



# MyFreeTaxes<sup>®</sup> Self-Employed Tax Guide

For Home-Based Child Care Businesses



## Table of Contents

<b>INTRODUCTION .....</b>	<b>3</b>
<b>PART I: GETTING READY FOR TAX SEASON .....</b>	<b>6</b>
<b>PART II: FILING YOUR RETURN ONLINE.....</b>	<b>55</b>

## About United Way

United Way brings people together to build strong communities where everyone thrives.

As one of the world's largest privately funded charities, we serve 95% of U.S. communities and 37 countries and territories; our humanitarian aid supports 48 million people every year. Through United Way, communities tackle tough challenges and work with private, public, and nonprofit partners to boost education, economic solutions, and health resources.

United Way is the mission of choice for 1.5 million volunteers, 6.8 million donors, and 45,000 corporate partners in more than 1,100 communities worldwide. Together, we are building resilient, equitable communities across the globe. Learn more at [UnitedWay.org](https://UnitedWay.org). Follow us: @UnitedWay and #LiveUnited.

## About MyFreeTaxes®

[MyFreeTaxes](#) helps people file their federal and state taxes for free while getting the assistance they need. United Way provides MyFreeTaxes in partnership with the IRS's Volunteer Income Tax Assistance (VITA) program to help filers prepare their tax returns on their own or have their return prepared for them for free.

For millions of Americans, tax refunds and credits are essential to their financial stability and success. These credits maximize filers' refunds and provide important opportunities for individuals and families to build financial stability. For many households, their tax refund may be the biggest check they receive all year. For entrepreneurs, filing taxes can make or break their financial bottom line.

Since 2009, MyFreeTaxes has helped more than 1.3 million people file their taxes for free while claiming over \$1 billion in refunds and saving over \$260 million in filing fees.

## About Civitas Strategies

Founded in 2009 by Gary Romano, Civitas Strategies, is a management consultancy focused on increasing the impact of mission-driven organizations, both for-profits and nonprofits. The pandemic of 2020 uncovered countless crippling vulnerabilities for small businesses. As a result, we shifted our work to focus more intensively on the business basics required for small businesses to survive and thrive. Our work across the country since then includes business coaching, technical assistance, and grant administration support to small business owners which includes sole proprietors and corporations.

## Introduction

Small businesses play a critical role in our economy, generating income and wealth that supports the financial needs of entrepreneurs, employees, and their families. However, the costs and stress associated with filing business-related taxes limit the positive financial impacts of self-employment for many entrepreneurs, including home-based child care providers.

United Way created this guide to help more owners of home-based child care businesses easily and accurately file their taxes for free. Designed for both full-time and part-time entrepreneurs, this guide takes you through the steps of getting ready to self-prepare your taxes using online software.

This guide has two parts.

Part I: Getting Ready for Tax Season focuses on what you need to know about taxes and how to prepare for tax season.

Part II: Filing Your Return Online offers step-by-step instructions on how to use MyFreeTaxes to complete your return online.

This guide will help you take each step in your tax-filing journey. The layout is in a simple question-and-answer format based on the questions frequently posed by other home-based child care providers. To answer the questions, we drew upon official US Internal Revenue Service guidance (including their audit guide for child care providers).

## Why Care about your Taxes?

Taxes are an important consideration for any business. Through taxes, we all contribute to our government at the national, state, and local levels. Paying taxes and following IRS regulations is important. It's also important to take advantage of all the deductions and tax credits for which you are eligible. This will reduce your taxes, maximize your profit, and allow you to continue investing in your business.

Effective tax preparation can also head off the long-term cost of an audit. Though only a relatively few people are audited every year, if you are audited, the cost in time and money can be great.

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

The best way to avoid an audit is to keep in mind common "red flags." That is, the issues that often lead to an audit. The most common red flags for home-based child care providers are:

- Not including all your income on your taxes — such as leaving out a 1099 you received from the Child Care Resource and Referral agency for subsidized care.
- Taking off too many expenses or ones that are really high — like a provider who claimed \$40,000 in cell phone expenses for themselves each year.
- Taking a very large loss on your business or having losses year after year — businesses will take a loss from time to time (we'll review that later in this tool) but you want to avoid having losses that are far more than what you earned. After all, if your business regularly loses more money than it earns the IRS may be curious about why you continue to operate it!
- Claiming 100% use of your vehicle. Some of you may have a van or car you use for transportation for your business — that's allowed. However, reporting that the vehicle is only used for work (and never for personal reasons) can draw attention since it is less common.

As you can see, many red flags can be easily avoided through proper preparation of your taxes.

## How to File Your Taxes for Free

MyFreeTaxes helps people file their federal and state taxes for free while getting the assistance they need. United Way provides MyFreeTaxes in partnership with the IRS's Volunteer Income Tax Assistance (VITA) program and is designed to help filers prepare their tax returns on their own or have their return prepared for them for free.

### How does it work?

It's easy! Head to [MyFreeTaxes.com](https://www.myfreetaxes.com) to get started. Once there, use our quick and easy tool to indicate whether you prefer to prepare your own taxes online or want to have your taxes prepared for you. After you tell us how you want to file, we'll ask a few simple questions and connect you to the free tax filing options for which you are eligible.

Over 70% of people are eligible for IRS-sponsored free tax filing services such as the Volunteer Income Tax Assistance (VITA) program, so there's a good chance you qualify. In the off chance that you're not eligible for free tax filing through VITA, we'll connect you to alternative free tax filing options so you can still file for free.

Have questions or need support while using one of the tax filing options we recommend? Visit the [MyFreeTaxes Support page](#) to receive assistance from IRS-certified tax specialists via phone, email, or live chat, or refer to our FAQs and filing guides.

### **What is the IRS VITA program?**

For over 50 years, the IRS Volunteer Income Tax Assistance (VITA) program has provided free tax preparation services to qualifying individuals. In 2021, tens of thousands of VITA volunteers at 2,800 VITA sites across the nation prepared nearly one million returns for eligible filers and generated \$1.7 billion in refunds.

Most VITA sites provide services in person, but United Way's MyFreeTaxes program provides VITA services virtually, enabling you to file your taxes for free from the convenience of your laptop, smartphone, or other digital device.



# Part I:

# Getting Ready for Tax Season

## Part 1 Table of Contents

<b>PART I: GETTING READY FOR TAX SEASON .....</b>	<b>6</b>
WHAT IS INCLUDED ON MY TAX FORM? .....	7
HOW MUCH MONEY DID I MAKE? .....	10
<i>Revenue Worksheets</i> .....	11
HOW MUCH MONEY DID I SPEND? .....	13
<i>Expense Worksheet</i> .....	14
HOW DO I INCLUDE VEHICLE COSTS? .....	16
<i>There are two ways to deduct your vehicle expenses:</i> .....	16
<i>Vehicle Expense Worksheet</i> .....	18
<i>Deprecation of Your Vehicle</i> .....	18
HOW DO I INCLUDE THE COST OF MY HOME? .....	19
<i>Indirect Home-Based Business Expenses</i> .....	23
HOW DO I HANDLE STIMULUS PROGRAM FUNDS? .....	24
GREAT! I AM READY TO FILE MY TAXES. HOW DO I GET STARTED? .....	26
DECIDE IF YOU WANT TO FILE YOUR OWN TAXES FOR FREE OR IF YOU NEED A PAID TAX PREPARER. ....	26
ONCE MY TAXES ARE COMPLETED, WHAT SHOULD I DO NEXT? .....	28
WHAT BUSINESS RESOURCES CAN I ACCESS FOR MORE TRAINING ON TAXES AND OTHER BUSINESS TOPICS? .....	28
YEAR-ROUND TAX AND GENERAL BUSINESS RESOURCES .....	29
RESOURCE 1: MILEAGE LOG .....	30
RESOURCE 2: CONFIDENCE IN QUALITY TAX PREP RUBRIC® FOR CHILD CARE PROVIDERS .....	31
<i>GLOSSARY</i> .....	31
RESOURCE 3: PAYROLL TAXES (FOR BUSINESSES WITH EMPLOYEES) .....	36
RESOURCE 4: QUARTERLY ESTIMATED TAX PAYMENTS (FOR SELF-EMPLOYED INDIVIDUALS) .....	39
RESOURCE 5: WHAT TO LOOK FOR IN A BUSINESS BANK ACCOUNT? .....	42
RESOURCE 6: HOW CAN I CREATE A SIMPLE FINANCIAL SYSTEM FOR MY BUSINESS? .....	44
RESOURCE 7: WHAT IS DEPRECIATION? .....	49

## What is Included on my Tax form?

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

A **sole proprietor or self-employed individual** is both the owner and the only employee. Income for a sole proprietorship is reported on a [Schedule C](#) as part of your personal 1040 tax return. If you have more than one business activity, you will need more than one Schedule C. For example, a home-based childcare provider who also drove for Uber needs to produce a Schedule C for her childcare business and also a separate one for her Uber driving.

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

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

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

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

Though this guide focuses on Sole Proprietors/Self-Employed Individuals who submit a Schedule C, there are three parts of business tax forms that they all have in common:

- You first report your revenue (all the money you received from your business);
- You show all your expenses (the things you paid for to keep your business running); and

## EIN vs. SSN

In the early stages of running a sole proprietorship, most business owners usually use their own social security number as the tax identification number for the business. This is a quick and simple way to get your business up and running without having to do any additional paperwork.

However, you can also get an [Employer Identification Number \(EIN\)](#) from the IRS. This number functions like a social security number for your business. It is an identification number issued by the IRS specifically for your business.

The advantage of an EIN is that it will limit the number of documents with your social security number on it, which can help you to keep your personal identification number safe and prevent it from being misused. **Sole proprietors must get an EIN if they wish to hire employees, and if you want to open a business bank account with most banks.**

- Finally, you calculate the amount that. If it is positive, you made a profit; if negative, then a loss.



## Schedule C

SCHEDULE C (Form 1040)		Profit or Loss From Business (Sole Proprietorship)		OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service		Go to <a href="http://www.irs.gov/ScheduleC">www.irs.gov/ScheduleC</a> for instructions and the latest information. Attach to Form 1040, 1040-SR, 1040-NR, or 1041; partnerships must generally file Form 1065.		2022 Attachment Sequence No. 09	
Name of proprietor		Social security number (SSN)			
A Principal business or profession, including product or service (see instructions)		B Enter code from instructions			
C Business name. If no separate business name, leave blank.		D Employer ID number (EIN) (see instr.)			
E Business address (including suite or room no.) City, town or post office, state, and ZIP code					
F Accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) _____					
G Did you "materially participate" in the operation of this business during 2022? If "No," see instructions for limit on losses <input type="checkbox"/> Yes <input type="checkbox"/> No					
H If you started or acquired this business during 2022, check here <input type="checkbox"/> Yes <input type="checkbox"/> No					
I Did you make any payments in 2022 that would require you to file Form(s) 1099? See instructions <input type="checkbox"/> Yes <input type="checkbox"/> No					
J If "Yes," did you or will you file required Form(s) 1099? <input type="checkbox"/> Yes <input type="checkbox"/> No					
<b>Part I Income</b>					
1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked <input type="checkbox"/>	1			
2	Returns and allowances	2			
3	Subtract line 2 from line 1	3			
4	Cost of goods sold (from line 42)	4			
5	Gross profit. Subtract line 4 from line 3	5			
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6			
7	Gross income. Add lines 5 and 6	7			
<b>Part II Expenses. Enter expenses for business use of your home only on line 30.</b>					
8	Advertising	8		18	Office expense (see instructions)
9	Car and truck expenses (see instructions)	9		19	Pension and profit-sharing plans
10	Commissions and fees	10		20	Rent or lease (see instructions):
11	Contract labor (see instructions)	11		a	Vehicles, machinery, and equipment
12	Depletion	12		b	Other business property
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13		21	Repairs and maintenance
14	Employee benefit programs (other than on line 19)	14		22	Supplies (not included in Part III)
15	Insurance (other than health)	15		23	Taxes and licenses
16	Interest (see instructions):			24	Travel and meals:
a	Mortgage (paid to banks, etc.)	16a		a	Travel
b	Other	16b		b	Deductible meals (see instructions)
17	Legal and professional services	17		25	Utilities
				26	Wages (less employment credits)
				27a	Other expenses (from line 48)
				b	Reserved for future use
28	Total expenses before expenses for business use of home. Add lines 8 through 27a	28			
29	Tentative profit or (loss). Subtract line 28 from line 7	29			
30	Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method. See instructions. Simplified method filers only: Enter the total square footage of (a) your home: _____ and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30	30			
31	Net profit or (loss). Subtract line 30 from line 29.	31			
<ul style="list-style-type: none"> <li>If a profit, enter on both <b>Schedule 1 (Form 1040), line 3</b>, and on <b>Schedule SE, line 2</b>. (If you checked the box on line 1, see instructions.) Estates and trusts, enter on <b>Form 1041, line 3</b>.</li> <li>If a loss, you <b>must</b> go to line 32.</li> </ul>					
32	If you have a loss, check the box that describes your investment in this activity. See instructions.			32a	<input type="checkbox"/> All investment is at risk.
<ul style="list-style-type: none"> <li>If you checked 32a, enter the loss on both <b>Schedule 1 (Form 1040), line 3</b>, and on <b>Schedule SE, line 2</b>. (If you checked the box on line 1, see the line 31 instructions.) Estates and trusts, enter on <b>Form 1041, line 3</b>.</li> <li>If you checked 32b, you <b>must</b> attach <b>Form 6198</b>. Your loss may be limited.</li> </ul>					
32b <input type="checkbox"/> Some investment is not at risk.					

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11334P Schedule C (Form 1040) 2022

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

**Part I** is where your sales are totaled, and your cost of goods sold is reported so you can see your gross profit.

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

This last section is where your net profit is calculated (Line 31) by subtracting your total expenses (from Part II) from the total revenue (in Part I).

## How Much Money Did I Make?

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

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

**1099 forms** — these are evidence that another business paid you for services. Many home-based child care businesses will receive a [1099-NEC](#) for subsidy care payments and for participation in the Child and Adult Care Food Program (CACFP). You will also receive a [1099-K](#) if you received more than \$600 in business payments from apps like Square, Zelle, or PayPal.

**Bank records** — showing additional funds you may have received from other sources.

**Your own documents** — such as year-end or weekly receipts that show parents paid for care.

**Then fill out the [revenue worksheets](#).** Include each 1099 and revenue for each child you serve. Also list other income, such as grants, that may not already be accounted for on a 1099.

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

**PRO TIP** You must include your CACFP reimbursement as income. However, you can still deduct your food costs as expenses. This will help ensure your CACFP reimbursements do not increase your taxes.

## Revenue Worksheets

Click the to access the [digital version](#) of this worksheet you can download and use.

1099 INCOME	
1099 Payer Name	Amount
<b>Total (add all of the 1099s)</b>	

**PRO TIP** Make sure all your revenue records match. That is, the amount sale receipt to a customer should be the same amount they paid per your bank records and is the amount you report to the IRS.

PARENT PAYMENTS & FEES (INCLUDING CASH)	
Parent	Total Amount Paid
<b>Total (add all of the parent payments)</b>	

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

TOTAL REVENUE	
Total Payment	Amount
Total 1099 Payments	
Total Parent Payments	
Total Other Payments	
<b>Total Revenue (add them all up)</b>	



## How Much Money Did I Spend?

Now that you have your business income, you need to collect your expenses, i.e., what you spent money on for your business in 2022. You will need records of your costs, ideally receipts showing payment for expenses, but in most cases you can also 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.

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

[The Mileage Log](#) at the end of this tool can be used to track the information above.

To collect your expenses, begin by collecting all your receipts. Next, go month by month in your records for 2022 to:

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

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

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

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

You should hold onto all proof of payment through the tax season and at least four years after. It’s great to have paper copies as well as electronic ones, even if that is just snapping a picture of each with your phone.

## Expense Worksheet

Click the link to access the [digital version](#) of this worksheet you can download and use.

