# Child Care Business Resiliency Support

## EVALUATION

**OCTOBER 2021**

**With the onset of the COVID-19 pandemic,** small businesses across the nation faced unprecedented challenges to their day-to-day operations and survival. In response, over the subsequent 18 months, approximately $935 billion (and counting) in federal relief funding was dedicated to them through grants and loans.[1]

Child care businesses, many of whom were already operating on razor-thin margins pre-pandemic, were in desperate need of this relief funding. However, the very businesses that the funding programs were designed to help found themselves facing both internal and external barriers to successfully securing these relief funds. Challenges ranged from lack of awareness of specific programs to confusion around complicated application processes and requirements.

Seeing the need within the child care sector and the opportunity for federal relief programs, a group of New Jersey funders, including the Maher Charitable Foundation, the Henry and Marilyn Taub Foundation, the Turrell Fund, the Nicholson Foundation, the Burke Foundation, and the New Jersey Pandemic Fund, supported a series of efforts to connect child care businesses with federal small business support programs. This effort was executed by the counties' child care resource and referral agencies, Programs for Parents, 4Cs of Passaic, Child Care Connection, and Civitas Strategies, a national management consultancy. Civitas Strategies was engaged to develop easy-to-use guides for the programs and provide direct technical assistance. Building upon the success of this work, Civitas Strategies pursued a six-month effort of ongoing, multi-faceted support. The goal of this ongoing project was to help child care providers sustain their operations in the near term while also building business resiliency and best practices for the post-pandemic world. Through these activities, providers applied strategies to 1) increase revenues, 2) decrease costs, 3) mitigate risks, and 4) build on critical operations and infrastructure.

**1** Committee for a Responsible Federal Budget (2021) https://www.crfb.org/blogs/breaking-down-3-4-trillion-covid-relief

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To understand the impact of this work, independent evaluator Luminary Evaluation Group was engaged to assess the technical assistance project and provide insights on programmatic effectiveness and impact. Based on the data collected by Luminary throughout the evaluation process, the technical assistance was successful in reinforcing key messages tied to child care business sustainability and business resiliency.

The evaluation also found that by **August 2021**, Civitas Strategies had helped 242 home-based and center providers located in Essex, Mercer and Passaic counties access over $18 million in relief funding, including more than $10 million in Employee Retention Tax Credit — a relief funding source not well-advertised among child care networks or circles. Through data collection and stories from the perspectives of several participating providers, the impact of the funding (combined with business basics and financial strategies) was critical to the near-term survival for many programs and also integral to longer-term planning and sustainability.

The project also highlighted the need for ongoing provider support, especially regarding business resiliency and practices. Accordingly, a set of five recommendations were developed in response to the data:

1. Child care providers, especially those that are home-based, are often not viewed as "small businesses" by themselves and others.
2. Policy and advocacy groups should be attuned to small business laws, regulations, and opportunities and integrate them into wider policy change efforts.
3. Child care providers took on debt during the pandemic and accessing EIDL forgiveness could be vital.
4. More resources and education are required to ensure quality tax preparation.
5. Child care providers still need near- and long-term financial support.

## Technical Assistance Program Highlighted Results

**Across Essex, Mercer & Passaic Counties**

**$18,850,337** generated in federal stimulus

**$10,032,758** generated in Employee Retention Tax Credits

**$8,385,375** generated in Paycheck Protection Program loans

**32%** of providers were served in Spanish and **68%** in English

The average PPP loan was **$113,882** for centers and **$5,797** for home-based providers

Average ERTC funds generated were **$355,058** for centers, and **$33,378** for home-based providers

# Introduction

In March 2020, the onset of the COVID-19 pandemic destabilized tenuous child care systems across the country. In response to this crisis, the federal government launched the Paycheck Protection Program (PPP) — a forgivable federal loan program designed to provide funding to small businesses (defined as those with 1 to 500 employees). However, the application process proved to be confusing and federal guidance continually changed. Additionally, the COVID-19 pandemic began to dramatically impact the way business owners needed to stay afloat. The nation rapidly shifted to virtual operations where possible, creating a heavy reliance on technology. Enrollment rates in child care facilities began to drop as more parents became unemployed or worked from home. At the same time, child care providers faced a reduction in revenue while their expenses rose from increased competition for talent, frequent closures, reduced enrollment, and increased costs for safety.

