TaxAct Self-Employed

Online Tax Preparation Guide

FOR CHILD CARE BUSINESSES

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DESIGNED AND DEVELOPED BY

CIVITAS STRATEGIES

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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, nor an endorsement of TaxAct. The authors are not affiliated with TaxAct.

Introduction to TaxAct and Your Tax Filing

TaxAct 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 $109.90. We would recommend that providers completing their own taxes purchase the All-Inclusive bundle because it will give you the added protection of full audit representation. All of TaxAct's online plans come with XpertAssist which gives you 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 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 child care
- 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

Important considerations when selecting a platform to prepare your taxes :

Civitas Strategies Early Start tested the online, Self-Employed versions of three mainstream tax preparation software systems: TaxAct, Turbo Tax, and H&R Block. Among all three software, CSES found TaxAct to be **moderately effective** in educating the sole proprietor about the process of preparing their taxes. Home-based family child care providers should also be mindful that they are expected to apply their own time-space calculation to applicable expenses when entering them into TaxAct. Additionally, TaxAct does not provide much education on the calculations that they are performing for certain things like Time-Space Percentage and depreciation.

Since the paths to depreciate assets in TaxAct's software are embedded in different sections of the process, it is very difficult to explain or track how to report depreciable assets for the layperson.

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
- Daytime phone number
- Occupation
- 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.

Entering Business Income and Expenses

You will be asked to select any income, investments, or expenses you had in the tax year. This guide will focus on your **self-employed income**.

You will be prompted to enter basic information about your business (i.e. – name and address). You'll also enter your Employee Identification Number, EIN, (if you have one). 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.

You'll then be asked, "Which of these categories best describes your work?".

- Choose “View all categories”.
- Then select “Healthcare, Residential or Daycare Services”.

You will then need to select the business activity that best describes your Healthcare, Residential, or Daycare Services work.

Select “Child day care services”.

This is necessary for the **business code 624410** to be automatically applied to your business type on your Schedule C.

Income

Entering your income is pretty straightforward.

The system will display text boxes with types of income and descriptions of them. It asks if you received any of the listed income sources for your child care 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:

- **Cash/check (not reported on 1099s).** This will mainly be the payments that you receive from families.

- **Form 1099 NEC.** That stands for nonemployee compensation. Likely you will receive a 1099 NEC for other business-related payments received. For instance, if you receive subsidies or any other contract payments, and you were issued a 1099 NEC, you would include those here. This will also include grants and awards received, 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.

  In many states, providers receive a 1099-NEC form for payments received from their state’s food program and subsidy payments. Some states might not use the 1099-NEC and will instead share the same information in a similar way using a different document. **The IRS prefers for subsidy and food program payments to be included in the Other Income section, even if you received a Form 1099-NEC.**

- **Form 1099-K.** You will receive a 1099-K if you receive $600 or more in business payments received from a card (credit/debit) or third-party network transactions (Square, PayPal, Venmo, etc.).

The system also lists **Other Income** as an option. Typically, this would not be applicable as it is referring to prizes or awards. However, in the case of child care businesses, the IRS prefers you to enter your Child and Adult Care Food Program (CACFP) income here (see note below). Be sure to list any grants or grant-like awards, such as Child Care Counts, that you received as Form 1099 NEC income. Doing that will be sure that it is taxed correctly as your self-employed income.

A note on CACFP income – According to the IRS Child Care Audit Guide, Child Care businesses should enter their CACFP revenue as **Other Income**. This is their preference because it allows them to easily spot CACFP revenue.

Excerpt from the IRS Child Care Audit Guide

A. How to Report Food Reimbursement Payments

(1) Food reimbursement payments are sometimes reported on a Form 1099. If a provider received a Form 1099, the best way for the provider to report those payments is under the "Other Income" section of the Schedule C and writing in "CACFP Income." The provider should not include the amount of the payments for his/her own children because it is not taxable. Clearly reporting the CACFP payments in this manner will assist the IRS in the selection of returns for examination. If no 1099 is received, the provider can report it under other income or as an alternative method net the payments against the food expense.

You will need to have your Form 1099s handy because you will need to enter the information contained on each one. You will then need to enter the amount of your gross receipt into a text box. Your gross receipts are all forms of income that were not already reported on your 1099s (i.e., cash and check payments from families).

Here are some helpful worksheets that you can use to organize your income so that you can be confident that you're entering it correctly into the tax software system. These 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 CACFP income, grant-like awards, and 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)	

After entering your income, you'll then need to answer a couple of questions about how your business operates (i.e., was it started in the tax year, and what accounting method you use).

Method of accounting – This is a required entry on tax filings, businesses must state if they use the Cash or Accrual accounting method. TaxAct 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.

The system will then ask, "**Did you issue a Form 1099 to anyone?"**

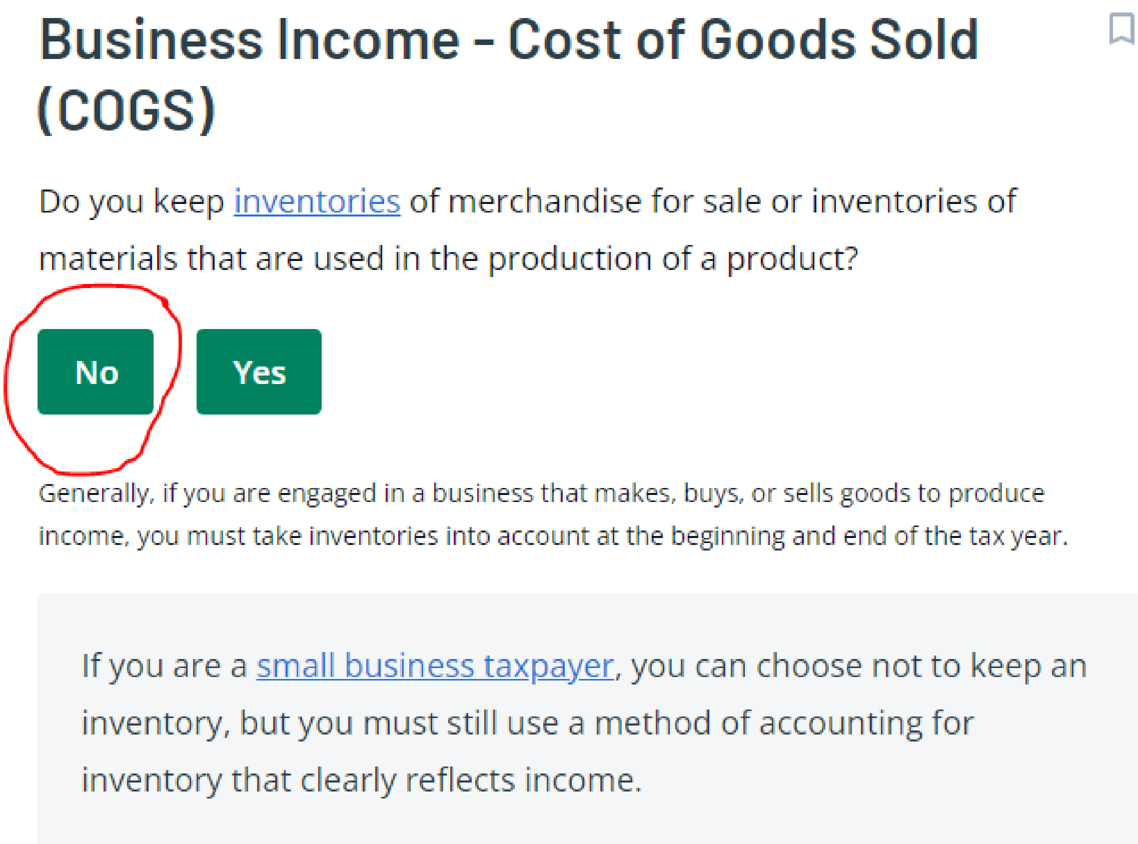
You should have issued this form if you paid at least $600 for services on behalf of your business. For instance, if you paid a contractor or substitute $600 or more, you would issue them a 1099 to document the transaction. This does not include personal transactions or a Form 1099 issued to you.

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.

Before you begin to enter your expenses, TaxAct will ask you about your Cost of Goods Sold (COGS)



According to the [IRS Child Care Audit Guide](), Cost of Goods sold should rarely, if ever, be used. This line is for materials used in manufacturing food or products. You are best off putting your expenses in the appropriate expense category. For example, if you have diapers as an expense they should be under "supplies" and not Cost of Goods sold.

