

How to Assist Child Care Providers in Understanding the Tax Implications of the Stabilization Grants

Presented by Tom Copeland, JD
For CSEA and CCR&R Network
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Welcome!

- * This class will help you –
 - * Identify the benefits of the Stabilization Grants
 - * Identify the tax consequences of receiving Stabilization Grants
 - * Assist family child care providers in applying for these grants
 - * Answer questions from providers about these grants

Instructor

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Disclaimer

- * “I am not rendering legal, tax, or other professional advice. If you require this type of assistance, please consult a professional to represent you.”

The Good News!

- * New York has received millions of dollars for the Child Care Stabilization Grants
- * These grants are to provide financial relief to providers to cover business costs associated with COVID-19 and to help stabilize their operations
- * This represents a substantial financial benefit to all providers!
- * This is not a loan. It's a grant. You do not have to pay it back

Apply Now!

- * All family child care providers should apply now!
- * Deadline to apply is November 30th
 - * This is a firm deadline!
- * For details about this program:
 - * <https://ocfs.ny.gov/main/contracts/funding/COVID-relief/childcare-stabilization/>

Eligibility for the Grants

- * Providers must be licensed/registered or legally-exempt (enrolled with an enrollment agency) as of March 11, 2021
- * You are eligible even if you don't currently have children enrolled

How Much Will I Get?

- * If you are a Family Day Care (FDC) provider, you can expect to get an average of \$19,000. It will be higher if you are in Westchester or Long Island
- * If you are a Group Family Day care (GFDC), you can expect to get an average of \$38,000
- * You will be paid out in six monthly payments
- * Payments will begin within 30 days of approval of your application

What Can Grants Be Used For?

- * Paying yourself or employees
- * Rent, mortgage payment, utilities, insurance
- * Facility maintenance and improvements
- * COVID supplies, equipment, training on health and safety
- * General operating expenses
- * Other goods and services necessary to maintain or resume child care services
- * Mental health supports for you, children and employees
- * Professional Development Related to Health and Safety (CPR, First Aid, etc.)

Pay Yourself

- * You can use part or all of the grant money to pay yourself
- * Once you do that you can use the money for whatever you want (retirement, vacation, emergency fund, major home improvements, etc.)

Rent, Mortgage, Utilities, Etc.

- * You can use grant money to pay for the business portion of:
 - * Rent
 - * Mortgage payments
 - * Utilities, including phone and Wi-Fi service
 - * Business liability and homeowner's insurance
- * Apply your Time-Space% (except for liability insurance)

Facility Maintenance and Improvements

- * You can use the grant money for:
 - * Minor renovations such as playground equipment, bathroom renovation, replace carpeting, repairs
- * The grant money cannot be used for:
 - * Construction, major renovations or remodeling, removing load bearing walls, extensive alterations
- * What about a fence, patio, basement remodeling, kitchen countertops, new windows or doors?

Goods and Services

- * You can use the grant money for
 - * Food
 - * Equipment and materials for play, learning and eating
 - * Child care software (KidKare.com)
 - * Shared Services
 - * Cleaning services
 - * Transportation (new van?)

Mental Health Supports

- * You can use the grant for:
- * Childhood mental health support consultations for you or your staff
- * Family engagement (books and other materials children can take home)

What if I'm Not Sure What I Can Spend the Grant On?

- * There may be some item you want to spend the grant money on, but you are not sure if it will be allowed
 - * Remodeling (is it a minor or major improvement?)
- * In this case, you can always pay yourself with the money and then you can spend money on whatever you want
- * This is always a safe backup plan

More Information

- * The NY Office of Children and Family Services has more details on how the money can be spent
- * <https://ocfs.ny.gov/main/contracts/funding/COVID-relief/childcare-stabilization/>

Keep Records

- * You do not have to submit receipts to OCFS on how you spent the grant money
- * However, you should keep records of how you spent it in case you are audited
- * Keep records for 5 years (normally you keep business records for 3 years)

How to Show You Paid Yourself?

- * To show that you paid yourself:
 - * Transfer of money from one bank account to another
 - * Write a check made to yourself
 - * Create a written note saying that the amount in a bank account is for yourself



What are the Tax Consequences of This Grant?