CATEGORY	DESCRIPTION	TOTAL EXPENSES
Advertising	Costs to promote your business including online and print ad costs, brochures, mailers, and flyers.	
Car & Truck	Expenses related to use of your vehicle for your business. You will most likely use the total mileage calculation in <a href="#">the Mileage Log</a> resource in this document.	
Contract Labor	This is for any contractors you use (workers you pay using a 1099). If you paid a contractor \$600 or more in a year, you will need to send them a 1099 form to document the expense.	
Employee Benefit Programs	Do you have a company health or accident insurance program? This includes programs associated with your business (not your personal expense) like group-term life insurance and dependent care assistance programs.	
Insurance (other than health)	Include your general liability insurance and workers compensation insurance if you have employees. Don't include your health insurance (that will be later in this table) or homeowner's insurance (that will be in the section on deducting the business use of your home).	
Interest Paid	Includes interest you paid directly related to your business (we'll talk about mortgage interest later in the section on the business use of your home). Deductible interest can include interest on business credit cards (not personal ones) and business loans such as the Economic Injury Disaster Loan or an SBA 7a loan.	
Legal Fees & Professional Services	Should include any fees paid to a lawyer, accountant, or tax preparer as well as membership fees for professional associations like the National Association of Family Care or the National Association for the Education of Young Children.	
Office Expenses	<p>All office supplies, postage, cleaning supplies and personal protective equipment, apps and software that cost less than \$200 (those that are more than \$200 will be under Other Expenses). Also add in larger purchases, like computers, telephones, copiers, and furniture that cost less than \$2,500.</p> <p>If any single purchase of equipment or furniture is <b>more than</b> \$2,500 you will need to consult current depreciation rules in the <a href="#">What is Depreciation?</a> resource. In 2022, there are <a href="#">special depreciation rules</a> that will allow businesses to elect to deduct the full cost of these higher-cost equipment. Most online tax software, including those available through MyFreeTaxes, will walk you through using these elections.</p>	



<b>Pension &amp; Profit Sharing</b>	Do you have a company retirement program? If so, include the employer contributions you made for the benefit of your employees to a pension, profit-sharing, or annuity plan (including SEP, SIMPLE, and SARSEP plans).	
<b>Repairs &amp; Maintenance</b>	Includes any repairs and maintenance of the space or equipment you use. For example, if you need a plumber to fix the bathroom used only by the children or if you need your work computer fixed.	
<b>Rent or Lease (see instructions)</b>	For equipment rent or lease only. Costs for renting your home will be included in the section on deducting the business use of your home.	
<b>Supplies</b>	Includes items you use with the children (such as art supplies), diapers and wipes, toys, and food for snacks and meals that you serve your children. For meals, you can use the actual expenses or can use a standard meal and snack rate set by the IRS. The standard rate for 2022 in all states other than AK and HI is: breakfast \$1.40; lunch \$2.63; dinner \$2.63; and snack \$0.78. For AK, the rates are: breakfast \$2.23; lunch \$4.26; dinner \$4.26; and snack \$1.27. For HI, the rates are: breakfast \$1.63; lunch \$3.08; dinner \$3.08; and snack \$0.91.  Note that this applies to home-based child care only and is equal to the <a href="#">Tier 1 CACFP reimbursement rates</a> .	
<b>Taxes &amp; Licenses</b>	Such as a business registration fee or fee for licensure.	
<b>Travel &amp; Meal</b>	For you as part of your business, such as going to a conference or an off-site meeting. Food for the children in your care should be in Supplies.	
<b>Wages</b>	For all of your business's W-2 employees (not contractors).  Note that paying yourself is not included as wages here. You are allowed to take an owner's draw or salary from your self-employment. However, paying yourself is not deductible, so you will not report that as an expense on your tax return. The IRS considers all income that you receive from your business as a self-employed individual as your pay, as noted in Part I, Revenue, of the Schedule C.	
<b>Other Expenses</b>	Covers anything else that is deductible but not listed, the most common will be software or apps that cost more than \$200 (otherwise they can be listed as an office expense).  This is where you will also include accessibility and financing expenses such as screen readers, online service fees, bank and merchant fees, and credit card processing fees.	
<b>Total (add up all expenses)</b>		

## How do I Include Vehicle Costs?

Many home-based child care providers use their own car or van to conduct their business. This could be as simple as the personal car you also use to purchase supplies for your business, or a van you purchased to transport children to and from school as part of your child care business. Vehicle costs can add up, so keeping records of costs and knowing how to deduct them is important.

### There are two ways to deduct your vehicle expenses:

- > The **Standard Mileage Rate** provides a simple cost per mile that is used to calculate your deduction.
- > The **Actual Expense** method uses all the costs of your car.

Here are the pros and cons of each option:

Pros/Cons	Standard Mileage Rate	Regular (Actual Cost) Method
<b>Pros</b>	Easy to do Fewer records to collect and keep Only need to track miles driven for business purposes	May result in a higher deduction, especially if you use your car for work a great deal.
<b>Cons</b>	Limited to a set rate per mile.	Takes time to collect all the expenses and you need to hold onto the receipts. Must log miles driven for business and personal purposes.

Regardless of the method you use, you need a simple log recording the number of miles you drove your car for related to business purposes. The log should include:

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

An example [Mileage Log](#) can be found in the resource section of this guide. There are also apps such as Mile IQ and Everlance which can automatically track your trips and make them easier to log. The costs of these apps can also be deducted under Other Expenses.

If you use the **Standard Rate**, you take the total miles you drove in the year and multiply it by the IRS rate. In 2022, there are two rates. From January 1, 2022 to June 30, 2022, the rate is 58.5 cents per mile. Due to increased gas prices, the rate increased. From July 1, 2022 to December 31, 2022, the rate is 62.5 cents a mile.

For example, if you logged 150 business miles from January 1 to June 30, 2022 and 340 business miles from July 1 to December 31, 2022, your deduction would be:

Time	Miles	Rate	Deduction
January 1 to June 30, 2022	150	58.5 cents a mile	\$87.75
July 1 to December 31, 2022	340	62.5 cents a mile	\$212.50
		<b>TOTAL DEDUCTION</b>	\$300.25

Keep in mind, when you use the standard mileage rate, you **can** still deduct parking fees and tolls accumulated as you are working.

If you use your car a lot for your work, you may want to use the **Actual Expense** method. It requires more record keeping but could result in a larger deduction. With the actual expense method, you will collect receipts or other proof of payments for all expenses related to your car. The [Vehicle Expense Worksheet](#) included below can help you collect the total amount of your actual vehicle expenses.

**PRO TIP** Parking tickets and other violation fees are not deductible.

If you have a dedicated work vehicle, all expenses will be business expenses.

If you use your vehicle for work *and* personal expenses, you will need to multiply the total of your actual expenses by the percentage of miles driven for work. To determine this, you take your mileage log and divide the miles driven for work by the total miles driven in the year. You then multiply your total expenses by this percentage.

Here's an example: A home-based child care provider logged 3,000 miles for business-related purposes. Overall, she drove her car for work and personal reasons for 10,000 miles over the year. She had \$6,000 in actual car expenses. First, the provider will divide their miles driven for work, 3,000, by the total miles driven, 10,000, to come up with 0.30 or 30%. She will then multiply her total vehicle expenses of \$6,000 by 30% to determine her business use of vehicle deduction, which would be \$1,800.

Here is a worksheet that you can use to log your actual vehicle expenses, which will help you complete this portion of your Schedule C.

### Vehicle Expense Worksheet

CATEGORY	DESCRIPTION	TOTAL EXPENSES
Licenses & Registration fees	The cost of getting and renewing a license, inspections, and registration costs.	
Gas & oil	The costs of gas or diesel fuel, as well as oil and oil changes for the car. This can also include charging costs for electric vehicles.	
Tolls	Payments for accessing toll roads, highways, and bridges.	
Lease payments	Payments for a leased vehicle used for work.	
Repairs & Maintenance	For the vehicle including preventative “checkups.”	
Garage Fees and Parking	To keep the vehicle on a regular basis (like an off-street parking garage in a city) or temporarily (such as airport parking while you wait to pick up a ride).	
Insurance	For the vehicle even if not required by your state.	
Total (add up all expenses)		

### Depreciation of Your Vehicle

Another consideration if you are using the Actual Expense method is depreciation. If you use a vehicle for your work 50% or more of the time, you may want to also deduct part of the overall wear and tear on the car. You can learn more about this in the [What is Depreciation?](#) resource.

## How do I Include the Cost of My Home?

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

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

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

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

There are two elements that determine how much of your home expenses can be deducted: (1) the space regularly used for care and (2) the amount of time it is used on average. Calculating space and time for the percentage of your home expenses that are deductible is done by multiplying the percentage of space used in your home by the time it is used.

We are going to go through the calculation here, but there is also [a spreadsheet you can use](#) to make it even easier.

### Space

Typically, space is measured in the square feet of your home that is used for care and the total square footage of your home. Exclusive use is space that is only used for child care and has no personal use. Regular use space includes areas that may be used all day for care (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. As a rule of thumb "regular use" means you use the space two or more times per week.

You 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 x 100 = 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 gets .454. By multiplying 0.454 by 100, she calculates that 45.4% of her home is used regularly for care.

## Time

Time is the total number of hours you used your facility on average. This includes not only the time that you are caring for children, but also the time you used the space for cleaning, cooking, and preparing for the care of children. You can also include the time when your business was closed but you were preparing to open.

DESCRIPTION	EXAMPLE	YOUR HOME
Square feet <b>exclusively</b> used for care. Exclusive use areas are only used for childcare business purposes and no personal purposes whatsoever. If no exclusive use, enter 0.	0	
Square feet <b>regularly</b> used for care Regular use areas are shared for both personal and child care business purposes.	500	
Total square feet 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.	1,100	
Exclusively used space percentage. Divide spaced used exclusively by the total square feet in your home for a percentage.	0%	
Regularly used space percentage. Divide spaced used regularly by the total square feet in your home for a percentage.	45.4%	
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 childcare 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.	2,890	
Total hours in a year.	8,760	8,760
Divide the time spent for care by the total number of hours in a year to create a percentage.	32.9%	



<p>Multiply your <b>regularly used space percentage</b> 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>45.4% * 32.9% = 14.9%</p>	
<p><b>If you have exclusively used spaces:</b> Add to your <b>regularly used Time-Space Percentage</b> to your <b>exclusively used space percentage</b>.</p> <p>If you don't have exclusively used spaces, skip this step.</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>	<p>N/A in example</p>	

For example, let's say your business is open and providing care for children 10 hours a day. During the hours that you are closed, you clean and set up for two hours a day. Combined, this would give you 12 hours a day that you were using your facility. Then, let's say you were closed for four weeks but did 10 hours of work in this time to maintain the space and prepare for re-opening. Your total hours would be:

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

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

For example, our provider above uses her home for care 2,890 hours a year. When you divide 2,890 by 8,760 you find that her home is used for business 0.329 or 32.9% of the time.

### Calculation

To calculate how much of your home expenses you can deduct, multiply the Space of your home you use for your business by the Time you use your home for the business. Then multiply the result by the costs of your home.

In our examples above, the provider is using 45.4% of her home (Space) for care that is provided 32.9% (Time) of the year. If she multiplies 45.4% times 32.9% she gets 14.9% ( $0.454 \times 0.329 = 0.149$ ). So, she can deduct 14.9% of her home expenses.

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

### Step 2: Collecting allowable expenses for your home

The full amount of expenses that are for your home and directly related to your business can go under your expenses under the applicable Schedule C line (as we mentioned under the section on expenses).

Now you want to focus on collecting indirect expenses related to your home, such as electricity usage, which is partially for your business, but also partially for your own use.

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

**PRO TIP** Make sure you have records of indirect expenses for your home, just like your other expenses.

**Indirect Home-Based Business Expenses (subject to time-space percentage)**

Click the link to access the [digital version](#) of this worksheet you can download and use.

INDIRECT EXPENSE	NOTES	TOTAL AMOUNT	DEDUCTIBLE AMOUNT (TOTAL AMOUNT X BUSINESS USE %)
Rent	The full amount you paid over the year.		
Mortgage Interest & Mortgage Insurance Payments	Not mortgage principal		
Real Estate Property Taxes			
Electricity			
Gas			
Oil			
Water			
Home Phone, Internet, & Cable			
Common Area Repairs	Such as repairing the front steps of your home if they are used by clients when they stop by to meet with you.		
Cleaning & Lawn Care Services			
Homeowner's or Renter's Insurance			
Other			
Total			

## How do I handle stimulus program funds?

Many home-based child care providers benefited from federal and state stimulus programs in 2022. The funding programs do have different tax implications, so it is helpful to review some of the most common ones.

### Stabilization Grants

Many state and local governments used stimulus funding to provide one-time grants to providers, often referred to as “stabilization grants” for personal protective equipment or other needs. Typically, you will receive a Form 1099-NEC displaying the income received. Even if you do not receive a Form 1099-NEC, this revenue should be noted as income for your business (and will be treated as any other source of income). Many business purchases that you made with grant funds will be subject to usual tax deduction guidelines.

Each state administers its own stabilization grant on its own terms and timeline. To find Stabilization Grant Applications for your State or Territory, visit the [Child Care Technical Assistance Network](#).

### Additional Subsidy Funding

Many home-based childcare providers received additional subsidy funds (for example, based on pre-COVID enrollment or at a higher rate). This helped to make up for gaps in revenue due to drastic decreases in enrollment. These funds need to be recorded as revenue for your business and are likely already included in a 1099-NEC you received from the Child Care Resource and Referral agency or other entity that paid you.



## Great! I am ready to file my taxes. How do I get started?

### Decide if you want to file your own taxes for free or if you need a paid tax preparer.

Part II: Filing Your Return Online will help you use MyFreeTaxes to prepare your return for free using online software. This is a great option for people who want to avoid paying tax preparation costs or surprise fees. Head to [MyFreeTaxes.com](https://MyFreeTaxes.com) to get started.

However, if your tax situation is especially complicated and you choose to use professional tax preparation services, it is important to find a service that is right for you. Here are some things to consider if you make the choice to pay for tax preparation service.

### Make sure your tax preparation service is qualified.

All tax preparers should have an IRS Preparer Tax Identification Number (PTIN). Paid tax preparers are required to register with the IRS so be sure to ask for this in advance as they are not allowed to prepare your tax return without one. You can use this IRS [directory](#) to verify a preparer's PTINs and credentials. Ask if your tax preparer has any professional credentials. Enrolled agents (licensed by the IRS), certified public accountants, or attorneys all work as tax preparers. Other qualified preparers may be participants in the Annual Filing Season Program, bookkeepers, or certified financial planners.

You can search for qualified tax preparers in your area on the [IRS Directory of Federal Tax Return Preparers](#).

### Look at your tax preparation service's history and experience.

Experience counts when looking for a qualified tax preparation service. In addition to checking for length of previous experience, make sure your tax preparation service has knowledge that is relevant to your specific circumstances. Ask if your tax preparer is part of any professional organizations or takes any continuing education classes to keep up to date. Make sure your tax preparer knows your state and local tax requirements in addition to federal return requirements.

### Evaluate your tax preparation service's costs.

It is important to properly evaluate the cost of your paid tax preparation options, as many paid tax preparation services may cost more than you realize. Here is some information that can help you ensure you don't pay more than you intend.

Approximately how much might it cost to use paid tax preparation options?

- If you have a typical home-based child care business and choose to use paid online software to file your return, you may pay \$60-\$250 depending on the features you choose (e.g., audit protection).

**PRO TIP** Around half of all individual tax returns are filed without the use of a professional tax preparer. If you're comfortable using email and online banking services, we think there is a good chance you can comfortably prepare your own return for free using MyFreeTaxes. Head to [MyFreeTaxes.com](https://MyFreeTaxes.com) to get started and consult the *MyFreeTaxes Self-Employed Tax Guide* for in-depth help completing your return using free online software.



- If you have a typical home-based child care business and choose to hire a paid tax preparer to file your return for you, you may pay on average \$400 for the Form 1040 and Schedule C. This amount increases if you add itemized deductions and any other forms, such as quarterly estimated tax forms.

Remember, the entry cost is just the cost to file your forms, and the price may be higher if you elect to add on additional services and features.

**Do not leave your original tax documents with the tax preparer.**

Have the preparer scan or photocopy your documents if they need to work on your return while you are not there. You want to avoid leaving your important original tax documents with a preparer as you may have trouble getting them back. You may need your original documents later if you need to amend or resubmit your return or if you get audited.

**Get a copy of your completed return as soon as it has been submitted.**

You should keep a copy of your completed return for your own records. You may need a copy of your tax return to prove your income when applying for a loan or other financial product, and the easiest time to obtain a copy of your return is immediately after your preparer completes it.

**Other questions to ask:**

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

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

First, make sure that you get written confirmation that your state and federal taxes were submitted, either from your online tax software or from your tax preparer if you used one.

Also, make sure you have your own hard copy of your filed tax return and all documents included in your filing. It's good to have a copy for your records and, you never know when you might need a copy quickly.

While several of the online tax programs allow you to login at any time and print or download a copy of your return, tax preparers may or may not be easy to reach outside of tax season. In addition to the hard copy of all the documents in your tax return, it is recommended to have electronic copies as well. Digital copies could be made by scanning hard copies and converting them to PDF files, or taking photos of the documents with your phone, and saving the files on a secure device.

Finally, make sure all the original documents submitted to your tax preparer are returned to you. Keep all receipts, proof of payments, 1099s, and all other tax-related documentation for at least four years.

**PRO TIP** You can use the [IRS Get Transcript Tool](#) to access your tax records online. Here, you can see your prior year adjusted gross income (AGI) and get all transcript types such as a **Tax Return Transcript** and a **Wage & Income Transcript**.

### How can my business benefit from filing my taxes?

Taxes are often associated with confusing and overwhelming forms, anxiety about future audits, and fears of a large tax bill. But tax season can also be an opportunity for small business owners to save money, prevent future issues, and provide the documentation you need to grow your business, like a business loan.

**PRO TIP** You can use [Google Drive](#) to store your tax return and related documents digitally!

When you are self-employed, you do not have paystubs to show a bank when you are seeking a loan. Giving them your bank records will also not be sufficient. What most lenders look for are financial statements to show your business's income and your tax returns to show your personal income history. Often, lenders will use Line 31 (Net Income) on your tax return to prove your income for a mortgage or business loan.

### What business resources can I access for more training on taxes and other business topics?

[America's SBDC](#) represents America's nationwide network of Small Business Development Centers (SBDCs) – the most comprehensive small business assistance network in the United States and its territories. Sponsored by the US Small Business Administration (SBA), they provide management assistance to small business owners in the form of one-on-one counseling, training seminars, assistance with SBA loans, and technical assistance.

Small business owners and aspiring entrepreneurs can go to their local SBDCs for FREE face-to-face business consulting and at-cost training on a variety of topics. There are nearly 1,000 local centers available to provide no-cost business consulting and low-cost training to new and existing businesses. SBDCs help local businesses start, grow, and thrive.

You may also call [211](#) to get connected to additional resources and services that can help you, your family, and your business.

### **Year-Round Tax and General Business Resources**

Now that you've filed your tax return this year, consider changes you might make to help the process go even smoother next year! The following pages include additional resources that may help you learn more about certain tax topics and business practices that can improve your business operations and your tax filing experience.

Resource 1: [Mileage Log](#)

Resource 2: [Confidence in Quality Tax Prep Rubric® for Child Care Providers](#)

Resource 3: [Payroll Taxes](#) (for businesses with employees)

Resource 4: [Quarterly Estimated Tax Payments](#) (for self-employed individuals)

Resource 5: [What to look for in a business bank account?](#)

Resource 6: [How can I create a simple financial system for my business?](#)

Resource 7: [What is depreciation?](#)

## Resource 1: Mileage Log

Click to access the [digital version](#) of this worksheet.

