Taking Control of Your Taxes

How online self-assessment tools and year-round planning set you up for success

Introduction

Your taxes represent a significant financial component of your business. It's important to maintain a sense of control throughout the process to fully understand your tax liability, starting from preparation and filing, to planning for next year's taxes. To stay ahead of your tax obligation, you'll want to take proactive steps throughout the year to ensure a smooth and efficient tax season.

In this guide, we will cover how and when you can assess your previous year's taxes, review the tools that will help you during tax season, and what you can do throughout the remainder of the year to be well-prepared for next year's tax season.

When Should I Review My Taxes?

There are three critical times for reviewing taxes throughout the year, each offering unique opportunities for proactive tax management:

1. Before preparing to file returns (January through February);
2. Mid-Year (August through October); and
3. Year End (November and December).

Opportunity #1: Before Preparing to File Returns (January through February)

The first crucial period occurs before preparing to file returns, early in the year. This initial review allows individuals to:

1. Assess last year's taxes;
2. Use this assessment to identify opportunities for improvement (discover missed deductions and address areas that may raise red flags); and
3. Work with tools that provide step by step instructions for tax preparation.

What Do We Do Before We Prepare Our Actual Taxes?

In January or February, you should assess their previous year's tax returns to identify any missed deductions, credits, or errors that may have occurred last year.

Additionally, it is essential to assess your current financial situation, considering any major life changes such as marriage, the birth of a child, or starting a new job. By conducting this review early in the year, you can ensure accurate reporting, maximize potential tax savings, and address any significant changes in their financial circumstances promptly.

When reviewing your previous year's tax returns, there are several questions you can ask yourself:

- Were all my income sources accurately reported on the tax return?
- Did I fully maximize deductions and credits applicable to my situation?
- Were there any overlooked expenses or eligible deductions that could have reduced my taxable income?
- Did I take advantage of all available tax-saving opportunities, such as contributions to retirement accounts or education expenses?
- Are there any changes in my financial situation or tax laws that could impact my tax planning for the current year?

Asking these questions is crucial because it allows you to thoroughly evaluate your past tax returns and identify opportunities for improvement in your filing strategies. By ensuring all income sources are accurately reported, while maximizing deductions and credits, you can potentially reduce your taxable income and overall tax liability.

Overlooked expenses or eligible deductions could result in missed opportunities to lower taxes owed or increase tax refunds. Additionally, taking advantage of available tax-saving opportunities, such as contributing to retirement accounts or education expenses, can further lower your tax bill.

Finally, apply any lessons learned from your assessment as you prepare to file this year's tax returns.

What Tools Should I Use to Assess My Taxes and Prepare to File?

- First, The Confidence in Quality Tax Rubric App is a tool that you can use to assess your previous year's taxes. Once you've used that app, you are then going to think about the preparation process.
- Next, use Homegrown Preparing for Tax Season: A Guide for Home Child Care Providers to help you collect the information you need for your taxes.
- Finally, you can utilize the Turbo Tax Self-Employed Online Tax Preparation Guide for Child Care Businesses to cost-effective prepare your return.

What is The Confidence in Quality Tax Rubric App?

The Confidence in Quality Tax Rubric App was developed to allow child care business owners to evaluate their own federal tax returns based on best practices and commonly missed deductions and errors found in thousands of provider tax returns. The app provides child care businesses with a personalized review of their potential tax risks and opportunities, which is summarized in a report that is easy for both you and your tax preparer to understand. This resource will help walk you through the process of using the Confidence in Tax Quality App to simplify your tax preparation this coming tax season.

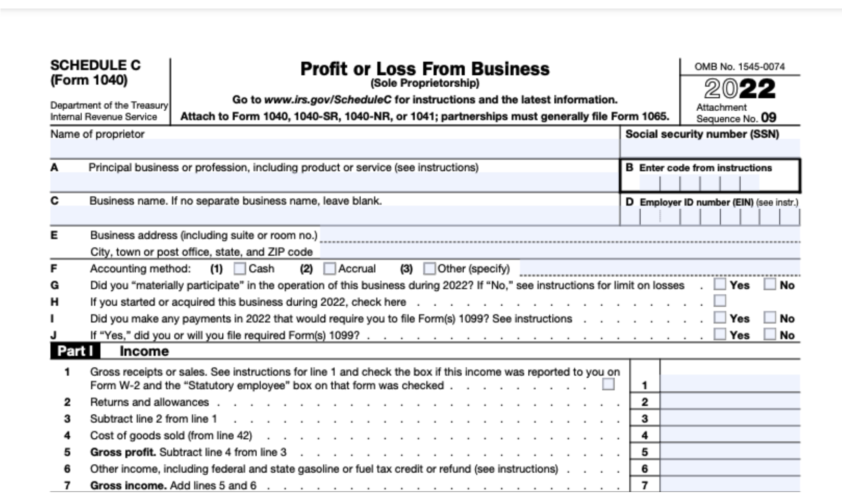
This tool was developed with the generous funding and support from the Wisconsin Early Childhood Association (WECA) through the Wisconsin Department of Children and Families.

