



Inland Revenue Information and Consideration of Standard Costs for home-based Childcare Educators

There is a potential issue for home-based childcare providers who receive the wage subsidy and who also normally use the standard costs in Determination DET 09/02.

Background

A childcare provider who derives gross income from providing a childcare service may be able to use the standard cost in Determination DET 09/02. Childcare providers are not required to use the standard cost in the Determination and can use actual costs supported by appropriate records if they prefer.

If you meet the criteria, and elect to use the Determination, you can deduct a set amount of expenditure as set out in the Determination. You cannot claim losses and are not required to file a tax return if both of these apply:

- After deducting the amount of the standard cost under the Determination, you have a loss or zero income.
- You do not have any other income where tax has not been deducted at source.

The issue

If you elect to use the Determination, and receive a wage subsidy, then the Home-based childcare worksheet - IR413 can be used to calculate the net income under the standard cost method. The first two components of the formula are:

- A. Gross income received for childcare
- B. Hours (children are in your household)

If you receive the wage subsidy during the period of the Covid-19 Alert Level-4 lock-down then this forms part of the 'Gross income' received – part A of the formula. However, as the actual childcare activity has ceased for the duration of the lock-down the 'Hours' – part B of the formula, will be NIL. This may result in a net income amount which needs to be included in your annual tax return.

IRD tax return considerations regarding the wage subsidy:

- The subsidy will be spread over the 12-week period – as this replaces HBECE educator's income. Therefore, the educators will include the portion applicable for 2020 tax year and portion for 2021.
- Inland Revenue allows either standard or actual costs - so educators would need to decide if they are going to claim actual costs for the whole tax year (which would enable them to claim costs (within reason) for the period they had no children in their care) or standard costs for the period of the year when they do have children in their care.

If using actual costs – educators MUST keep a record of all expenses for 7 years.

The IRD link below which provides some examples.

<https://www.ird.govt.nz/covid-19/business-and-organisations/self-employed/wage-subsidy---issues-for-self-employed>