DATE	DISTANCE	LOCATION	PURPOSE
e.g. 11/2/2022	e.g. 5.5 miles	e.g. Burbank Wal-Mart	e.g. Picking up supplies

TOTAL DISTANCE (ADD UP ALL YOUR ENTRIES)	MULTIPLY BY THE IRS PER MILE RATE	TOTAL EXPENSE AMOUNT
	<b>0.585</b> (1/1 through 6/30/2022) <b>0.625</b> (7/1 through 12/31/2022)	

The IRS standard mileage rates for 2022 are available here:

<https://www.irs.gov/newsroom/irs-increases-mileage-rate-for-remainder-of-2022>

## Resource 2: Confidence in Quality Tax Prep Rubric® for Child Care Providers

Luminary Evaluation Group created the Confidence in Quality Tax Prep Rubric® for Child Care Providers so that a provider or partner can evaluate if their federal tax returns are consistent with best practices for their program type. This rubric was informed by an analysis of a set of child care provider tax returns. It can be used widely, especially by organizations who offer business technical assistance to childcare providers, to ensure they are applying these practices. Providers can also use this rubric with their paid preparer to guide tax preparation or feel empowered to submit their own returns and save several hundred dollars on fees. The rubric can also be used to retroactively review past submitted tax returns.

Through this opportunity for the assessment of past taxes, providers can search for errors and amend returns for up to three years, receiving back money they overpaid in already submitted returns. This rubric has been created under a Creative Commons CC BY-NC license allowing use and adaption with attribution and for non-commercial purposes.

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

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

## GLOSSARY

### Money coming into your business

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

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

### Money going out/costs to conduct your business

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

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

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

## Money you owe as a result of doing business

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

## Money the government owes your business

**Deductions** can help reduce your tax liability. You can deduct certain expenses which will subtract the cost of the expenses from your taxable income. Allowable expenses are already categorized on Lines 8 through 26. However you may have other expenses that do not fit into those categories. Those other expenses should go on Line 27a. The result of using deductions is to lower your tax liability (the amount of taxes you owe).

A **Refund** is owed to you if you paid the IRS more than you owed during the prior year. For example, if your quarterly estimated tax payments paid during the year add up to more than you owe when you file your tax return, then the IRS will owe you a refund. The difference will come back to you in the form of cash paid via direct deposit or check.

## An inspection of your tax records

If the IRS issues an **audit**, they are investigating whether the financial information reported on your taxes accurately reflects your financial records and is reported according to tax laws. Some tax filing mistakes increase the likelihood that the IRS will select your return for review. If your return is selected for review (**audited**), you will be asked to provide documentation supporting the information you recorded on your tax return.



**Confidence in Quality Tax Prep Rubric<sup>©</sup>**  
**A 2022 Form 1040 Schedule C Tax Form Rubric**



LINE ENTRIES	COMMONLY USED FOR SMALL BUSINESSES?	NOTES
<b>Gross receipts (Line 1)</b>	<b>Required</b>	Enter all revenue earned for the year and should include all parent fees paid, subsidy revenue, and food program payments you received.
<b>Cost of goods sold (Line 4)</b>	<b>No</b>	Use of this Line could trigger an audit alert since it would be extremely uncommon (if ever used) in childcare.
<b>Gross profit (Line 5)</b>	<b>Required</b>	This will usually be equal to Line 1.
<b>Advertising (Line 8)</b>	<b>Yes</b>	Enter all expenses for ads, flyers, business cards, and promotional materials.
<b>Car and truck expenses (Line 9)</b>	<b>Yes, use caution</b>	Providers can deduct the actual expenses of operating their car for business (gas, oil, repairs, insurance, license plates, tolls, parking, etc.) by calculating the percentage of time that the vehicle is used for business.  Alternatively, they can perform the <a href="#">Standard Mileage rate calculation</a> : multiply the number of business miles driven by 58.5 cents for 1/1-6/30 and 62.5 cents for 7/1-12/31 then add to this amount your business portion of car loan interest and parking fees and tolls. You must be able to document how you came to the total entered.
<b>Commissions and fees (Line 10)</b>	<b>No</b>	Providers using this expense are encouraged to seek professional advice.
<b>Contract labor (Line 11)</b>	<b>Yes, use caution</b>	Enter all payments made to 1099 contractors. Providers should be mindful not to misclassify employees as contractors. For more information on classifying workers, see <a href="#">When Is Someone a Contractor or Employee?</a>
<b>Depletion (Line 12)</b>	<b>No</b>	Providers using this expense are encouraged to seek professional advice.
<b>Depreciation (Line 13)</b>	<b>Yes, use caution</b>	Depreciation must be applied only for business use of certain property. Providers using this expense are encouraged to consider seeking professional advice. Review <a href="#">What is Depreciation?</a> to learn more about Depreciation.

<b>Employee benefit programs (Line 14)</b>	<b>Yes, use caution</b>	<p>If you offer employee benefits, enter amounts paid for employee benefits (i.e., health plans, supplemental insurance, life insurance).</p> <p>This is not a typical expense for home-based providers.</p> <p><b>Providers using this expense are encouraged to seek professional advice.</b></p>
<b>Insurance (other than health) (Line 15)</b>	<b>Yes</b>	Enter amounts paid for liability insurance and any other business-related insurance.
<b>Mortgage Interest (Line 16a)</b>	<b>Yes</b>	Enter amounts paid in mortgage interest on an owned business property. For home-based providers this is likely a part of their time/space calculation already.
<b>Other interest (Line 16b)</b>	<b>No</b>	This refers to other interest such as credit card interest. Providers using this expense are encouraged to seek professional advice.
<b>Legal and professional services (Line 17)</b>	<b>Yes</b>	Enter amounts paid for legal and other services such as accounting, consulting, tax prep, etc.
<b>Office expense (Line 18)</b>	<b>Yes</b>	Enter amounts paid for office supplies and postage.
<b>Pension and profit sharing (Line 19)</b>	<b>No</b>	<p>This must be a company sponsored program (i.e., not the providers' personal or spouse's retirement plan).</p> <p>Providers using this expense are encouraged to seek professional advice.</p>
<b>Vehicle Rent or lease (Line 20a)</b>	<b>Yes</b>	<p>Enter the business portion of your vehicle rental or lease cost. For a company car, this would be 100% of costs.</p> <p>For use of personal vehicle for business-related purposes, enter business related costs only.</p>
<b>Other business property rent or lease (Line 20b)</b>	<b>Yes</b>	<p>Enter the amounts paid for renting business property.</p> <p>For home-based providers, this is likely included in their time/space calculation already.</p>
<b>Repairs and maintenance (Line 21)</b>	<b>Yes</b>	<p>Enter amounts for repairs and maintenance made in the child care facility.</p> <p>Home-based providers should include repairs made to spaces used for child care. If the repair is of a common area, that would be captured in the time/space calculation.</p>
<b>Supplies (Line 22)</b>	<b>Yes</b>	Enter the amounts for materials and supplies (i.e. – classroom supplies, learning materials, toys, diapers and wipes, cleaning supplies, etc.)
<b>Taxes and Licenses (Line 23)</b>	<b>Yes</b>	Enter the amounts for license fees.

<b>Travel (Line 24a)</b>	<b>Yes</b>	Enter amounts for lodging and transportation associated with business travel (i.e., conference attendance).
<b>Deductible meals (Line 24b)</b>	<b>Yes, use caution</b>	Enter the amounts for your meals while on business travel or business-related meetings. Note that this Line should not be used to claim food expenses for children's meals. Those expenses can go on Line 27a, Other expenses.
<b>Utilities (Line 25)</b>	<b>Yes</b>	Enter amounts paid for utilities for the child care facility. For home-based providers, this is likely included in their time/space calculation already.
<b>Wages (Line 26)</b>	<b>Yes, use caution</b>	Enter the total salaries and wages for the year for W-2 employees and yourself (if you pay yourself through payroll).  For more information on paying yourself, see <a href="#">Paying Yourself: A Guide for Sole Proprietors</a> .
<b>Other expenses (Line 27a)</b>	<b>Yes</b>	Enter amounts for all other expenses that do not fall into the above categories (i.e., professional development expenses, membership fees, special events for the children, children's food expenses, etc.).
<b># of expenses claimed</b>		This number should never be zero. There will always be expenses to claim for your small business.
<b>Total expenses (Line 28)</b>		This is the sum of all claimed Schedule C expenses.
<b>Business Use of Home (Line 30)</b>		Home-based providers operating from their primary residence should always claim the business use of home deduction. <b>This applies to expenses that have a shared personal and business use.</b> If a provider has an expense that is 100% business use, that expense should be fully claimed on the applicable expense line.  Business use of home does not typically apply to center-based programs.
<b>Time/space percentage (%)</b>		To calculate time/space, view <a href="#">this worksheet</a> .
<b>Time/Space (\$) (Line 30)</b>		Amount calculated from worksheet.
<b>Net profit or loss (Line 31)</b>		This is your revenue minus expenses.

### Resource 3: Payroll Taxes (for businesses with employees)

Learn how to understand your payroll tax obligations as an employer.

#### What are Payroll Taxes?

Payroll taxes are taxes that employees and employers must pay on wages, salaries, and tips. The employee pays their portion of these taxes through a payroll deduction and the employer pays the rest directly to the IRS. Typically, the employer will report payroll taxes using Form 941, Employer's Quarterly Federal Tax Return.

There are different types of payroll taxes:

1. Federal income tax
2. Social Security and Medicare (also known as FICA)
3. Federal Unemployment (also known as FUTA)

#### How much are Payroll Taxes and when are they due?

Some payroll taxes are a fixed percentage of wages, and some are dependent on the employee's tax bracket. There are also various due dates for these taxes. Here is a helpful chart that describes the tax, the amount, who is responsible for paying it, and when it's due:

Tax Type	Amount	Due Date	Responsible Party
Federal income tax	Varies, based on individual withholding status.	Withheld from each paycheck issued; paid to the IRS from employer <b>monthly</b> if you reported \$50,000 or less in taxes July 1 – June 30 of the previous tax year and <b>semi-weekly</b> (twice a week) if total taxes reported were more than \$50,000.	Employee, but employer must withhold based on W-4 received.
FICA	Social Security – 12.4%		Employer and employee each pay 6.2%
	Medicare – 2.9%		Employer and employee each pay 1.45%
FUTA	6% on the first \$7,000 in wages paid per employee, each year.	Quarterly	Employer

### What forms must be completed?

- Form W-4 – completed by employee to let the employer know how much payroll tax to withhold. The amount withheld will be calculated based on their marital status, number of dependents, and any additional withholding they may choose. This is completed once an employee is hired, prior to their first paycheck and can be updated by the employee if their tax situation changes.
- Form W-2- you must file Forms W-2 to report wages paid to employees. This must be issued by January 31 to any employee with wages withheld during the previous tax year.
- Form 941 – used to report income taxes, Social Security tax, or Medicare tax withheld from employee's paychecks and can be used to pay the employer's portion of Social Security or Medicare tax. This is due quarterly by the last day of the month that follows the end of the quarter:

Quarter	Months in the Quarter	Form 941 Due Date
1	January, February, March	April 30
2	April, May, June	July 31
3	July, August, September	October 31
4	October, November, December	January 31

- Form 940 – used to report any FUTA tax. The due date for filing the Form 940 is January 31.

### What about part-time workers?

Part-time workers and workers hired for short periods of time are treated the same as full-time employees for federal income tax withholding and social security, Medicare, and FUTA tax purposes.

### What about family employees?

One of the advantages of operating your own business is hiring family members. However, employment tax requirements for family employees may vary from those that apply to other employees. View the [Family Help resource](#) to learn about the tax requirements for family employees.

For more information, review [IRS Publication 15, Employer's Tax Guide](#).

### How to determine if someone is an employee or 1099 contractor?

Employees and contractors are treated very differently under federal and state law. Contractors are considered independent business people. They pay their own employment taxes and the employer usually has fewer legal obligations to the individual, such as providing paid time off. Employees, on the other hand, come with greater costs, like employment taxes and benefits.

There are rules that determine if a person should be considered an employee or a contractor and there can be harsh fines if you misclassify an employee as a contractor.

In determining if you have a contractor or employee, you should look at the three essential elements of the definition of employment: **service**, **wages**, and direction and **control**.

In determining if you have a contractor or employee you should look at the three essential elements of the definition of employment: service, wages, and direction and control.

1. **Service (Type of Relationship)**– Does the person work on a project-by-project basis (like a contractor)? Does the person work for other businesses or just for you?
2. **Wages (Financial)**– How is the person paid? For example, is the person paid every week for a set number of hours (which indicates an employee), or does the work vary (like a contractor)? Do they have regular expenses that are reimbursed (like an employee)?
3. **Direction (Behavioral)** – How much control do you have over their day-to-day work? For example, do you set the requirements around their work hours, the equipment or tools to be used, or the training needed? (If yes, then this person is likely an employee.)

**PRO TIP** Don't use Forms 1099 to report wages and other compensation you paid to employees; report these on Form W-2.

For more guidance, run through the [IRS list of 20 factors](#) that indicate if someone is a contractor or an employee.

**Disclaimer:** The information contained here has been prepared by Civitas Strategies Early Start and is not intended to constitute legal, tax, or financial advice. The Civitas Strategies Early Start team has used reasonable efforts in collecting, preparing, and providing this information, but does not guarantee its accuracy, completeness, adequacy, or currency. The publication and distribution of this information is not intended to create, and receipt does not constitute, an attorney-client or any other advisory relationship. Reproduction of this information is expressly prohibited.

## Resource 4: Quarterly Estimated Tax Payments (For Self-Employed Individuals)

### What are quarterly estimated taxes?

Quarterly estimated taxes are estimated self-employment (SE) tax payments you may need to make to the IRS four times a year. Self-employment taxes are taxes that freelancers, independent contractors, and other business owners pay towards Medicare and Social Security. W-2 employees have these taxes taken out of their paychecks by their employer. However self-employed people need to pay these taxes to the IRS themselves. Typically, the deadlines for these payments are on the 15th of April, June, and September of the current year, and January of the following year:

Payment Period	Due Date
January 1 – March 31	April 15
April 1 – May 31	June 15
June 1 – August 31	September 15
September 1 – December 31	January 15 of the following year

Making quarterly estimated self-employment tax payments during the year means that you pay most of your tax during the year, as you receive income, rather than owing one large amount at the end of the year. These payments are based on your estimated income for the current year.

View [When to Pay Estimated Tax](#) for more information.

### Do I have to pay quarterly estimated taxes?

Self-employed individuals generally have to make estimated tax payments if they expect to owe tax of \$1,000 or more when their income tax return is filed.

If your net earnings for the year are greater than \$15,000, you will likely owe at least \$1,000 in self-employment taxes and therefore will be required to make quarterly estimated self-employment tax payments. This figure is if you have no dependents and no other personal credits on your tax return. If you do, then you may be able to have a higher net earnings before you're subject to making quarterly payments.

### Key Terms

**Self-employment tax** - a Social Security and Medicare tax primarily for individuals who work for themselves. The SE tax rate is 15.3% (12.4% for social security tax and 2.9% for Medicare tax) and it is applied to 92.35% of your net earnings from self-employment.

**Quarterly estimated tax** - Estimated tax is the method used to pay your self-employed Social Security and Medicare taxes and income tax. Those who are not self-employed will have an employer withholding these taxes for them and paying these taxes at regular intervals to the IRS. Because you do not have an employer doing that for you, you need to pay them yourself, quarterly.

**Income tax** - self-employed individuals generally must pay self-employment tax as well as income tax. Income tax is tax on personal income. For a self-employed person, their personal income is their net profit (Line 31 of the Schedule C). Income tax is also paid on all other types of income you may have (for example, capital gains). Your income tax rate will depend on a number of things such as your filing status, household income, and whether you have any dependents.



Find more information on whether you will need to pay quarterly estimated taxes in the [IRS FAQ](#).

To avoid making quarterly payments, you can also have your spouse withhold enough in taxes to cover your Social Security/Medicare and income taxes. If you are single or you have a spouse who is unemployed or self-employed, you will most likely need to file quarterly estimated taxes.

You can also make monthly estimated tax payments which may be easier to budget than paying a larger amount quarterly.

### How much do I pay each quarter?

Any self-employed business must pay a 15.3% self-employment tax (which is both the employee and employer portions of the Medicare and Social Security taxes). The amount is calculated with the [1040 estimated tax form](#). You must pay at least 90% of the taxes you owe for the quarter to avoid paying a penalty.

To get a rough estimate of how much you owe each quarter, add up all your income and multiply it by 20%. If you pay that 20% and it's more than you actually owe, you will get a refund at the end of the year. If it's too little, you will owe some additional taxes when you file your tax return. It's unlikely that you will face a penalty if you pay greater than 20% of your income in taxes each quarter.

### For Example:

DESCRIPTION	EXAMPLE AMOUNT	YOUR AMOUNT
<b>Self-Employed Net Income (Schedule C, Line 31)</b> This is your profit after deducting business expenses from your revenue.	\$15,000	
<b>Self-Employed Income Subject to Self-Employment Tax</b> This is 92.35% of your net income	\$13,853 (\$15,000*0.9235)	
<b>Self-Employment Tax</b> This is a 15.3% tax on the amount of your self-employed income subject to self-employment tax.	\$2,120 (\$13,853*0.153)	
CREDITS		
<b>Self-Employment Tax Credit</b> Self-employed individuals receive a 50% credit on their SE tax	\$1,060 (\$2,120*0.5)	
<b>Other credits</b> Enter any additional credits that you are expecting to receive when you file your tax return, this can be the Earned Income Tax Credit, Child Tax Credit, Child and Dependent Care Tax Credit, American Opportunity Tax Credit	\$0	



TAX OWED & QUARTERLY ESTIMATED TAX		
<b>Tax Owed</b> This is the amount you get when you subtract all expected credits from all anticipated tax owed (this is SE tax plus any other personal tax liability).  <b>If this amount is over \$1,000 you must make quarterly estimated payments. If it's below \$1,000 you do not have to make quarterly estimated payments.</b>	\$1,060 (\$2,120-\$1,060)	
<b>Quarterly Estimated Payments</b> This is the amount you may be required to pay to the IRS quarterly.	\$265.00 (\$1,060/4)	

## Resource 5: What to Look for In a Business Bank Account?

### Learn about Opening a Business Bank Account.

Setting up a business account isn't difficult and is the best first step to ensuring that you're clearly separating your personal and business revenue and expenses. Once set up you will easily "see" what money is in your business versus your own pocket, and it will be easier for you to do your bookkeeping and taxes.

