

New Laws Offer Financial Resources to Family Child Care Providers

Presented by Tom Copeland, JD

For the Civil Service Employees Association

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.”

Agenda

- Stimulus Checks
- Loans and Grants
- Unemployment
- Record Keeping and Tax Planning



Stimulus Checks

Stimulus Checks

- Each individual will receive checks over the next weeks/months
- Single person will receive \$1,200
 - Adjusted gross income must be less than \$75,000 (2019 Form 1040, line 8b, or 2018 Form 1040, line 7)
- Married couple will receive \$2,400
 - Adjusted gross income must be less than \$150,000
- You will receive no money if you make more than \$99,000 (single) or \$198,000 (married)

Children

- If you have a child age 16 or under you will receive an additional \$500 per child
- If your child is age 17 or older and is eligible to be treated as a dependent, you will not receive the \$500 and he/she cannot receive the \$1,200
- If your child is age 17 or older and is not eligible to be treated as a dependent, she/he will receive the \$1,200

More on the Stimulus Checks

- Money received from the Stimulus checks is not taxable income!
 - It won't affect your 2020 tax return
- You can use it to pay debts, monthly expenses, save for retirement, or whatever you want
- If you file your taxes electronically and refunds are deposited to your bank account, the check will be deposited automatically in a few weeks
- If you file your taxes by mail, you will be mailed a check and it will take longer
 - If you haven't filed your 2019 tax return, the IRS will use your 2018 tax return to find you
- This is a one-time payment



Loans and Grants

Loans and Grants

- There are two loan and grant programs available through the Small Business Administration (SBA)
 - Economic Injury Disaster Loan (EIDL)
 - Paycheck Protection Program (PPP)
- Providers are eligible for both programs
- These programs can provide thousands of dollars of forgivable loans now!

Economic Injury Disaster Loan (EIDL)

- You can get up to \$10,000 in a forgivable loan for:
 - Mortgage or lease payments or
 - Employee wages
- Apply online through the SBA – not through your bank
- <https://www.sba.gov> – look at the top of the screen for “COVID-19: Relief options and additional resources”
- You can call them at 1-800-659-2955 or email disastercustomerservice@sba.gov

EIDL Example

- The \$10,000 loan can pay for:
 - \$2,000 monthly mortgage bill (principal, plus interest) x 40% Time-Space % = \$800 a month, or 12.5 months worth
 - \$1,000 rental bill x 30% Time-Space% = \$300 a month, or 33.3 months
 - Note: apply your Time-Space% for these expenses
 - \$500 a week employee wages = Twenty weeks of an employee's wages
- You don't have to pay it back!

More on EDIL

- If you want more than \$10,000 or you want to use the money for other purposes, the interest rate is 3.75% over 30 years
- The SBA may ask for more financial information after you submit your application
- I have written about this on my website:
www.tomcopelandblog.com

Paycheck Protection Program

- This new SBA program can offer eight weeks of a forgivable loan that can be used to replace your lost profit, employee wages and other expenses
- Other expenses include:
 - Utilities (gas, electricity, water, Internet, telephone and transportation)
 - Use T/S% for all but transportation: Use \$.575 for business miles
 - Mortgage loan interest
 - Rent
 - Health insurance premiums

Lost Profit

- The forgivable loan can be for up to 2.5 months of lost profit
- If you are now closed:
 - Your monthly profit is your 2019 (or 2018) Schedule C, line 31 divided by 12 months
 - Some banks may look at line 29
- If you are now open but earning less income:
 - Your monthly profit is your current monthly income minus your current monthly expenses

Example

- Your monthly lost profit is \$4,000
- Your other expenses are \$1,300 per month
- Total monthly expenses = \$5,300 x 2 months = \$10,600
- Your lost profit must be at least 75% of the total loan amount for the first eight weeks: $\$8,000 \text{ divided by } \$10,600 = 75\%$
- If your other expenses were more than \$1,300 in this example, the amounts would not be forgivable. You may have to adjust your request for other expenses lower to meet this goal

How to Apply for the PPP?

- File out a simple online application form:
<https://www.sba.gov/sites/default/files/2020-04/PPP%20Borrower%20Application%20Form.pdf>
- After filling out the application form, call up your local bank and make an appointment to get this forgivable loan
- Don't worry if you are not sure how to fill out the application form, your banker can help you
- You can apply for both loan programs: EDIL and PPP
- I have written about this on my website:
www.tomcopelandblog.com

Problems with the PPP Loan

- Some banks aren't accepting any more loan applications at this time – Wells Fargo
- Some banks are requiring applicants to have a separate business checking account, an EIN and a DBA (Doing Business As) that is registered with the state secretary of state's office
 - Getting an EIN is simple: www.irs.gov
 - Getting a separate bank account is simple
 - Getting a DBA is simple if you have a business name
- These requirements seem unnecessary. You may want to press your bank about them to show why it's not necessary in your business
- This may take time to sort out.



