


Child Care Tax Opportunities:
Transportation and Food Costs

Learn how to deduct these expenses on your taxes to save money

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Introduction

Taxes are an important consideration for any business. While tax time can cause business owners anxiety, it also provides opportunities for small businesses to save money and mitigate the risk of future issues. It's critical to pay taxes and follow IRS regulations, and it's important to take advantage of all the deductions and tax credits for which your business is eligible.

For home-based child care businesses, there are two areas that are often misunderstood when it comes to tax deductions. The tax implications of transportation and food costs can be confusing, but when properly classified, these business costs provide tax deduction opportunities. This guide breaks down the basics of both topics when it comes to your taxes and explains how to deduct them.

Understanding Transportation Costs and Your Taxes

Many home-based child care providers use their own car or van to conduct business activities. 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. According to the IRS, transportation costs can be deducted from your taxes as they relate to the "regular course" of your business. They note some typical expenses may include taking children to and from school, field trips, and trips to buy business-related supplies.

Since transportation costs must be business-related, the primary purpose of eligible trips must be for the business, even if there are also tangential personal benefits. For example, if you make your regular Costco run to buy bulk supplies for your child care program, but while you're there you purchase a jar of pickles for your family, that trip is deductible. On the other hand, if you are at the supermarket picking up your family's groceries for the week, and you add some wipes for the business to the list, the trip is not deductible because the primary purpose of that trip to the store was personal.

How can I deduct transportation costs?

Vehicle and transportation costs add up over time, so keeping accurate records and understanding the options for deduction is essential.

There are two ways to deduct your transportation expenses on your taxes:

1. The **Standard Mileage Rate** provides a simple cost per mile (set by the IRS) that is used to calculate your deduction.
2. The **Actual Expense** method uses the costs of your vehicle and travel to calculate your deduction.

Here are the pros and cons of each option:

Pros/Cons	Standard Mileage Rate	Actual Expense Method
Pros	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
Cons	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

If you use the **Standard Mileage Rate**, beginning on January 1, 2023, the standard mileage rate for business use increased to 65.5 cents per mile.

Keep in mind, when you use the standard mileage rate, you **can** still deduct parking fees and tolls accumulated as you are working, but parking tickets and other violation fees are **not** deductible.

Unless you are using your vehicle very heavily for your child care business, the Standard Mileage Rate is easy and fair. 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. If you have a dedicated work vehicle, all expenses will be business expenses.

If you use your vehicle for work *and* personal expenses, using this method requires you 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 of using the Actual Expense method: 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.

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. (Note: loan payments for financed vehicles cannot be expensed)	
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)		

Understanding Food & Meal Costs and Your Taxes

Food costs for the children in your care are deductible for your child care business, though there are two exceptions when it comes to reporting your business's food costs for tax purposes. First, if your own children are enrolled in your child care, meals for them are not deductible. Second, if you have employees whose food is provided, their costs are only 50% deductible.

How can I deduct food and meal costs?

There are a couple of ways to report food expenses related to your business:

1. The **Standard Meal Rate** involves keeping track of meal types and numbers, and multiplying those totals by a set amount, published annually by the federal government. (This option is open to both home-based child care and child care centers.)
2. Using the **Actual Expenses** method, you keep track of all food expenses, including receipts. (This option is only available to home-based child care businesses.)

Here are the pros and cons of each option:

Pros/Cons	Standard Meal Rate	Actual Expenses
Pros	Easier record keeping Can still deduct non-reimbursed meals and snacks	Includes all costs
Cons	Still required to keep details of each eligible child, including name, dates and hours of attendance, and number and types of meals served	Greater scrutiny and recording burden More time and resource intensive

The **Standard Meal Rate** provides an optional, set rate for home-based providers to use to calculate the deductible cost of food for eligible children in their care, in lieu of tracking actual costs. Every year, the Department of Agriculture sets a standard meal allowance rate for breakfast, lunch or supper, and snack. This Standard Meal Rate is based on the Tier I rate under the Child and Adult Care Food Program, or CACFP—more on the CACFP below. Using this method, you may calculate your food-related tax deduction at a minimum of one breakfast, one lunch, and three snacks per eligible child per day.

For tax purposes, you use the rates in effect on January 1 of the tax year. So for example, the rates for the 2022 tax year would be 2021-2022. For the 2023 tax year they would be 2022-2023.

Click HERE for more information about **CACFP Reimbursement Rates**.

What about CACFP?

The Child and Adult Care Food Program (CACFP) is a federal program that provides reimbursements for nutritious meals and snack to eligible children who are enrolled at participating child care programs. If you are a participating CACFP program, you may receive reimbursement from the CACFP sponsor in your state for up to two meals and one snack per enrolled person per day. CACFP rates are set as the Standard Meal Rate and reimbursements are based on the type and number of meals served at your child care program. You can find the latest CACFP rates here.

If you are enrolled in the CACFP, reimbursements should be considered at tax time alongside your deductible food costs. The preferred method for including CACFP on your taxes is to report all reimbursements under income, then deduct food expenses in full using one of the methods described above. Alternatively, you can calculate your food expenses against the reimbursement amount you receive; this is called the Netting Method. If you use the Netting Method and your food expenses are greater than the reimbursement you received, you may deduct the excess as a food expense. If your food costs are less than the reimbursements received, you should report just the excess income as revenue. However, the Netting Method is **not preferred by the IRS** as it is more difficult to keep track of and can result in greater inspection from an IRS tax examiner.

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