The system will show you suggested common deductions for small businesses with an accompanying video. The list is not exhaustive and not specific to child care. **Instead, we recommend you utilize the deduction guidance 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 TaxAct categories as you enter your data.**

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 them into TaxAct. The expenses are listed and grouped in the same order that you will see them in TaxAct. Because TaxAct will first ask you for gross entries for each category, you must have this information readily available. Additionally, TaxAct does not consistently give examples of what expenses would be deductible for a given category. **We strongly recommend that you use this worksheet to first enter your data to easily transfer into TaxAct and to learn examples of expenses that you can deduct by category.**

A Note for Home-Based Family Child Care Providers

TaxAct does not do a good job of guiding providers through the Business Use of Home (also referred to as Time-Space Percentage). Business Use of Home is one of the last expense entries as you are guided through the expense questionnaire. *PLEASE NOTE: Many of the expenses that you are first prompted to enter will need to be entered as Business Use of Home Expenses and* ***not*** *put in an expense category unless it is a 100% business expense, and not shared with personal use.*

Expenses (in order of appearance in the software)

Category	Description	Total Expenses ($)
Vehicle	You will enter a description of your vehicle including the date it was put in service for your business. The system provides a drop-down list of the Asset Type. TaxAct states you should select "Car or Light Truck/SUV" if you plan on using the standard mileage deduction. You'll need to enter the total miles driven for the car, detailing business vs. personal miles driven. 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, car loan interest, and car property taxes are entered. They will apply the business use percentage to the car loan interest and car property taxes in the event the vehicle has a mixed-use. Do keep in mind you can track and deduct your mileage for business-related trips even ones that don't involve the children in your care, such as going to Costco to buy child care supplies or face-to-face 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

You will note if the vehicle is owned or leased. 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. You can also depreciate the vehicle.

While in the standard mileage view you may see a "ProTip" shared by TaxAct which may be a bit confusing:

	ProTip **Track your vehicle-related expenses.** Don't forget to include expenses for vehicle maintenance, such as: • Car wash (including monthly car washing memberships) • Tire rotations • Oil changes • Brake pads If you are using standard mileage, you **will not** be accounting separately for these vehicle-related expenses since those are already factored into the standard mileage rate.	
Repair regulation elections	See depreciation.	
Advertising	Here you'll enter costs to promote your business including online and print ad costs, brochures, mailers, flyers, business cards, and website costs. You will also enter contract labor costs associated with advertising. For example, if you paid a web designer, you would enter those fees there.	
Amounts paid to employees		
Pensions and profit sharing	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.	
Wages	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.	
Dependent Care benefits	Only enter amounts if you withheld pre-taxed money from an employee's paycheck to help pay for the care of a child, spouse, or another dependent adult who lives in their household.	

Other Employee benefits	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.	
	Expenses for your office, repairs and maintenance, and supplies	
Office Expense	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, and video conferencing services). It is rare for providers not to have some expenses in this category. **Home-based family child care providers should be mindful of how they enter their 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 need to enter it as a Business Use of Home Expense.**	
Repairs and maintenance	This includes any repairs and maintenance of the space your 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 family child care providers should not enter repairs and maintenance expenses here because they will be reported in the section on the business use of your home.**	
Supplies	Supplies include items you use with the children such as art supplies, diapers and wipes, toys, learning materials, and cleaning supplies. **Home-based family child care providers should be mindful of how they enter their 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 need to enter it as a Business Use of Home Expense. Providers may opt to enter expenses for meals served to children here (this includes meals that you were reimbursed for by CACFP). **Home-based family child care providers,** see guidance on calculating your meal expenses here.	
Expenses for insurance, taxes, and utilities		
Insurance	This is for insurance other than health. Include your general liability insurance, commercial property, fire/theft/flood, and workers' compensation insurance if you have employees. **Home-based family child care providers should not include your homeowner's/renter's insurance, you will need to enter it as a Business Use of Home Expense.**	
Taxes and Licenses	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 that allows you to operate a home-based family child care business or a child care business.	
Utilities	This applies to you if you have a separate office or other business property that's not part of your home. **Home-based family child care providers will include their utility costs in a separate area, Business Use of Home Expense.** Many providers will have utility costs which include utilities such as gas, internet, electricity, or water. This also includes trash collection, pest control service, and security alarm monitoring service.	

Rent for equipment or other property		
Vehicle, Machinery, and Equipment Rent	This only applies to the rental of business vehicles, machinery, and equipment such as copiers, office furniture, computers, printers, etc.	
Other rent	Enter other rent paid, for instance, building or land rentals. This is rent paid for property used for work only, not for an office in your home. **If you use your home for business, rental of your home will be included in the section on Business Use of Home Expense.**	
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.	
Business Meals	See meals.	
Legal and Professional Services	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.	
Interest expenses		
Mortgage Interest	This is for interest related to a property loan that is exclusively for your business. **If you use your home for business, your mortgage interest will be included in the section Business Use of Home Expense.**	
Other interest	This includes interest you paid directly related to your business **(for home-based family child care providers, mortgage interest is reported in the section Business Use of Home Expense)**.	

	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. This also includes credit card, loan, and business portion of interest on a vehicle loan.	
Contract labor	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. **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 Someone a Contractor or an Employee?	
Other Expenses	Enter amounts for all other expenses that do not fall into any of the other categories, like CPR/first aid training and certification, and the business portion of your tax return software costs. 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. Click “add additional other expense” to enter separate expenses. Providers may opt to enter expenses for meals served to children here (this includes meals that you were reimbursed for by CACFP). **Home-based**	

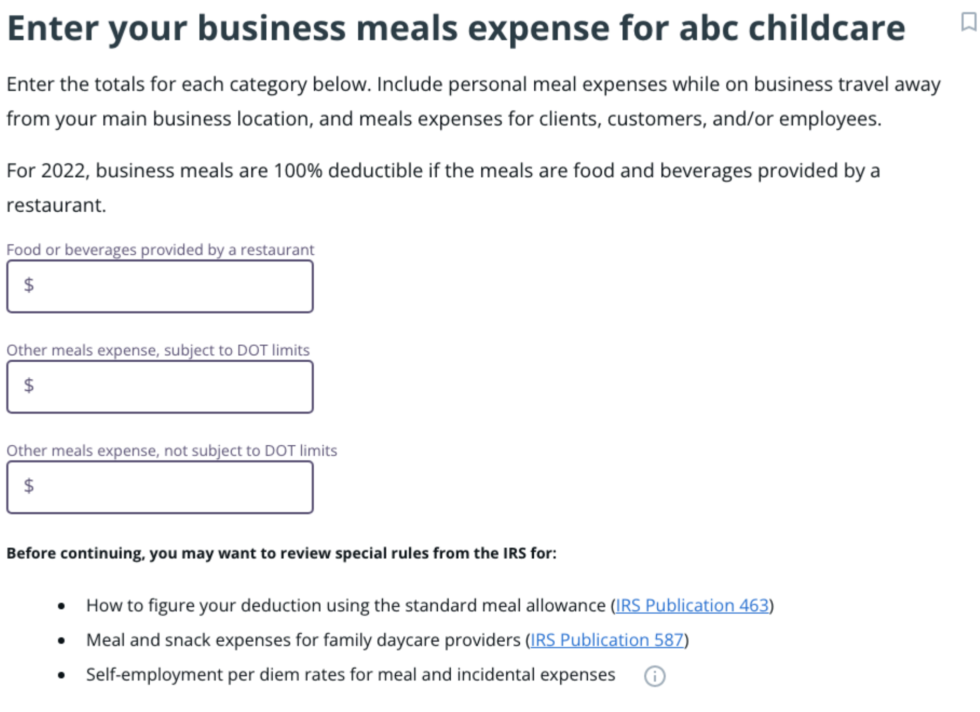
	family child care providers, see guidance on calculating your meal expenses here.	
Unallowed at-risk losses	This is for businesses that had net losses in previous years. Here is where you will enter unallowed at-risk losses originating in taxable years ending before 1/1/2018 and after 12/31/2017. This information is used to calculate your qualified business income deduction. **Suspended Losses or Deductions** *Why are there separate entries for pre-2018 and post-2017?* These entries have multiple uses. First, the total of the combined entries will be used to calculate the allowe loss or deduction under the provision of the code that relates to the type of suspended loss or deduction (i.e passive loss limit, at-risk limit, vacation home limit, etc.). Second, the separate entries are used in the calculation of the qualified business income deduction. In general, losses and deductions incurred prior to 2018 are not qualified losses or deductions for purposes of determining qualified business income. Only the post-2017 entry will be taken into account to determine qualified business income. *What if this activity is not a qualified trade or business?* It is not necessary to separate the carryover entries if this activity is not a qualified trade or business. You m enter the carryover in either field and that entry will be used to calculate any allowed loss or deduction unde the provision of the code that relates to the type of suspended loss or deduction.	
Qualified Medicaid Waiver Payment	This only applies if you received a Notice 2014-7 from the IRS. This is a rare deduction for child care businesses.	

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



Enter your business meals expense for abc childcare

Enter the totals for each category below. Include personal meal expenses while on business travel away from your main business location, and meals expenses for clients, customers, and/or employees.

For 2022, business meals are 100% deductible if the meals are food and beverages provided by a restaurant.

Food or beverages provided by a restaurant

$

Other meals expense, subject to DOT limits

$

Other meals expense, not subject to DOT limits

$

Before continuing, you may want to review special rules from the IRS for:

- How to figure your deduction using the standard meal allowance (IRS Publication 463)
- Meal and snack expenses for family daycare providers (IRS Publication 587)
- Self-employment per diem rates for meal and incidental expenses

As pictured above, the system provides the following options to enter meal expenses:

- **Food or beverages provided by a restaurant:** These are 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.
- **Other meals expense, subject to DOT limits:** This is only for persons subject to Department of Transportation (DOT) regulations. **This does not apply to child care.**
- **Other meal expenses, not subject to DOT limits:** Here is where the system *suggests* you will enter expenses for meals served to children. They even further provide minimal guidance on child care meal expenses for family child care providers. **We recommend you enter children's meal expenses under Supplies or Other Expenses.**

Also pictured above is a memo stating "before continuing, you may want to review special rules from the IRS for:

- How to figure your deduction using the standard meal allowance
- Meal and snack expenses for family daycare providers
- Self-employment per diem rates for meals and incidental expenses

However, they only link to IRS publications. You must figure out your own meal expense, including the standard meal allowance for home-based family child care businesses. Below we share more guidance on how to enter certain meal expenses:

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.