This resource, and the following resource, will walk you through the basics of developing a financial system for your business. This consists of two important steps – getting a business bank account and adopting a bookkeeping system.

Getting a business bank account can be simple. As a sole proprietor, you have multiple options. You are not required to have a traditional business bank account, however the best practice is that you at least have separate accounts for your personal and business finances. You may want to use the bank that holds your personal accounts already, or you may want to look for the best deal for your business. We recommend you look at 2-3 account options to be sure you are making the right choice.

### What are the features of a Business Bank Account?

Typically, a business bank account requires you to have an Employer Identification Number (EIN) and offer features that do not come with a standard personal account. Some of those features include:

- Protection services for you and your customers
- Allows for credit card payments to you directly, not through a payment processor
- Credit options that will allow your business to grow or use in emergencies
- Helps establish your business credit

For more features and details on business bank accounts, view [Open a Business Bank Account](#) by the U.S. Small Business Administration.

### Choosing a Bank

In selecting a bank for your business account, first and foremost, relationships are important. You want to make sure that the bank will be responsive to your needs and your questions and provide the opportunity to grow over time. Once you've established a relationship with your bank, you may be eligible for financial supports such as a business loan or a line of credit that could help you to grow your business. Look for a bank that offers these services.

Think about how the bank treats you from the moment you first walk in the door. Do they seem eager to talk? Does the bank employee appear to want your business? If the bank isn't excited to see you when you are a prospective customer, they are not very likely to be there when there's an issue and you need them the most.

If a bank appears friendly and welcoming, you should consider four other points:

**1. Does the bank require you to deposit a certain amount of money to open the account?**

Understanding how much money may be tied up in the account is important. If the bank requires you to keep a minimum balance, it will then be money that you cannot access easily if you have bills to pay or want to pay yourself.

**2. Are there fees associated with the account? What are they?**

Banks make money by charging fees for their services, but these seemingly small fees can add up quickly. You will need to factor them into your routine expenses.

**3. How many checks can you write a month? How many deposits can you make?**

Some banks will place limits on the number of checks, transactions, and deposits that can be made during each billing period. After you reach your thresholds, the bank will charge a fee for each transaction. Again, this is going to erode how much money you're making, so it's imperative that you know what the fees are and whether they fit the style of your business.

**4. Will you need a debit or credit card for your business? Do you want the ability to use a credit card that is issued by your bank?**

These are important services, and again, going to the earlier point, may also come with fees, so you want to look very closely at these.

### Decision Time

Review the account options, services, and fees at two, three, or four banks, setting aside any that don't pass the "relationship" test. Then consider the remaining banks – what is the best deal? Think about how much money you are willing to have tied up (i.e., the minimum balance) and how high the fees will be per month, based on your current banking.

For example, Marta is considering two banks, Bank A and Bank B. Bank A has a higher minimum deposit - \$500, but their fees are lower. Based on the number of checks Marta writes a month and that she doesn't need a debit card, Marta calculates that the fees for Bank A would only be \$5 a month. Bank B has higher fees, totaling \$8 a month, but no minimum deposit

The account Marta chooses will depend on her personal and business needs, finances, and preferences.

If you don't already have a bank account, we recommend opening an account that meets the [Bank On National Account Standards](#). These accounts take the stress out of banking by charging only \$5 or less per month with no overdraft or insufficient fund fees and include convenient features like Bill Pay or free checks you can use to help pay rent and other bills without using expensive money orders. These accounts are also great options for anyone with a limited or challenging banking history.

[You can review the full list of available Bank On certified accounts you can open online here.](#)

Unsure how to open a bank account? Check out [United Way's My Smart Money guide to getting a bank account](#) for easy-to-follow instructions.

## Resource 6: How Can I Create a Simple Financial System for My Business?

### Learn about Basic Bookkeeping.

At the heart of any successful business, from a one-person operation to a *Fortune 500* company, is a financial accounting system.

An accounting system is critical because it lets you know where your money is, where it is going, and how much you're making. Having this information readily available will let you pay yourself without putting your company at risk, manage cash flow so that you always have enough money to pay your bills, and know when it's time to expand your business.

### Developing a bookkeeping system

Once you have your business bank account, you can start to think about a basic system for bookkeeping. Bookkeeping is very important because it will help you understand where your money is coming from (tracking revenues), where it is going (monitoring expenses), and how much profit you're making (managing cash flow). Profit is just a fancy way of saying how much money is left after you pay all your bills.

#### Step 1

##### Determine how you will account for funds coming in and going out.

There are two basic methods in accounting — one is an **accrual method**, which is more complex and is based on when an expense or a revenue is taken on or *accrued*. For example, if using the accrual method, the moment you receive your credit card bill, the amount owed would be taken from your assets (versus when you actually pay the bill). If using the **cash method**, this amount would be taken from your assets when the bill is paid. The cash method is more common for businesses and is less challenging, as it is based on when things are paid or received.

Let's look at revenues. Let's say a client owes you \$300. Under the accrual method, that \$300 is considered income at that time even though they haven't paid you yet. Under the cash method, the \$300 wouldn't be considered income until the client gave you the check and you deposited it. For most small businesses, the cash method is both simpler and more helpful because it's going to let you know exactly *when* money is coming in and out of your account. This method is more comfortable because it matches the act of balancing your checkbook.

#### Step 2

##### Determine how you will record your transactions:

Now that you've determined how you will account for funds, you need to determine how you're going to record your transactions. For many small businesses, it is easiest to record transactions on a sheet of paper or on a spreadsheet, such as Microsoft Excel or Google Sheets. You want to set up some simple categories to start.

**Begin with your income.** Determine what the key revenue streams are for your business — that is, the sources from which you primarily receive your money. Parent fees will likely be one source; another might be a child care subsidy or payments from a food service program. Perhaps there are additional funds that you receive for after-school students or grant funds. Each one of these will be a separate revenue stream to account for.

**Next, list your expenses.** This may include items like payroll, cleaning, rent, repairs, supplies, and other categories that match your business. Try to limit the number of categories – you don't need to detail every category that might occur. Focus on the categories you have right now; you can always add more later. With too many categories, the list could become overwhelming, making it difficult to account for spending or revenue.

You can use this example list to categorize your income sources:

<b>Revenue Categories</b>
Income category #1
Income category #2
Income category #3
Fees
Other

You can use this example list to categorize your expenses:

<b>Expenses Categories</b>
Personnel
Taxes
Mortgage/Rent
Utilities
Car lease
Phone
Supplies
Inventory
Cleaning
Insurance
Loan payments
Bank fees
Other

### Step 3

#### Set a schedule to record and review your transactions

You should set a time to update your books, at least every month. Start by looking at all your revenue sources: cash, credit cards, app payment systems like Venmo or Zelle, and checks written to you. Enter each one into your income on your spreadsheet. Next, record your expenses. Look through your receipts, bank and credit card statements, and invoices from people you have paid. Any of these proofs of payment can help you to not only record these costs, but more importantly, ensure that you're recording the correct amount for each one.

Though it may seem tedious to record each transaction, it helps you track your profitability and lets you see where your money is coming and going. Once you have recorded your revenue and expenses for the month, you will then total each category. Subtracting your revenue from your expenses will give you an idea of how much profit you made that month. You may want to

consider holding onto some of that profit, leaving it in the business for a rainy day or to help pay your bills.

You can use this helpful template to record and track your monthly revenue:

What revenue did I receive?			
Date	Description of what I was paid	Amount Received	Category
Total			

You can use this helpful template to record and track your monthly expenses:

What did I pay for?			
Date	Description of what I paid for	Amount Paid	Category

Total	
-------	--

**Bookkeeping Pro Tip:**

Label your receipts so that you remember which category they belong in.

**Accounting Pro Tips:**

**Stick to a regular schedule!** Make sure you regularly update your records, whether monthly, every other week, or every week. This will save time and headaches in the future. Leaving your expenses and revenue to pile up will not help you. You can't understand how your business is doing on a moment's notice, nor will you be able to keep up with your accounting system if it involves an intimidating pile of receipts and statements.

**Consider an electronic system.** It can be tedious to do accounting by hand. So, you may want to create a simple spreadsheet or even get an online system.

When looking for online systems like QuickBooks, FreshBooks, or Xero, consider their ease of use, cost, and complexity. Many of you with a small business may not need QuickBooks or other more complicated systems. Perhaps a simpler, less expensive system that is easier to use would be preferred and work better for your goals.

Make sure you keep all your records, whether you take photos or scan each receipt and statement and save them electronically, or just store everything in a box. It is important to save these documents in case you are audited by the IRS. It also allows you to go back and check your information, if needed.

**Disclaimer:** The information contained here has been prepared by Civitas Strategies and is not intended to constitute legal, tax, or financial advice. The Civitas Strategies team has used reasonable efforts in collecting, preparing, and providing this information, but does not guarantee its accuracy, completeness, adequacy, or currency. The publication and distribution of this information are not intended to create, and receipt does not constitute, an attorney-client or any other advisory relationship. Reproduction of this information is expressly prohibited.





## Resource 7: What is Depreciation?

### Understanding depreciation and how it impacts your financials.

Depreciation can be confusing, but if you make any single asset purchases or property improvements over \$2,500 for your home-based child care business, such as cars, furniture, computers, or a new roof, you need to understand depreciation and how it can impact your business.

Depreciation impacts the timing of revenue and expenses, which may increase your taxes when you make a large purchase or improvement but lowers your taxes in future years. Typically, when you have an expense, it is fully deducted in that year “offsetting” the same amount of earnings. For example, let’s say your business earned \$100 in revenue and you decided to buy a \$100 table for your business. You made \$100 and you get to deduct \$100, so the impact on your taxes is \$0 – since the \$100 was spent on a deductible expense.

Depreciation changes this offset. Let’s say you used \$20,000 in revenue to purchase a new van. In this case, your taxes would reflect the \$20,000 in revenue, but you would only be able to deduct \$4,000 in the first year (we’ll explain why later). As a result, you would have \$16,000 in taxable revenue (that is, the \$20,000 - \$4,000 in depreciation leaves \$16,000 in revenue) for that year. You will depreciate the rest of the van expense in subsequent years.

In this resource, we’ll review the basics of depreciation and how it works so you can understand when you need to prepare for higher taxes and when you don’t.

This document should not be considered tax advice. Please consult with an or accounting professional for specific guidance and information regarding depreciation for your business.

### What is depreciation?

Whenever you make a business purchase that you will use for more than one year, the Internal Revenue Service (IRS) requires it to be depreciated. This means that you will deduct the cost on your business taxes over time, rather than only the year when you purchase it. Instead of getting all of the deduction in one year, you get it slowly, over a number of years.

### Key Terms

**Asset** - property you acquire to help produce income for your business. Assets are subject to depreciation. An asset is a single item, not a group of items. For example, an office sofa that costs \$3,000 rather than 10 chairs that were \$300 each.

**Basis** – the full cost of an asset to you, includes purchase price, sales tax, freight, and other costs.

**Depreciation** - an annual income tax deduction that allows you to recover the cost or other basis of certain property over the time you use the property. Usually, you must depreciate single item purchases over \$2,500.

**Improvement** – a renovation that enhances the value of or improves the life of property.

**Repair** – fixing the normal “wear and tear” of an item, such as replacing shingles that fell off, but not the whole roof.

**Time-Space** – a calculation that allows home-based child care businesses to determine their business use of certain property. Providers must first apply time-space to the item or property before calculating allowable depreciation. Learn how to calculate your time-space [here](#).

Depreciation can apply to many things in your business including:

- Furniture
- Appliances such as dishwashers
- Computers
- Buildings that you own and renovations
- Vehicles

**What is the difference between renovation and repair?** A renovation is a structural change to the foundation, roof, floor, or exterior or load-bearing walls of a facility or extending an existing facility to increase its floor space. If an existing facility's function or purpose is significantly changed, this is considered a renovation as well. A repair service or part restores an existing building or piece of equipment to optimal working condition. A repair does not change the function or purpose of what is being fixed. A repair is never depreciated, but a renovation always is.

### What is subject to depreciation?

To determine if a purchase that you make for your business is subject to depreciation you need to ask the following questions.

1. **Is the item “ordinary and necessary” for your business?** – that is, do you need this to run your business? This is an interesting opportunity for home-based child care business owners since it may make home improvements eligible for deductions (more on that later in this resource).

If it is, then move to the next question. If the item is not “ordinary and necessary” for your business, then it is a personal expense that is not deductible on your business taxes at all.

2. **Can the item last more than one year?** – For example, paper towels will likely be used up in a year, so they would not be eligible. However, a desk or a newly installed deck (for a home-based child care provider) would be items that will last more than one year.

If the item can last more than a year, then move to the next question. If the item cannot last more than one year, then treat it as a typical business expense that would not be subject to depreciation.

3. **Is the value more than \$2,500?** – Any item, even one that could last for years, that has a value of less than \$2,500 is considered a “safe harbor” and can be deducted all in one year and without being subject to depreciation. Keep in mind, that this is a per-item limit. For example, if you purchased 50 chairs for \$100 each, even though the total bill was \$5,000, each chair is less than \$2,500 so depreciation will not need to be applied.

If the value is more than \$2,500, then move to the next question. If it is less than \$2,500, then treat it as a typical business expense.

4. **Is this a repair or maintenance cost?** – Costs to repair or maintain items for your business, including your home for child care providers, can be expensed in one year and will not be subject to depreciation. For example, let's say you have your roof shingles repaired and it cost \$3,500. As a repair, you would still be able to deduct it in one year and depreciation will not be applied.

If it is not a repair or maintenance cost, you'll need to depreciate the item. If it is a repair or maintenance cost, report it as an expense on your tax return.

### Home-Based Child Care Providers

There are two other considerations in determining if an item is subject to depreciation for home-based child care providers. First, if an item is exclusively used for your business (for example, a business computer), 100% of the depreciation can be applied to your business. However, if an item is mixed with personal and business use, like a new cooling system, you will need to determine the amount of business use (and deductible amount) using the [time/space calculation](#).

Second, home-based child care providers can deduct the depreciation on their homes. Home depreciation is based on the value of the home and any renovations (improvements to the home that increase its value, such as a new deck), but not the value of the land itself. The best way to determine the land value is through your local assessor's office and then subtract that amount from the total value of your home. For example, if you purchased your home for \$400,000 and the assessor valued the land at \$75,000, then your total depreciable amount would be \$325,000.

**Pro Tip:** Note that when you sell a home where you operated a business, you will need to pay a tax on the depreciation that was allowed or allowable. That means that even if you did not utilize the deduction during the years you operated the business, you will still be liable to factor in allowable depreciation expenses when determining your basis and gain on the sale. This is called depreciation recapture. While a certain amount of the sale of your home will be excluded and not counted as a capital gain, the recaptured depreciation amount will be taxable at a rate of up to 25%. The tax rate will be based on your ordinary tax rate for the given year. Accordingly, it is a good practice to deduct your home when you can to get the benefit of value that will be eventually taxed. More information on this topic can be found in the [IRS Q&A](#).

### How do I depreciate an item?

Once you have identified a depreciable item, you need to determine how you can expense it.

The most basic way to figure out how much you can expense in a given year is called **straight line depreciation** (though there are some other methods your tax professional may use).

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. Here are some common useful life values from the IRS:

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

You can find the current list of all life values in IRS Publication 946, [here](#).

For example, a land improvement such as a new driveway is considered by the IRS to have a 15-year life. So, if you paid \$15,000 for the new driveway, you could deduct \$1,000 a year in depreciation for it, for 15 years (\$15,000 divided by 15).

### Accelerating depreciation

Another option in addition to straight line depreciation is to accelerate your depreciation faster which allows you to expense your purchase quicker. Namely, you can accelerate your depreciation through three special rules:

1. **Section 179 depreciation** is allowable for physical property used for your business more than 50% of the time. Examples of allowable property are office equipment, furniture, vehicles, and most other assets **that are not buildings, or improvements to your building** (including a home used for business. If you are a home-based child care provider who wants to use this depreciation method for an improvement to your home, you will need to show 50% or greater business use.

As another example, for a vehicle, such as a van for transporting children, you will need to show that the miles driven for business purposes are at least 50% or of the total miles driven for a year if you are using this method (alternatively, you can depreciate the car based on the percentage of use for business versus personal driving using straight line depreciation).

For the 2022 tax year, you can write off up to \$1.08 million in eligible Section 179 expenses. The one exception is cars that have a limit to a single-year deduction based on weight. For vehicles under 6,000 pounds, it is \$11,200. For vehicles over 6,000 pounds, but less than 14,000 pounds, it is \$26,200. You also need to make sure you prorate your costs based on the percentage of business use. For example, if you take the total miles driven in the year for your car and 65% of the miles are for your business, you can only depreciate 65% of the purchase price.

2. **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 does not apply to your home) and be used for business 50% or more of the time. This second part is an important one for home-based child care providers since an expense, such as a driveway paving, that meets the criteria of having a useful life of fewer than 20 years may not qualify if the provider's time/space percentage is less than 50%.

One exception, similar to Section 179 depreciation, is there are separate rules for vehicles. For vehicles under 6,000 pounds, you can expense \$19,200. For vehicles over 6,000 pounds, but less than 14,000 pounds, they do not have a limit. Just like Section 179 depreciation, you need to use the vehicle for your business at least 50% of the time based on the total miles driven and the amount of depreciation must be adjusted by the business use.

Bonus depreciation will continue to be 100% through the end of 2022. In the following years, the percentage of depreciation allowed will decrease (starting in 2023 when you will be limited to 80% of value) until it ends completely in December 2026.