Stabilization Grants are Income

- * Providers must report as taxable income all the money they receive from the Stabilization Grants
 - * You will receive a Form 1099 at the end of the year
- * The grants are treated in same way as parent tuition, subsidy program payments and CACFP reimbursements

Do You Still Want This Grant?

- * Yes!
- * Even though you may end up paying a little more in taxes, you will always be better off financially by accepting the grant

How Much in Taxes Might You Owe?

- * You may have to pay the following taxes on your grant income:
 - * 15% Social Security/Medicare taxes
 - * 10-21% federal income tax
 - * 4-8.8% NY state income tax
 - * Total: approximately 30-40% in taxes
- * But, that's okay, because you will always have more more left over after paying taxes

Do You Want More Income?

- * Extra income does mean higher taxes
- * Your tax rate may be about 30-40%
- * \$10,000 grant x 30% taxes = \$3,000 additional taxes (\$7,000 left over in pocket)
- * \$10,000 grant x 40% taxes = \$4,000 additional taxes (\$6,000 left over in pocket)
- * Do you still want the \$10,000? Yes!

Higher Tax Bracket

- * It's possible that the additional grant income will kick a provider into a higher tax bracket
- * This is still not a reason to reject the grant
- * Let's say a provider is in the 12% tax bracket
- * Let's say the grant kicks the provider into the 21% tax bracket
- * Only the grant income is taxed at 21%
- * All the provider's other income remains taxed at 12%

Objections to the Grant

- * In a few rare situations, providers may not be better off financially if they receive these grants
- * Grant income may or may not disqualify them from receiving Section 8 Housing Vouchers, Medicaid, health insurance credits or college scholarships
- * Providers should check to see how much they might receive from the grants and still be eligible
- * Providers may want to compare value of the grant vs. loss of credits or scholarships

Tax Consequence #1

You receive a **\$15,000** grant

- * You use the grant money to pay yourself \$15,000
- * You will pay approximately \$4,500 (30% tax rate) to \$6,000 (40% tax rate) in taxes
- * \$15,000 income - \$4,500 taxes = **\$10,500** left in your pocket
- * \$15,000 income - \$6,000 taxes = **\$9,000** left in your pocket

Tax Consequence #2

You receive a \$15,000 grant

- * You spend it on items used by your business and your family
 - * Shared toys, computer, television, swing set
- * You can only use the grant money on the business portion of these items
- * The business portion is your Time-Space %. Let's say it's 35%
- * $\$15,000$ income - $\$5,250$ expenses ($\$15,000 \times 35\%$) = $\$9,750$ taxable income.
- * $\$9,750 \times 30\%$ tax rate = $\$2,925$ taxes = **$\$6,825$** left in your pocket
- * $\$9,750 \times 40\%$ tax rate = $\$3,900$ taxes = **$\$5,850$** left in your pocket

Tax Consequence #3

You receive a \$15,000 grant

- * You spend \$15,000 on items used exclusively for your business:
 - * Food, toys, employee wages, COVID-19 supplies, children's furniture and equipment
- * $\$15,000 \text{ income} - \$15,000 \text{ expenses} = 0 \text{ taxable income}$
= 0 taxes
- * **Zero** left in your pocket

What to Do With the Grant?

- * Which is better financially?
- * Paying yourself or buying items with the grant money?
- * **Financially, providers are better off using all the money to pay themselves**
- * You will pay more in taxes, but you will have more money in your pocket after taxes

Tax Planning

- * If you do decide to spend some or all of the grant money on yourself, plan ahead by setting aside about 30% of this amount in federal and state taxes
- * You may need to increase paying estimated taxes for the quarter(s) you receive grant money
- * Your tax rate will vary, depending on your family's circumstances.
 - * You will always owe 15% in Social Security/Medicare taxes
 - * But you may owe a varying amount of federal and state income taxes
 - * Therefore, at a minimum, set aside about 30% for taxes on grant money used to pay yourself

Spending Grant Money?

- * Providers who want to spend the money to improve the quality of their program should go ahead and do so
- * **But, don't spend money just because you have it!**
- * Don't look for things to purchase. Only purchase what you need, not what you want
- * Saving money is better than spending it

Summary

- * Your primary job: Explain to providers that they should apply for the grant
- * Explain how providers are always better off financially once they receive the grant

Contact Tom for Help

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Good Luck!

