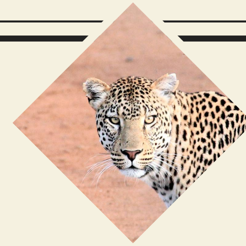
# Daycare Taxes
# Tax Year 2017



## Presented by:

# INSHA KHAN

* Owner of Tax-Ability - founded in 1998
* Registered tax preparer & e-file provider with IRS
* Bachelors degree in Accounting
* Specializing in taxes for daycare providers, self-employed business owners, and home businesses

**taxesokc.com**

# Records you will need for tax preparation

- Operating hours - children’s actual attendance
- Operating hours - your hours
- Meal attendance
- Mileage
- Income
- Asset purchases
- Expenses
- Home inventory (if this is your first year in business)

# Time / Space Percentage

## TIME

How much time is your home used for your business?

- Working hours when children are present
- Working hours when children are not present
- Time % is recalculated each year

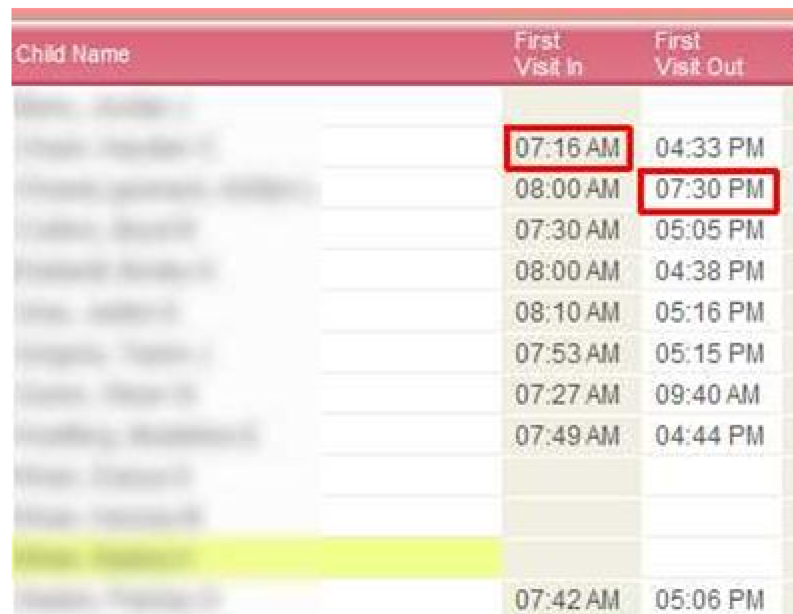
## SPACE

How much space in your home used for your business?

- IRS defines as "available for day care use throughout each business day & that is regularly so used …"
- This means consistent, customary use

# Working Hours When Children Are Present

- Best attendance record is your food program
- Or consider using an app like Harvest or Toggl
- Do not use your operating hours - that does not take into account early and late kids or days you are closed. Use first child's time in and last child's time out



| Child Name | First Visit In | First Visit Out |
|---|---|---|
| [illegible] | | |
| [illegible] | 07:16 AM | 04:33 PM |
| [illegible] | 08:00 AM | 07:30 PM |
| [illegible] | 07:30 AM | 05:05 PM |
| [illegible] | 08:00 AM | 04:38 PM |
| [illegible] | 08:10 AM | 05:16 PM |
| [illegible] | 07:53 AM | 05:15 PM |
| [illegible] | 07:27 AM | 09:40 AM |
| [illegible] | 07:49 AM | 04:44 PM |
| [illegible] | | |
| [illegible] | | |
| [illegible] | | |
| [illegible] | 07:42 AM | 05:06 PM |

## Working Hours When Children Are Present

An example if you have to calculate using operating hours:

You are open 7 am to 5 pm Monday - Friday and closed 1 week per year

10 hrs per day x 5 days per week x 51 weeks

= 2,550 hours

* Don't forget to subtract the days you were closed *

## Working Hours When Children Are Not Present

Time you spend on daycare-related activities:

- cleaning house (daycare spaces)
- planning and preparing daycare meals
- planning and preparing daycare activities
- business paperwork - DHS, food program, STARS, taxes, etc.
- parent interviews
- online training classes
- networking with other providers online
- you can also claim the time others in your home are doing these things!

# How to Calculate Space Percent

- Add up TOTAL square feet of your home.
  - Do NOT count your lawn, driveway, sidewalk, outdoor play areas, garden, or patio
  - DO count space that is part of the structure of a building, such as a porch, attached deck, carport, or garage, whether attached or unattached.
- Evaluate each room's business use - is the room available for business throughout each business day, and is it regularly used by the business?
- Exclusive use vs shared use
- 100% space percentage is not unusual

## Calculating Your Time / Space Percentage

**TIME**: 2,550 hours caring for children

- plus - average 9 hours per week provider hours

( 9 x 51 = 459 ) = 3,009 hours ÷ 8,760 (hours in a yr)

= 0.389 which is 39% Time Percentage

**SPACE**: 1,800 sqft used for daycare ÷

2,100 total sqft in home = 0.857 which is

86% Space Percentage

Time/Space % = Time % multiplied by Space %

39 % multiplied by 86% = 34% Time/Space %

# Using Your Time / Space Percentage

Use your T/S % for all shared expenses - items you buy that are shared between your daycare & your family … kitchen supplies, cleaning supplies, household items, etc. (unless you purchase these items specifically 100% for the daycare).