Guidance on deducting expenses for meals served to children

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 number of meals that CACFP reimburses, *so it is advantageous for providers to track and claim all the meals served.*

If using the current standard meal rates for the tax year, when you enter your costs, you will need to must 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.

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.

Depreciation comes up in a couple of places in TaxAct, first is immediately following the vehicle expenses questions. You will see this question:

Do you want to make any repair regulation elections for abc child care?

In some cases, the IRS allows you to decide whether you want to deduct a business expense all at once, or deduct the cost slowly over the life of the asset.

Some of the elections below allow you to choose to depreciate an asset over time (capitalize), while others permit you to immediately deduct qualifying business expenses.

The IRS does not make it easy to understand these elections, and TaxAct knows this. But don't worry...

- [ ] De minimis safe harbor election
- [ ] Capitalize repair and maintenance costs
- [ ] Small taxpayer safe harbor election

Other elections

Capitalize materials and supplies

Partial asset disposition

Capitalize employee compensation or overhead costs

Naturally, you may think they are referring to car repairs since it follows vehicle expenses, but that is not the case. These are actual rules regarding the treatment of expenses for acquiring, maintaining, or improving the tangible property. The IRS allows taxpayers to treat certain expenses that qualify as assets as an expense instead and fully deduct it rather than depreciating them.

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.

It may be difficult to check off which election you want to take if you're not sure what they are and what assets you want to take them for. We recommend that you press the information icon next to each election to learn more about it. Here's a brief description of each of the most common elections:

De minimis safe harbor election - 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. 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 ____________________

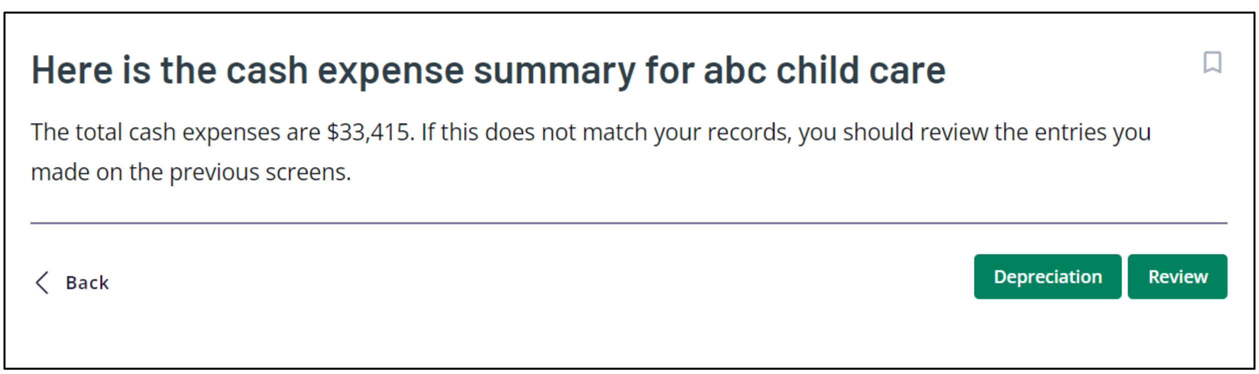
For the year ending December 31, 20__, I am electing the safe harbor election for small taxpayers under Treas. Reg. Section 1.263(a)-3(h) for the following: (list your improvements)."

Capitalize repair and maintenance costs – this refers to straight-line depreciation which allows you to deduct a portion of the costs of a business asset or improvement each year until you've fully recouped your costs.

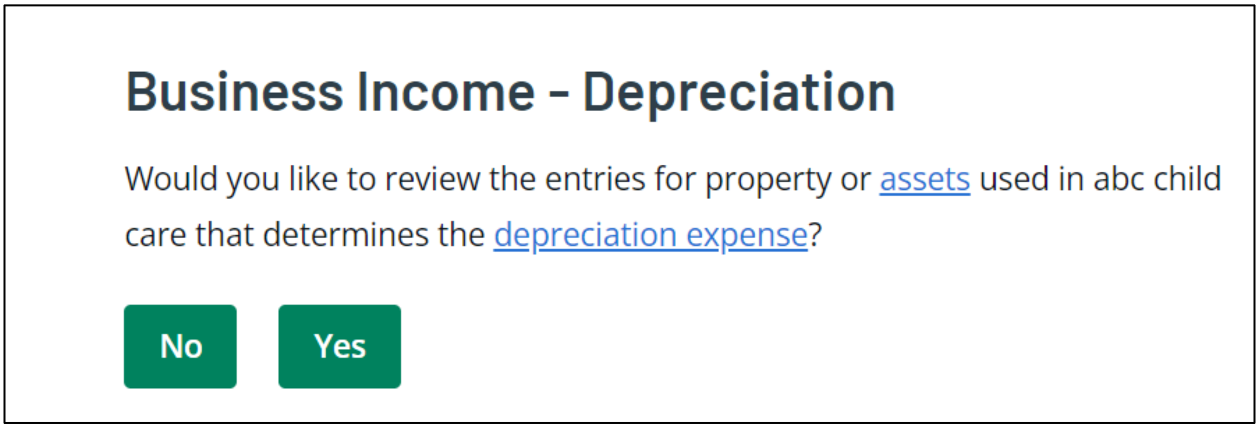
Small taxpayer safe harbor election – This is similar to the De minimis safe harbor election except it's for building improvements. This election allows you to treat the improvement as an expense.

After you select your elections, you will continue to go through the other typical business expense questions.

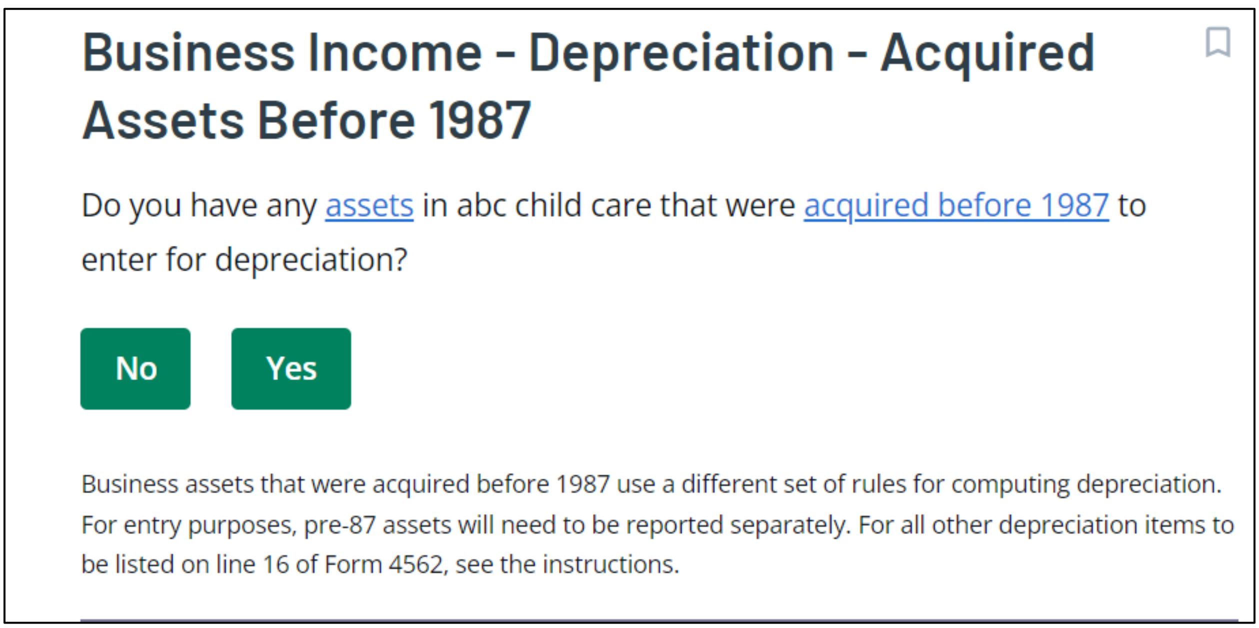
The next place depreciation shows up is after you've entered all your typical business expenses and you are shown your cash expense summary:



