Stabilization Grants and 2021Tax Changes

Presented by Tom Copeland, JD
For Early Childhood Investigations
November 11, 2021

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Welcome!

- This class will help you –
  - Understand what is taxable income in the COVID-19 era
  - How to treat the Stabilization grants
  - Understand what you can deduct
  - Calculate your Time-Space%
  - Deduct vehicle and food expenses
  - Decide when to claim Social Security benefits

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Instructor

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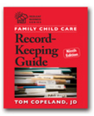
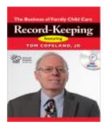
Resources

- Family Child Care Record Keeping Guide
- DVD – Family Child Care Record Keeping
- [Www.redleafpress.org](http://www.redleafpress.org)





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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."

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What a Stressful Time!

- Most providers are suffering the financial impact of COVID-19
- Some providers are closed or caring for fewer children
- What are the tax consequences of this pandemic?
- How can you cope?

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What's Different in 2020/21?

- State grants – is this taxable income?
- Many providers are working more hours because of COVID-19 – what does this mean for your taxes?
- What COVID-19 expenses can I deduct?
- New tax rules for 2021: standard mileage rate and standard meal allowance rate
- SBA forgivable loans

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Income

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What is Income?

- Money received from parents, subsidy program, Food Program and grants is taxable income
- Stimulus checks received in 2021 are not taxable income
- Any money received through the Paycheck Protection Program (PPP) forgivable loan or Economic Injury Disaster Loan (EIDL) program is not taxable income

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Parent Payments

* Parent payments and subsidy payments are taxable income
  * Even if they pay you while you are closed
  * Even if parents pay you while keeping their child at home
* Holding fees are taxable income
* Money you don't collect from parents is not a deduction
  * Discounts/fee reductions are not a business expense

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Grants

* Any state grants received in 2021 are taxable income
* You can deduct the business items you use the grants for
  * $1,000 grant used exclusively for business = $1,000 deduction
  * $1,000 grant used for business and personal purposes x 30% T/S% (for example) = $300 deduction
* You are always financially better off receiving a grant!

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Stabilization Grants

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

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Has Your State Begun Accepting Applications?

- Each state has its own timeline for when they are accepting Stabilization Grant applications
- Contact your local Child Care Resource & Referral agency for news in your state
- Check this chart to see updates about your state: https://childcare.gov/covid-19/providers

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Who is Eligible?

- Providers/centers must be licensed/registered as of March 11, 2021
- You don't have to show a loss to be eligible for this grant
- Your program can be a Limited Liability Company (LLC) or incorporated or a non-profit organization
- You don't have to have employees to be eligible for this grant

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How Much Will I Get?

- Each state has its own rules about how much money you will receive
- Some states will give out a lump sum, others will pay out over 6 months
- You can receive these new grants in addition to previous grants you may have received from your state
- You can receive these grants in addition to subsidy payments and CACFP reimbursements

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What Can the Money 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.)

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Employees

- If you have employees, you cannot involuntarily furlough them from the date of the grant application submission through the end of the grant period
- You must pay the same in wages and maintain same benefits (if any)
- You can fire employee for cause
- Employees are defined as those for whom you withhold and pay federal and state payroll taxes (Social Security/Medicare, unemployment taxes)
- Therefore, independent contractors and those you issue Form 1099 are not employees and can be furloughed

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Raise or Bonus?

- If your program is incorporated, you must distribute the grant money through the normal payroll process (payroll tax withholding)
- This can be a one-time bonus or a raise in pay
- If you raise wages, you must take into account the fact that the grant money will run out in 2022

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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.)

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How to Pay 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

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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

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Stabilization Grants are Income

- Providers must report as taxable income all the money they receive from the Stabilization Grants
  - You will likely 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
- Report income in the year you received the grant, not the year you spent the grant money

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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!