3. The **Safe Harbor for Small Taxpayers** can provide another way to accelerate depreciation. This rule comes out of the IRS Tangible Property Regulations and allows providers to deduct repairs or improvements to the home (for home-based child care providers) or a facility that are the lesser of \$10,000 or 2% of the unadjusted basis (that is the value of the property less the value of the land).

For example, let's say you owned a restaurant building that was worth \$350,000 and the land is worth \$50,000. The unadjusted basis would be \$300,000. Two percent of the unadjusted basis would be \$6,000. So, an improvement, like adding an awning that was \$5,500, could be deducted in one year since the cost of the awning was less than \$6,000.

For home-based child care providers, you need to also include the time/space calculation. So, let's say a provider's home is valued at \$400,000 and the land is \$65,000. Their unadjusted basis would be \$335,000. Further, let's assume the time/space calculation shows the provider is using the home for business 35% of the time. Now, the unadjusted basis would be \$117,250 (that is 35% of \$335,000). Two percent of \$117,250 is \$2,345. So, costs under \$2,345 related to repair or renovation could be deducted in one year rather than depreciated over time.

If you use this rule, make sure you or your preparer include a statement with your tax return 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)."*

It is important to note that state limitations can vary, so depreciation, as described above, may only apply to your federal tax return.

### Record Keeping

It is critical to have clear records of your purchases for the depreciation that include what you purchased, when, the total cost, and any indication of the amount of business use (for example was it 100% for business or a mix of business and personal use).

It is also important to keep records of your remaining depreciation so that your tax preparer knows to apply it to future years.

**Disclaimer.** The information contained here has been prepared by Civitas Strategies Early Start and is not intended to constitute legal, tax, or financial advice. The Civitas Strategies Early Start team has used reasonable efforts in collecting, preparing, and providing this information, but does not guarantee its accuracy, completeness, adequacy, or currency. The publication and distribution of this information is not intended to create, and receipt does not constitute, an attorney-client or any other advisory relationship. Reproduction of this information is expressly prohibited.



# Part II:

# Filing Your

# Return Online

**Part 2 Table of Contents**

**PART II: FILING YOUR RETURN ONLINE..... 55**

WHY TAX PREP SOFTWARE IS A GOOD IDEA FOR SMALL BUSINESS OWNERS & SELF-EMPLOYED ENTREPRENEURS ..... 56

HOW TO FILE YOUR TAXES FOR FREE ..... 56

HOW DOES IT WORK? ..... 56

HOW TO USE THIS GUIDE..... 56

ACCESS MYFREETAXES.COM ..... 58

GATHER YOUR DOCUMENTATION ..... 59

ENTER YOUR INCOME ..... 61

BEGIN COMPLETING YOUR SCHEDULE C ..... 67

ENTER YOUR SELF-EMPLOYED INCOME ..... 72

ENTER YOUR SCHEDULE C BUSINESS EXPENSES..... 75

ENTER BUSINESS CAR AND TRUCK EXPENSES ..... 83

ENTER BUSINESS ASSETS SUBJECT TO DEPRECIATION..... 86

ENTERING ACTUAL CAR OR TRUCK EXPENSES..... 90

ENTER YOUR “OTHER EXPENSES” ..... 95

ENTER YOUR BUSINESS USE OF HOME EXPENSES..... 98

QUALIFIED BUSINESS INCOME (QBI) DEDUCTION ..... 109

CONGRATULATIONS!..... 112

PREPARING FOR NEXT YEAR..... 113

## Why Tax Prep Software is a Good Idea for Small Business Owners & Self-Employed Entrepreneurs

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.

Q: How do I know if I am self-employed?

A: If your business is taxed as a sole proprietorship, you are self-employed. You will file a Schedule C to report your business revenue and expenses and pay a self-employment tax of 15.3% on your business profit, after deductions.

### How to File Your Taxes for Free

[MyFreeTaxes](#) helps people file their federal and state taxes for free while getting the assistance they need. United Way provides MyFreeTaxes in partnership with the IRS's Volunteer Income Tax Assistance (VITA) program and is designed to help filers prepare their tax returns on their own or have their return prepared for them for free. Learn more about MyFreeTaxes and the IRS VITA program by reviewing the [introduction section](#) of this guide.

### How does it work?

It's easy! Head to [MyFreeTaxes.com](#) to get started. Once there, use our quick and easy tool to indicate whether you prefer to prepare your own taxes online or want to have your taxes prepared for you. After you tell us how you want to file, we'll ask a few simple questions and connect you to the free tax filing options for which you are eligible.

Most MyFreeTaxes users file their taxes using a version of TaxSlayer® software that the IRS procures for the IRS VITA program. This guide provides step by step instructions for filing your Schedule C tax return through MyFreeTaxes and TaxSlayer.

### How to Use this Guide

You may feel a bit intimidated by the idea of doing your own taxes for your business, but this guide will help you have a hassle-free experience that can save you money, minimize the risk of audit, and help you set goals to improve your business practices for many years to come. You'll come out of tax season more confident about your return and your understanding of it.

This guide builds on the MyFreeTaxes Self-Employed Tax Guide [Part I: Getting Reading for Tax Season](#) and is intended for self-employed business owners. This 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 return. The goal of this guide is to allow you to accurately report your business revenue and expenses while claiming important deductions. This guide is primarily focused on helping you complete your [Schedule C](#), which is the portion of your tax return where you report your business income and expenses. If you need assistance with other parts of your tax return, you can access assistance at [MyFreeTaxes.com/Support](#).

The roadmap below lists the steps in your journey to file self-employed taxes using MyFreeTaxes. Look for this roadmap throughout the guide to chart your progress.

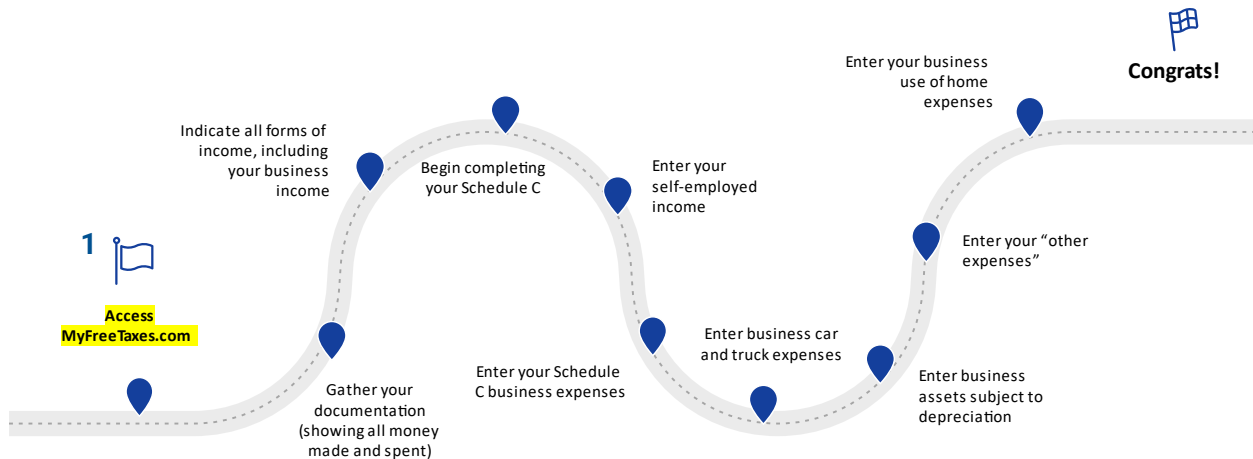
## Filing Self -Employed Taxes Using MyFreeTaxes



## Access MyFreeTaxes.com

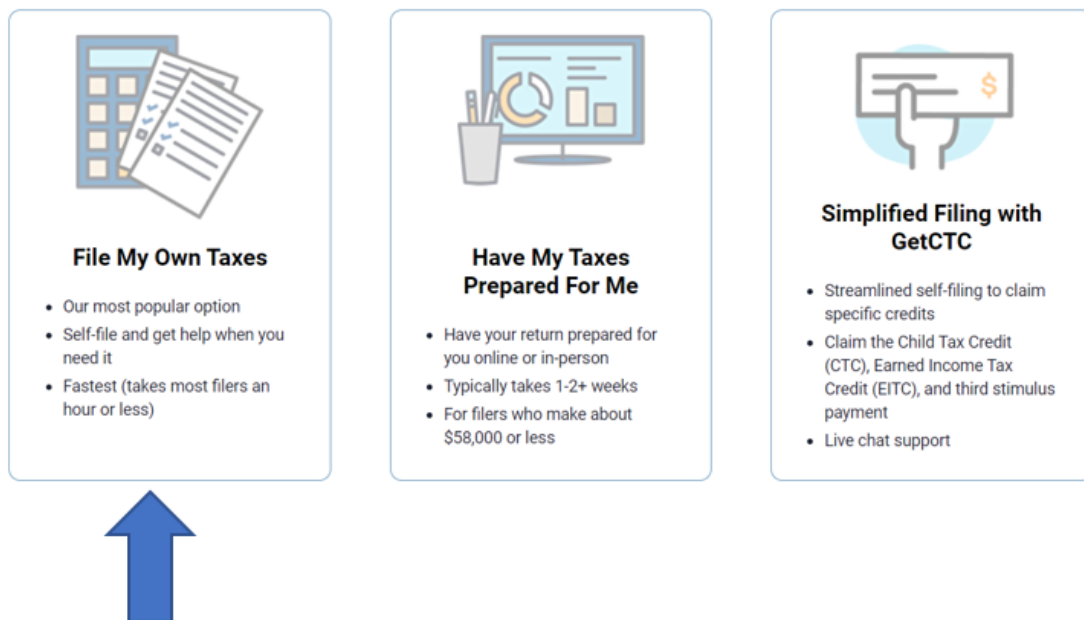
When you access MyFreeTaxes, you will be asked to choose how you want to file your taxes.

## Filing Self -Employed Taxes Using MyFreeTaxes



When you access MyFreeTaxes, you will be asked to choose how you want to file your taxes. You may choose **"File My Own Taxes"** or **"Have My Taxes Prepared for Me"**. For this guide, we used the **"File My Own Taxes"** option because many small business owners are not eligible for the **"Have My Taxes Prepared for Me"** option.

How would you like to file your taxes?



## Gather your documentation

Once you log into the tax software, you will need to enter basic demographic information about yourself (and your spouse and dependents, if you have any):

- Name
- Social Security Number (SSN) or Individual Taxpayer Identification Number (ITIN)
- 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.
- Other information to help determine your personal tax credits and liabilities.

## Filing Self -Employed Taxes Using MyFreeTaxes



Next, to help prepare your business 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 record keeping 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

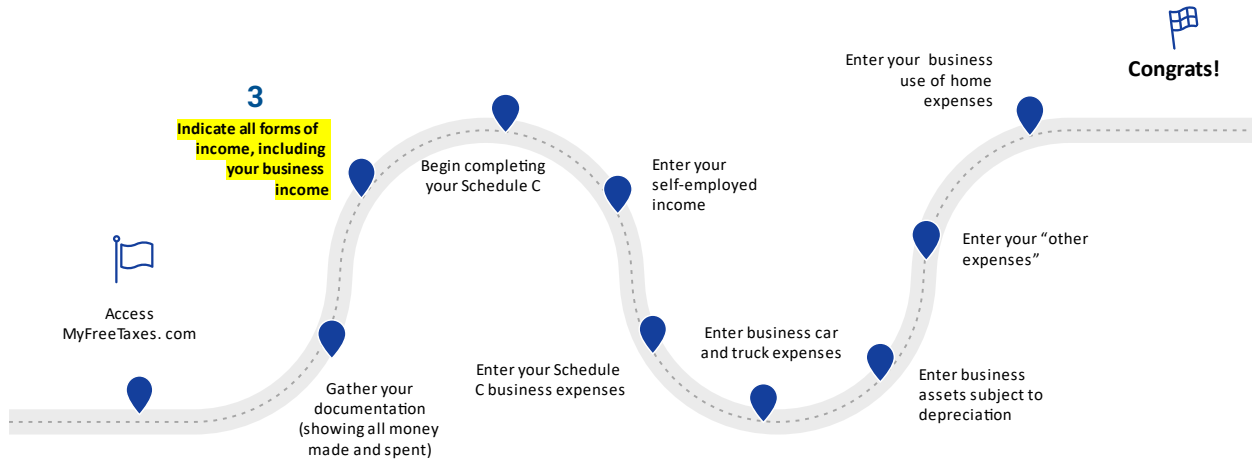
- Paid receipts or invoices for goods or services that you purchased
- Payroll records, if applicable
- Mileage records documenting the business use of your vehicle
- Time-Space percentage calculation for home-based child care providers

Having these records will help you determine which tax forms you will need.

## Indicate all forms of Income

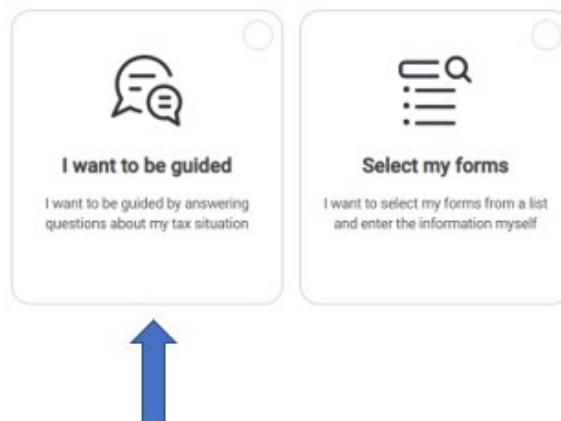
After entering basic information about yourself, you will be prompted to enter your forms of income. We recommend that you choose the **"I want to be guided"** option so you can be taken through a simple questionnaire to determine if any of the forms listed below apply to your tax situation.

## Filing Self -Employed Taxes Using MyFreeTaxes



## Let's look at the money you earned

Now that we've got your basic information covered, it's time to get down to business. Let's start with the money you earned in 2021! How would you like to enter your income?



Alternatively, if you choose **"Select my Forms"**, you will then be shown a list of various income types and the associated tax forms. If you have one of these forms, you will click **BEGIN** to be guided through entering the information from that form into the tax prep system.

## Income

### W-2 *(Most Common Form)* ?

Wages and tax statement

BEGIN

### 1099-G Box 1 ?

Unemployment compensation

BEGIN

### 1099-G Box 2 ?

State or local income tax refunds, credits, or offsets

BEGIN

### 1099-INT, DIV, OID ?

Interest income, dividends, and distributions

BEGIN

### 1099-K

Payment card and third party network transactions

BEGIN

### 1099-MISC ?

Miscellaneous income

BEGIN

### 1099-NEC

Nonemployee compensation

BEGIN

### 1099-R, RRB, SSA ?

Distributions from pensions, annuities, retirement, IRAs, social security, etc.

BEGIN

### 8915-F

Deferred Retirement Income Due to Disaster Relief in a Prior Year

BEGIN

### Alimony Received ?

Payments from a former spouse under a legal agreement

BEGIN

### Capital Gains and Losses ?

May receive Form 1099-B, reported on Schedule D

BEGIN

### Profit or Loss from Business ?

Reported on Schedule C

BEGIN

### Profit or Loss from Farming ?

Reported on Schedule F

BEGIN

### Profit or Loss from Rentals and Royalties ?

Reported on Schedule E

BEGIN

### Less Common Income ?

K-1 earnings, gambling winnings, cancellation of debt, etc.

BEGIN



In order to be directed to complete the Schedule C, you must answer “**yes**” to this question:

INCOME GUIDE

## Business Owners & Contract Laborers

Did you own a business or perform contract labor for an employer in 2021? 

NOTE:

- If you have farm income, select No. You will fill out a different form later.
- If you already entered income from vendors who sent you a Form 1099-MISC or FORM 1099-NEC, select No. You don't need to re-enter that income.

☒ Yes

☐ No

You will then begin inputting your business revenue. Your revenue is 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. These are the forms you will complete:

**Profit or Loss from Business.** This is how you will report self-employed income. This will create your **Schedule C**. Remember that your income includes cash and checks received from families. The bulk of your business revenue and expenses will be included here. Later in this guide, we cover this form in detail and guide you step-by-step.

**1099-NEC.** Here you will enter details from the [1099-NECs](#) that you received. That stands for non-employee compensation. You will likely receive a 1099-NEC for other business-related payments received. For instance, if you received a subsidy or any other contract payments, and you were issued a 1099-NEC, you would include those here. You may also receive a 1099-NEC if you received grants and awards, such as stabilization or relief funds, or other taxable income that came to your program through state funding, like subsidy payments and the food program (CACFP) payments received.

The software uses the same labels that you will see on a 1099-NEC that was issued to you. You will just need to enter the information from your form into the software.

# 1099-NEC

## Miscellaneous Income

### Payer Information

Payer's name \*

Country \*

Address (street number &amp; name) \*

ZIP code \*

 - 

City, town, or post office \*

State \*

☐ Use payer's SSN as ID

Payer's TIN \*

Also may be found in the box labeled Payer's Federal Identification Number

 - 

### Recipient Information

Also may be found in the box labeled Recipient's Identification Number

Recipient's name \*

Country \*

Address (street number &amp; name) \*

ZIP code \*

 - 

City, town, or post office \*

State \*

Account Number

**Payer** – the company that paid you

**Recipient** – your business information

**TIN** – tax ID number (such as an EIN)

## Income

1 Nonemployee compensation

2

3

4 Federal income tax withheld

## State Information 1

☐ I have an amount in Box 5 and/or 7.

**1099-K.** If you accepted \$600 or more in business payments through a third-party payment processor like Square, Venmo, or Cash App you should receive a [1099-K](#). This form lists all of the income you received through this payment processor for the tax year. Check your payment processor account(s), if you have any, to make sure you receive all of your 1099-Ks.

## Form 1099-K

If you accepted payments through a third-party processor like PayPal or Amazon, they probably sent you a Form 1099-K for those transactions. To report 1099-K income, you'll need to create a Schedule C on the next page (don't worry—we're going to walk you through it). Let's take care of that right now!

Note: If your 1099-K includes income from a rental property, report this income on a Schedule E by selecting "Cancel" below then choosing "Rents and Royalties - Schedule E."