But there were options for support. In particular, three programs provided the opportunity to infuse much-needed funding into the child care sector. Specifically, they are the:

1. **Paycheck Protection Program (PPP)** — a forgivable loan program where you receive a loan equal to 2.5 times your average monthly payroll in 2019 and then have an 8- to 24-week period to have the loan forgiven. Funds spent on payroll and (for up to 40% of the total amount forgiven) rent, utilities, and mortgage interest can be forgiven.
2. **Employee Retention Tax Credit (ERTC)** — a program that provided a refundable credit of up to 50% of gross wages in 2020 and 70% of gross wages, per quarter, in 2021. Eligibility was based on meeting specific metrics of COVID impact on a business set by the US Treasury.
3. **Families First Coronavirus Response Act (FFCRA) Leave** — which provided paid leave for business owners and their employees if they had COVID, needed to quarantine, take care of a family member with COVID, or provide care for a child who was not in school.

These programs also had the benefit of being limited only by individual business eligibility. That is, the state of New Jersey didn't have a cap on the total funds that could be accrued.

# Project Activity & Overview

Civitas Strategies began offering technical assistance to child care providers in April 2020. **FIGURE 1** outlines the support activities performed by the technical assistance team from April 2020 through August 2021.

**FIGURE 1** Project Activities

**Information & Tools**

- **17** webinars
- Stimulus Navigator shared workforce boards with approximately **97,000** providers across several states
- Stimulus FAQs

**Technical Assistance (TA)**

- **306** one-on-one TA sessions*
- **61** group TA attendees

**CCR&R & Grow NJ Kids Northern TA Center Support**

- Provider Recruitment

**Statewide Email Technical Assistance**

- **3** webinars offered statewide
- Email TA to any NJ provider

**Monthly Funder Calls**

- Identify collaborative next steps for policy and programs

**Evaluation**

- Analysis of provider financial stability
- Provider focus groups and survey
- Mid-Project Brief & Summative Report

* Of the providers who attended these sessions, a total of 242 received funds.

# Project Results as of August 2021

The following section presents the number of providers served by the technical assistance program, the funds that were generated, and the average amounts per provider type. This data is presented in aggregate as well as for each county and by provider type. Highlighted findings illustrated by this data include:

- The total ERTC funds secured across all counties was greater than the PPP funding secured.
- The most funding was secured in Essex County ($6,834,568), followed by Mercer ($6,563,744) and Passaic ($5,455,648) respectively.
- A total of 42% of providers served were from Essex County, 42% were from Passaic County, and 17% were from Mercer County.

**TABLE 1** Total Providers Served by TA Program

| PROVIDER TYPE | ESSEX | PASSAIC | MERCER | TOTAL SERVED |
|---|---|---|---|---|
| **Family Child Care** | 58 | 80 | 16 | 154 |
| **Centers** | 43 | 21 | 24 | 88 |
| **Total Served** | 101 | 101 | 40 | 242 |

**TABLE 2** Total Federal Stimulus Funds Generated

| ALL COUNTIES | PPP | EIDL ADVANCE | EMPLOYEE RETENTION TAX CREDIT | FAMILIES FIRST LEAVE | TOTAL |
|---|---|---|---|---|---|
| **Center** | $7,857,840 | $242,000 | $9,941,623 | $31,871 | $18,073,334 |
| **Family** | $527,535 | $86,900 | $91,135 | $71,403 | $776,973 |
| **Total** | $8,358,375 | $328,900 | $10,032,758 | $103,274 | $18,850,307 |

**TABLE 3** Federal Stimulus Funds Generated in Essex County

| ESSEX COUNTY | PPP | EIDL ADVANCE | EMPLOYEE RETENTION TAX CREDIT | FAMILIES FIRST LEAVE | TOTAL |
|---|---|---|---|---|---|
| **Center** | $3,709,995 | $121,000 | $2,699,714 | $12,850 | $6,543,559 |
| **Family** | $225,818 | $15,000 | $33,000 | $17,191 | $291,009 |
| **Total** | $3,935,813 | $136,000 | $2,732,714 | $30,041 | $6,834,568 |