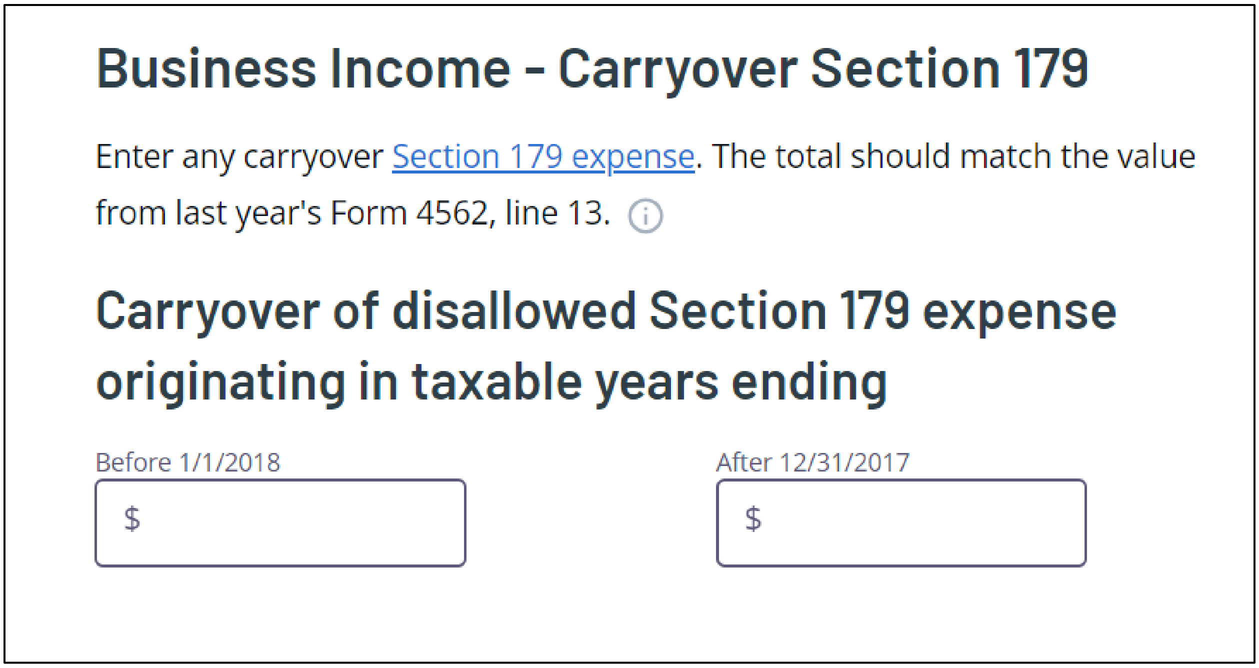
You must click the button that says "depreciation" in order to enter those expenses subject to depreciation. You will then be asked if you would like to review your expenses to see if you have any eligible for depreciation. Select “Yes” to be taken through the questionnaire.



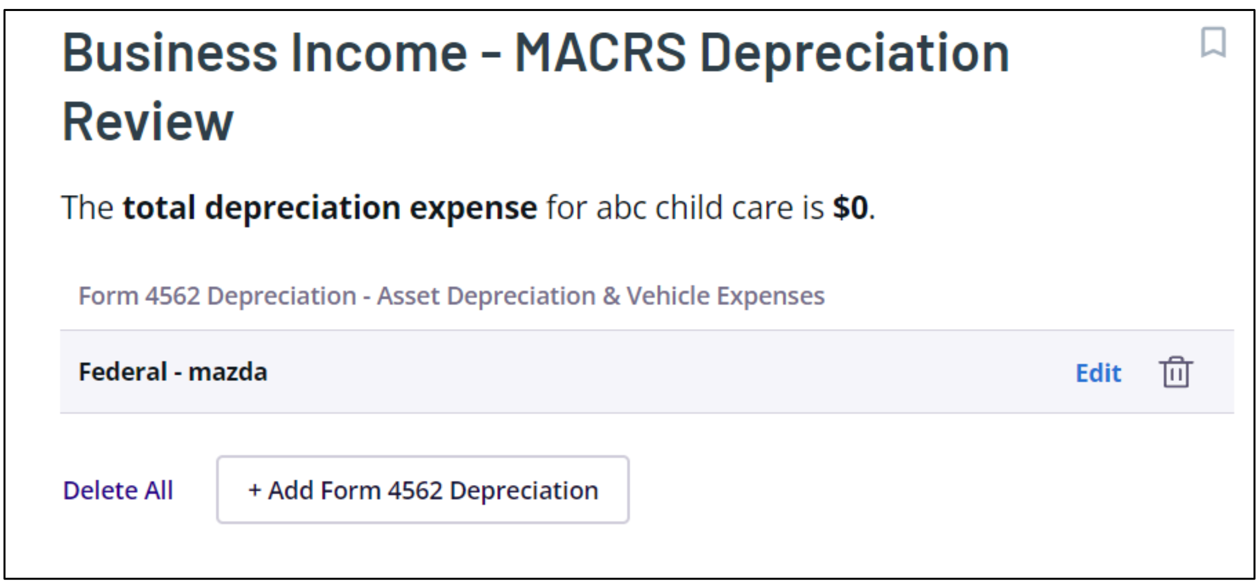
Next, you will indicate if any of your business assets were acquired before 1987. In this example, we will check “No”.



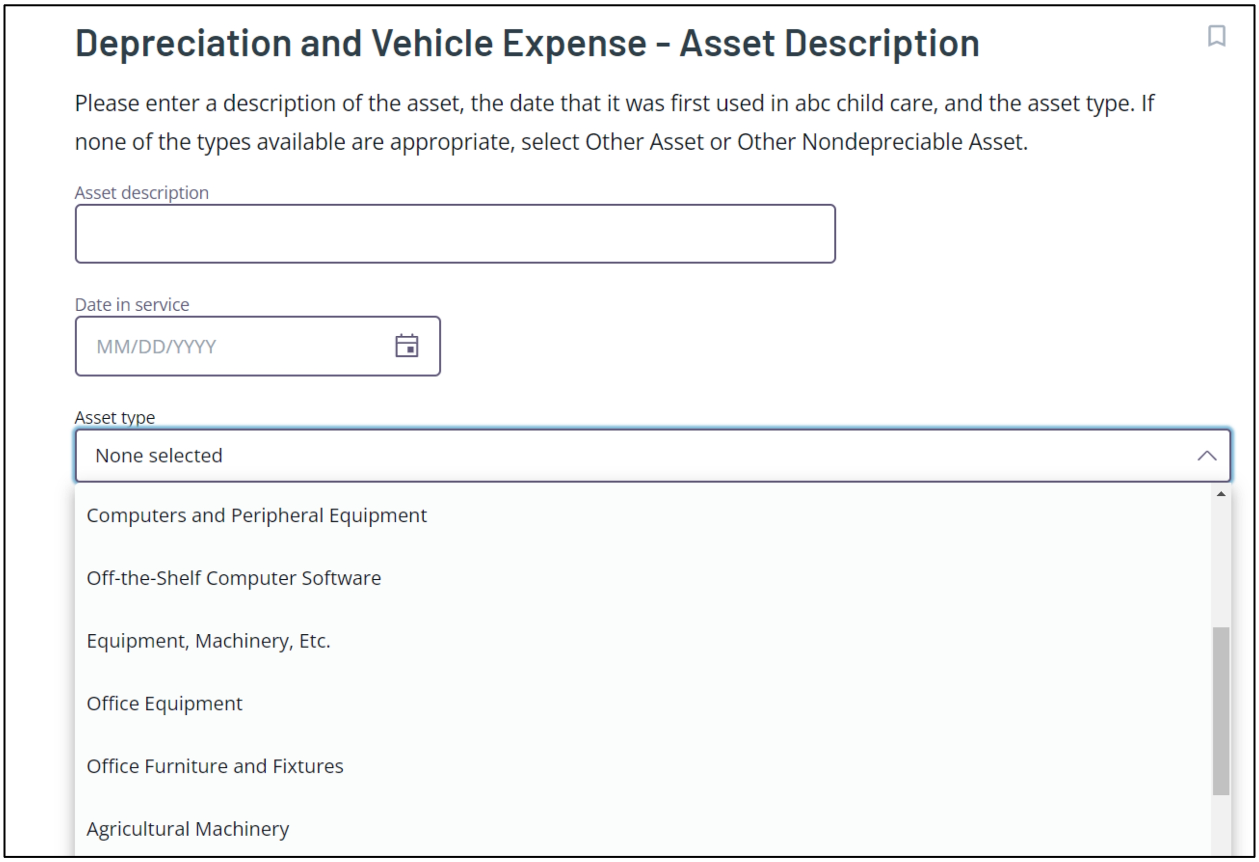
Next, you will enter if you have any carryover Section 179 expenses from previous years. You can find out by reviewing your Form 4562, line 13 of your last year’s tax filing. In most cases, you **will not** have any.



In the next screen, you will see previously eligible depreciation expenses that you were already prompted to enter into the system populate, such as vehicles.

