

How Does Grant Funding Affect Your Taxes?



DECAL
Thriving Child Care
Business Academy

This resource provides helpful information on the tax implications of grant funding.

Introduction

Often child care programs can access grant funding to cover eligible expenses. While eligible expenses will vary depending on the grant, the tax implications of grant funding remain the same.

After reading this guide, you will be able to:

1. Recognize the tax implications of grant funding,
2. 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.

Tax Implications of Grant Funding

Grants provide funding to cover expenses for certain time frames. Consequently, **you must report the funds as income** on your 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 rates. Because you will need to pay taxes on grant funding, your tax bill will most likely increase.

Let's look into the upsides of grant funding in the tax process:

First, federal taxes on grant funding 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 grants, it does not increase the amount of taxes you will pay on

your self-employment income. This means that while you will pay taxes on the grant funding, receiving funding does not increase other taxes. The amount of your grant, even after you pay your federal taxes, will greatly exceed the increases in taxes incurred related to grant funding. Child care businesses utilizing grant funding must understand that the benefits of receiving the funding far outweigh the tax implications they will incur.

Second, expenses covered by grants continue to qualify as allowable tax deductions. Let's look at the following example:

Ashley was eligible for grant funding, and she received a total of \$5,400 in support in 2024. Ashley allocates the money towards her allowable grant expenses.

When Ashley does her 2024 taxes, she can still report these 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 grant funding rather than Ashley's earned income.

Ashley's 2024 earned income is \$40,000 (this does not include the amount of the grant funding she will receive). As a single filer in 2024, Ashley would owe the federal government \$8,581.10 in taxes if she did not receive a grant. However, Ashley needs to add any additional grant funding that she received to her income. Ashley adds the \$5,400 in grant 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 grant funding, which increases her federal tax bill from \$8,581.10 to \$8,961.92. Note that she is taxed on the grant funds received apart from the taxes on her earned income, receiving the grant funds did not increase the amount of taxes she paid on the \$40,000 of income.

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

What if I Receive In-Kind Supplies

If you receive in-kind gifts of tangible supplies (rather than money to buy the supplies), you most likely will not face 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 Revenue	Tax Treatment Deductions
Current Grant Funding	Included as Taxable	Expenses are deductible
Previous Stabilization Grant Funding	Included as taxable	Expenses were deductible
In-Kind Supplies	Not Taxable	Consult Your Tax Professional

Getting Ready for Tax Time

Grant funding can be critical to offering your child care business support to cover allowable expenses. Even though this support can increase your tax liability, the new income that it offers you is valuable and well worth receiving. You should not be discouraged that you will pay more in federal taxes, as the grant amount will exceed the amount you will pay in taxes.

The best way to prepare for this taxation is to organize your documentation for all allowable expenses and denote the amount of the grant funds used to pay for these expenses for federal tax purposes. You should then set aside an amount of grant 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% for federal taxes, which is the most common tax rate in the US. For the most up-to-date information on income tax rates, visit the [IRS website](#).

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

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For questions about coaching or study groups: Email GAcoaching@civstrat.com

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

For General Questions about the Academy: Email thriving@decals.ga.gov

For More Information:

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

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