**TABLE 4** Federal Stimulus Funds Generated in Mercer County

| MERCER COUNTY | PPP | EIDL ADVANCE | EMPLOYEE RETENTION TAX CREDIT | FAMILIES FIRST LEAVE | TOTAL |
|---|---|---|---|---|---|
| **Center** | $2,277,520 | $86,000 | $4,066,762 | $2,080 | $6,432,362 |
| **Family** | $55,993 | $15,500 | $58,135 | $1,754 | $131,382 |
| **Total** | $2,333,513 | $101,500 | $4,124,897 | $3,834 | $6,563,744 |

**TABLE 5** Federal Stimulus Funds Generated in Passaic County

| PASSAIC COUNTY | PPP | EIDL ADVANCE | EMPLOYEE RETENTION TAX CREDIT | FAMILIES FIRST LEAVE | TOTAL |
|---|---|---|---|---|---|
| **Center** | $1,870,325 | $35,000 | $3,175,147 | $16,941 | $5,097,413 |
| **Family** | $245,724 | $56,400 | $0 | $56,111 | $358,235 |
| **Total** | $2,116,049 | $91,400 | $3,175,147 | $73,052 | $5,455,648 |

**TABLE 6** Average Federal Stimulus Generated Per Provider in All Counties

| ALL COUNTIES | AVERAGE PPP | AVERAGE EIDL ADVANCE | AVERAGE EMPLOYEE RETENTION TAX CREDIT | AVERAGE FAMILIES FIRST LEAVE |
|---|---|---|---|---|
| **Center** | $113,882 | $8,067 | $355,058 | $6,374 |
| **Family** | $5,797 | $3,219 | $30,378 | $3,104 |

**TABLE 7** Average Federal Stimulus Generated Per Provider in Essex County

| ESSEX COUNTY | AVERAGE PPP | AVERAGE EIDL ADVANCE | AVERAGE EMPLOYEE RETENTION TAX CREDIT | AVERAGE FAMILIES FIRST LEAVE |
|---|---|---|---|---|
| **Center** | $109,118 | $7,563 | $385,673 | $12,850 |
| **Family** | $6,843 | $1,875 | $33,000 | $1,692 |

**TABLE 8** Average Federal Stimulus Generated Per Provider in Mercer County

| MERCER COUNTY | AVERAGE PPP | AVERAGE EIDL ADVANCE | AVERAGE EMPLOYEE RETENTION TAX CREDIT | AVERAGE FAMILIES FIRST LEAVE |
|---|---|---|---|---|
| **Center** | $108,453 | $8,600 | $338,897 | $1,040 |
| **Family** | $6,221 | $3,875 | $29,068 | $1,754 |

**TABLE 9** Average Federal Stimulus Generated Per Provider in Passaic County

| PASSAIC COUNTY | AVERAGE PPP | AVERAGE EIDL ADVANCE | AVERAGE EMPLOYEE RETENTION TAX CREDIT | AVERAGE FAMILIES FIRST LEAVE |
|---|---|---|---|---|
| **Center** | $133,595 | $8,750 | $352,794 | $8,471 |
| **Family** | $5,014 | $3,760 | $0.00 | $4,008 |

**TABLE 10** Federal Stimulus Generated through Direct Private Funded Incentives*

| | PPP | EIDL ADVANCE | EMPLOYEE RETENTION TAX CREDIT | FAMILIES FIRST LEAVE | TOTAL |
|---|---|---|---|---|---|
| **Funds Leveraged** | $230,316 | $25,000 | $226,500 | $13,539 | $495,354 |

* These were funds provided by the United Way of Newark generously provided a cash incentive for 30 providers to participate in coaching, thereby reducing risk and increasing the financial benefit as they navigated the pandemic.

# Evaluation Methodology

The evaluation spanned 15 months (April 2020 through October 2021) and focused on collecting and assessing data to provide insights on programmatic effectiveness and impact. As part of this assessment, Luminary also reviewed the data collected from April 2020 through December 2020 to fully capture project impact and ways to better support child care businesses in the future, capturing that data in an interim report.