Example:

| | |
|---|---|
| Kitchen supplies | $423 |
| Cleaning supplies | $875 |
| Household items | $322 |
| TOTAL | $1,620 X 34% T/S % |
| | = $551 deductible expense |

# Time / Space Percentage – Form 8829

Form 8829 on your tax return is where your "home office" expenses are deducted.

Example:

| | |
|---|---|
| Mortgage interest | $3,659 |
| Real estate taxes | $1,281 |
| Insurance | $2,573 |
| Utilities | $6,098 |
| TOTAL | $13,611 x 34% T/S % |
| | = $4,628 deductible expense |

Home Depreciation $118,000 home x 34% T/S %

= $40,120 business basis x 2.564% = $1,029 expense

# Meal Attendance

- Calculate meal attendance as if you were NOT on food program
- Food programs often tell providers that food program reimbursements don't have to be claimed. That is not true. There are 2 calculation methods accepted by IRS:
  - 1. Count reimbursements as income, count meals served as expense.
  - 2. Subtract meals served from reimbursements - enter the total as expense
  - IRS prefers the first method so that it's obvious that you DID claim the reimbursements as income
  - If you didn't keep track of meals served, match the reimbursement amount as expense - nets to zero
- Reimbursements for feeding your own children are NOT taxable income. Meal expense for feeding your own children are NOT deductible.
- Meal expense for feeding infant formula is NOT deductible unless YOU supplied the formula.

# Mileage

- You can claim mileage for any daycare-related trips (grocery shopping, school runs, field trips, trainings, etc). The mileage rate for 2017 is 53.5 cents per mile.
- You will have to account for BOTH business miles AND personal miles, so don't forget to record your odometer reading at the beginning of each year.
- You can separately claim tolls, parking, and interest on the auto loan.
- Sometimes you get a bigger deduction by claiming actual expenses, rather than the standard rate. This can happen when you have high auto expense in the year. To do this, you must save ALL auto-related receipts (gas, maintenance, insurance, etc.)

# Income and Parent Statements

- Totaling your income is pretty straight-forward - add up all client payments and DHS payments - that is your income.
- The best method is to claim everything deposited to the bank for the year (you don't have to claim payments received but not yet deposited).
- When parents ask you for the paperwork for their child care tax credit, you need to give them Form W-10.
- The only information required on this form is your tax ID number, your name, and your address.
- You do NOT have to provide parents the total amount they paid you (even though many parents will insist that you must). It's a courtesy for you to provide amount paid but it's not required by IRS.

# Asset Purchases

- When you're adding up your expenses, keep asset purchases separate. Assets are equipment purchases that cost over $200 and that last longer than 1 year.
- Asset purchases must be depreciated (expensed over several years) unless an accelerated depreciation method applies.
- Accelerated depreciation methods include:
  - De Minimus Safe Harbor rule 1: may deduct asset purchases less than $2,500 if they are listed separately on an invoice; assets with any business use percent qualify. Must have dated financial statement in your files.
  - Sec 179 depreciation: only for assets with more than 50% business use; equipment can be new or used; land and home improvements do not qualify; may expense entire amount in the current year

# Asset Purchases (continued)

- De Minimus Safe Harbor rule 2: may deduct major home improvements and land improvements in full if the total of all repairs, maintenance, and improvements for the year are less than $10,000 or 2% of the home's unadjusted basis
- 50% bonus depreciation: only for assets purchased new; computers & vehicles must be more than 50% business use; major home improvements and additions do not qualify; may expense half the cost in the current year (can use new 100% rate for new or used purchases made after September 27, 2017).
- Must attach De Minimus statements to your return to use these 2 methods.

# 2018 Tax Law Changes

- Will affect most of us:
  - 50% bonus depreciation has been increased to 100%
  - Exclude 20% of pass-through income from federal taxes
  - CTC increased to $2,000 (refundable up to $1,400)
  - Standard deduction increased from $6,350 to $12,000 for single providers and from $12,700 to $24,000 for married providers filing jointly
  - No personal exemptions (previously worth $4,050 each)
- Won't affect most of us:
  - State/local income taxes and property taxes deduction limited to $10,000
  - No deductions for moving expenses (except active-duty military)
  - No insurance penalty starting in 2019
  - No interest deduction on home equity loans
  - Mortgage interest deduction allowed only on homes under $750K
  - Medical expenses deductible if over 7.5% of AGI (down from 10%)
  - 2% misc itemized deductions no longer allowed (unreimbursed employee expenses such as uniforms, tools, mileage, home office), tax prep fees
  - No deduction for alimony paid (on new divorces)

# 2018 Tax Law Changes - continued

-- AN EXAMPLE CALCULATION --

| | **Old Method** | **New Method** |
|---|---|---|
| Daycare Income | $40,000 | $40,000 |
| Deduct ½ of self-employment tax | - 2,826 | |
| Deduct 20% of self-empl income | zero | - 8,000 |
| Standard deduction | - 12,700 | - 24,000 |
| Exemptions (family of 4/5) | - 16,200 / 20,250 | zero |
| Taxable Income | 8,274 / 4,224 | 8,000 |
| Total Tax | 827 / 422 | 800 |
| Child tax credit | 827 / 422 | 800 |
| Self-employment tax | 5,651 | 5,651 |
| Refundable child tax credit | xxxx | |
| Earned income credit | xxxx | |

## Thank You!

# ANY QUESTIONS?

You can contact me at:
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# Notes