2018 Tax Changes Affecting Family Child Care

By Tom Copeland

- The standard mileage rate is $.545 per business mile. ($.58 for 2019)

- The standard meal allowance rate for 2018 (and 2019) is $1.31 breakfast, $2.46 lunch/supper and $.73 snack. Use these rates for all meals and snacks served in 2018 (including meals and snacks not reimbursed by the Food Program). You may deduct up to one breakfast, one lunch, one supper and three snacks per day, per child. No food receipts are necessary.

- The 50% bonus depreciation rule in 2017 has been increased to 100% until 2022. This means providers can deduct in one year the business portion of all items costing more than $2,500 (except for their home, home improvement and a home addition). Before 2018, items must be purchased new to qualify. Starting in 2018 providers can purchase used items and qualify for this rule.

- For items costing less than $2,500, providers can deduct the business portion in one year rather than depreciating them. They should attach a statement to their tax return indicating they are electing this rule. This rule is the same as in 2017. The statement should read: "For the year ending December 31, 2018, I am electing the de minimis safe harbor rule under Treas. Reg. Section 1.263(a)-1(f) for my business expenses of less than $2,500."

- Providers can reduce their federal taxable income by 20% of the lower of their business profit or their family taxable income. Follow this formula: Schedule C profit minus one half of your Social Security/Medicare tax minus the standard deduction of $12,000 (single) or $24,000 (married). The total is your family's taxable income. For example: $40,000 Schedule C profit - $2,826 (half of SS/Medicare tax) - $12,000 standard deduction (single) = $25,174. Since this is less than business profit, multiply by 20% ($25,174 x 20% = $5,035) and reduce federal taxable income by $5,035.

- The income limits to qualify for the IRS Saver's Credit has increased to $63,000 (adjusted gross income) for couples filing jointly and $31,500 for individuals or married people filing separately. ($64,000 and $32,000 for 2019)

- Although the corporate tax rate drops substantially to 21% in 2018, it still doesn't make sense for most providers to incorporate to get this lower rate. Talk to a tax professional and a lawyer before operating other than as a sole proprietor (self-employed).

The Time-Space Percentage

The Time-Space percentage is used to determine the business portion of expenses that are used for both business and personal purposes.

Time-Space formula:

Time Percent | Space Percent

$$\frac{\text{\# hours home used for business}}{\text{Total \# hours in a year}} \times \frac{\text{\# square feet of home used regularly for business}}{\text{Total \# square feet in home}} = \text{Time-Space percentage}$$

Use your Time-Space Percentage on shared business/personal expenses such as: utilities (gas, oil, electric, garbage, water, sewer, cable television), property tax, mortgage interest, house insurance, house repairs, house depreciation, rent, fences, computers, DVD player, television, toys, cleaning supplies and so on. Fill out IRS Form 8829 Expenses for Business Use of Your Home.

Time Percent

- 11 hours/day caring for children per week = 55 hours per week x 52 weeks = 2,860 hours per year
- 10 hours per week cleaning, activity preparation, etc. x 52 weeks = 520 hours per year
- Total: 3,380 hours per year divided by 8,760 hours in a year = 38.9% Time

Space Percent

- You can count a room as regularly used for your business if you use it 2 or more times a week: kitchen, bedroom for naps, bathrooms, living room, play room, laundry room, etc.
- 1,900 square feet used regularly divided by 2,000 total square feet of home = 95% Space

Time-Space Percentage

- 38.9% Time x 95% Space = 37% Time-Space Percentage

Example

- $50 arts and craft supplies used 100% for business = $50 business deduction
- $100 toy used for both business and personal purposes x 37% Time-Space = $37 business deduction
- $60 sweater for yourself = zero business deduction. Personal expenses are not deductible

Tom Copeland: www.tomcopelandblog.com

The Start-Up Rule

You started your business in 2018 and your inventory of items you owned before your business began included:

Items worth $200 or less	Items worth $201-$2,500	Items worth more than $2,500
Toys: $600	Refrigerator: $300	Fence: $4,400
Pictures: $300	Dining room table: $1,000	Driveway: $8,000
Washer: $100	Sofa: $800	Kitchen remodel: $10,000
Dryer: $80	Desk: $500	Sofa: $2,600
Freezer: $100	Other (10 items): $3,000	
Microwave: $20		
4 rugs: $40		
6 chairs: $120		
Other (50 items): $2,640		
Total: $4,000	Total: $5,600	Total: $25,000

What can you deduct in 2018?

