage</p> <p>If you have no exclusively used space, this is your Time-Space Percentage. You'll use this percentage to deduct your business use of home expenses for your in-home child care services.</p>	
<p>If you have exclusively used spaces: Add to your regularly used Time-Space Percentage your exclusively used space percentage.</p> <p>It will be: Space percentage (%) of exclusive use area + (regular use space percentage (%) * time percentage (%)).</p> <p>This will weigh your exclusively use areas higher in your Time-Space Percentage. This is your Time-Space Percentage. You'll use this percentage to deduct your business use of home expenses for your in-home child care services.</p>	

Example: Business Use of Your Home

How much space (in square feet) do you exclusively use for your child care? Exclusive use areas are only used for child care business purposes and no personal purposes whatsoever. If no exclusive use, enter 0.	200
How much space (in square feet) do you regularly use for your child care? Regular use areas are shared for both personal and child care business purposes.	500
What is the total square footage of your home? Include square footage of your basement, garage, porch, and deck in addition to the interior of your home. Do not count patios or yard space, even outdoor play areas.	1800
Exclusively used space percentage - Divide space used exclusively by the total square feet in your home for a percentage	11.1%

<p>Regularly used space percentage - Divide space used regularly by the total square feet in your home for a percentage</p>	27.78%
<p>Total time, in hours, spent a year for care. This can include activities such as bookkeeping and paying bills, planning lessons/activities, purchasing supplies online, communicating with families, any online trainings, and cleaning. Keep track of these other non-direct child care tasks for your records. The best way to figure out your total time is to multiply the average number of hours you work each week and multiply it by the number of weeks you provide care during the year. Exclude any days you were closed and did not perform any business activities. For YoungStar, you must track your time for one full month in the first six months and one full month in the last six months, then extrapolate from there.</p>	2,250
<p>Total hours in a year</p>	8,760
<p>Divide the time spent for care by the total number of hours in a year to create a percentage.</p>	25.68%
<p>Multiply your regularly used space percentage by the time percentage</p> <p>If you have no exclusively used space, this is your Time-Space Percentage. You'll use this percentage to deduct your business use of home expenses for your in-home child care services.</p>	$27.78\% * 25.68\% =$ 7.14%
<p>If you have exclusively used spaces: Add to your regularly used Time-Space Percentage your exclusively used space percentage.</p> <p>It will be: Space percentage (%) of exclusive use area + (regular use space percentage (%) * time percentage (%)).</p> <p>This will weigh your exclusively use areas higher in your Time-Space Percentage. This is your Time-Space Percentage. You'll use this percentage to deduct your business use of home expenses for your in-home child care services.</p>	$11.1\% + (27.78\% * 25.68\%) =$ 18.24%

A word of caution – TurboTax will recommend that you use the simplified home office deduction which is a maximum of \$1,500. For many child care providers, the simplified method represents less than their real costs **so they should use the actual expenses method to determine their home office deduction.**

Figure 2: Sample Time-Space Percentage calculation performed in TurboTax.

The screenshot shows the 'Home office expenses' section in TurboTax. It is titled 'home' and states: 'Based on the square feet you entered, your **home office** percentage is **44.75%**. Next we'll ask about:'. Below this, it asks for 'Total expenses for the **entire home** (such as utilities, rent, or homeowner's association dues)'. A diagram shows a large rectangle representing the entire home and a smaller rectangle representing the home office. A diagonal line from the top-left to the bottom-right of the large rectangle indicates the 44.75% deduction rate. The text says: 'You can take **44.75%** of these expenses for your home office deduction. (We'll do the math.)'. Below a horizontal line, it asks for 'Total expenses related to your **home office only** (such as repairs to the home office)'. A diagram shows a large rectangle representing the home office only and a smaller rectangle representing the home office. A diagonal line from the top-left to the bottom-right of the large rectangle indicates the 100% deduction rate. The text says: 'You can take **100%** of these expenses for your home office deduction.' At the bottom, there is a link: '[How is the home office expense deduction calculated?](#)'.

In this example, you can see that the provider's Time-Space Percentage is 44.5%. This means the provider can claim 44.75% of the majority of their expenses that fall under the business use of the home. These are expenses like rent, mortgage interest, utilities, and repairs. Let's say these items totaled \$10,000 for the year and the provider used actual expenses, their deduction would be \$4,475 which is significantly more than the simplified deduction amount of \$1500 that Turbo Tax recommended.