CANCEL

CONTINUE

Copyright © 2022 TaxSlaver | [Privacy Policy](#)

Because 1099-K payments are only issued for business transactions, the system will prompt you to enter your 1099-K income when you are completing your Schedule C. Keep your 1099-K(s) handy, because you will enter that income as part of your gross receipts on the **Schedule C – Income** page.

## Schedule C - Income

### Income

Gross receipts or sales (including income reported on Form 1099-K)  
Total Income From Work or Sales

\$

Income reported to you on Form W-2 as Statutory Employee

\$

Returns and allowances

\$

Other Income  
Other Income From Sources Other Than Work or Sales

\$

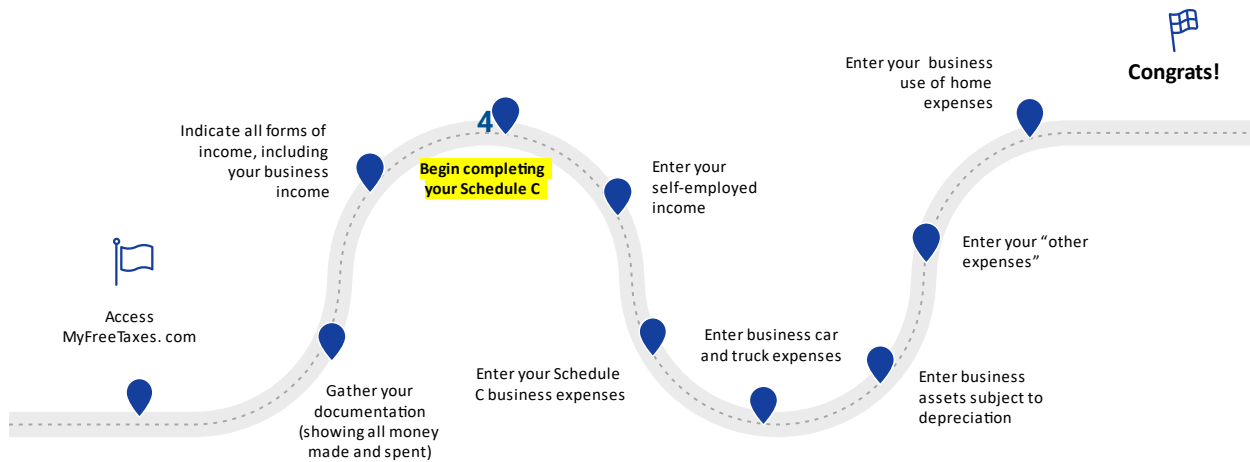
**PRO TIP** See the [MyFreeTaxes Self-Employed Tax Guide, Part I](#) for some helpful worksheets that you can use to organize your income so that you can readily enter it into the tax prep system. They can also keep your taxes organized.

The system also lists **Less Common Income** as an option. This refers to prizes or awards. Be sure to list any grants that you received as Form 1099-NEC income and not less common income. Doing that will ensure that it is taxed correctly as your self-employed income.

## Begin completing your Schedule C

Now, it's time for you to begin to enter the remainder of your gross income and business expenses for your **Schedule C**.

### Filing Self -Employed Taxes Using MyFreeTaxes



### Reporting Profit or Loss from Business (Schedule C)

Let us do the work for you. Follow our step-by-step guide to ensure accurate entry. Or, enter the information on your own if you are familiar with the forms.



We recommend that you choose the **"Guide Me"** option so that you can be guided through the completion of your Schedule C.

First, you will be directed to enter basic information on your business such as the name, tax ID (such as your Employer Identification Number – EIN, if you have one), address, and business type.

If you don't have an EIN, consider getting one for privacy reasons. But you can only use a newly issued EIN if it was created within the tax year of your return. If you created an EIN on January

15, 2023, you could not use it for your 2022 tax return. Once your EIN is created, you will keep the same one to file annually.

## Schedule C

This business belongs to  
Sample D

### Name and Address

Business Name

Leave blank if no separate business name.

Employer ID

Leave this field blank if you're using an SSN as your EIN.

 - 

Address (street number & name)

ZIP code

 - 

City, town, or post office

State

- Please Select ▾

### Business Type

Business Code

[Click here for a list of Business Codes](#)

For a child care business, you can click the “Business Code” link and enter “day care” and select **624410** from the list or just enter the business code **624410** into the text field.

# Business or Professional Activity Codes

Select the code that best matches your business. You can use the search below to narrow down your options.

## Health Care & Social Assistance

### Social Assistance

624410 Child day care services

Next, you will see questions about your business. The first question is your accounting method. This is a required entry on tax filings. Businesses must state if they use the **Cash or Accrual accounting** method. The Cash Method 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 opt to select the accrual or another method if it applies but it is uncommon for child care providers.

## Schedule C Questions

### Questions about your Business

#### Accounting Method \*

- ☒ Cash  
☐ Accrual  
☐ Other

#### Method used to value closing inventory \*

- ☐ Cost  
☐ Lower of cost or market  
☒ Not Applicable

☐ Check here if there were any changes in determining inventory.

☐ Check here if this is the first Sch. C filed by you for this business.

☒ Check here if you "materially participated" in the operation of this business during the tax year. [?](#)

This box must be checked to allow a net loss on your return.

Prior year unallowed loss (ONLY enter an amount if current year's activity is a net profit.)

\$

You'll then need to select a closing inventory method, which is not applicable to child care businesses.

Next, you'll check the box if you "materially participated" in the operation of your business during the tax year.

Then, you will check off any remaining boxes that apply to your business.

For instance, if you made any payments in the tax year that would require you to file Form(s) 1099, you would check the box to indicate that. 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 check the box.

**Note – In some cases, child care providers issue a 1099 to employees, or helpers and substitutes. If you issued any 1099s, enter them as contract labor.**

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 [Resource 3: Payroll Taxes \(for businesses with employees\)](#) in [Part 1: Getting Ready for Tax Season](#).

- ☐ Check here if you made any payments in 2021 that would require you to file Form(s) 1099.
- ☐ Check here for Qualified Joint Venture. (Ownership between Taxpayer and Spouse must be 50/50. If you are filing Business Use of Home deductions or using the Clergy Worksheet, you will need to file separate Schedule C forms, one for each spouse)
- ☐ Check here to Prorate Expenses for Minister/Clergy.

CANCEL

CONTINUE

Note that if you log out and later log back in, you will see the below Schedule C menu options. There, you can move through the menu on your own, or you can click "Begin" next to **Restart Schedule C Guide** and you will be guided through the completion of your Schedule C.

### What does "materially participate" mean?

You '**Materially Participated**' in the operation of your business if any of the following apply:

1. You participated for 500 hours or more
2. You participated more than other individuals
3. You participated in the activity for more than 100 hours during the tax year, and you participated at least as much as any other individual (including individuals who didn't own any interest in the activity) for the year.
4. The activity is a significant participation activity and you participated more than 500 hours. A significant participation activity is any trade or business activity in which you participated for more than 100 hours.
5. You participated in the activity in 5 of the last 10 years
6. The activity is a personal service activity and you participated in any three previous years
7. Based on the facts and circumstances, you participate in the activity on a regular and substantial basis. This is not a valid test if you participate less than 100 hours per year, another individual received pay for managing the activity or another individual spent more time managing the activity than you.

For more information, see [IRS Publication 925](#).



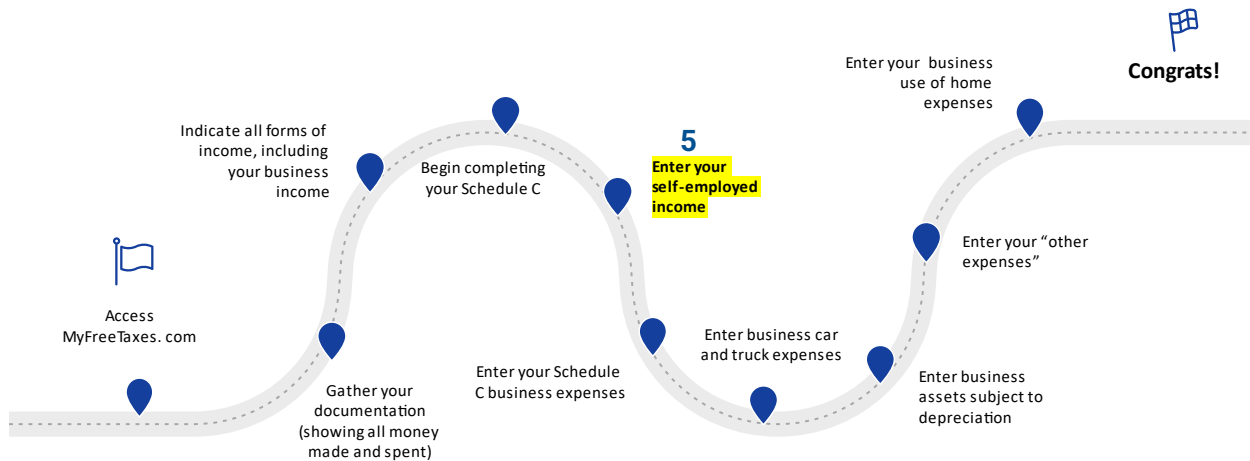
## Schedule C

Basic Information About Your Business	EDIT
Questions About the Operation of Your Business	BEGIN
Income	BEGIN
Cost of Goods Sold	BEGIN
General Expenses	BEGIN
Car And Truck Expenses	BEGIN
Depreciation	BEGIN
Other Expenses	BEGIN
Qualified Business Income Deduction	BEGIN
Expenses for Business Use of Your Home <a href="#">?</a>	BEGIN
Restart Schedule C Guide	BEGIN

## Enter your self-employed income

Now, back to the MyFreeTaxes Schedule C guide! You will be directed to enter your business's income. This will be your gross income, so you will need to add up all your cash receipts, 1099 forms, and any other payments that you received. If you entered your self-employed income in the [revenue worksheet](#) provided in Part 1 of this guide, you can just enter that total or if you have an accounting system, you can get that total from there.

## Filing Self -Employed Taxes Using MyFreeTaxes



## Schedule C Guide

### Business Income

Let's begin. Did your business make any money during the tax year? This includes total revenue from the sales of products and services, returns and allowances and any other income.

[BACK](#)
[Restart Schedule C Guide](#)

## Schedule C - Income

### Income

Gross receipts or sales (including income reported on Form 1099-K)  
Total Income From Work or Sales

Income reported to you on Form W-2 as Statutory Employee

Returns and allowances

Other Income

Other Income From Sources Other Than Work or Sales

[CANCEL](#)[CONTINUE](#)

After entering your business income, you will move on to the **Cost of Goods Sold** guide. Select “no” on this screen. 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 served putting your expenses in the appropriate expense category (which we will get to soon!).

## Schedule C Guide

### Business Cost of Goods Sold

Do you need to determine how much it cost to buy or make the product you sold? This is calculated using inventory, labor costs, supplies and other costs.

[BACK](#)[Restart Schedule C Guide](#)[NO](#)[YES](#)

## Schedule C Cost of Goods Sold

### Cost of Goods Sold

Inventory at the beginning of the year

\$

Purchases less cost of items withdrawn for personal use

\$

Cost of labor (not salary paid to self)

\$

Materials and supplies

\$

Other costs

\$

Inventory at the end of the year

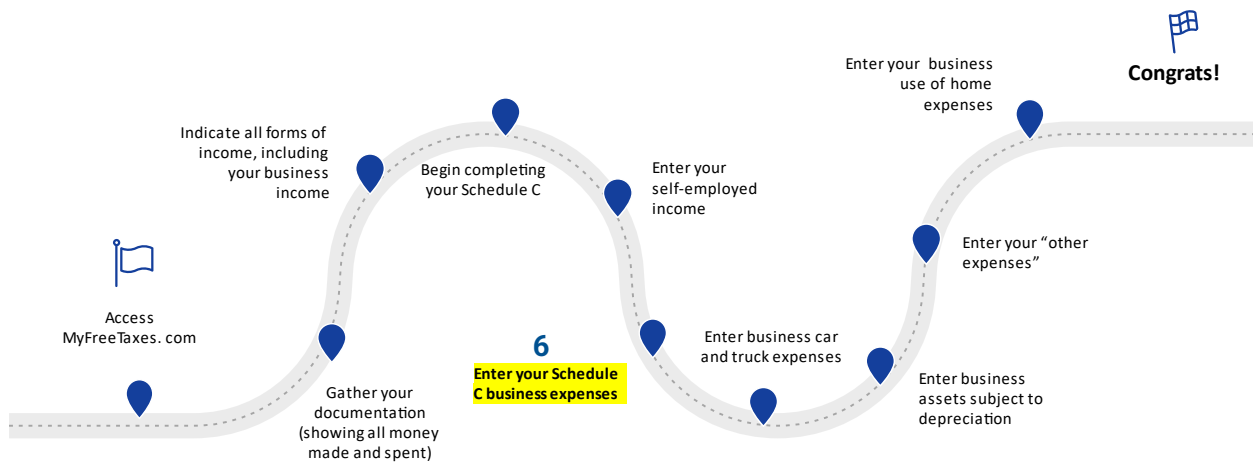
\$

**THIS EXPENSE IS NOT APPLICABLE TO HOME-BASED CHILD CARE BUSINESSES**

## Enter your Schedule C business Expenses

Next, you will be prompted to enter your business expenses, based on specific categories. These categories align with allowable business deductions that will be entered on your Schedule C.

### Filing Self -Employed Taxes Using MyFreeTaxes



## Schedule C Guide

### Business Expenses

Did you spend any money on ordinary, day-to-day activities that were necessary for your business? This includes advertising, office expenses, repairs, supplies, utilities and other costs.

[BACK](#)
[Restart Schedule C Guide](#)

## Schedule C - Expenses

Advertising

\$

Contract Labor

\$

Commission and fees

\$

Depletion

\$

Employee benefit programs

\$

Health Insurance  
(will carry automatically to worksheet)

\$

Insurance  
(other than health)

\$

Long-Term Care Insurance to be Carried to Adjustment

\$

Mortgage interest

\$

Other interest

\$

Legal and professional services

\$

Office expense

\$

Pension and profit sharing

\$

Rent or lease of equipment

\$

Rent or lease of property

\$

Repairs and maintenance

\$

Supplies

\$

Taxes and licenses

\$

Travel

\$

Meals (50%) Enter 100% of the expenses. [? Learn more](#)

\$

Meals (80%) Enter 100% of the expenses. [? Learn more](#)

\$

Meals (100%) [? Learn more](#)

\$

Utilities

\$

Wages  
(less employment credits)

\$

Please use the worksheet below to review these expense categories in the order they are displayed. You can use this worksheet to learn what expenses should be included within each category, and practice entering your expenses before inputting them into the software.

### A Note for Home-Based Child Care Providers

In this **Schedule C - Expenses** section, you should only input expenses that are 100% related to your business. Any expenses that have a shared business and personal use will need to be entered as a Business Use of Home Expense, subject to your Time-Space Percentage.

Category	Description	Total Expenses (\$)
Advertising	Here you'll enter costs to promote your business including online and print ads, brochures, mailers, flyers, business cards, and website.	
Contract labor	<p>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 here.</p> <p><b>Note</b> – In some cases, sole-proprietors issue 1099s to individuals who help with their business. If you issued any 1099s, 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 <a href="#">Resource 3: Payroll Taxes (for businesses with employees)</a> in <a href="#">Part 1: Getting Ready for Tax Season</a>.</p>	
Commission and Fees	This line is intended for payments made for referrals or sales commissions that are occasional or limited. Accordingly, most home-based providers don't have an entry on this line. If you do, you may want to confirm the costs and ensure they are right for this category.	
Depletion	Typically, depletion is the use of a natural resource in the course of your business, such as mining or drilling. It is not typically applicable to a child care business.	
Employee Benefit Programs	Do you have company health or accident insurance or other programs associated with your business (not your personal expense)? Other programs like group-term life insurance, dependent care assistance and/or child care or education assistance should also be included here.	
Health Insurance	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.	

	<p>This includes Medicare premiums that you voluntarily pay. 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 your self-employment.</p> <p>This is only for qualifying private health insurance plans, not those sponsored by an employer. For example, you cannot include any premiums that are paid through a spouse's health insurance benefits through their employer.</p> <p>Further, if you or your spouse were eligible to participate (even if you declined coverage) in an employer's health plan at any time during a given month, you cannot take the deduction for that month. For example, if your spouse's job offers health insurance and you decline it, but paid into your own plan, you cannot take this deduction.</p> <p>The deduction may be limited if the business has low net earnings. You cannot deduct more in premium payments than your net profit made from self-employment. This means that you may not be able to deduct 100% of your premiums.</p> <p>This entry should be reduced by any reimbursements received. For example, if you have a monthly insurance premium cost of \$1,500 and \$500 is paid through a company health reimbursement arrangement, you can only deduct \$1,000. These deductions are figured as part of your Form 1040 as an adjustment to your income, not as part of Schedule C. However, because this deduction is for the self-employed, you are prompted to enter it as part of the Schedule C questions in the software.</p>	
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. <b>Homeowner's or renter's insurance on a home you use for a child care business will be deducted in the business use of your home section later in this guide.</b></p>	
Long-term Care Insurance	<p>Long-term care benefits includes both payments made under a long-term care insurance contract as</p>	



	well as accelerated death benefits. If you paid into a plan, for yourself, spouse or dependents the premium may be tax deductible.	
Mortgage Interest	This line is for interest related to a loan that is exclusively for your business (and not one shared with your personal finances, such as a home mortgage). <b>Mortgage Interest on a home you use for a child care business will be deducted in the business use of your home section later in this guide.</b>	
Other Interest	This includes interest you paid directly related to your business for credit cards and loans. Deductible interest can include interest on business credit cards (not personal ones) and business loans such as the Economic Injury Disaster Loan or an SBA 7a loan.	
Legal 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.	
Office Expense	<p>Here's where you want to include amounts paid for office expenses, including 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 to not have any expenses in this category.</p> <p>Typically, here is where you include office expenses that cost less than \$200. Assets, even those that cost less than \$2,500, like computers, telephones, copiers, and furniture will be entered as a depreciation expense.</p> <p>Be mindful of how you enter your office expenses. If the expense was 100% business related, then you can enter the full amount of your expense here.</p> <p>If an expense was for both personal and business use, you will first apply your <a href="#">Time-Space Percentage</a>, then enter the resulting amount here.</p>	
Pension and Profit Sharing	These are contributions to your employees' retirement accounts, not your own. Costs include SEP IRAs and SIMPLE IRAs.	