Getting Started

Here's what you will need to begin:

1. Your Schedule C of your Form 1040 from your latest completed tax return.
2. About 15 minutes to run through the app's questions.

What does a 1040 Schedule C look like? Below is the top half of a Schedule C, page 1, for your reference.



SCHEDULE C (Form 1040)
Department of the Treasury Internal Revenue Service

Profit or Loss From Business
(Sole Proprietorship)
Go to *www.irs.gov/ScheduleC* for instructions and the latest information.
Attach to Form 1040, 1040-SR, 1040-NR, or 1041; partnerships must generally file Form 1065.

OMB No. 1545-0074
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) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify)

G Did you "materially participate" in the operation of this business during 2022? If "No," see instructions for limit on losses ☐ Yes ☐ No

H If you started or acquired this business during 2022, check here ☐

I Did you make any payments in 2022 that would require you to file Form(s) 1099? See instructions ☐ Yes ☐ No

J If "Yes," did you or will you file required Form(s) 1099? ☐ Yes ☐ No

Part I Income

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 ☐	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

Top half of a Schedule C (Form 1040), page 1

Using the App

Now that you have your Schedule C, you're ready to begin! The app will ask you to accept the user agreement and confirm your type of business before taking you through a series of questions based on your tax form. The entire process can be completed in 5 simple steps.*

**This online tool does not retain or share any of the data you enter. All information provided is deleted upon completion of the process.*

Step 1: Visit the Confidence in Quality Tax Rubric App

The app can be accessed through your laptop, desktop, phone, or tablet. It is available in English and Spanish.

Step 2: Answer the Questions that Appear on Each Page

Proceed through the site's prompts by answering "Yes" or "No" questions. Answers to each question are dependent on if you have information entered in the relevant line.

Examples could include:

Does LINE 1 Gross Receipts include all your revenue earned for the year, such as all parent fees paid, subsidy revenue, Child and Adult Care Food Program (CACFP), cash, checks, and cash app payments?

Yes No

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 1

Do you have money reported on LINE 21 - Repairs & Maintenance?

Yes No

21 Repairs and maintenance . . . 21

Step 3: Check for Common Errors

Answer the final general questions to check for common errors.

Step 4: Enter Your Email Address

Insert your email address in the provided submission box.

Step 5: Hit Submit and Check Your Inbox for Your Report

That's it, you're done! If you have not received your report after 15 minutes, be sure to look in your spam folder.

This online tool does not retain or share any of your data or results. All information provided is used for evaluation purposes only and is deleted upon completion of the process. Your email address will only be used to send you a copy of your personalized

Critical Tool: Preparing for Tax Season

Once you've completed the assessment, take the time to think about areas for opportunity, strategize, and utilize the Preparing For Tax Season: A Guide For Home-Based Child Care Providers. We work with Home Grown to update this workbook annually and it is available in English and Spanish.

This workbook aims to help home-based child care providers optimize their tax preparation process and maximize deductions. It covers key topics like:

- Record-keeping best practices to implement now, such as tracking income, expenses, mileage, and business usage of your home;
- Understanding Schedule C and where to capture income and different types of business expenses;
- How the business use of home deductions work, including calculating and documenting the time-space percentage;
- Maximizing write-offs with eligible deductions for supplies, meals, utilities, repairs, insurance, and more;
- Tracking and claiming automobile mileage for business travel;
- Depreciating assets like equipment and furnishings over time; and
- Proactive tax planning steps to take this year to maximize next year's return.

This workbook includes checklists, guides, and visual examples that walk through every step to support home-based child care providers in preparing for tax season. It will provide you with actionable steps that you can implement now to make tax time easier and save money.

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 in the Homegrown guide, found here, to calculate it.

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

1. 1099 forms—these are evidence that another business paid you for services. Many home-based child care businesses will receive a 1099-NEC for the subsidy care payments and for participation in the Child and Adult Care Food Program (CACFP) or from grants. You may also receive a 1099-K from apps payment companies like Square, Zelle, or PayPal.
2. Bank records—showing additional funds you may have received from other sources.
3. Your own documents, such as year-end or weekly receipts that show parents paid for care.

How Much Money Did I Spend?

Now that you have your business income, you will need to collect your expenses. This will be what you have spent money on for your business in the applicable tax year.