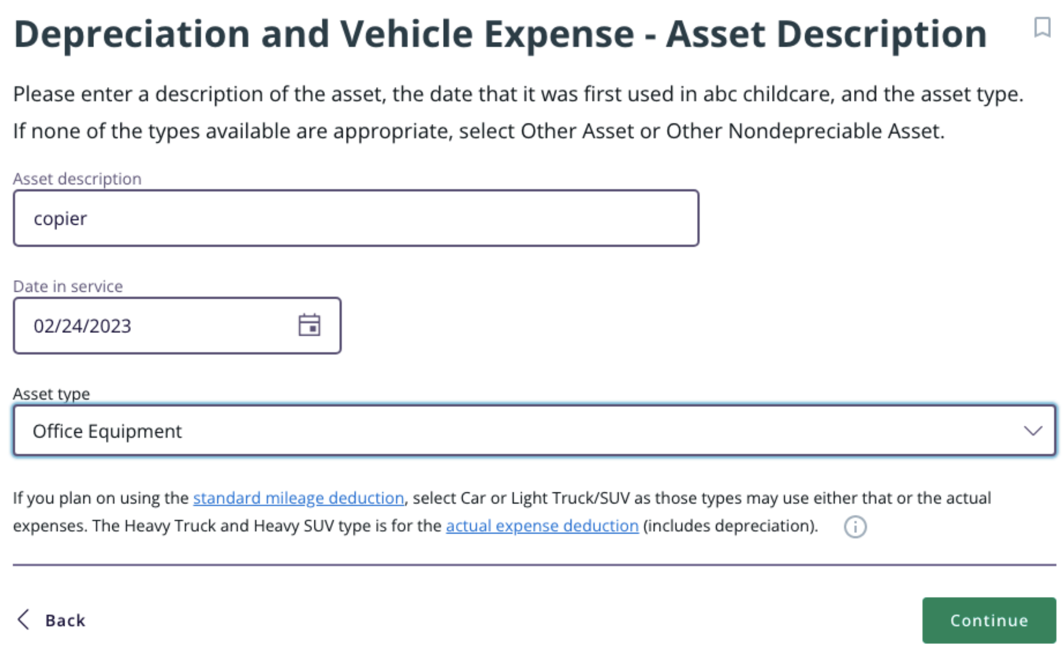


You will also be able to manually add additional assets by clicking “add”. When you choose to edit or add additional expenses, you will be given an option of “Quick Entry” or “Step-by-Step Guidance”. We recommend you select “Step-by-Step Guidance” otherwise you will need to complete a complex tax form manually rather than have the system guide you through and complete it for you.



The page heading "Depreciation and Vehicle Expense Asset Description" may be a bit confusing. Please note that this is not only for vehicles but for all your depreciable assets. Under "Asset Type" there is a drop-down that lists vehicles but also other items.

Let's say you purchased a copier for $2,600:



Depreciation and Vehicle Expense - Asset Description

Please enter a description of the asset, the date that it was first used in abc childcare, and the asset type. If none of the types available are appropriate, select Other Asset or Other Nondepreciable Asset.

Asset description

copier

Date in service

02/24/2023

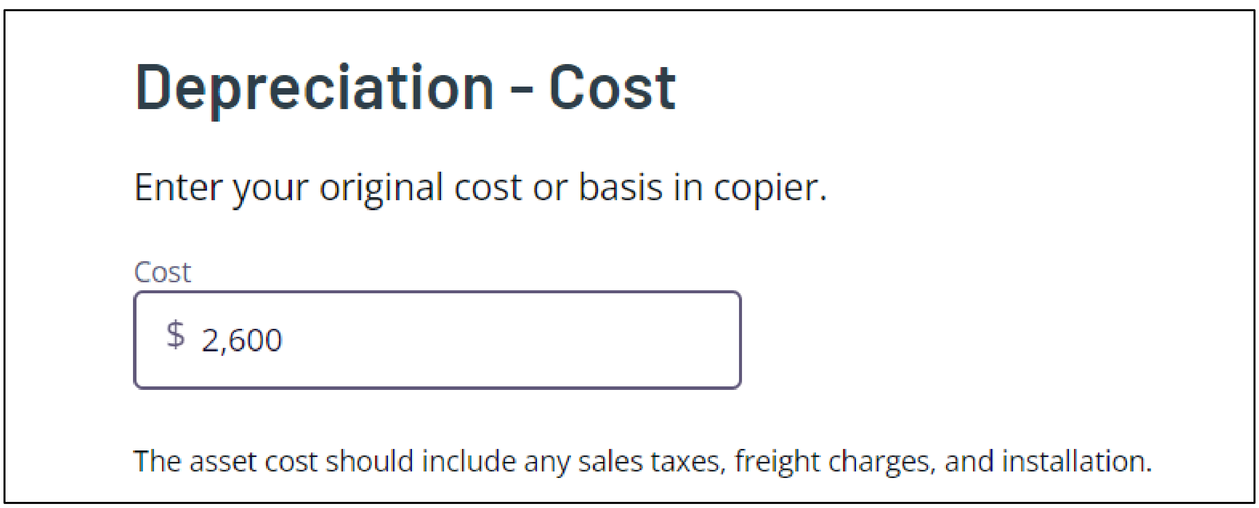
Asset type

Office Equipment

If you plan on using the standard mileage deduction, select Car or Light Truck/SUV as those types may use either that or the actual expenses. The Heavy Truck and Heavy SUV type is for the actual expense deduction (includes depreciation).

Back

Continue



Depreciation - Cost

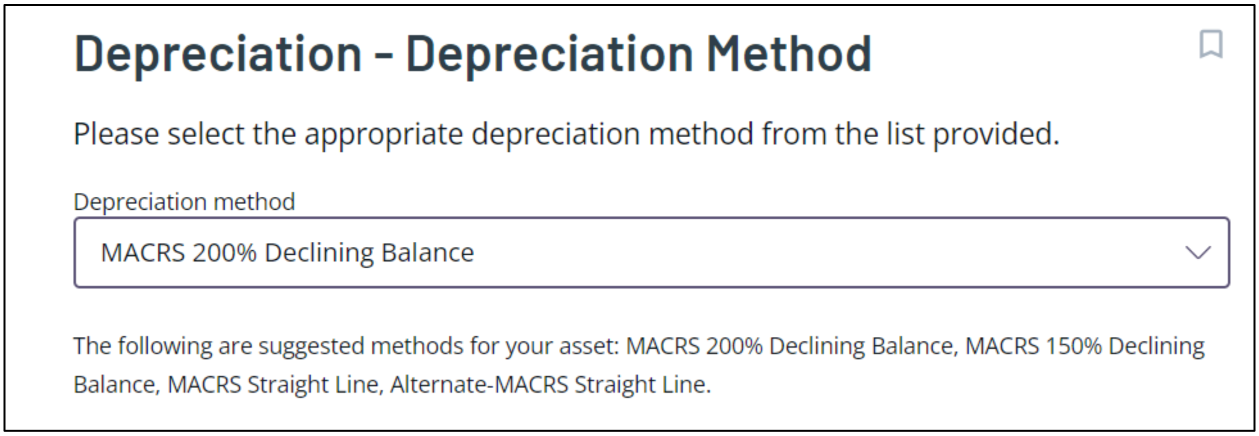
Enter your original cost or basis in copier.

Cost

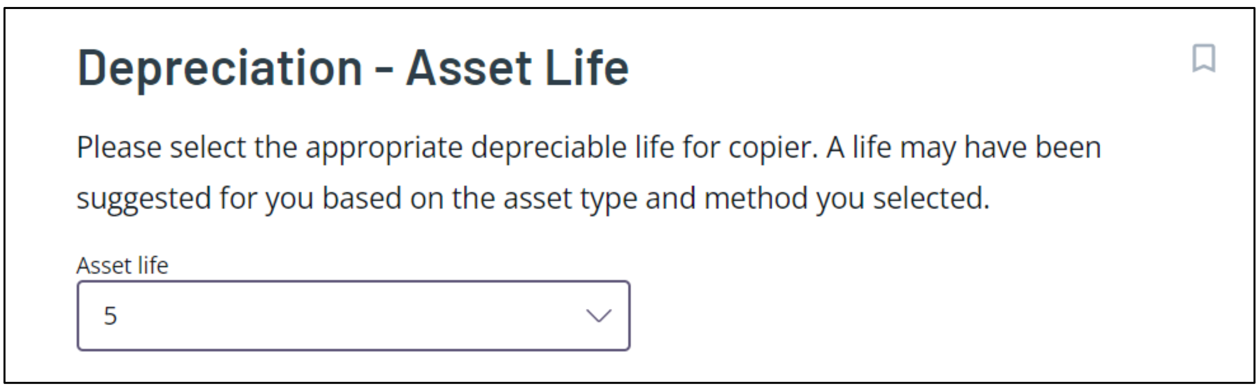
$ 2,600

The asset cost should include any sales taxes, freight charges, and installation.

