



Grant Recordkeeping and Auditing

As a small business owner, accepting a federal grant can provide needed support for your business. The purpose of this document is to provide cursory guidance and resources for your consideration related to spending and recordkeeping grant funding.

Grant funds should be spent in accordance with state and federal requirements; if a specific situation is not addressed by state or federal guidance, decisions may be made at the discretion of the program and in consultation with a tax or legal professional, if available.

It is important to note federal funding issued to providers from state agencies through the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act, or American Rescue Plan Act (ARPA) may be subjected to federal Internal Revenue Service (IRS) tax reporting. If you have specific outstanding questions related to receipt of federal funds and the impact on your program, please consult with a tax professional.

Resources

- The *Business Provider Toolkit* provides a listing of broad budgeting, recordkeeping, and business guidance specific to child care providers: <http://kids.ri.gov/funding-opportunities.php>
- The IRS has published an Audit Technique Guide for Child Care Providers, outlining broad guidance on recordkeeping and preparing for an audit. Page 32 contains a quick reference list of information that may be requested in the case of an audit: https://www.irs.gov/pub/irs-utl/child_care_provider.pdf
- Tom Copeland hosts a blog with a variety of articles related to recordkeeping and child care provider business practices at <https://tomcopelandblog.com/>. He has also published books focused on recordkeeping and tax situations specific to child care providers including: *Family Child Care: Record-Keeping Guide* (Ninth Edition)
 - Join Tom Copeland on November 11, 2021 for a free webinar called: “Child Care Stabilization Grants and New Tax Changes for 2021”. More information, including registration, is found: <https://mailchi.mp/earlychildhoodwebinars/child-care-stabilization-grants-and-new-tax-changes-for-2021?e=e89c5bc67f>
 - In June 2021, Tom Copeland filmed a webinar “Help is on the Way! What the Child Care Stabilization Grants Mean to You,” where he discusses allowable spending categories and tax implications: <https://drive.google.com/file/d/1rMTZt8iYCs8qDfWOzSkTpTbVqGWPMZzv/view>
 - Additional books written by Tom Copeland may be found at the following link, and include titles such as: *2020 Family Child Care Tax Workbook and Organizer* and *The Business of Family Child Care*: <https://tomcopelandblog.com/toms-books>
 - You may also submit questions directly to Tom Copeland for response at: <http://tomcopelandblog.com/ask-tom>
- The Administration for Children and Families is posting additional guidance and resources related to eligibility and spending here: <https://childcareta.acf.hhs.gov/stabilization-grant-tools-and-resources-lead-agencies-and-providers>



Rhode Island Department of Human Services

Reinvigorate Child Care Stabilization Grants

Quick Questions

Q: Are these grants taxable?

A: ACF guidance confirms that the ARPA “does not exempt the ARPA child care stabilization funding from taxation. Therefore, this funding is subject to the same tax rules as regular CCDF funding. State tax rules apply. Regarding federal tax rules, please contact the Internal Revenue service for guidance.”¹ The IRS has published information [[irs.gov](https://www.irs.gov)] indicating that “receipt of a government grant by a business is generally not excluded from the business’s gross income under the Federal Tax Code and therefore is taxable.” Please consult your accountant or tax professional to understand more about your particular tax situation and how this guidance applies.

Q: How will receiving this grant impact my taxes?

A: It is important for providers to understand there may be tax implications upon receiving these funds as grant funds are recognized as business income. Where a program receives funds in 2021, any unspent funds may be recognized as taxable income in 2021 filings. Considering their unique situation, a program may choose to wait to apply for funds in early 2022 if they are unsure of their ability to spend their award prior to December 31, 2021. If you have specific questions about the tax implications for your program, we recommend you contact a tax professional.

Q: Could I be audited as a result of receiving these funds?

A: Yes. As these are federal funds, you may be audited to ensure funds were spent appropriately. We strongly recommend that you keep a record of receipt of funds as well as a record of how these funds were spent. This may be done by retaining receipts of purchase, documentation of increases in staff wages or stipends/bonuses, or invoices. Additional guidance related to potential auditing or record keeping requirements may be found on the ACF website under Office of Child Care <https://www.acf.hhs.gov/occ/training-technical-assistance/office-child-care-covid-19-resources>

Q. What should I expect if I’m audited?

A: If you are ever audited, you will be required to prove that your deductions and expenses are appropriate. The best way to prove your case is to have a receipt for the purchase you are claiming. After a receipt, the next best form of evidence would be a cancelled check with documentation written on the cancelled check for what the purchase consisted of. Copies of credit card statements with written documentation of the related purchase may also be used, but it is best to have the actual receipt. It is a best practice to maintain your records for at least three years from the date that you file your tax return.²

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¹ ACF. (2021). *American Rescue Plan (ARP) Act Child Care Stabilization Funds, Frequently Asked Questions*. Retrieved from

https://www.acf.hhs.gov/sites/default/files/documents/occ/American_Rescue_Plan_Act%20Child_Care_Stabilization_Funds_FAQs.pdf

² Copeland, T. (2015). *Family child care: Record keeping guide*. (9th ed.). Redleaf Press.



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Q: What type of documentation do I need to maintain to document expenditure of these funds?

A: According to Tom Copelands's *Family Child Care: Record Keeping Guide*, "Since the IRS doesn't require you to follow any particular record-keeping system, you can choose to record your business information using any system that works for you, as long as you keep proper documentation.³" You may choose to retain documents such as receipts, bank statements, invoices, or similar. Whatever the documentation record type, the goal is to "have a receipt for every penny of income and expense that is associated with your business⁴", and this includes grant money.

Q: If I'm part of a multi-site program, should we be tracking use of grant funds by individual site or across all sites?

A: Please consult your accountant or tax professional to understand more about how your agency's tax situation and how this guidance applies.

Q: Can I use grant funds to pay for taxes, such as property tax, state taxes, or payroll taxes?

A: The following table summarizes guidance from ACF. Please consult your accountant or tax professional to understand more about your program's tax situation and how this guidance applies.

Allowable	Not Allowable
Property taxes pursuant to an escrow agreement as part of a mortgage obligation	State or town taxes on their own
Payroll taxes paid on behalf of employees, such as Social Security, Medicare, or unemployment	Business taxes

If you have additional questions or need technical assistance, please contact:

ChildCareGrants@pcgus.com or 833-930-3540.

³ Ibid.

⁴ Ibid.