Another word of caution - TurboTax does not ask for the number of hours providers work in their homes when children are not present. This makes it very difficult for providers to calculate an accurate Time-Space Percentage. We recommend that you first calculate your Time-Space Percentage using this [worksheet](#) and use it to reference as you walk through the TurboTax system. Since TurboTax does not ask how many hours you work when children are not present, you will need to factor that in when you enter the **hours per day you used your home for the daycare** question. For example, if you usually perform administrative duties, cleaning and other preparation totaling 10 hours per week and you're open 5 days per week, you would add 2 additional hours to each day.

Keep track of the hours you work when children are not present by noting the time you spend preparing your space for children, cleaning, doing administrative tasks, responding

to families, etc. The sample log below shows how you can track the number of hours you work in your home and shows how you calculated the number which can help you in case of an audit.

Date	Time spent on task	Task description	Total time
9/25/22	5:30-6:00pm	Returning phone calls from prospective families	.5
9/26/22 - 9/30/2022	6:30-8:00am	Food prep and set up play space (reoccurring Monday - Friday)	1.5 * 5 = 7.5
9/28/2022	5:30-6:30pm	Menu planning, filing portfolio entries, prepare billing statements	1
9/29/2022	7:00-8:00pm	Attend online training	1
Total number of hours for week			10

Home-based providers should also be aware that because they've included certain expenses like utilities and repairs already under home office, they will not enter those expenses again when they see those categories listed separately as expenses.

Qualified Business Income (QBI) Deduction

Please be mindful of the Qualified Business Income (QBI) deduction. QBI is the net amount of qualified income, deductions, gains, and losses from your child care business. This deduction allows you to deduct up to 20% of your self-employed/small business income from your total taxable income.

Depreciation

Depreciation is the practice of deducting a large business cost over time rather than in just one year. This is usually a requirement when you want to deduct certain large purchases (over \$2,500) or an improvement. You can also depreciate your home if you use your home for business.

While you're in the home office expense view, TurboTax will then ask you to list your **home assets** that can be depreciated which include the home itself, home improvements, and large purchases.

Figure 3: Sample Depreciation calculation based on the business use of home percentage

Percentage of Business Use

Daycare: home

Here is the percentage that you used your home for business: **44.75%**.

We'll use this percentage to determine **how much depreciation** you can deduct this year.

You may be curious about what an improvement consists of. An improvement differs from a repair because it is not meant to get something back into working condition, instead, it improves or adds value to the home. TurboTax provides a list of examples of home improvements:

Figure 4: TurboTax Examples of improvements that are subject to depreciation

Improvements

You paid for an improvement to your property if you spent money to enhance your property, restore your property, or adapt your property to a new or different use.

Examples of improvements include:

- Installation of new plumbing or wiring
- Addition of paneling to a room
- Installation of a fence
- Paving of a driveway
- Installation of new cabinets
- Addition of a new roof
- Assessments for streets, sewers, and sidewalks

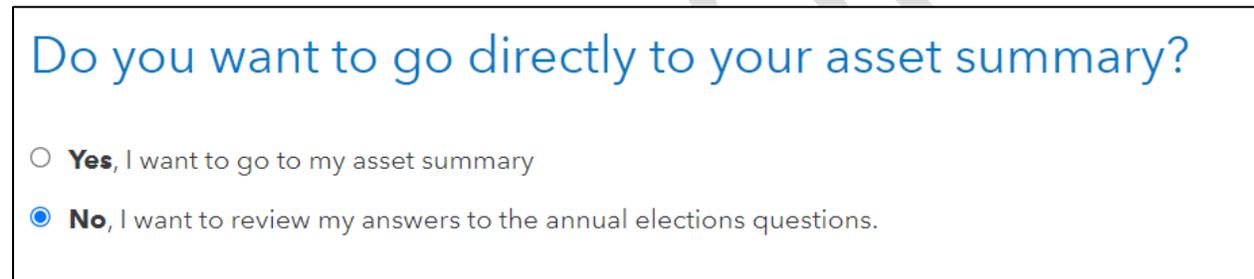
After you enter details about your home asset, such as the date of purchase and original cost, the system will depreciate the expense, based on your time/space percentage, and provide you with the deductible depreciation amount for it. There is a separate category in TurboTax, Assets, where you can depreciate other large purchases that are not subject to your Time-Space Percentage.