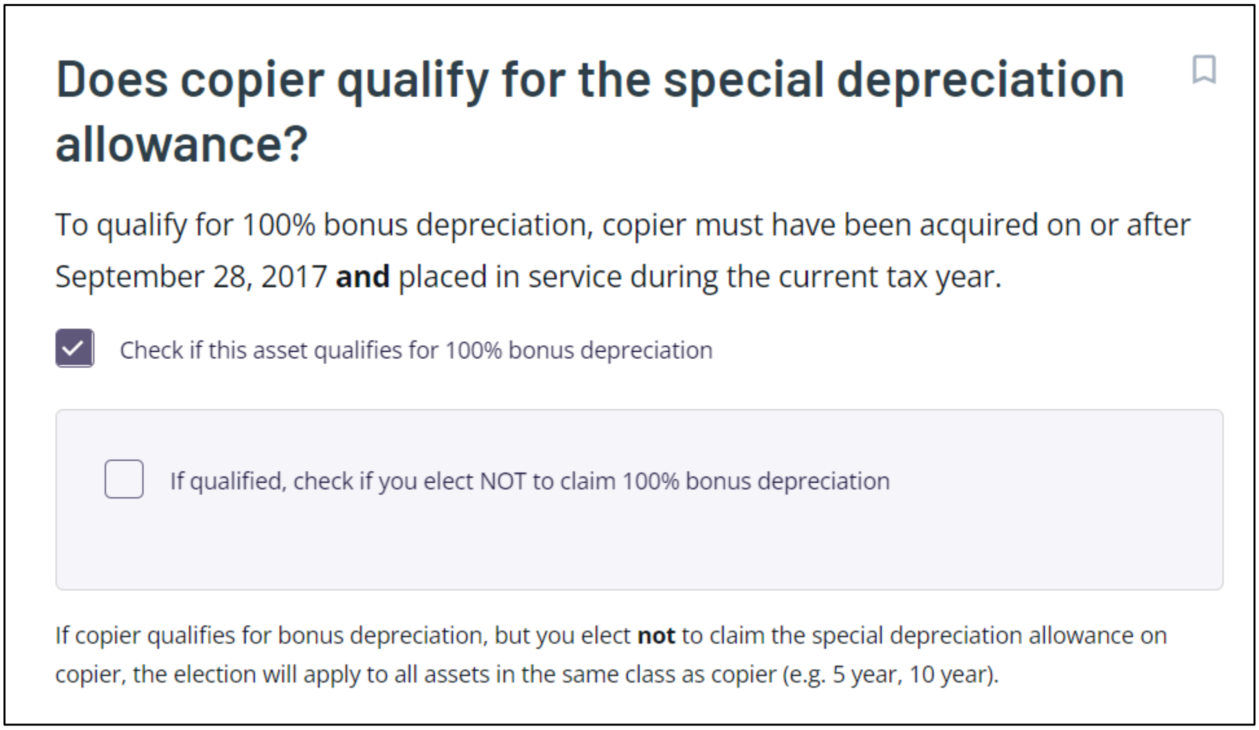
You will then be required to select a depreciation method from a drop-down list for your asset. The system will suggest which depreciation method you choose based on the asset in question. You are required to select a method however, in a few screens you can elect to claim 100% bonus depreciation on the asset if it qualifies (it likely does!), and deduct the full amount in a single year instead.



After selecting a depreciation method, you will see the Depreciation-Asset Life screen displayed. The system will auto-populate an asset life (the useful life of the asset) based on the description of your asset.



The next field is where you will apply special depreciation if your asset qualifies and you would like to fully deduct it rather than depreciate it over time. **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).



Does copier qualify for the special depreciation allowance?

To qualify for 100% bonus depreciation, copier must have been acquired on or after September 28, 2017 **and** placed in service during the current tax year.

- [x] Check if this asset qualifies for 100% bonus depreciation

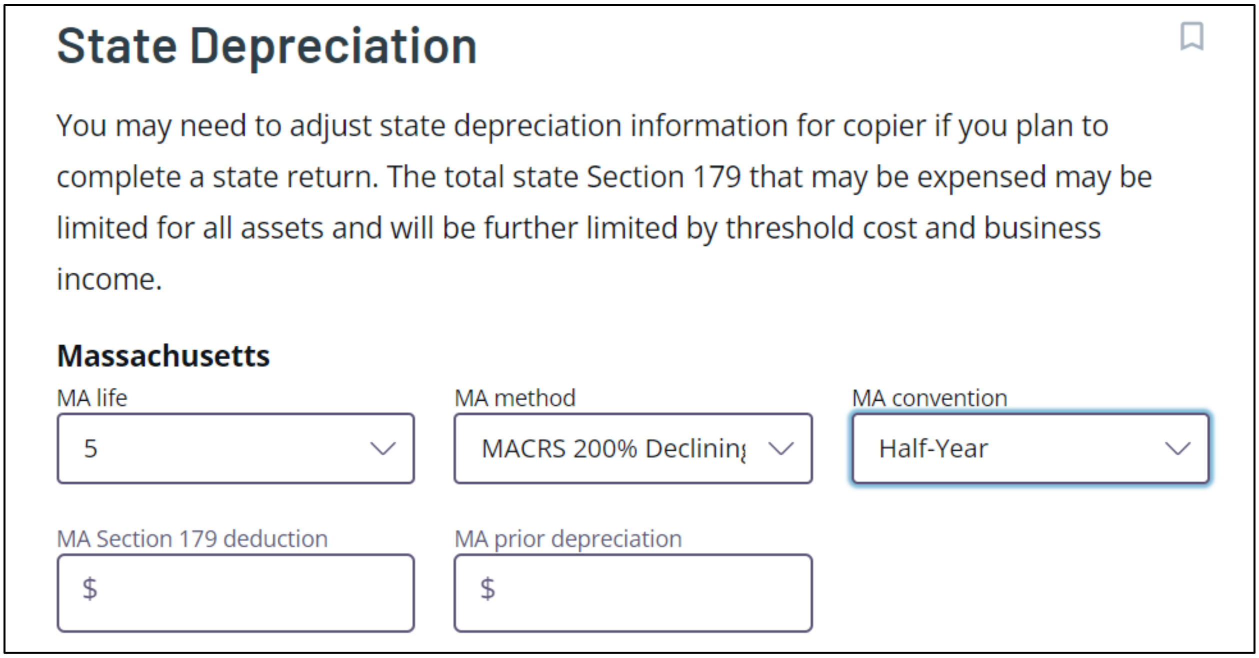
- [ ] If qualified, check if you elect NOT to claim 100% bonus depreciation

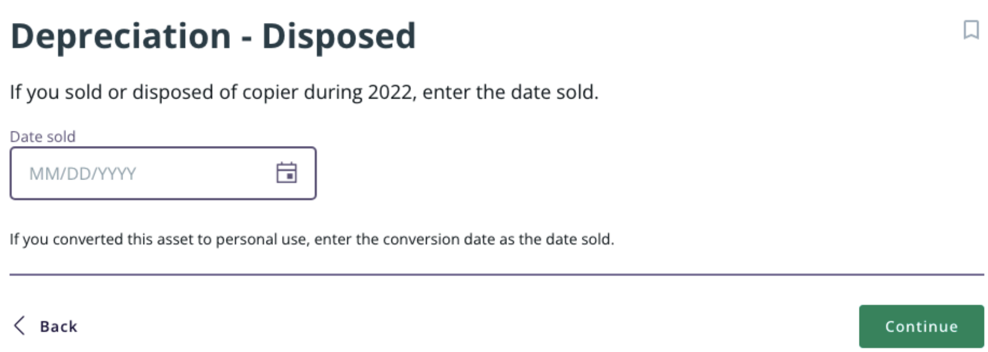
If copier qualifies for bonus depreciation, but you elect **not** to claim the special depreciation allowance on copier, the election will apply to all assets in the same class as copier (e.g. 5 year, 10 year).

The next screen will allow you to deduct this asset, or a portion of it, as a Section 179 Expense. If you've selected 100% bonus depreciation, there is no need to also apply a Section 179 expense deduction to it.

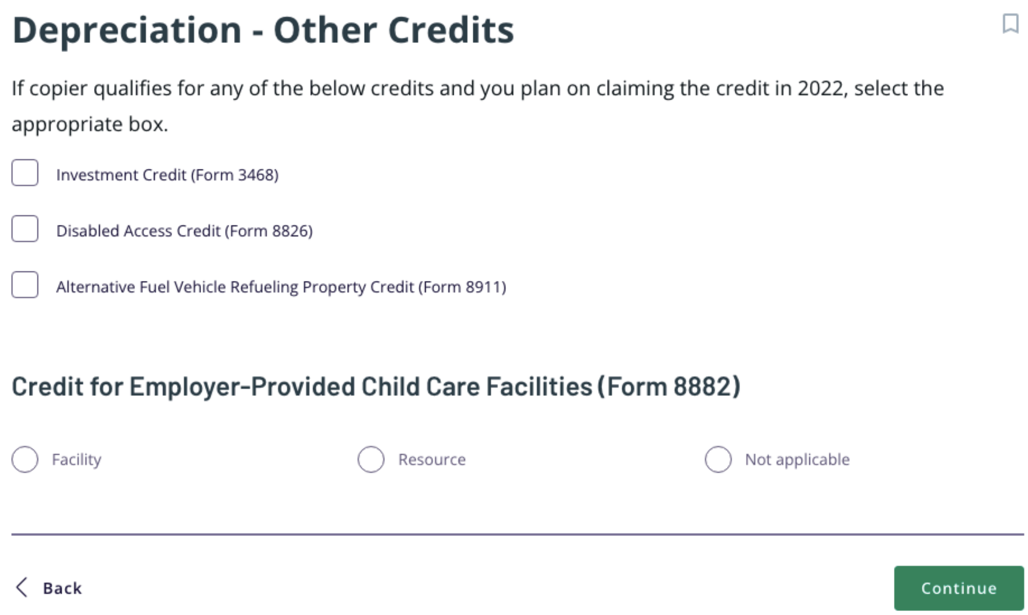
Section 179 allows taxpayers to deduct the cost of certain tangible property as an expense the year it's placed in service. The property must be used for more than 50% of your business, so not one that is primarily for personal use. Buildings and land don't qualify for Section 179 but building upgrades 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.

Depending on your state, there may be additional screens on state deprecation laws. Please note that these will vary.

