

# Thirty Commonly Overlooked or Misunderstood Deductions



**DECAL**  
**Thriving Child Care**  
**Business Academy**

## Save money at tax time by not missing out on these opportunities

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Running a child care business requires dedication, passion, and careful financial management. As a provider of child care, you play a vital role in shaping the lives of young children and supporting families, but you also need to make sure you are maximizing your revenue and expenses to get the compensation for this hard work.

All too many times, child care business owners miss possible deductions – ones that can quickly add up to more money in their pockets.

In this tool we will provide you with valuable insights into commonly overlooked or misunderstood tax deductions. Whether you're just starting your child care business or have been nurturing young minds for years, understanding the deductions available to you can help minimize your tax liability while maximizing the financial health of your business.

### The Big Ones

There are many deductions that are possible for child care providers. However, based on our work with family and center care business owners, we've identified several that could have the greatest impact on reducing your tax bill.

- 1. Business Use of the Home Part I:** Family child care providers are eligible to use a unique formula to determine the deduction of the business use of the home. They are able to deduct areas that are exclusive use (those areas that are used only for child care) or regular use (those used on ongoing basis for care). They can also increase their deduction by recording not only the time they spend with children, but also planning, preparing for, and cleaning up after care. As a result, they can get a deduction for a significant part of their rent or mortgage interest, property taxes, utilities, and home maintenance costs.
- 2. Business Use of the Home Part II:** Center care business owners also may be able to deduct a home office. This can be trickier because you can't also have an on-site office. But we have seen many cases where the center owner is using on-site space to a point where administrative duties have to be performed out of their home. Again,

this deduction can help you include costs of rent or mortgage interest, property taxes, utilities, and home maintenance costs.

3. **Insurance Premiums:** The costs of liability insurance, property insurance, and health insurance for employees are likely deductible. Don't overlook these as you assemble your expenses for the year.
4. **Property Taxes:** Property taxes related to the facility you use for your child care business can be deducted. Again, for family child care businesses, you will want to use your [time-space percentage](#) to determine the business portion.
5. **Meals and Snacks Part I:** If you provide meals and snacks to the children in your care, a portion of these expenses could be deductible. Keep detailed records of these expenses. And if you are a family care provider, see the next point.
6. **Meals and Snacks Part II - Using the Child and Adult Care Food Program (CACFP) Standard Meal Rate:** If you are a family child care provider you can use the CACFP Tier I Standard Meal Rate to calculate your meals deduction, even if you don't participate in the program. In every case we have seen, this results in a higher deduction and a much easier process than tracking the actual cost of each meal. You can learn more about it [here](#).
7. **Advertising and Marketing:** Expenses for promoting your child care services, including website development, social media costs, advertising fees, and printing costs, are deductible.
8. **Misclassification of Employees:** Misclassifying educators as contractors when they should be employees can lead to legal and financial penalties. The distinction is based on factors such as control over the work, level of independence, and whether the work is integral to your business. You can learn more in this tool about how to know which category to [use](#).
9. **Hiring Your Child:** If you hire your child (who is under 18) to work in your child care business, you may be able to deduct their wages as a business expense without paying employment taxes while also teaching your child about financial responsibility. However, the work must be legitimate and age-appropriate, and the wages paid should be reasonable for the services provided. This [tool](#) can help you navigate this opportunity.
10. **Professional Fees:** Fees paid to consultants, lawyers, or accountants, or even tax preparation professionals, for business-related advice are deductible as business expenses.
11. **Depreciation:** Depreciation is a way to spread out the cost of larger expenses (over \$2,500) over time, because they lose value as they get older or worn out. When you calculate depreciation, you can take a portion of the original cost as a deduction on your taxes each year. Figuring out depreciation can be a bit tricky, so it's a good idea to talk to a tax professional who can guide you through it and make sure you're getting all the deductions you deserve. You can learn more about it [here](#).
12. **Office Supplies:** You can deduct expenses for office supplies like paper, pens, printer ink, and other supplies used for administrative tasks.
13. **Bank Fees:** Fees associated with business bank accounts, including monthly service charges and transaction fees, are deductible.