Assets

Assets are items of value owned by a company. Business assets can be many things such as vehicles, real estate, computers, and furniture. Assets add value to your business and they may be subject to depreciation. Depreciation is the practice of deducting a large business cost over time (over its useful life) rather than in just one year. Not all assets have to be depreciated. Typically, if you made an improvement or **made any single purchase** of equipment or furniture more than \$2,500 you will need to use depreciation calculations. For example, if you purchased three laptops that totaled \$4,500, that means each laptop cost \$1,500. Each laptop is not over \$2,500 and would not be treated as an asset. If you purchased two computers totaling \$6,000, that means each laptop cost \$3,000 and would be treated as an asset.

TurboTax will first ask “Do you want to go directly to your asset summary?”

Figure 5: Initial Asset Screen



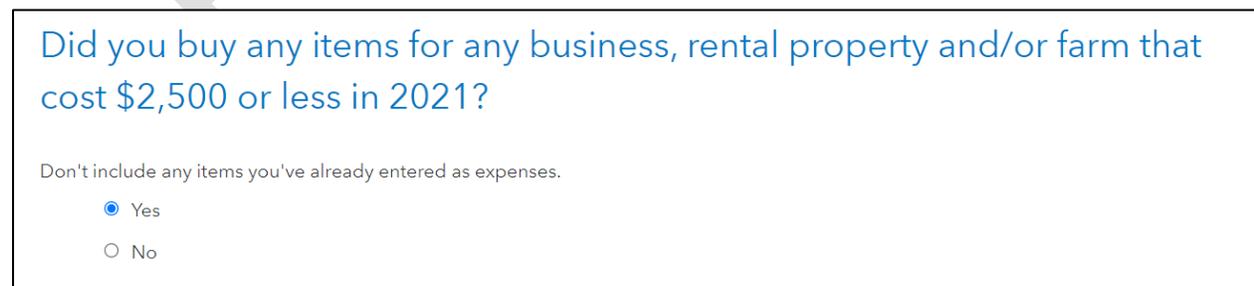
Do you want to go directly to your asset summary?

Yes, I want to go to my asset summary

No, I want to review my answers to the annual elections questions.

We suggest that you choose the “No, I want to review my answers to the annual elections questions” option. By doing this, the system will help you understand your options for expensing your business property.

Figure 6: Indicate if any assets were over the \$2,500 threshold



Did you buy any items for any business, rental property and/or farm that cost \$2,500 or less in 2021?

Don't include any items you've already entered as expenses.

Yes

No

If you have assets that cost \$2,500 or less, you have options to treat them as expenses instead of assets and deduct them fully in one year. This is called the **De Minimis Safe**

Harbor Election. Taking advantage of the de minimis safe harbor election can substantially reduce your business's income tax burden. If you use this rule, make sure you, or your preparer, includes a statement reading:

“Section 1.263(a)-3(h) De Minimis Safe Harbor Election

Your name _____

Your address _____

EIN or Social Security Number _____

For the year ending December 31, 20__, I am electing the safe harbor election for small taxpayers under Treas. Reg. Section 1.263(a)-3(h) for the following: (list your improvements).”

Figure 7: Determining if an item will be treated as an asset or expense

Let's see if you can deduct these items as expenses

This is an annual [election](#) that lets you deduct these items as expenses rather than depreciating them over multiple years. Keep in mind this election will be applied toward all of your businesses, rental properties, and/or farms, so factor those in too.

You can do this if:

- You have a consistent [process](#) for how you record expenses and assets.
- The cost of some items, as shown on your [receipts](#), is \$2,500 or less.

Do both of these apply to you?

- Yes
 No

Do you want to take this annual election? [How does this affect my taxes?](#)

- Yes
 No

Figure 8: Indicate again if any assets were over the \$2,500 threshold

Now, let's review each item you bought

Here's why: This [election](#) applies only to items that cost \$2,500 or less. If you bought **other items** for your business that cost above \$2,500, let us know so we can guide you to the right place.

