

# How Does Relief Funding Affect Your Taxes?



**DECAL**  
**Thriving Child Care**  
**Business Academy**

**This resource provides helpful information on the impact of various relief funding programs on your taxes.**

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## Introduction

Both the state of Georgia and the United States federal government have dedicated many resources to support child care programs through the COVID-19 pandemic. Relief funding saved many businesses from permanent closure — perhaps even your own.

While these relief funds were highly needed and well-used, many child care business owners have wondered how this funding will affect their taxes. Different relief funding programs will have varying impacts on your federal and state taxes because funding sources are governed by different tax laws.

Also, Georgia has set some regulations on how to file your state taxes, which differ from the federal standard.

After reading this guide, you will be able to:

1. Recognize key relief programs and their general tax implications,
2. Identify the general impacts of relief programs on tax filings, and
3. Use this information as a resource as you prepare to file your taxes.

This information is intended to serve as one of many resources in your toolkit. It does not substitute for, nor should it be construed as personalized advice from a tax preparer.

## State Relief Programs

Most state relief programs such as STABLE provide funding to cover costs you have already paid or will need to pay soon. Consequently, **you must report the funds as income** on your federal taxes in the year that you receive the payment. This means that the federal government will tax your grant money at your federal income tax rate.

Because you will need to pay taxes on relief funds, your tax bill will most likely increase;

however, this can be offset by claiming expenses paid for by the grant as a business deduction.

### **Let's look into the upsides of relief funding in the tax process:**

First, federal taxes on relief funds do not affect how greatly you are taxed on your earned income; the additional tax money you are paying is being taken out of the funds you received from the grant.

Second, expenses covered by the grant continue to qualify as a deduction. Let's look at an example case:

Ashley was eligible for the STABLE program, and she received a total of \$5,400 in support in 2022. Ashley allocates the money to her rent and utilities.

When Ashley does her 2022 taxes, she can still report rent and utilities as expenses — they qualify as eligible deductions. This means that Ashley is reducing her tax burden by deducting eligible expenses, even though those expenses were paid from relief funds rather than Ashley's earned income.

Ashley's 2022 earned income is \$40,000. As a single filer in 2022, Ashley would owe the federal government \$8,581.10 in taxes if she did not receive a grant.

However, Ashley needs to add the additional relief grant she received to her income. Ashley adds the \$5,400 in relief funds to her taxable income.

Now, Ashley's total income is \$45,400. Since Ashley is in the 22% federal tax bracket, she is taxed an additional \$380.82 on the \$5,400 relief grant, which increases her federal tax bill from \$8,581.10 to \$8,961.92.

Although Ashley's federal tax bill did increase by \$380.82, Ashley was able to directly put \$5,019.18 of STABLE program funds toward her expenses. Ultimately, Ashley ended up with more money than she otherwise would have and was able to reduce her tax burden using relief-funded deductions. The receipt of STABLE program funds allowed Ashley to help her business and her family.

### **Employee Retention Tax Credit & Families First Coronavirus Response Act**

You may have received the Employee Retention Tax Credit (ERTC) and/or the Families First Coronavirus Response Act (FFCRA) to help reimburse payroll expenses that you maintained while your business operations were impacted by the pandemic. Both the

ERTC and FFCRA are refundable tax credits meant to offset wages that your business paid out.

Funds received from the credit(s) are taxable and will be included in your gross income for federal or state tax purposes. Please consult with your tax professional regarding these tax credits.

### In-Kind Supplies

If you received in-kind gifts of tangible supplies (rather than money to buy the supplies), you most likely will not face a tax liability. Consult with your accountant or tax preparer to determine the best way to record the donation.

### Tax Treatment by Funding Source

FUNDING SOURCE	TAX TREATMENT of PAYMENTS: Federal and State	TAX TREATMENT of EXPENSES: Federal	TAX TREATMENT of EXPENSES: State
STABLE and All Other COVID-Related Funds from DECAL	Payments are Taxable Income	Expenses are deductible	Expenses are deductible
Employee Retention Tax Credit (ERTC)	Included Taxable	Please consult with your tax professional regarding these tax credits	Please consult with your tax professional regarding these tax credits
Families First Coronavirus Response Act (FFCRA)	Included Taxable	Please consult with your tax professional regarding these tax credits	Please consult with your tax professional regarding these tax credits
All other stimulus programs	Included and taxable	Expenses are deductible	Expenses are deductible

Any COVID-related funds and other money in the form of funding, stipends, etc. that owners of center- and family home-based programs receive from DECAL for their child care projects will most likely be considered taxable income by the state and federal governments. Within this general rule, there are some distinctions for family providers. For example, if the owner of a family child care learning home employs a teacher and receives financial supports earmarked just for teachers, those funds are income to the

teacher, but not to the owner. But if the family home owner is the facility's only teacher and she receives those same financial supports, it is taxable income to her. The other wrinkle is that while the vast majority of the family home providers are licensed as individuals and any individual benefits to that facility would be counted as taxable income to the owner, some family homes are registered as single member LLCs. In those cases, the funds will be treated as income to the LLC, not personal income to the owner.

To determine the proper and legal way to treat the federal relief funds you receive for income tax purposes, please consult your tax advisor. You should receive 1099 forms from DECAL, Class Wallet, and similar funding sources for all the monetary payouts you or your child care business received during the tax year. The 1099s will help you and your tax advisor identify the benefits you need to include in your tax filing[s] and how to treat them. For CAPS providers, the 1099s will include the total of both CAPS and STABLE payments. They will also receive an invoice from Maximus with details to understand which part of that total amount is for CAPS and which is for STABLE.

## Getting Ready for Tax Time

If you received pandemic relief funds, it has likely been — and will continue to be — critical to your child care business's financial operations and recovery. Even though this support can increase your tax liability, the new income that it offers you is valuable.

The best way to prepare for this taxation is to organize your expense documentation (receipts, payroll, 1099s, etc.) and differentiate the sources of income used to pay for your potential deductions for federal vs. state purposes. This is because what you are allowed to deduct may vary for your federal vs. state tax filings. You should then set aside an amount of funds equal to your marginal tax rate so that you are prepared to pay any owed tax. If you are unsure, you can use 22%, which is the most common tax rate in the US. (To learn more about tax time, find additional resources [here](#).)

## Additional Resources

**If you have questions or need help, assistance is available.**

[GaPDS Website](#)

[DECAL Thriving Child Care Business Academy Website](#)

**To Find Other Study Guides:** Click on [Resources](#) on the Academy home page

**To Find Training:** Click on [Trainings](#) on the Academy home page

**To Register for Training:** Click on [Schedules & Registration](#) on the Academy home page

**To Sign Up for Study Groups:** Fill out the [Intake Assessment](#)

**For questions about coaching or study groups:** Email [GAcoaching@civstrat.com](mailto:GAcoaching@civstrat.com)

**To Find Other ECE Resources:** Visit the [DECAL Website](#)

**For General Questions about the Academy:** Email [thriving@decals.ga.gov](mailto:thriving@decals.ga.gov)

**For More Information:**

[Family Child Care Learning Home Rules and Regulations](#)

[Child Care Learning Center Rules and Regulations](#)

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