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Tax Implications

- You receive $3,000 grant – report as income
- You spend $3,000 on 100% business items
  - You will pay no taxes and have nothing in your pocket
- You spend $3,000 on shared items
  - You will pay some taxes and have some left over
- You pay yourself $3,000
  - You will owe 30-40% in taxes, or $1,000 - $1,200 in taxes
  - You will have $1,800 - $2,000 left over in your pocket

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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

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Expenses

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Do You Love Record Keeping?

Maybe not, but ...
- Keeping good records means big rewards!
- The better your records, the lower your taxes

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Good Records = $

- For every $10 of expenses you claim, you will save $3-4 in taxes

$100 of business deductions =
$30-$40 of tax savings in your pocket

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Three-Year Rules

- Keep all business records for at least 3 years
- The IRS can audit you back 3 years
- You can amend your tax return back 3 years
  - IRS Form 1040X
  - You won't increase your chances of being audited by amending your tax return

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What Can You Deduct?

You can deduct an expense if it is "ordinary and necessary" for your business

You are providing a home learning environment for children

Parents expect you to maintain your home as a home

Anything that helps to clean, repair, or maintain your home as a home is "ordinary and necessary"

These rules have not changed because of COVID-19

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Common Deductions

- Play Room - toys, rug, DVD player, furniture, books, etc.
- Outdoors - lawn mower, rake, fence, patio furniture, etc.
- Living Room - curtains, chair, lamp, ceiling fan, couch, etc.
- Bathroom - towels, soap, toilet paper, rug, bathroom scale, etc.
- Garage/basement - tools, freezer, storage shelves, etc.

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House Deductions

- Property tax
- Mortgage interest
- Rent
- Utilities (gas, electric, water, sewer, cable tv, wood)
- House insurance
- House repairs
- House depreciation

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Adequate Record

- You can deduct an expense if you have an “adequate record”
  - Receipt
  - Cancelled check
  - Credit/debit card statement
  - Written record
  - Photograph

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COVID-19 Deductions

- Gloves, masks, disinfectants, thermometers, sanitizers, room dividers, etc.
- Deep cleaning/sanitation services
- Food deliveries, other delivery expenses
- Curriculum/activity expenses
- Getting ready to reopen expenses
  - Painting, construction, remodeling, etc.
- Keep receipts and deduct these expenses

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Large Expenses

- You can deduct the business portion of any item in one year, regardless of the cost
- This includes fence, furniture, appliances, swing set, patio
- Exceptions: house, home improvement, and home addition
  - Depreciate these expenses over 39 years
  - You can deduct a repair in one year
  - You must always depreciate your home!

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The Time-Space Percentage

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How Much Can You Deduct?

- If an item is used exclusively for personal use:
  - You can't deduct it
- If an item is used exclusively for business use:
  - You can deduct 100% of the cost
- If an item is used for both business and personal use:
  - Apply your Time-Space Percentage

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What is the Time-Space Percentage?

- The Time-Space Percentage is the formula used to determine how much of your shared (business and personal) expenses you can deduct
- Shared expenses include: property tax, mortgage interest, rent, utilities, house insurance, house repairs, house depreciation, furniture, appliances, supplies, household items, and so on

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Time-Space Percentage

- Your Time-Space Percentage is based two things:
- Time Percent: The number of hours you use your home for your business
- Space Percent: The number of square feet you use on a regular basis in your business
- Time% x Space% = Time-Space Percentage
- Show on IRS Form 8829 Expenses for Business Use of Your Home

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Time Percent

* Time - The number of hours you use your home for your business
  * Hours children are present (from the moment the first child arrives until the last child leaves)
  * Hours children are not present, but you are conducting a business activity

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Space Percent

* Space - The number of square feet you use on a regular basis in your home
* A room is regularly used for your business if you use it 2-3 times per week for business purposes
* Children do not have to be in a room for it to be considered regularly use in your business
* Count your basement and garage as part of the total square footage of your home

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The Impact of Reduced Hours in 2021

* If you have been or are closed, or have reduced the number of hours you care for children, this will lower your Time Percent
* This will reduce your business deductions and increase your taxes

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How to Offset Your Reduction in Hours

- You want to track all the hours spent on activities related to COVID-19
  - Cleaning, distance learning, talking to parents/children on the phone, talking to licensors/unemployment offices, activity preparation, record keeping, Zoom meetings, time on the Internet/Facebook, reading books, taking CDA classes, listening to me now!, etc.