To do this, collect all your receipts and go month by month in your records for the applicable tax year to review your credit card bills, bank statements, checks, and app-based system payments (such as Venmo, Zelle, PayPal, and Square Cash).

Make sure you have records of your costs, ideally receipts showing payment for expenses, but you can also, in most cases, use canceled checks, invoices, or credit card and bank records. It is critical that any proof of an expense show:

- That you paid the expense;
- The amount you paid;
- The date you paid it; and
- A description of the item purchased or service received.

With your accumulated expenses, you can now fill out the digital direct expense worksheet included in the guide that is found here. The worksheet uses the expense categories for the Schedule C that are most relevant to home-based childcare businesses, 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 as direct expenses. The IRS defines a direct expense as one that is "incurred exclusively for the business and provides no personal benefit." Some examples of direct expenses in your home are: fixing a bathroom used only by the children; getting a new children's rug for the play area; and playground equipment.

Indirect costs associated with your home, such as homeowner's insurance or your electric costs, are entered on tax Form 8829, Business Use of Home. The Homegrown workbook features a digital worksheet for indirect expenses, found here.

Preparer or self-preparation?

Once you have collected your information for tax season, your next step is to determine if you will use a paid preparer to file your taxes or if you will self-prepare your taxes.
If you choose to use a paid preparer, make sure that you utilize your network to find trustworthy, experienced preparers.

However, self-preparation can be more cost-effective and result in a lower tax bill. The free Turbo Tax Self-Employed Online Tax Preparation Guide can walk you through the self-preparation process.

Opportunity #2: The Mid-Year Tax Review (August – October)

The second critical time for reviewing taxes throughout the year is during the summer to early fall months, typically August through October. During this period, you can evaluate any changes in your financial situation, such as income changes, as well as life events like marriage, divorce, birth, or the adoption of a child, buying or selling a home, or starting a new job. You should also review your current year's tax situation based on income, expenses, and investments. It is essential to evaluate any changes in financial circumstances or tax laws that may affect your tax planning strategies for the year. By conducting this review midway through the year, you can proactively identify opportunities to optimize your tax outcomes and make any necessary adjustments before year-end.

Mid-Year Tax Review: Income

If there have been any significant changes in income compared to last year, you will want to assess any increases or decreases in income sources, such as salary, investments, or side businesses, to understand how they may impact your tax situation.

Mid-Year Tax Review: Consider Deductions

- For your current tax year deductions, you want to be sure you are maximizing the deductions and credits available.
- Review potential deductions and credits applicable to your situation, such as education expenses, medical expenses, charitable contributions, and retirement contributions, to ensure you are taking full advantage of available tax benefits.

Mid-Year Tax Review: Tax Law Changes

- Determine if there are any changes in tax laws or regulations that could impact your tax strategy.
- Stay informed about any recent changes in tax laws or regulations that may affect your tax planning for the year. A great source of information on changes is the Taking Care of Business blog (www.tomcopelandblog.com).

Mid-Year Tax Review: Check Your Records

- Keep accurate records of your expenses and receipts throughout the year.
- Ensure you have organized records of your expenses and receipts, including documentation for deductions and credits you plan to claim on your tax return. Keeping thorough records can help support your tax claims and minimize the risk of errors or audits.

Mid-Year Tax Review: Estimate Your Tax Burden

And finally, a very important component of the mid-year tax review: estimating that 4th quarter estimated tax payment! Use the 3rd quarter to evaluate if you are on track with your estimated tax payments. There are two methods you can use to help estimate your 4th quarter tax obligation: profit-driven and income-driven.

Profit Driven

This is the faster method, but it is also less accurate than basing it on your family income. You can likely run through this option in about fifteen to twenty minutes.

Step 1: Determine your profit

Subtract your total expenses from your total revenue (remember, this should include your actual and estimated amounts through the end of the year). The resulting number is your profit.

For example, if Tonya's information showed $105,000 in revenue and $67,000 in expenses, her profit would be $38,000.

$105,000 (revenue) minus $67,000 (expenses) = $38,000 (profit).

Step 2: Determine your estimated tax

When sole proprietors make a profit, they are required to pay both self-employment tax and income tax. A good way to estimate how much of your profit will be taxed is using a rate of 20% if you don't have a state income tax, or 25% if you do.

Consider the following example:

Tonya had $38,000 in profit, and she lives in a state without income tax. In her case, she would want to estimate her profit using a rate of 20%:

$38,000 (profit) x.20 (estimated tax rate) = $7,600 (estimated taxes)

Using this rate, Tonya can assume $7,600 in estimated taxes by the end of the year.

Next, Tonya can compare this amount against what she has already paid:

Tonya had checked with the IRS site when she collected her data and saw that she had paid $6,000 in estimated taxes earlier in the year.