- Every** item I bought costs \$2,500 or less.
 Some items I bought cost \$2,500 or less and some cost above \$2,500.

Figure 9: Indicate if you made any improvements to a building (commercial property only)

Did you make improvements to a building you used for this business in 2021?

Yes

No

[What counts as an improvement?](#)

You may be curious about what an improvement consists of. An improvement differs from a repair because it is not meant to get something back into working condition, instead, it improves or adds value to the property, for example, installing new plumbing or wiring, installing a fence, and adding a new roof.

There are some special rules in place, however, labeled annual election for improvements in TurboTax, that will allow you to deduct improvement costs as expenses rather than depreciating them over multiple years. For building improvements, there is the **Safe Harbor Election for Small Taxpayers** election that allows you to treat the improvement as an expense. Usually, you can do this if your gross receipts (business income) are less than \$10,000,000 and the building has an unadjusted basis of \$1,000,000 (this is the cost before any depreciation that you've taken). The cost of the repair must also be the lesser of \$10,000 or 2% of the unadjusted basis of your building.

For home-based family child care programs, these improvements would be captured in your business use of the home section already.

Figure 10: Determine if improvements can be treated as an expense or assets

Let's see if you can claim these improvements as expenses

There is an annual [election for improvements](#) that lets you deduct them as expenses instead of depreciating them over multiple years. You can do this if:

- Your [gross receipts](#), including all your other income, are \$10,000,000 or less.
- Your [eligible building](#) has an [unadjusted basis](#) of \$1,000,000 or less.
- The cost of [all](#) repairs, maintenance and improvements is less than or equal to the smallest of these limits:
 - 2% of the unadjusted basis of your building or
 - \$10,000

Do all of these apply to you?

- Yes
 No

Do you want to take this annual election? [How does this affect my taxes?](#)

- Yes
 No

Next, TurboTax will ask about any business assets that you have that aren't covered by your elections. For example, large purchases over \$2,500 or improvements over \$10,000.

Figure 11: Questionnaire on business assets

Do you have any items for this business that aren't covered by your elections?

- Yes

Next, you'll be able to enter them as assets.

- No

[I want to know more about this](#)

If this applies to you, you will be taken to your Business Asset Summary to add your assets.

Figure 12: Business Asset Summary

Business Asset Summary

Here's what we have so far. Select **Add an Asset** to enter an additional **asset**. You can also **Edit** (change) or **Delete** an asset.

Select **Edit** if you:

- **Stopped** using an asset for your business in 2021, **or**
- **Changed** the percentage of time you used an asset for business purposes (vs. personal)

ASSET	PLACED IN SERVICE	SECTION 179	SPECIAL DEPRECIATION	DEPRECIATION		
Untitled	-	-	-	-	 Edit	 Delete
Untitled	-	-	-	-	 Edit	 Delete
+ Add an Asset						

You will then need to answer a few questions about your assets, one at a time.

Figure 13: Asset Description (one asset at a time)

Describe This Asset

this asset

Select the option that best describes this asset

Computer, Video, Photo and Telephone Equipment

Computers, tablets, printers, scanners, computer software

Video, photo and phone equipment; cellular phones

Copiers

Tools, Machinery, Equipment, Furniture

Equipment used in business, expensive tools, aircraft, musical instruments

Desk, bookcase, chair, file cabinet, sofa, carpet, appliances

Real Estate Property

Intangibles, Other property

Land Improvements

Amortizable Intangible Property (such as mortgage points)

Other Property

Figure 14: Details about the business asset

Tell Us About This Asset / Large Purchase

Daycare: this asset

Enter information about your asset below. If you have more than one asset, you can repeat this process.

Describe the item or asset:

E.g., Computer, copier, office furniture, manufacturing equipment, patent

Cost: [Learn More](#)

The amount you paid for it, plus freight, installation, sales tax, legal fees.

Date purchased or acquired: (mm/dd/yyyy)

For items that cost more than \$2,500, you will enter details about the item in addition to the date it was placed in service for your business.

Figure 15: Additional details about the business asset

Tell Us More About This Asset / Large Purchase

Daycare: Computer

I traded in an old asset to acquire this one (this is not common)

I purchased this asset.

The item was sold, retired, stolen, destroyed, disposed of, converted to personal use, traded in, or given away (or it's no longer being used in this business for some other reason).