Items worth $200 or less: Deduct all under Start-up Rule (less than $5,000)

Items worth $201-$2,500: Can't use start-up rule because totals of items under $2,500 are more than $5,000. So, claim $5,600 under the 100% bonus rule and deduct all in 2018.

Items worth more than $2,500: Deduct the fence, driveway and sofa in 2018. Depreciate kitchen remodel over 39 years as a home improvement

Saver's Credit - 2018

In addition to the tax deductions for retirement contributions, certain individuals may receive an extra tax credit. The tax credit for contributing to an IRA (traditional, ROTH, SEP and SIMPLE) and employer-sponsored retirement plan (401k and 403b) is as follows:

Joint Filers Adjusted Gross Income AGI	Head of Household Filers AGI	Other Filers AGI	Credit	Maximum Credit
\$0-\$38,000	\$0-\$28,500	\$0-\$19,000	50%	\$1,000
\$38,001-\$41,000	\$28,501-\$30,750	\$19,001-\$20,500	20%	\$400
\$41,001-\$63,000	\$30,751-\$47,250	\$20,501-31,500	10%	\$200
Over \$63,000	Over \$47,250	Over \$31,500	0%	\$0

For example, an eligible taxpayer (married, filing jointly) who contributed \$1,000 to a SIMPLE IRA and whose family adjusted gross income was \$36,000 would get a \$500 tax credit; the tax-deductible contribution would save about \$150 in income taxes (15% tax bracket) for a total of \$650 tax savings. It would actually cost the taxpayer about \$350 to get a \$1,000 added to her retirement fund. If this person contributed to a Roth IRA she would still get the \$500 tax credit, but not the \$150 tax savings because contributions to a Roth IRA are not tax deductible.

To claim this credit, fill out Form 8880 and report the amount on Form 1040, line 51.

If you did make a contribution to your IRA in an earlier year but did not claim this tax credit, you can file an amended tax form (Form 1040X) and get a refund!

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Minnesota Tax Rules for 2018

Payroll taxes for employees

- Withhold state income tax on Form W-4MN – 6.25%
- Pay state unemployment tax (1.66%) for new employers: use Form MDES-ID and Form MDES-1
- Must report new hires to state department of labor
- See: http://www.payroll-taxes.com/state-tax/minnesota

Worker's Compensation Insurance – not for family members (spouse or child)

Minimum wage: $8.04 for 2019

Minnesota Child and Dependent Care Credit

- State tax credit for own child under age 6 as of 12/31/2018
- To be eligible: family adjusted gross income less than $62,000 (one child) or $74,000 (two or more children)
- Maximum credit: $600-$1,200
- See M-1CD Child and Dependent Care Credit

Minnesota Homestead Credit Refund

- File Form M-PR
- Must reduce property tax/rent by your Time-Space %
- Example: $4,000 property tax and 40$ Time-Space%
    - $4,000 x 60% (non-business use) = $2,400 amount eligible for refund
    - See Worksheet #2 on Form M1PR

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IRA Rules for 2018 and 2019

Traditional IRA

Eligibility: If your spouse is covered by an employer-based retirement plan

Married: Up to $121,000 ($123,000 2019) : Single: Up to $73,000 ($74,000 2019)

If your spouse is not covered by an employer-based retirement plan

Married: Up to $199,000 ($203,000 2019)

Maximum contribution: $5,500 (2018, $6,000 for 2019) + $1,000 if age 50 or older

Contribution is tax deductible: Deadline for 2018 contribution: April 15, 2019

SIMPLE IRA

Eligibility: all providers are eligible regardless of income

Maximum contribution: $12,500 ($13,000 2019) + $3,000 if age 50 or older

Contribution is tax deductible: Deadline for 2018 contribution: April 15, 2019

Deadline for establishing SIMPLE IRA for 2018: October 1, 2018

Roth IRA

Eligibility: adjusted gross income below:

Married: Up to $199,000 ($203,000 2019): Single: Up to $135,000 ($137,000 2019)

Maximum contribution: $5,500 (2018, $6,000 for 2019) + $1,000 if age 50 or older

Contribution is not tax deductible: Deadline for 2018 contribution: April 15, 2019