- 14. Avoiding the "Other Expenses" Category:** Lumping various expenses under an "Other Expenses" category can hinder accurate record-keeping and tax preparation. Accordingly, if you can use existing categories like supplies you can reduce the complexity of your taxes and questions that may arise in IRS review.
- 15. Bad debt:** Many providers believe they can deduct unpaid parent fees. This is not correct. If they have not paid you, you may pursue the amount in court, but unfortunately it would not be deductible.
- 16. Professional Memberships:** Membership fees for NAFCC, NAEYC, and other organizations and associations related to child care are deductible.
- 17. Uniforms:** Costs of uniforms required for your child care staff are deductible. Do know these need to be work-only uniforms. Purchasing other clothing that you may choose to use only at work but could be used personally are not deductible. For example, a shirt with your businesses logo that everyone has to wear would be a deductible; however, a top you choose to wear at work (no requirement) would not be.
- 18. Business loan interest:** Interest on business loans including Economic Injury Disaster Loans (EIDL) and unforgiven Paycheck Protection Program (PPP) loans also can be deducted.
- 19. Transportation Costs:** If you transport children in your care, a portion of vehicle expenses, such as gas, maintenance, and insurance, may be deductible. You can also count other trips, like to the supermarket to buy food for your business, when the primary purpose of the trip is work related. Always keep detailed records of mileage.
- 20. Supplies Part I:** Deduct the cost of supplies such as art materials, educational resources, and cleaning supplies that are used in your child care business.
- 21. Supplies Part II - Food Preparation and Service:** Don't forget to include all of the costs for preparing and serving food and meals. These can add up. Everything from paper towels to napkins and containers for storing leftovers can be included.
- 22. Supplies Part III - Toys:** Toys and the batteries for them are deductible. If you are a home provider, be careful of deducting 100% of toys that are also used by your own children. Instead deduct a percentage based on the time they are used.
- 23. Child Care Management Software (CCMS) and other business software:** Expenses for software used to manage scheduling, billing, and other administrative tasks are deductible.
- 24. Training and Education:** Costs associated with workshops, seminars, or courses related to child care and early childhood education can be deducted.
- 25. Mobile Phones:** If your mobile is your only phone, it isn't deductible. However, the cost of a second line into your home used exclusively for business is a deductible business expense. Family child care providers can only deduct a business-only mobile phone if the mobile phone is a second line.
- 26. Rent or Mortgage Interest:** If you rent or own the property where you operate your child care business, you can deduct a percentage of the rent or mortgage interest based on the space used for business activities. For centers, this is likely the full amount. Family child care providers will want to use their time-space calculation. If

you are a family child care business and you itemize your personal taxes, you can do the balance of your mortgage interest on Schedule A. For example, if your time-space percentage is 60%, then 60% of your mortgage interest can go under the Business Use of Your Home and 40% under a personal expense on Schedule A.

**27. Hiring Your Spouse:** If you employ your spouse in your child care business, you can deduct their wages as a legitimate business expense. However, similar to hiring your child, the wages paid must be reasonable for the services they provide. Unlike your child, you do need to pay employment taxes.

**28. Startup costs:** The costs related to the startup of your child care business may be deductible when you become open for business. This can include many of the same expenses you can use when you are open, like toys, office costs, and facility or home costs.

**29. Cost of Goods Sold (COGS):** The concept of Cost of Goods Sold (COGS) is primarily applicable to businesses that sell physical products, such as retail stores or manufacturers. COGS represents the direct costs of producing the goods being sold, including materials, labor, and manufacturing overhead. It's used to calculate the gross profit of a business. However, for service-based businesses like child care providers, COGS typically doesn't apply and could lead to confusion about your expenses with the IRS.

**30. Licensing and Certification Fees:** Costs associated with obtaining and renewing licenses and certifications required for your child care business are deductible.

**Always keep in mind that no matter which deduction, it's essential to maintain organized and accurate records for all of these expenses to ensure that you can claim the deductions you're entitled to while adhering to tax laws.**

## **Additional Resources**

**If you have questions or need help, assistance is available.**

[GaPDS Website](#)

[DECAL Thriving Child Care Business Academy Website](#)

**To Find Other Study Guides:** Click on [Resources](#) on the Academy home page

**To Find Training:** Click on [Trainings](#) on the Academy home page

**To Register for Training:** Click on [Schedules & Registration](#) on the Academy home page

**To Sign Up for Study Groups:** Fill out the [Intake Assessment](#)

**For questions about coaching or study groups:** Email [GAcoaching@civstrat.com](mailto:GAcoaching@civstrat.com)

**To Find Other ECE Resources:** Visit the [DECAL Website](#)

**For General Questions about the Academy:** Email [thriving@decals.ga.gov](mailto:thriving@decals.ga.gov)

**For More Information:**

[Family Child Care Learning Home Rules and Regulations](#)

[Child Care Learning Center Rules and Regulations](#)

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