None of the above

Have you used this item 100% for this business since you acquired it?

Yes, I've **always** used this item **100%** of the time for this business.

No, I have **not** always used this item **100%** of the time for this business. [Learn More](#)

Enter the date that you first started using it for business:

Please enter a valid date in the field above.

If this is the first year the item was placed in service, you can deduct its full value rather than depreciating it over several years. TurboTax will present you with the following options to deduct the asset:

- I'll spread the deduction over several years
- I'll deduct the full value of the item this year (take the Section 179 deduction)
- I'll take a partial Section 179 deduction
- I'll take a partial Section 179 deduction this year and the 100% special depreciation allowance
- I'll take the 100% special depreciation allowance

Figure 16: Indicate how you choose to deduct the item (straight-line depreciation, bonus depreciation, section 179, etc.)

How Do You Want to Deduct this Item?

Daycare: Computer

Since this is the **first year** of business use for this asset, you may deduct its full value this year or spread the deduction over several years

Select an option:

I'll spread the deduction over several years.
(**Recommended** if you anticipate having greater income in the future, and want to reduce your taxable income at that time.) [Learn More](#)

I'll deduct the full value of the item this year. (Take the Section 179 deduction)
(**Recommended** if your business is showing a profit.) [Learn More](#)

I'll take a partial section 179 deduction this year.

Additional options available only if the original use of the property begins with you.

I'll take a partial section 179 deduction this year and the 100% special depreciation allowance.

I'll take the 100% special depreciation allowance.

The method you choose will depend on your overall financial status for the year and how you would like to approach tax planning for the future. This is what TurboTax recommends:

- I'll spread the deduction over several years. **Recommended** if you anticipate having greater income in the future and you want to reduce your taxable income at that time.
- I'll deduct the full value of the item this year (take the Section 179 deduction). **Recommended** if your business is showing a profit. We believe most child care businesses will choose this option.

You may be wondering about the difference between the various elections and depreciation methods. This is not an easy concept but if you've made it this far, keep on going! TurboTax is built with links to explain more about these concepts and the system does the math and checks for you to ensure you are expensing or depreciating correctly.

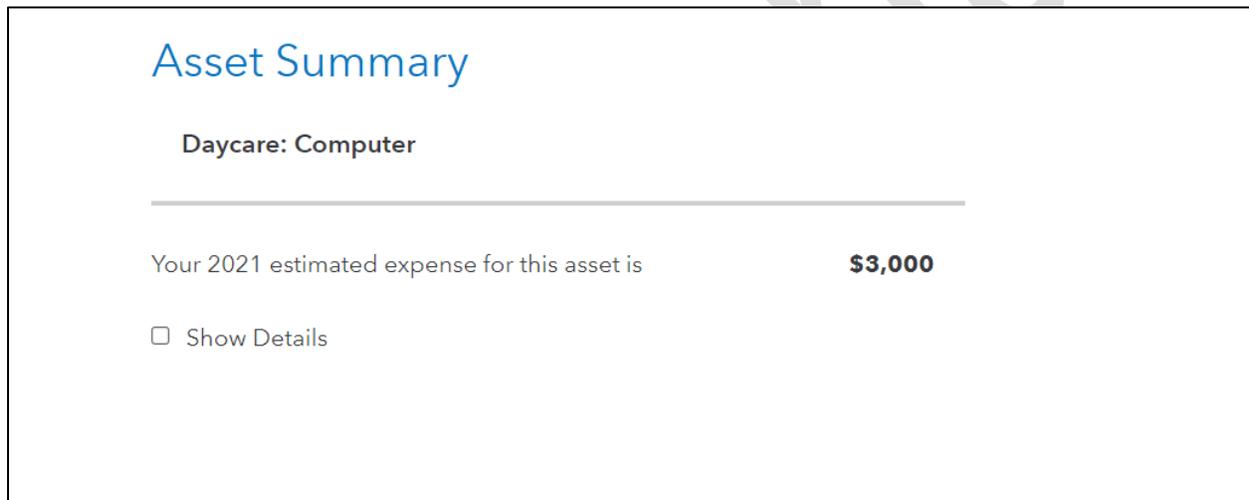
Section 179 allows taxpayers to deduct the cost of certain tangible property as an expense the year it's placed in service. The property must be used for more than 50% of your business, so not one that is primarily for personal use. Buildings and land don't qualify for Section 179 but building upgrades do. In 2022, you can expense up to \$1.08 million of eligible property. This deduction is also limited by your business's net income for the year – you can't deduct more money than you made. At that point, you can opt

to take regular depreciation on the remaining assets or use the remaining of your deduction in the following tax year.

