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
September 20, 2021
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

Tom Copeland, JD
No fee to answer your questions
Phone: 651-280-5991
Email: tomcopeland@live.com
Website: www.tomcopelandblog.com
Facebook: www.facebook.com/tomcopelandblog
“I am not rendering legal, tax, or other professional advice. If you require this type of assistance, please consult a professional to represent you.”
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
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.)
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)
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?
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 spent 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
The NY Office of Children and Family Services has more details on how the money can be spent

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)
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?
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 the same way as parent tuition, subsidy program payments and CACFP reimbursements.
Yes!

Even though you may end up paying a little more in taxes, you will always be better off financially by accepting the grant.
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 left over after paying taxes.
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!
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%.
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.
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
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 x 35%) = $9,750 taxable income.
  * $9,750 x 30% tax rate = $2,925 taxes = $6,825 left in your pocket
  * $9,750 x 40% tax rate = $3,900 taxes = $5,850 left in your pocket
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 income - $15,000 expenses = 0 taxable income
  = 0 taxes
* Zero left in your pocket
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
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.
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
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

* Call: 651-280-5991
* Email: tomcopeland@live.com
* Blog: [www.tomcopelandblog.com](http://www.tomcopelandblog.com)
* Facebook: [www.facebook.com/tomcopelandblog](http://www.facebook.com/tomcopelandblog)

Good Luck!