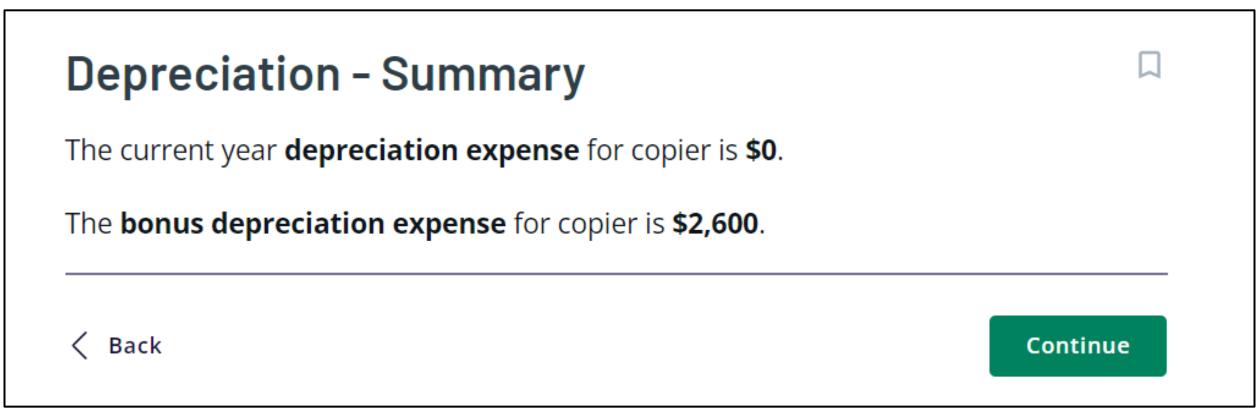




The final question is Depreciation – Other Credits. This is only if you intend to apply for certain credits for your asset and is usually not applicable. You will also see a credit labeled "Credit for Employer-Provided Child Care Facilities (Form 8882)". **This is only applicable to businesses that provide sponsored child care for their employees and is usually not the child care provider themselves.** If a child care business seeks to claim this tax credit for service offered to its own employees, then at least 30% of enrolled children must be employees' dependents. For example, if your child care program has 20 enrolled children, at least six children (30%) must be dependents of your employees for your business to be eligible to claim the credit.



After completing the guided questions, you will be taken to your Depreciation Summary. As you see in the example below, the copier's deduction is its full cost of $2,600 because it's being treated as an expense due to the election to use bonus depreciation.



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:

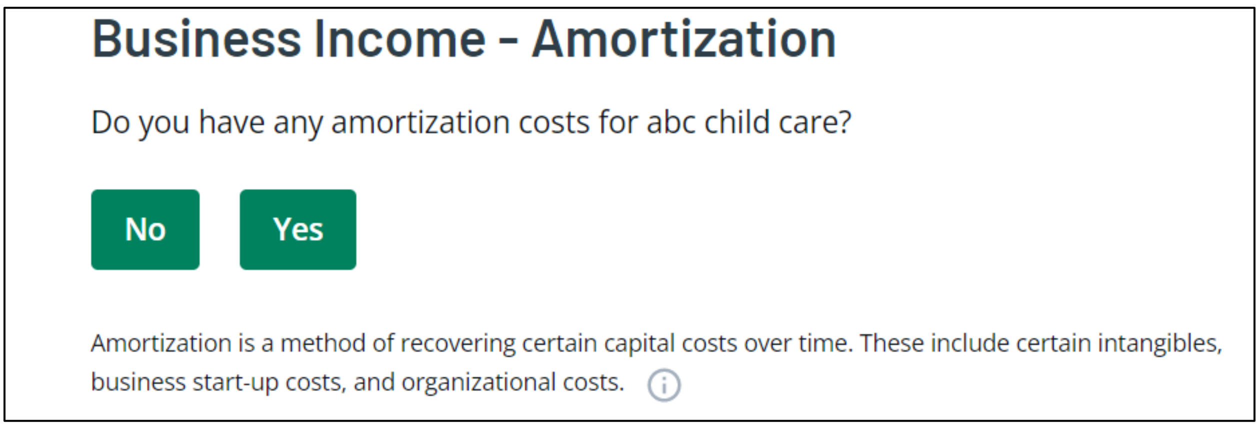
Assets that can be expensed			
Assets are items that have a useful life of more than one year. Typically, assets are subject to depreciation however if they are less than $2,500 you can treat them as a deductible expense instead. List business assets that cost less than $2,500.			
Item	Cost	Quantity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

Next, you will be asked about any amortization expenses for your business. **This is extremely rare in child care. If applicable you will need to talk to your financial or tax advisor – this would be a good time to ask a TaxAct specialist for guidance.**



You will then be asked if you have any allowable depletion deductions for your business. A depletion deduction is taken for the physical reduction of a natural resource, such as mining, quarrying, drilling, or felling. **This does not apply to child care businesses.**

Do you have any allowable depletion deductions for abc child care?

A depletion deduction is taken for the physical reduction of a natural resource, such as mining, quarrying, drilling, or felling. The depletion deduction is for the reduction of a product's reserves.

Depletion allowance

$

Additional screens that you will see are:
Asset Sale - Assets Sold
Did you sell any other assets used in your business that you have not already previously entered into depreciation? Enter yes or no based on your situation.

Form 4797 - Other Topics
Other information may need to be reported on *Form 4797 – Sales of Business Property*. **It is unlikely you will have any other information to report here.**

Form 4797 – Other Topics

Other information may need to be reported on Form 4797. Such information includes:

- Gross proceeds from Form 1099-S or 1099-B to be entered on Form 4797, line 1
- Nonrecaptured section 1231 losses from years 2016 through 2020
- Recapture under sections 179 and 280F(b)(2) when business use drops to 50% or less

Do you have any other information to report on Form 4797?

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. TaxAct does not do 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 TaxAct and ensure they match.

How do I include the costs of my home?

As a home-based family 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: Space used for care ÷ total square footage of your home = percentage of your home that you use for child care

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

Time is the total number of hours you used your home 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 home. 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 hours a day x 5 days a week x 48 weeks +10 hours when you were closed = 2,890 hours.

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

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

Calculating space and time for the percentage of your home expenses that are deductible is done by multiplying the percentage of space used in your home by the percentage of time it 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 business? 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 business? 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, or 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.	
Multiply your **regularly used space percentage** by the time percentage 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 family child care services.	
If you have exclusively used spaces: Add to your regularly used Time-Space Percentage your **exclusively used space percentage.** It will be: Space percentage (%) of exclusive use area + (regular use space percentage (%) * time percentage (%)). 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 family child care services.	

Example: Business Use of Your Home

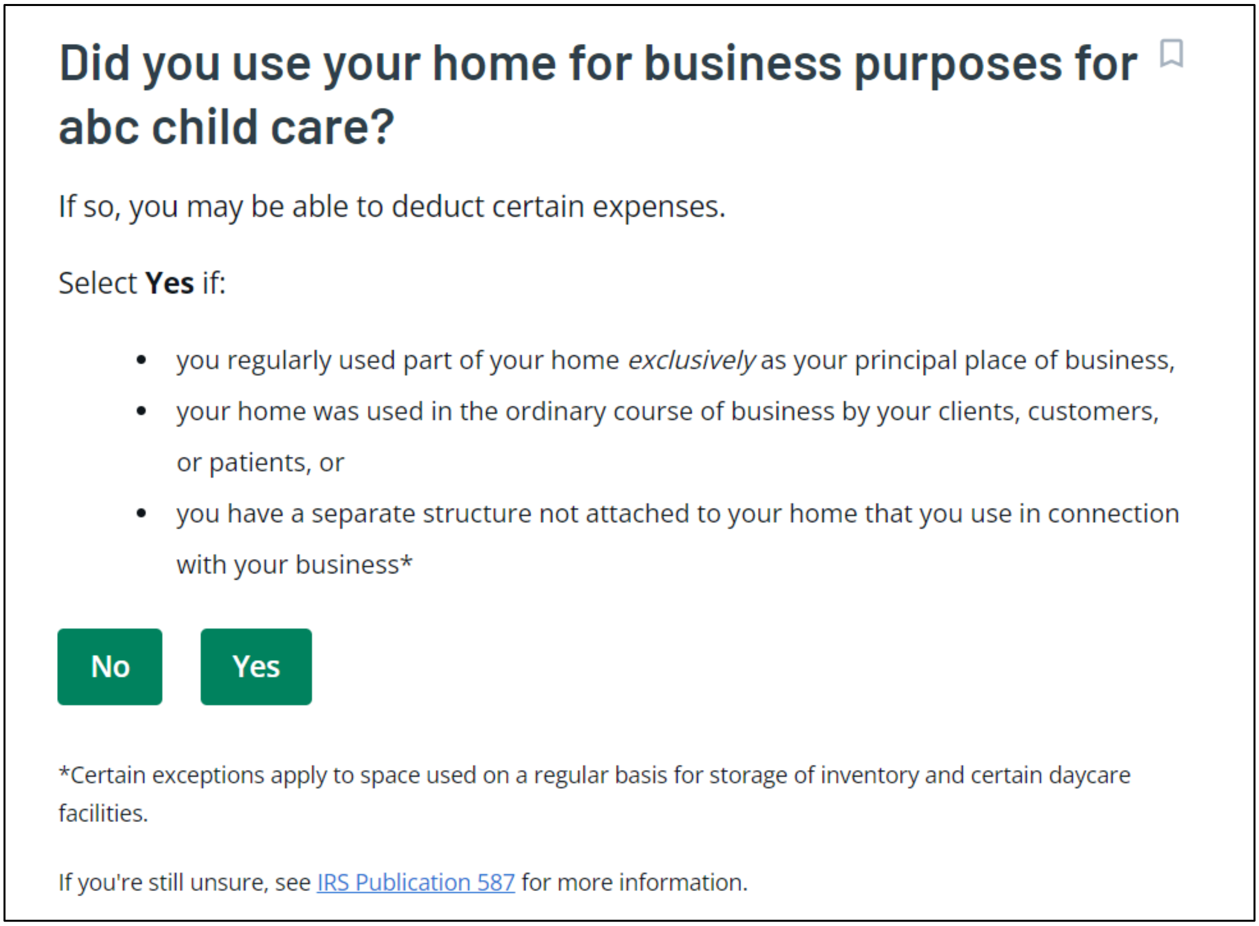
How much space (in square feet) do you **exclusively** use for your child care business? Exclusive use areas are only used for child care business purposes and no personal purposes whatsoever. If no exclusive use, enter 0.	200
How much space (in square feet) do you **regularly** use for your child care business? 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%
Regularly used space percentage - Divide space used regularly by the total square feet in your home for a percentage	27.78%
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.	2,250
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.	25.68%
Multiply your **regularly used space percentage** by the time percentage	27.78% * 25.68% = 7.14%