Rent or Lease of Equipment	This only applies to the rental of business equipment such as copiers, office furniture, computers, printers, etc.	
Rent or Lease of Property	<p>This is rent paid for property used for work only, not for an office in your home.</p> <p><b>Rental of a home you use for a child care business will be deducted in the business use of your home section later in this guide.</b></p>	
Repairs and maintenance	<p>This includes any repairs and maintenance of your space 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.</p> <p><b>Repairs and maintenance of a home you use for a child care business will be deducted in the business use of your home section later in this guide.</b></p>	
Supplies	<p>Supplies include items you use with the children such as art supplies, diapers and wipes, toys, learning materials, and cleaning supplies.</p> <p>For home-based providers, the software 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. 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.</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.</p> <p>For example, your licensing fee so you can operate a home-based business or a child care business would be entered.</p>	
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.	
Meals (50%)	<p>This is for business meals that were not purchased at a restaurant but at a grocery store or convenience store.</p> <p>For example, if you were having a business meeting or away on business travel, and purchased a sandwich from 7-11</p>	
Meals (80%)	This is only applicable to certain transportation workers. If you are subject to the Department of Transportation (DOT) hours of service limits, the allowable deductible percentage is 80% for business meals while away from home. Those who this applies to would be property or passenger-carrying drivers such as a tractor trailer or Greyhound bus driver that require you to be away from home overnight.	
Meals (100%)	<p>This for business meals purchased at a restaurant for immediate consumption.</p> <p>For example, if you were having a business meeting or away on business travel and purchased lunch from a restaurant. For tax years 2021 and 2022, your business meals are 100% deductible if food and beverages were purchased from a restaurant.</p> <p>Note that this is not where you will enter the meals served to children. We recommend you enter those under Other Expenses.</p>	
Utilities	<p>This applies to you if you have an office or other business property that's not part of your home. This includes utilities such as gas, electricity, internet, or water. This also includes trash collection, pest control service, and security alarm monitoring service.</p> <p><b>Utilities for a home you use for a child care business will be deducted in the business use of your home section later in this guide.</b></p>	
Wages (less employment credits)	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.	

--	--	--

## Enter Business Car and Truck Expenses

The next step will be entering your **Business Car and Truck** expenses.

### Filing Self -Employed Taxes Using MyFreeTaxes



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 provider 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 mileage is better if you drove a lot of miles. This will get you the miles driven multiplied by the IRS mileage reimbursement rate.

**PRO TIP** 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. Review the [How Do I Include Vehicle Costs? of Part I: Getting Ready for Tax Season](#) to learn more.

### Standard Mileage

If you are using standard mileage to determine your vehicle deduction, you will enter it under **Car and Truck Expenses**.

## Schedule C Guide

### Business Car and Truck

We're halfway there. Did you use a car or truck for business purposes? You may be able to deduct the costs of mileage and maintenance. You also may be able to deduct other costs of local transportation and overnight business travel.

[BACK](#)[Restart Schedule C Guide](#)[NO](#)[YES](#)

## Schedule C Car and Truck Expenses

### Car and Truck Expenses

Please Note: Actual car or truck expenses must be entered in the depreciation menu for this business. You cannot claim both actual expenses and mileage for the same vehicle.

Description of Vehicle \*

Date you placed your vehicle in service for business purposes \*

MM ▾	DD ▾	YYYY ▾
------	------	--------

Of the total number of miles you drove your vehicle during the tax year, enter the number of miles you used your vehicle for each of the following.

Business miles \*

Commuting

Other

- ☐ Check if you have (or your spouse has) another vehicle available for personal use.
- ☐ Check if your vehicle was available for personal use during off-duty hours.
- ☐ Check if you have evidence to support your deduction.
- ☐ If yes, check if the evidence is written.

In order to calculate standard mileage, you must enter the business miles that were driven during the tax year. Be sure to have documentation of the business miles driven for your records and in case you are audited. The software will apply the standard mileage rate to your business miles to calculate your deduction.

Remember, you can also claim the business portion of car loan interest, parking fees, and tolls. To claim those expenses, you will enter them as **Other Expenses** once you get to that screen. As noted on the screen shot above, if you are using **Actual Car or Truck Expenses**, you will enter those expenses under **Depreciation** which follows this section.

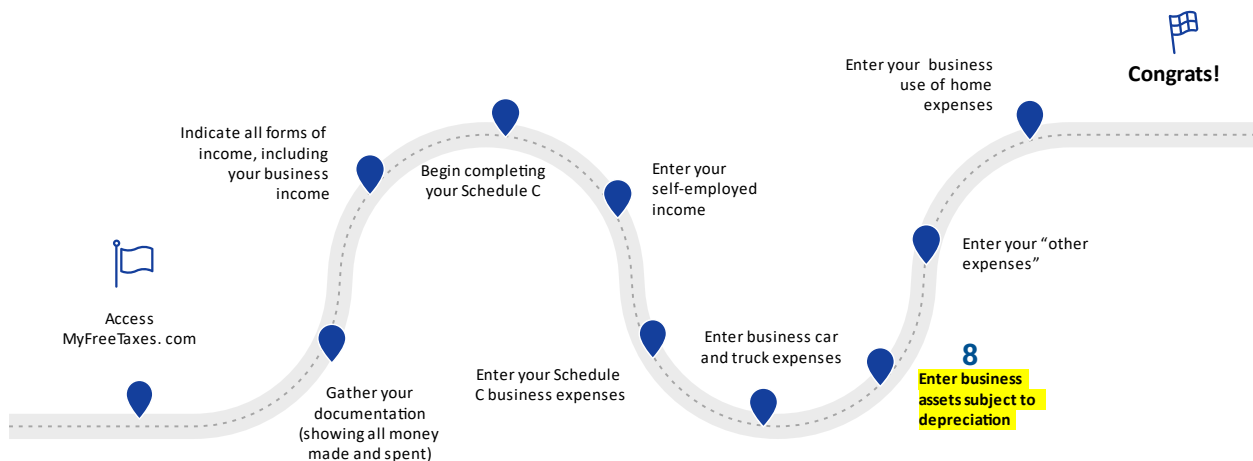
Next, you will be guided through depreciation of your business assets.

## Enter business assets subject to depreciation

Depreciation can be an intimidating subject but is a critical part of your business tax planning. 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 or improvements (over \$2,500). You can also depreciate your home if you own your home and use a portion of your home for business.

You may be curious about what is classified as an improvement. 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. An example of an improvement would be the installation of a new fence, or a new roof would be considered an improvement.

## Filing Self -Employed Taxes Using MyFreeTaxes



We will guide you through the rest of the Business Depreciation screens. For a better understanding of depreciation, view [What is Depreciation?](#)

## Schedule C Guide

### Business Depreciation

You may be able to calculate depreciation for property that decreases in value over time. Most business owners find this useful for large investments and property such as buildings, machinery and furniture. Does this apply to you?

[BACK](#)
[Restart Schedule C Guide](#)



## Form 4562 - Depreciation

Currently Editing: Civitas Strategies Early Start

Assets

BEGIN

Questions

BEGIN

CONTINUE

When you select “Assets”, you will enter the following information on each of your business assets individually:

### Depreciation Input

#### Basic Information

Description of asset \*

Fence

Date placed in service \*

5

1

2021

Cost \*

\$ 5000

Percentage of business use \*

100

Section 179 deduction

\$ 5000

EXAMPLE



**CAUTION:** Current Year Section 179 Limitations are not calculated by the system. Enter only the Section 179 Expense that is within limits. **YOU** must ensure that the amount entered is allowable. For more information see Help Article “Section 179 Deduction Limitations”.

Prior year special depreciation ?

\$

Accumulated depreciation

\$

Depreciation method \*

MACRS 15 YR 200%

Useful life (must be at least 3 years)

10.00

☐ Check here if this is a mid-quarter property. ?

Note that home-based child care providers must enter the percentage of business use as their time/space percentage, if the asset is used regularly for business. If the asset is used exclusively for business, and has no personal use associated with it, you can enter your percentage of business use as 100%.

Even though you may opt to depreciate an item using Section 179, you’re still required to choose a depreciation method from the drop down list shown here.



**CAUTION:** Current Year Section 179 Limitations are not calculated by the system. Enter only the Section 179 Expense that is within limits. **YOU** must ensure that the amount entered is allowable. For more information see Help Article "Section 179 Deduction Limitations".

Prior year special depreciation

\$

Accumulated depreciation

\$

Depreciation method \*

MACRS 15 YR 200% ▼

Please Select

- MACRS 3 YR 200%
- MACRS 5 YR 200%
- MACRS 7 YR 200%
- MACRS 10 YR 200%
- MACRS 15 YR 200%**
- MACRS 27.5 YR
- MACRS 31.5 YR
- MACRS 39 YR
- MACRS 3 YR 150%
- MACRS 5 YR 150%
- MACRS 7 YR 150%
- MACRS 10 YR 150%
- MACRS 12 YR 150%
- MACRS 15 YR 150%
- MACRS 20 YR 150%
- MACRS 40 YR 150%
- ACRS 5 YR
- ACRS 10 YR
- ACRS 15 YR

quarter property.

If disposition here  
if this asset is taxable.

to opt out of special depreciation.

ation

if this asset is a Listed Property.

You will then indicate if the property is a listed property. A listed property is one that can be used for both business and personal purposes.

If asset was disposed enter the date of disposition here

**Note:** Please fill out a form 4797 if this asset is taxable.

MM ▼ DD ▼ YYYY ▼

☐ Check here if you would like to opt out of special depreciation.

## Listed Property Information

**Note:** Complete this section **ONLY** if this asset is a Listed Property.

Select the type of listed property

Please Select ▼

# What is Listed Property?

Listed property is any of the following:

- Passenger automobiles<sup>1</sup>
- Any other property used for transportation, unless it is an excepted vehicle<sup>2</sup>
- Property generally used for entertainment, recreation, or amusement (including photographic, phonographic, communication, and video-recording equipment)

<sup>1</sup> Passenger Automobiles are any four-wheeled vehicle made primarily for use on public streets, roads, and highways and rated at 6,000 pounds or less of unloaded gross vehicle weight. It includes any part, component or other item physically attached to the automobile at the time of purchase or usually included in the purchase price of an automobile. The following vehicles are NOT considered passenger automobiles for these purposes:

- An ambulance, hearse, or combination of ambulance-hearse used directly in a trade or business
- A vehicle used directly in the trade or business or transporting persons or property for pay or hire
- A truck or van that is a qualified non-personal use vehicle

<sup>2</sup> Excepted vehicles includes the following qualified nonpersonal vehicles:

- Clearly marked police and fire vehicles
- Unmarked vehicles used by law enforcement officers if the use is officially authorized
- Ambulances used as such and hearses used as such
- Any vehicle with a loaded gross vehicle weight of over 14000 pounds that is designed to carry cargo
- Bucket trucks (cherry pickers), cement mixers, dump trucks (including garbage trucks) flatbed trucks, and refrigerated trucks
- Combines, cranes and derricks, and forklifts
- Delivery trucks with seating only for the driver, or only for the driver plus a folding jump seat
- Qualified moving vans
- Qualified specialized utility repair trucks
- School buses used in transporting students and employees of schools
- Other buses with a capacity of at least 20 passenger that are used as passenger buses
- Tractors and other special purpose farm vehicles

1

Typically, you will only select the listed property option if it is a vehicle that you are depreciating.

<sup>1</sup> <https://support.taxslayer.com/hc/en-us/articles/360015909651-What-is-Listed-Property->

**CAUTION:** Current Year Section 179 Limitations are not calculated by the system. Enter only the Section 179 Expense that is within limits. **YOU** must ensure that the amount entered is allowable. For more information see Help Article "Section 179 Deduction Limitations".

Prior year special depreciation [? Learn more](#)

Accumulated depreciation

Depreciation method \*

Useful life (must be at least 3 years)

☐ Check here if this is a mid-quarter property. [? Learn more](#)

If asset was disposed enter the date of disposition here  
**Note:** Please fill out a form 4797 if this asset is taxable.

MM  DD  YYYY

☐ Check here if you would like to opt out of special depreciation.

**Listed Property Information**

**Note:** Complete this section ONLY if this asset is a Listed Property.  
 Select the type of listed property

Please Select  
 Please Select  
 Auto  
 Electric Auto  
 Truck (Placed in service after 2002)  
 Truck (No Limits)  
 Heavy SUV  
 Not Listed (Vehicle)  
 Other (Computer, tablet, etc)

**CONTINUE**

## Entering Actual Car or Truck Expenses

If you are claiming actual business car or truck expenses (not using standard mileage) you will be able to depreciate your vehicle and claim your actual expenses for under the Depreciation screen.

You will need to enter some information about the vehicle, such as the date it was placed in service (the first time you used it for business purposes), the original cost and the percentage of business use. Unless you have a dedicated vehicle used only for business and not at all for personal use, this figure will not be 100%. A simple way to calculate your percentage of business use is to track your total miles driven and the total business miles. You will divide your business miles driven by your total miles to get the percentage of business use.

For example, if you drove your vehicle a total of 12,000 miles during the year and 4,800 miles were for business use, your business use percentage would be  $4800/12000 = 0.4$ . You will multiply  $0.4 \times 100$  to get **40%**.

You will then input the amount, if any, of Section 179 deduction that you will take on the vehicle and then indicate if you claimed any special depreciation on your vehicle in a prior year. These are faster ways to depreciate eligible expenses. For a better understanding of these depreciation topics, view [What is Depreciation?](#)

# Depreciation Input

## Basic Information

Description of asset \*

Rav4

Date placed in service \*

3

6

2021

Cost \*

\$ 25000

Percentage of business use \*

40

Section 179 deduction

\$



**CAUTION:** Current Year Section 179 Limitations are not calculated by the system. Enter only the Section 179 Expense that is within limits. **YOU** must ensure that the amount entered is allowable. For more information see Help Article "Section 179 Deduction Limitations".

Prior year special depreciation



\$

Accumulated depreciation

\$

Depreciation method \*

MACRS 15 YR 200%

Useful life (must be at least 3 years)

10.00

☐ Check here if this is a mid-quarter property.


If asset was disposed enter the date of disposition here

**Note:** Please fill out a form 4797 if this asset is taxable.

MM

DD

YYYY

☐ Check here if you would like to opt out of special depreciation.

## Listed Property Information

**Note:** Complete this section ONLY if this asset is a Listed Property.

Select the type of listed property

Auto

Under Listed Property Information, you will select the type of vehicle that you are depreciating:

### Listed Property Information

**Note:** Complete this section **ONLY** if this asset is a Listed Property.  
Select the type of listed property

ONLY if the listed property type above refers to a vehicle.

### Listed Property Definitions

**Auto** – small vehicle weighing 6,000 pounds or less

**Electric Auto** – electric vehicle weighing 6,000 pounds or less

**Truck** (placed in service after 2002) - a vehicle such as a pickup truck

**Truck (No Limits)** – a vehicle such as a pickup truck

**Heavy SUV** – larger vehicle exceeding 6,000 pounds, such as a van

**Not Listed (Vehicle)** – an eligible vehicle that does not fit the other descriptions

After you select the vehicle type, you will be prompted to enter your actual expenses. Actual car expenses include the following:

- Licenses
- Lease payments
- Registration Fees (not plates)
- Gas
- Insurance
- Repairs
- Oil
- Garage Rent
- Tires
- Tolls
- Parking Fees

You will total up all your relevant receipts and enter your total car expenses in the “**Actual Expenses**” box.

### Listed Auto Information

**Note:** Complete the following section **ONLY** if the listed property type above refers to a vehicle.

Total business/investment miles

4800

Total commuting miles driven

0

Total other personal miles driven

7200

Actual Expenses

\$ 5000

**Acquired before 09/28/2017?**

☐ Yes

☒ No

**Check any of these that apply to you:**

☐ This vehicle was used by a rural mail carrier.

☒ The vehicle was available for personal use during off-duty hours.

☐ The vehicle was used by more than 5% owner or related person.

☐ Another vehicle was available for personal use.

Once you've entered all your business assets, you will move to the Depreciation Questions. Answer each question that applies by checking the corresponding box.

## Form 4562 - Depreciation

Currently Editing: Civitas Strategies Early Start

Assets

EDIT

Questions

EDIT

## Form 4562 Questions

- ☐ Check here if you have evidence to support your deduction.
- ☐ Check here if this evidence is written.
- ☐ Check here if you have a written policy prohibiting personal use including commute.
- ☐ Check here if you have a written policy prohibiting personal use except commute.
- ☐ Check here if you treat all use of vehicles by employees as personal use.
- ☐ Check here if you provide more than 5 vehicles to your employees.
- ☐ Check here if you meet requirements concerning qualified auto demonstration use.

Business Income Limitation

\$ 1050000

Check the boxes if they apply to your situation. Note that the Business Income Limitation will be pre-populated with \$1,050,000, which is the maximum Section 179 expense deduction allowed. Most self-employed businesses will not exceed that figure.



## Enter your “other expenses”

Next, you will be guided through your **Other Business Expenses**.

### Filing Self -Employed Taxes Using MyFreeTaxes



## Schedule C Guide

### Business Other Expenses

Are there any business purchases we haven't covered yet? This is your chance to enter cell phone bills, internet charges, educational expenses or other items you spent money on this year.

[BACK](#)
[Restart Schedule C Guide](#)



You will be able to enter other business expenses that did not fall into the previous expense categories listed. You will enter these expenses, by category, one at a time.