The evaluation was implemented in two phases:

1 Discovery & Data Collection

2 Analysis & Reporting

The evaluation utilized four types of data:

- **Artifacts** — Luminary reviewed documents and databases, and collected data from April–December 2020 programming.
- **Qualitative Interviews** — Luminary conducted two types of interviews to assess the impact of the project. The first set of 11 one-on-one interviews conducted in Spring 2021 included funders, CCR&R leadership, and project staff. The purpose of these interviews was to understand the design of the project and the essential issues that stakeholders wanted to learn about. The second set of interviews took place in September 2021 with 10 providers, both home-based and center-based, to understand their personal experience of the technical support and their ongoing needs as they navigate the short- and long-term impacts of the pandemic on their businesses. These providers reviewed their stories as captured by the evaluation team prior to their inclusion in this report. These interviewees also agreed to be identified by name and share a pictures of themselves if they wanted.
- **Survey Data** — Luminary designed an online survey to measure the current financial and business situations of child care providers participating in the program. The survey also measured the effectiveness of the technical assistance program. A total of 46 providers completed the survey. Demographic data for these providers is included at the end of the report.
- **Focus Groups** — Luminary conducted a focus group with providers from Essex and Passaic counties in attendance to measure their current financial and business situations and understand the effectiveness of the technical assistance received.

One of the goals of this evaluation project is to build a secure and confidential database of provider financial data to offer a data-driven perspective on the financial wellbeing and resiliency of child care providers. It also serves as a basis for ways that providers and their businesses can be further supported through future efforts beyond the pandemic. The resulting database of provider federal tax returns culminated in an analysis and recommendations which are included in *Attachment A, New Jersey Child Care Tax Analysis*.

The database consisted of 60 provider tax returns (54 home-based, 6 centers). The evaluation consisted of recording and analyzing entries from the Schedule C tax form — *Profit or Loss from Business (Sole Proprietors)* and was focused on answering the following key questions:

- Are providers accurately capturing costs by claiming expenses in common categories — utilities, supplies, rent, insurance, licensing fees, etc.?
- How aggressively are providers using other expenses?
- How are home providers utilizing Time-Space? What is the average amount claimed for business use of home?
- How are providers using the wages deduction?
- Are providers using unusual categories like management fees or professional fees?
- Are programs potentially leaving cash revenue or expenditures unreported?
- What is the average (and range) of profit margins for centers? Homes? Are they running at a significant loss?

Though a biased sample, the database represents a rare collection of data within the child care field and provided insight on ways that providers can be further supported to file accurate and effective tax returns. Luminary used the findings from the analysis to produce the **Confidence in Quality Tax Prep Rubric© for Child Care Providers** so that a provider or partner can evaluate their federal tax returns for consistency with best practices for their program type and feel confident that they are maximizing their time and tax dollars.

## Survey Respondents

**Located in Essex, Mercer & Passaic counties**

**29** home-based providers

**17** centers

**31** completed survey in English

**15** completed survey in Spanish

**91.3%** participate in the subsidy program

# Observations

Luminary developed the following observations based on the analysis of the collected data (**FIGURE 2**).

**FIGURE 2** Observations

**Observation 1**

Support was crucial for access to federal stimulus.

**Observation 2**

Relief funding provided a lifeline to child care businesses.

**Observation 3**

Tax preparation is weak and even damaging.

**Observation 4**

Further support is needed to ensure the survival of child care businesses.

## Observation 1: Support was crucial for access to federal stimulus.

Without technical assistance, most providers may not have secured federal PPP loans, ERTC credits, and other funding support. According to members of the Civitas Strategies team, some providers were reluctant and needed reassurance, some had complicated issues compounding their application preparation, and others simply needed a boost in confidence to apply. Not accessing this funding would have resulted in provider closures, further destabilizing an already fragile child care system. Furthermore, the TA keyed in on the forgiveness feature of the PPP program, a tool for providing relief funds without amassing debt. Throughout the TA process, several providers described the stressed feeling of being unsure how to request and be granted forgiveness, fearing that they would have debt at risk. The family child care provider featured in the story below was not previously aware of the Small Business Administration's Economic Injury Disaster Loan (EIDL) program, but learned of it through TA and utilized the funds received to pay rent and utilities.