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.	
If you have exclusively used spaces: Add to your regularly used Time-Space Percentage your **exclusively used space percentage.** It will be: Space percentage (%) of exclusive use area + (regular use space percentage (%) * time percentage (%)). 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 family child care services.	11.1% + (27.78% * 25.68%) = 18.24%

Understanding and completing the above exercise will make it easier for you to respond to the prompts in this section of the software.

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**



Did you use your home for business purposes for abc child care?

If so, you may be able to deduct certain expenses.

Select **Yes** if:

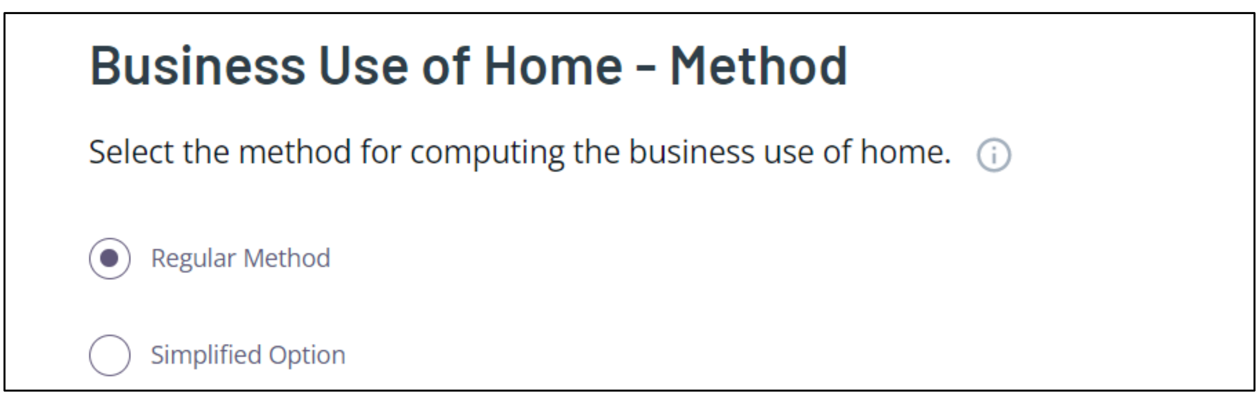
- you regularly used part of your home *exclusively* as your principal place of business,
- your home was used in the ordinary course of business by your clients, customers, or patients, or
- you have a separate structure not attached to your home that you use in connection with your business*

No Yes

*Certain exceptions apply to space used on a regular basis for storage of inventory and certain daycare facilities.

If you're still unsure, see IRS Publication 587 for more information.

After indicating that you use your home for business, you will need to state the method that you want to use to compute your deduction. The options are the Regular Method or the Simplified Option. The simplified home office deduction 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 Regular Method (also known as the actual expenses method) to determine their home office deduction.**



Business Use of Home - Method

Select the method for computing the business use of home.

Regular Method

Simplified Option

You will then see the **Business Use of Home – Daycare** screen which asks:
Was any portion of your home used as a daycare facility? Select "Yes" if you are a home-based family child care provider.

Next, you will need to state just how was your home used for both personal and business purposes.

Business Use of Home - Personal Use
Is the portion used for daycare used:

- **Exclusively for daycare only** (exclusively used 100%, **rare**)
- **Daycare areas are available for personal use** (regular use spaces with no exclusively used spaces – **common**)
- **Part of your home is exclusively used for daycare only and other parts are used for both daycare and personal use (common)**

Next will be the beginning of performing your Time-Space Percentage (%) calculation:

Business Use of Home - Area Used

You have selected that part of your home was exclusively used for the daycare only, and other parts were used for both the daycare and personal use. This requires a special computation. You will need to enter separately, in square feet, the area used exclusively for daycare, and the area of your home used for daycare, other business, or for storage of inventory or product samples. Also, enter the total square footage of your entire home.

Area used for daycare exclusively

300

Area used for daycare and personal use

800

Total area of home

2400

Next, you will enter the time that you spent performing child care or other duties related to your child care business. In our example, we will use **250** (number of days used for a program open 5 days a week for 50 weeks) x **10** (number of hours used per day, including administrative time) = 2,500 hours a year.

Business Use of Home - Hours

Multiply the number of days used for daycare during 2022 by the number of hours used per day.

Days used for daycare multiplied by hours per day

2500

Back

Continue

The next question is asked in order to prorate your business use of home if necessary. If you started or stopped using your home for your child care business during the tax year, you will need to indicate that. This will impact your Time-Space Percentage.

You will be asked if you sold a home that was partially used for business and if you have more than one place of business. Select yes or no based on your situation.

Business Use of Home - Home Sale
Did you sell a home in 2022 that had been used partially for business?

Business Use of Home - More Than One Place of Business
Do you have more than one place of business?

Next, you will begin listing home expenses associated with your child care business. You will be asked to enter **Direct** and **Indirect** costs. Unless the expense is related to 100% exclusively used business space, you will enter your costs as **Indirect.**

TaxAct gives a good explanation of the differences in these costs:

Expenses for Business Use of Your Home

Direct expenses are those that you can specifically identify as being derived from or of benefit to the business part of your home. Direct expenses would include painting or repairs to the area of your home used for business. Enter 100% of your direct expenses on the appropriate line.

Indirect expenses are those that are for keeping the entire home up and running and cannot be specifically associated with just the business area. They benefit both the business and personal areas of your home. Indirect expenses would include insurance, utilities, and general repairs. Generally, enter 100% of your indirect expenses on the appropriate line and they will be allocated to the business portion using the ratio of your business square footage to the total square footage of your home.

Unrelated expenses are expenses only for the parts of your home not used for business. Unrelated expenses include lawn care or painting a room not used for business. None of these amounts are deductible.

For direct expenses, enter 100% of your expenses. For indirect expenses, enter 100% of the expense and they will be multiplied by the business use (Time-Space) percentage. These are the expense lines that you will see in which you need to enter your direct and/or indirect expenses:

Expense	**Direct Expenses**	**Indirect Expenses**
Business Use of Home - Real Estate		
Business Use of Home – Mortgage Interest		
Business Use of Home - Mortgage Insurance		
Business Use of Home - Casualty Loss		
Business Use of Home - Rent		
Business Use of Home - Expenses		
Insurance		
Excess mortgage interest		
Excess real estate taxes		
Repairs and maintenance		
Utilities		
Other expenses		

Business Use of Home - Depreciation

Depreciation is an allowance that recovers the cost of your home attributable to business as an expense. To compute the depreciation on the business portion of your home, enter the date that you first started using a portion of your home for business.

If depreciating your home, you will need to enter information about the date you began using your home for business, the cost of your home and fair market value on the date you began using it for business, and the depreciation rate (this will be automatically calculated).

You will then be shown a summary of your allowable Business Use of Home Expenses. **Note** – TaxAct does not actually display or reveal to you their calculation of your Time-Space Percentage. **We strongly encourage you to complete this Time-Space Percentage worksheet and compare what you see in TaxAct to your numbers.**

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.

Some final questions on your business expenses

Toward the end of entering your business expenses, you will be prompted to enter a couple of expenses, if they are applicable.

The system will ask "would you like to complete the **self-employed health insurance deduction** worksheet"? If you choose to complete this, here you will enter the total amount of health insurance premiums you paid for yourself, your spouse, and your dependents (under age 27) in 2022. 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 premiums you may have paid through a spouse's health insurance offering through their employer.

If you or your spouse could participate (even if you declined coverage) in an employer's health plan or in a subsided program, like the Affordable Care Act, at any time during a given month, you can't take the deduction for that month.

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.

Next, you will be asked about your **Business Income - At Risk** deduction. If you have a net loss for your family child care business, you will be asked additional questions to calculate your Qualified Business Income deduction.

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 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 audit defense plan through TaxAct, 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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