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Track All Your Hours

- If you didn't track all the hours you worked in your home because of COVID-19, reconstruct them now on a calendar
- This will help offset some of your lost hours
- Keep careful records of when the first child arrives and the last child leaves

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Vehicle Expenses

- Claim car trips that are "primarily" for business purposes
- Keep "adequate" records of business trips
  - Receipts, mileage log, cancelled checks, debit/credit cards, written records, calendar notations, photographs
- Do not need to keep odometer readings
- Use mileage apps such as MileIQ

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Standard Mileage Method

- Standard mileage rate
  - 2020 - $.575 cents per business mile
  - 2021 - $.56 cents per business mile
- Can also deduct parking, tolls, business portion of loan interest and vehicle property tax

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Actual Vehicle Method

- Claim business portion of:
  - Gas, oil, repairs, car insurance, parking, tolls, depreciation on the car, car loan interest, etc.
- Business portion =

  Business miles / Total miles   2,000/10,000 = 20%

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Food Program

- Join the Food Program!
  - You are always financially better off
- Reimbursements from the Food Program are taxable income
  - Exception: reimbursements for your own children
- You always want to get the higher reimbursement rate, even if it means paying a little more in taxes

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Standard Meal Allowance

- Do not need to save food receipts!
- At end of year, add up all meals and snacks you served and multiply by annual standard meal allowance rate
- 2020 rate
  - $1.33 breakfast; $2.49 lunch/supper; $0.74 snack
- 2021 rate
  - $1.39 breakfast; $2.61 lunch/supper; $0.78 snack
- You can deduct up to one breakfast, one lunch, one supper and three snacks per day per child
- Non-reimbursed meals do not have to be nutritious!

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Actual Food Cost Method

- Estimate your actual food costs
- Many different methods to use
- Must keep <u>all</u> food receipts - business and personal!

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Expanded Child Tax Credit

- Parents of children under age 18 are eligible for this child tax credit
- Must have adjusted gross income of less than $150,000 (married) or $75,000 (single)
- Parents (and you?) are getting monthly checks of between $250 and $300 per month per child. It's not income to the parents
- Is it time to raise your rates?

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Social Security

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Claim Social Security Benefits Early?

- You can start claiming Social Security benefits as early as age 62
- Your full retirement age is either 66 or 67
- You may be tempted to claim Social Security benefits before your full retirement age
  - If you do and earn more than $18,960 a year (2021), your benefit will be reduced

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When to Claim Social Security Benefits?

- When should you start claiming Social Security benefits?
- Ideally, you should wait to collect Social Security benefits until your full retirement age or later (best at age 70)
- Your Social Security benefit will increase by 8% a year for each year you wait to collect benefits after your full retirement age

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Do Your Homework

- First – Look at your Social Security account at www.socialsecurity.gov
- It will tell you how much you will get at age 62, 66/67, and age 70
- Second -check out www.opensocialsecurity.com to see the best time to maximize Social Security benefits

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Plan Ahead for the Next Pandemic

- Strategies to better manage your money to reduce the impact of a future financial crisis
  - Set up a three-month emergency fund
  - Claim all business deductions
  - Raise fees
  - Reduce debt
  - Part-time care/school age care
- Raise rates?

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Summary

- Properly report income and claim expenses
- Carefully track the hours you are doing business activities in your home when children are not present
- Be careful before claiming Social Security benefits early
  - Good luck!

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Contact Tom for Help

- Email: tomcopeland@live.com
- Blog: www.tomcopelandblog.com
- Facebook: www.facebook.com/ tomcopelandblog

Good Luck!

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