$7,600 (total estimated taxes) minus $6,000 (taxes paid to date) =

$1,600 (estimated taxes remaining)

Based on this information, Tonya should pay another $1,600 before December 31.

In this case, Tonya had a positive number for her profit. But let's say she didn't and found that she would lose money by the end of the year. In this case, Tanya's estimated tax would be zero. She will also want to look closely at her revenue and expenses to see if there is any way to cut costs or boost revenue.

Step 3: Mitigate Taxes

Before you write a check for additional estimated taxes, you will want to think about strategies for mitigating your taxes. As you use some of those strategies, you could then adjust your numbers to better know what you should pay before the end of the year.

But let's think about how Tonya could mitigate her taxes, as an example, putting some of her profit into a SEP IRA (Simplified Employee Pension), which is a business retirement account where you can deduct the cost from your business expenses. Note: this retirement example is for educational purposes and is not intended as retirement advice.

Let's say she decided to put $5,000 of her profit into a SEP IRA.

Tonya's revenue is still estimated to be $105,000, but her expenses have now gone up to $72,000 (the original $67,000 plus the additional $5,000 for her SEP IRA):

$105,000 (revenue) minus $72,000 (expenses) = $33,000 (profit).

Since her profit is less, her estimated taxes will be less too.

$33,000 (profit) x.20 (estimated tax rate) = $6,600 (estimated taxes)

Since she had already paid $6,000 in estimated taxes in this scenario, Tonya now only needs to pay $600 more by the end of the year.

Family Income Driven

Now, let's say Tonya wants a more accurate number for her estimated tax bill. In this case, she can use a family-income-driven approach. Though she will need some more data to use this method, she will also end up with a more precise number for her taxes based on household income and deductions. Income-driven tends to be more accurate.

Step 1: Gather Additional Data

In addition to the information, you already collected, to use this approach, you will also want to have any W-2 income information for you and/or your spouse, specifically your total annual pay and how much withholding has been taken out. You can do this by looking at your latest paycheck to see the "year to date" amounts. If you divide them by the number of months to date (to get an average monthly amount) and then multiply that by 12 months to get an annual amount, Tonya's spouse's paycheck showed that by the end of June, she had earned $54,000 and had $12,000 in withheld taxes.

In this case, we divide both numbers by six (since it is the end of June) to get a monthly average of $9,000 for wages and $2,000 for withholding. We can then multiply the monthly averages by 12 to get an annual average:

Monthly Wages: $54,000 (wages through June) ÷ 6 months = $9,000 of wages per month.

Monthly Withheld Taxes: $12,000 (taxes through June) ÷ 6 months = $2,000 of withholding per month.

Annual Wages: $9,000 x 12 months = $108,000

Annual Withheld Taxes: $2,000 x 12 months = $24,000

Additionally, you'll want to have information on your children's ages and educational status, your mortgage interest for the year, and your property taxes.

Opportunity #3: Before End of Year

Before the end of the year, usually in November or December, there is another essential window for tax review. This final assessment enables you to conduct a comprehensive review of your year-to-date income, deductions, and tax liability, allowing you to implement any necessary tax-saving strategies before the close of the tax year.

Conducting a self-assessment before the end of the year allows you to engage in proactive tax planning. Strategies include maximizing contributions to tax-advantaged accounts and harvesting tax losses to minimize tax liability. Review your year-to-date income to understand your current tax situation. Identify any additional income sources, such as bonuses or investment gains, that may affect your tax liability. Evaluate expenses that are potential deductions available to you, such as contributions to retirement accounts (e.g., SEPIRAs, 401(k)s), mortgage interest, charitable donations, and eligible business expenses that can reduce your overall tax liability.

If you are showing a potential loss for the year (that is your expenses are higher than revenue) consider ways to cut costs or defer payments. Also, look at any outstanding fees that could be collected.

If you are showing a profit, make sure you have made your estimated tax payments. You may also explore other tax-saving strategies that may apply to your situation, such as deferring income to the following year, accelerating deductible expenses, or utilizing tax credits for education expenses or energy-efficient home improvements.

A Year-Long Commitment

Keeping your taxes low is a year-long exercise. You can set yourself up for success in January by setting reminders in your calendar for important activities like Mid-Year and Year-End reviews. Additionally, implementing recordkeeping practices from the beginning of the year can make it easier to review and analyze your data as needed. Finally, taking notes throughout the year about changing circumstances that may impact your taxes, can help you be better prepared when the next tax season arrives. By following these simple steps, you can reduce stress, save time, and ensure that you are making the most of your financial resources.

What do I do if I need help?

Contact Our Child Care Team:

For questions, email azchildcare@lisc.org or leave a message on our help line: (602) 252-6315. A member of our child care team will get back to you as soon as possible.

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