Unemployment

Unemployment

- Under the new CARES law passed by Congress on March 27th, self-employed family child care providers are now entitled to claim unemployment benefits
- State unemployment benefits vary widely by state
- Once you qualify for state unemployment benefits you will receive an additional \$600 per week in federal benefits for 13 additional weeks after your state benefits run out
- NY unemployment application:
<https://applications.labor.ny.gov/IndividualReg/>
 - NY state benefits: Minimum: \$104; Maximum \$504
 - + \$600 federal benefit

Are You Eligible?

- You are eligible for unemployment benefits if
 - you are shut down by a government agency or
 - you voluntarily close down
 - you stay open but earn less income
- You don't have to be sick with the virus, nor does anyone in your family or the family's that you care for
- Don't let anyone tell you differently!

Problems

- Self-employed people are normally not eligible to receive unemployment benefits because they don't pay into the unemployment fund.
- The new CARES act changed this
- However, the unemployment system is being overwhelmed by millions of new filers for benefits

What Can You Do?

- Providers are being denied unemployment benefits, or can't get through by phone, or can't figure out how to fill out the online application forms
- In most cases, it will take some time before the states can update their application process
- You may have to wait this out
- When you do get on unemployment, it will be retroactive to the date you shut down or started losing income

More on Unemployment

- Unemployment benefits are taxable income
- If you are still being paid by some parents even if you are closed, this will reduce your unemployment benefits
- If you lay off your employee, she is entitled to unemployment benefits
- If you treated a helper as an independent contractor and file Form 1099, she is still eligible for unemployment benefits, but you will owe penalties for not treating her as an employee



Record Keeping and Tax Planning

Can You Charge Parents?

- If you are closed you can't charge parents unless your contract says they must pay in the event of a public health emergency, or words to that effect
- You can get the parents to sign a new agreement that says they must pay
 - They must sign it for it to be enforceable
- You can charge a holding fee to hold t

What if You Are Still Open?

- You can charge parents if your contract says they must pay if you are open
- You can charge your full rate, reduced rate, or no rate
- Be clear if parent is terminating or will come back

Other Contract Issues

- You can adopt a stricter policy about accepting sick children
- It's not illegal discrimination to say "no" because of the virus
- Parents can't sue you if their child get sick, so a liability waiver is not necessary

Loss of Income

- You can't deduct as a business expense any loss of income
 - Includes giving parents a discount or forgiving payment

What You Can Do

- If you are shut down or work fewer hours, your Time-Space Percentage will be smaller, and this will reduce the amount of house expenses and shared expenses you can deduct
- To help reduce this impact, reconstruct all the hours you have spent talking to parents, other providers, time on the Internet, etc. dealing with the virus so far, when children were not present in your home
- Even if you are closed you can still count hours that you are in your home doing a business activity:
 - Cleaning, talking to parents and other providers, conducting distance learning with children, preparing to open again, other

Other Ideas

- Parents staying home with their children now may seek out temporary child care
- You may want to consider offering less than full-time child care
- Offer part-time care, drop-in care, overnight care, weekend care
- Care for school agers even if you haven't done so before
- If you do change your hours, contact your business liability insurance agent and tell him/her about these changes to make sure you are still covered
- Some providers will have to seek out other ways to make money until the crisis is over: care in the child's home

What Else?

- To reduce your financial burden, spend less
- You can deduct any cleaning supplies, etc. that you buy to combat the virus
- You can deduct food that you throw away because you can no longer serve it to children
- With a lower income, your taxes will be lower
- This may make you eligible for the Earned Income Credit or other federal or state credits based on income eligibility
 - Check to see if you may be eligible for Food Stamps
 - <https://www.ssa.gov/pubs/EN-05-10101.pdf>

Three Key Tips

- Whether in good times or bad time, these are the three most important record keeping tasks that will help you reduce your taxes
- Save all receipts, business and personal
- Track all the hours you work in your home, particularly when children are not present (for at least 2 months a year)
- Record all the meals and snacks you serve, particularly those that are not reimbursed by the Food Program
 - If you are on Tier II and still open, you may now be eligible for Tier I

Tap Your IRA?

- New rules allow you to borrow money from your 401k IRA without penalty as long as you pay it back
 - Loan interest is 5.25% over 5 years
- You can withdraw from your individual IRA, Roth, SEP or SIMPLE IRA without the 10% penalty, but must pay tax on withdrawal
 - You can pay back within 3 years and avoid taxes on withdrawals

What's Next?

- This is an extremely stressful time for child care programs, your staff, your families and the families in your care
- Watch for any future federal or state action to address these issues
- I wish there was more financial support available to child care programs
- The only way the child care field can be more financially viable, even in the best of times, is more federal and state governmental support
 - That requires a more concerted effort to lobby for governmental change
 - Contact Child Care Aware of America about taking political action - <https://www.childcareaware.org/>

Ask Tom

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