This section covers anything else that is deductible but not listed elsewhere. The most common will be meals served to children and software or apps that cost more than \$200 (otherwise they can be listed as an office expense). Here is where you will list accessibility and financing expenses online service fees, bank and merchant fees, and credit card processing fees.

## Schedule C Other Expenses

### Other Expenses

Description \*

Amount \*

CANCEL

CONTINUE

For example, if you paid \$500 for janitorial services over the year, you would enter that as:

## Schedule C Other Expenses

### Other Expenses

Description \*

Amount \*

EXAMPLE

CANCEL

CONTINUE

**PRO TIP** (TaxSlayer specific) If you took the standard mileage deduction for your business vehicle, you would enter other allowable car expenses such as parking, tolls and registration fees here as Other Expenses.

### Meals (100% limit)

As mentioned earlier, we see **Other Expenses** as the best place to enter meals served to children. 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)).

**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. Use the standard meal and snack rates below to calculate your food costs.

[Tax Year 2022 \(July 1, 2021-June 30, 2022\) standard meal and snack rates:](#)

	<b>Breakfast</b>	<b>Lunch/Supper</b>	<b>Snack</b>
Tier 1	\$1.40	\$2.63	\$0.78

\* For HI and AK rates, see the [rates sheet](#)

According to the [IRS Child Care Audit Guide](#), the 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 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 best to track and claim all of the meals served.

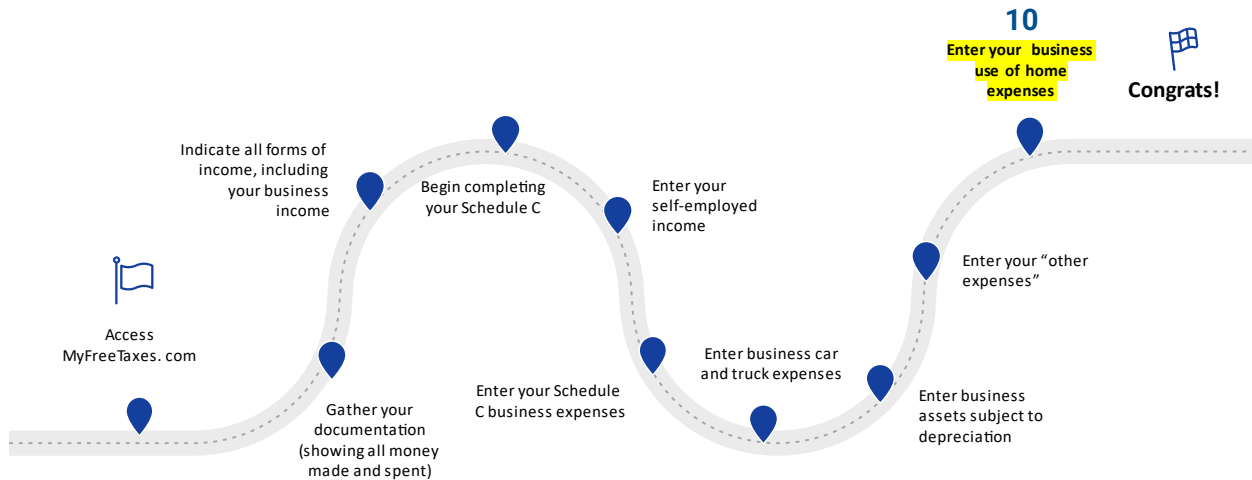
	<b>Total number of meals served</b>	<b>Rate</b>	<b>Total amount to enter into the system</b>
Breakfast		X	=
Lunch/Supper		X	=
Snack		X	=

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.

## Enter your business use of home expenses

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. The software does not provide a lot of information on how you calculate your time-space percentage, so we recommend that you first calculate that on your own, then enter that data into the software and ensure they match.

## Filing Self -Employed Taxes Using MyFreeTaxes



## Schedule C Guide

### Business Use of Home

We're almost finished. Did you use part of your home to run your business? You may be able to deduct a portion of your mortgage interest, insurance, utilities and repairs.

[BACK](#)
[Restart Schedule C Guide](#)

## Business Use of Your Home (Form 8829)



If you choose to use the Simplified Method for Business Use of Home, you will be limited to the maximum square feet allowed for business use (300 square feet) for ALL Simplified Business Use of Home.

Expenses for Business Use of Your Home [?](#)

BEGIN

Simplified Method for Business Use of Your Home

BEGIN

CONTINUE

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. You can do this in one of two ways: the simplified home office deduction, which is a maximum of \$1,500, or by applying the time-space percentage to your actual expenses.

For many child care providers, the simplified method represents less than their real costs, so you should use the actual expenses method to determine your home office deduction. 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.

To learn more about the steps to calculate your time-space percentage, and for worksheets to enter your own details, view [Part 1: Getting Ready for the 2022 Tax Season](#) and scroll to [“How do I include the costs of my home?”](#).

Now that you have your Time-Space Percentage figured out, it will be much easier to input your numbers into the tax software!

**PRO TIP** As a rule of thumb “regular use” means you use the space two or more times per week.

## Expenses for Business Use of Your Home (Form 8829)



\* You are able to take this deduction on your Schedule C or in Itemized Deductions, but not both.

Form belongs to  
Sample D

### Home was used as Day Care Facility \*

☒ Yes

☐ No

### Daycare Facilities

Hours used for day care per day \*

Days used for day care per year \*

Days available for day care \*

Did your daycare facility include BOTH:

- 1) Areas of your home used EXCLUSIVELY for business; AND
- 2) Areas of your home used PARTLY for business? \*

☒ Yes

☐ No

### Part of Your Home Used for Business

Area used **exclusively** for business, for day care, or for storage of inventory

Square Feet

Area used **only partly** for business, for day care, or for storage of inventory

Square Feet

Total area of home

Square Feet

You will first need to enter the hours your home is used for child care per day. Since the software 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 will 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
<b>Total number of hours for week</b>			10

You will then enter the days your home is used for child care per year. For example. If you are open 5 days per week but typically close for another 10 days throughout the year for vacation or other personal reasons, your days used for child care per year would be:

$(5 \text{ days} \times 52 \text{ weeks}) - 10 \text{ days closed} = 250 \text{ days}.$

Next, you will enter the days your home is available for child care.

Besides entering the time your home is used for child care, you will need to note some information about the use of space and whether you used spaces in your home exclusively or regularly for business.

## Expenses for Business Use of Your Home (Form 8829)



\* You are able to take this deduction on your Schedule C or in Itemized Deductions, but not both.

Form belongs to  
Sample D

### Home was used as Day Care Facility \*

- ☒ Yes  
☐ No

### Daycare Facilities

Hours used for day care per day \*

Days used for day care per year \*

Days available for day care \*

Did your daycare facility include BOTH:

- 1) Areas of your home used **EXCLUSIVELY** for business; AND  
2) Areas of your home used **PARTLY** for business? \*

- ☒ Yes  
☐ No

### Part of Your Home Used for Business

Area used **exclusively** for business, for day care, or for storage of inventory

Square Feet

Area used **only partly** for business, for day care, or for storage of inventory

Square Feet

Total area of home

Square Feet

The above screenshot shows what you will see if you answer “**yes**” to this question:

Did your daycare facility include BOTH:

- 1) Areas of your home used **EXCLUSIVELY** for business; AND
- 2) Areas of your home used **PARTLY** for business?

If you have both exclusively used spaces and partly used spaces (i.e. spaces used regularly for business but also personal use), you will enter the square footage of each space type followed by the total square footage of the home.

If you answer “no” to that question, this is what you will see:



## Expenses for Business Use of Your Home (Form 8829)



\* You are able to take this deduction on your Schedule C or in Itemized Deductions, but not both.

Form belongs to  
Sample D

### Home was used as Day Care Facility \*

☒ Yes

☐ No

### Daycare Facilities

Hours used for day care per day \*

Days used for day care per year \*

Days available for day care \*

Did your daycare facility include BOTH:

- 1) Areas of your home used EXCLUSIVELY for business; AND
- 2) Areas of your home used PARTLY for business? \*

☐ Yes

☒ No

### Part of Your Home Used for Business

Area used **regularly and exclusively** for business, for day care, or for storage of inventory

Square Feet

Total area of home

Square Feet

In this case, you have no exclusive use spaces and will track only those spaces you regularly use for child care.

Here are sample entries:

Home was used as Day Care Facility \*

- ☒ Yes  
☐ No

### Daycare Facilities

Hours used for day care per day \*

10

Days used for day care per year \*

245

Days available for day care \*

260

Did your daycare facility include BOTH:

- 1) Areas of your home used EXCLUSIVELY for business; AND  
 2) Areas of your home used PARTLY for business? \*

- ☒ Yes  
☐ No

### Part of Your Home Used for Business

Area used **exclusively** for business, for day care, or for storage of inventory

200

Square Feet

Area used **only partly** for business, for day care, or for storage of inventory

300

Square Feet

Total area of home

1200

Square Feet

**EXAMPLE**

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

### Deductions [?](#) [Learn more](#)

	Direct Expenses	Indirect Expenses
Casualty losses	\$	\$
Deductible mortgage interest	\$	\$
Real estate taxes	\$	\$
Excess mortgage interest	\$	\$
Excess real estate taxes	\$	\$
Insurance	\$	\$
Rent	\$	\$
Repairs and maintenance	\$	\$
Utilities	\$	\$
Other expenses	\$	\$

Direct expenses should be entered at 100%. Indirect expenses should be calculated with 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
Casualty Loss		
Deductible Mortgage Interest		
Real Estate Taxes		
Excess Mortgage Interest		
Excess Real Estate Taxes		
Insurance (e.g. mortgage insurance, property insurance)		
Rent		
Repairs and maintenance		
Business Use of Home - Expenses		
Utilities		
Other expenses (for example, cleaning & lawn care services, telephone and cable)		

Home-based child care providers should be mindful not to enter expenses twice. If you list certain expenses like utilities or rent related to your home office or business use of the home, do not enter those expenses again when completing the Schedule C - Business Expenses section of the software.

In this next section, **Excesses and Carryovers**, you will only enter information if it applies to your situation.

## Excesses and Carryovers

Carryover of operating expense from prior year's Form 8829

Carryover of excess casualty losses and depreciation from prior year's Form 8829

Excess casualty losses

Casualty loss portion from above deductions

You will then be asked about the Depreciation of Your Home. This is only applicable if you own your home.

### Depreciation of Your Home

Enter the smaller of your home's adjusted basis or its fair market value

Value of land included above

Date the home was first used for business

MM

DD

YYYY

Accumulated depreciation

Date home improvements were completed

Total amount of home improvements

Home improvements accumulated depreciation

Your home's **adjusted basis** is usually the amount you paid for it plus the value of improvements made.

The **fair market value** is what the home would cost currently if it was on the market.

**Accumulated depreciation** is the total depreciation taken to date on the home.

CANCEL

CONTINUE

After you enter details about your home, such as the date first used for business and adjusted basis or its fair market value, 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 TaxSlayer, Depreciation, where you can depreciate other large purchases that are not subject to your Time-Space Percentage.

Next you may see the **Schedule A Adjustments** screen which will show you what your calculated Time-Space Percentage is and the deductible mortgage interest and real estate taxes you have based on your business use of home.

## Schedule A Adjustments



**IMPORTANT:** Whether you report your Mortgage Interest and Real Estate Taxes as an itemized deduction (Schedule A) or a business expense (Form 8829), your total mortgage interest and real estate tax deductions cannot exceed the total you paid for the tax year.

Calculated Business Use of Home percentage  
25.00 %

Deductible Mortgage Interest Entered on Form 8829  
\$2,400.00

Amount of Mortgage Interest applied to Business Use of Home  
\$600.00

Remaining Mortgage Interest  
\$1,800.00

Deductible Mortgage Interest already entered elsewhere  
\$0.00

[Add](#)

Would you like to apply the remaining Mortgage Interest to what you already entered?

Real Estate Taxes Entered on Form 8829  
\$6,000.00

Amount of Real Estate Taxes applied to Business Use of Home  
\$1,500.00

Remaining Real Estate Taxes  
\$4,500.00

Real Estate Taxes already entered elsewhere  
\$0.00

[Add](#)

Would you like to apply the remaining Real Estate Taxes to what you already entered?

**CONTINUE**

You will then be taken back to the **Schedule C summary page**. There, you can go back and edit previous entries or move on.

# Schedule C

Basic Information About Your Business	EDIT
Questions About the Operation of Your Business	BEGIN
Income	EDIT
Cost of Goods Sold	BEGIN
General Expenses	EDIT
Car And Truck Expenses	EDIT
Depreciation	EDIT
Other Expenses	EDIT
Qualified Business Income Deduction	BEGIN
Expenses for Business Use of Your Home ?	EDIT
Restart Schedule C Guide	BEGIN

CONTINUE

## Qualified Business Income (QBI) deduction

As you complete your business-related tax sections, be mindful of the Qualified Business Income (QBI) deduction, also called the “pass-through income 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. If eligible, the QBI is deducted from your Adjusted Gross Income (AGI). So, while this is not part of the Schedule C, it is dependent upon your business income, which is why you’re asked about it when preparing your business taxes.

# What is Qualified Business Income (QBI)?

QBI stands for Qualified Business Income. QBI is determined by calculating your total business income minus:

- Wage (W-2) income; with the exception of statutory employees
- Capital gains and losses
- Dividends or interest
- Annuity payments
- Foreign currency gains or losses
- Reasonable compensation for owner/employees of S-Corps
- Guaranteed payments to partnerships and LLCs

If you are self-employed and your business qualifies as a pass-through entity, the Tax Cuts and Jobs Act says you may deduct up to 20% of your QBI on your federal income tax return. This is known as the pass-through entity deduction. Learn more about the pass-through entity deduction [here](#).

2

You will be asked additional questions to calculate your Qualified Business Income deduction. The first question is your **qualified business income adjustment amount**. This is because you need to adjust your qualified business income for the self-employment tax deduction, the self-employed health insurance deduction, and for your deduction for contributions to qualified retirement plans. Unless you are entering manual adjustments, you can leave this blank. Here is more information from TaxSlayer on these QBI adjustments:

<sup>2</sup> <https://support.taxslayer.com/hc/en-us/articles/360015971592-What-is-Qualified-Business-Income-QBI-#:~:text=QBI%20stands%20for%20Qualified%20Business,Capital%20gains%20and%20losses>

# How is the amount on line 1 of my 8995 (Qualified Business Income Deduction) calculated?

When figuring the amount of income eligible for the QBID you need to also take into account other Self Employment related deductions that you are taking on your Federal return.

The amount of Qualified Business Income on your 8995 is your Profit minus:

- 1/2 SE tax deduction
- Guaranteed payments
- Your deduction for SE Health Insurance
- Section 199A income
- Your SE deduction for contributions to SEP, Simple, or Qualified Retirement Plan.

This information can be found in "[Determining your Qualified Business Income](#)" in the 8995 Instructions.

Enter the total amount of adjustments as they apply to you, otherwise leave this blank. If you are unsure of what your totals are, you can complete the remainder of your filing and come back to this section later to enter accurate information. If you have no adjustments to make, you will leave the first box blank.

If you paid W-2 wages to employees, you would enter the total amount paid. If you have no W-2 wages paid to employees, you will leave that box blank.

The program will automatically calculate your QBI based off of your business income entries.

**A specified service business** is one that is in certain fields such as health, law, consulting, athletics, financial services and investment management in which your status/reputation as a regarded member of that trade determines your income. Typically, those individuals cannot take the QBI deduction. **Child Care is not a specified service business**



## Qualified Business Income Deduction Amounts

Qualified Business Income Adjustment Amount (any amount entered here will add or subtract from the amount calculated on your Schedule C)

\$|

W-2 Wages paid

\$

**Is Specified Service Business**

☐ Yes

☒ No

## Congratulations!

Congratulations! You just entered all the information needed on your business and can now complete the rest of the screens to complete your tax return.

## Filing Self -Employed Taxes Using MyFreeTaxes



## How to Make Tax Preparation Easier

Many small business owners can self-prepare their tax return to save money and ensure their taxes are being done accurately. After all, no one knows your business like 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 a lot of time.

## The importance of filing electronically

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.

## Need more time to file or to pay your tax bill?

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 15<sup>th</sup>, but you can receive an extension for up to 6 months. You will still have to pay additional penalties for not paying any taxes you may owe on time, but that will be better than ignoring it altogether. There is no financial penalty for filing an extension if you need more time to file and are owed a refund.

## Need more help?

There is help available for child care providers specifically and also general resources for small businesses!

You may 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](#). Child care business owners can also visit the [Taking Care of Business Blog](#) to view many articles on tax topics and send in your tax questions for an answer.

[America's SBDC](#) represents America's nationwide network of Small Business Development Centers (SBDCs) – the most comprehensive small business assistance network in the United States and its territories. Sponsored by the U.S. Small Business Administration (SBA), they provide management assistance to small business owners in the form of one-on-one counseling, training seminars, assistance with SBA loans, and technical assistance. Small business owners and aspiring entrepreneurs can go to their local SBDCs for free face-to-face business consulting and at-cost training on a variety of topics. There are nearly 1,000 local centers available to provide no-cost business consulting and low-cost training to new and existing businesses. SBDCs help local businesses start, grow, and thrive. You may also call [211](#) to get connected to additional resources and services that can help you, your family, and your business.

### Preparing for Next Year

Now that you've filed your tax return this year, consider changes you might make to help the process go even smoother next time! [Part I: Getting Ready for Tax Season](#) will help you identify the business and bookkeeping practices you can implement to help ensure your business and your taxes go smoothly.

United Way is able to provide MyFreeTaxes and the MyFreeTaxes Self-Employed Tax Guides thanks to the generosity of our supporters.



Truist Foundation believes all people and communities should have an equal opportunity to thrive. To address the roots of inequity, Truist Foundation has awarded United Way Worldwide a grant providing the principal support for MyFreeTaxes in 2022, enabling United Way to help ensure everyone obtains the tax credits and refunds they are owed.