Special depreciation is also known as bonus depreciation. For 2022, this allows you to deduct 100% of the depreciation in the year an asset is placed in service. This rule generally applies to property with 20 years or less useful life (this would not apply to residential or nonresidential real property because they have more than 20 years of useful life). A key difference between this and section 179 is there is no limit on the dollar amount of the deduction, you can deduct 100% of your costs for an asset.

Most child care businesses may benefit from selecting Section 179 depreciation, which allows you to deduct the full costs in one year.

Figure 17: Asset Summary screen after entering an asset



It's then added to your asset summary. You'll repeat this process for each business asset that you have.

To learn more about bonus depreciation, view our article [Bonus Depreciation Rule Explained](#).

To learn more about the Section 179 deduction, view our [article The Section 179 Rule: A Powerful Way to Cut Your Taxes](#).

Here is a set of simple depreciation worksheets that can help you organize your expenses and determine whether you are going to depreciate an asset or take the full deduction in one year:

Assets that can be expensed

Assets are items that have a useful life of more than one year. Typically, assets are subject to depreciation however if they are less than \$2,500 you can treat them as a deductible expense instead.
List business assets that cost less than \$2,500.

Item	Cost	Quantity	Total Expense
Computer	\$2,000	5	\$10,000

Assets subject to Section 179 deduction

Allowable for tangible personal property (which means office equipment, furniture, vehicles, and most other assets that are not buildings) or improvements to your building (including a home used) used for business 50% or more of the time. These can cost more than \$2,500 per unit. You can use this deduction on up to \$1.08 million in expenses.

Item	Cost	Quantity	Total Expense	Date placed in service (must be in the same tax year as the deduction)
Computer	\$3,000	5	\$15,000	

Assets subject to bonus depreciation

Allows you to deduct 100% of certain assets in one year without an upper limit on the total amount you can deduct. To qualify for Bonus Depreciation, the item needs to have a useful life of 20 years or less (so it doesn't apply to your home) and be used for business 50% or more of the time.

Item	Cost	Quantity	Total Expense	Date placed in service (must be in the same tax year as the deduction)
Computer	\$3,000	5	\$15,000	

Assets subject to straight line (regular) depreciation

Allows you to deduct a portion of the costs of a business asset each year until you've fully recouped your costs. In this calculation, you take the total cost of the item and divide it by the total number of years that the IRS says is the life of the item. Below are some common useful life values from the IRS:

Item	Useful Life	Date placed in service	Cost (basis)	Depreciation amount (cost/useful life)

Office furniture, fixtures, and equipment	7 years			
Automobiles	5 years			
Land improvements	15 years			
A house or building used in part or whole for business	39 years			

Ways that you can make your Tax Preparation go smoothly

You've done it! You just entered all the information needed on your child care business and can now complete the rest of the screens to complete your overall return.

Many small business owners can perform their own tax preparation to save money and also to ensure their taxes are being done accurately – no one knows your business as you do! The key to hassle-free tax filing is to have proper [recordkeeping](#) and [bookkeeping](#) throughout the year. Keeping track of all payments you receive and receipts and invoices for your purchases is invaluable and will save you many hours.

When it's time to submit your taxes, submitting electronically is far better than printing and mailing your return. This is because there's a higher degree of accuracy and the process is much quicker.

You may find that you need more time to file or that you have a tax bill and need more time to pay it. If that happens, we suggest that you pay what you can and then request an extension. You will need to put in the request by April 15th but you can receive an extension for up to 6 months. You will still have to pay additional penalties for not paying on time, but that will be better than ignoring it altogether.

Remember, there is help available! If you've purchased the MAX plan through TurboTax, you have access to specialists before, during, and after your filing. You may also be able to receive free business coaching from a child care business expert to answer your business questions, or to receive tax education, if you're located in the following states: [Texas](#), [Virginia](#), [Wisconsin](#), or [Indiana](#).

Disclaimer

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