### BENDUE JAMES

Home Away From Home Childcare

**HOME-BASED PROVIDER, NEWARK, NEW JERSEY**

*I got my certification and opened my business in 2015 when my eldest daughter went off to college. I'm a natural caregiver; I've also been a foster parent over the years, but I wanted a little more work-life balance. Those first years in business were rough. I leaned on savings until I could get families enrolled and get everything going. It's important to me to know that children in my care, from my community, are benefiting from a quality early-learning experience. I want every child, regardless of their backgrounds, to have the same opportunities and head start. It makes me so proud when the kids who've been with me for years enter kindergarten meeting their milestones and ready to succeed.*

*My business was doing well before COVID hit and parents began to pull their children out of care. The Stimulus Technical Assistance took these complicated programs, applications, and operational needs and broke them down so I could understand them and get the support we needed to keep going. We were able to get grants for PPE, small business loans, and other funding. The TA team also helped me better organize my records and start separating my personal and business accounts.*

*This year I was selected from a group of home-based providers to partner with a Head Start center, Clinton Hill Community and Early Childhood Center, that had high demand and needed extra capacity. I have the connections I need and have full enrollment; as long as the pandemic subsides, I'm hopeful for stability over the next 5 years. Moving forward, I'd love to learn more from others who have grown their business and seen revenue increase. I would like my business to evolve, and to learn more best practices in record-keeping. One day, I hope to have a separate location for my business, to have more space, and increase capacity.*

**While most providers surveyed reported applying for funds; the ones who did not were unsure if they qualified.**

While majority of providers surveyed (78%) did apply for some form of relief funding (**FIGURE 3**), there was still a segment of providers (19.5%) that did not apply for funding, specifically the Paycheck Protection Program (PPP). As shown in **FIGURE 4**, of the nine providers that reported choosing not to apply for the Paycheck Protection Program (PPP), the majority of them (67%) did not apply because they did not fully understand the program. Technical assistance made these complicated programs more accessible to child care providers without taking a one-size-fits-all approach. A family child care provider stated, "Through the TA, I learned guidelines of the PPP and learned strategies for funding that fit my needs."

## CAREN HAYNES

Mama Goose Daycare

**HOME-BASED PROVIDER, GLEN RIDGE, NEW JERSEY**

*I have been doing this so long (28 years!), that I think I'm watching children of some of the children that I watched when I first got started! In college, I majored in Home Economics and took courses in Business Accounting, then worked for a big bank, and one day I came home and thought, "I love working with kids and my passion is in child care." There weren't a lot of choices for families back then, and there's still such a big need for quality care, especially for the littlest ones. Parents need to feel comfortable when they leave their child, and I can always tell when a parent is comfortable here: when I get diapers and wipes in bulk, and when they're not calling throughout the day to check on things.*

*The pandemic really forced me to rethink my operations and how I work with my families. When we reopened last September for just a few children, parents' work schedules and their comfort levels weren't as regular as before. We had two kids Monday and Tuesday, then closed Wednesday for a deep clean, then I had a newborn Thursday and Friday. Over the course of the fall, we noticed that parents wanted their kids to have some socialization time with other children, but maybe not be away from home all five days. That evolved over the last year, and this fall I have five children, all at different days of the week and it's really working out. In addition, we've adopted new safety behaviors and precautions to protect our families.*

*When the pandemic started and we closed our doors, providers like myself were all inundated with information, and it was overwhelming. The New Jersey Stimulus Technical Assistance webinars, however, were more than information; they provided a service. The Stimulus TA team gave us knowledge that was implementable — not just to survive the pandemic, but also how to run our businesses more effectively and efficiently. I was able to figure out what programs were out there that I was eligible for, and I could go and grab it.*

*It's easy in this business to feel a little forgotten and overlooked, but I got the sense that Civitas Strategies spent a good deal of time learning about family childcare in New Jersey. Even as everything was constantly changing, they made sure we had the guidelines and resources we needed, and knew any potential pitfalls. No one else had the industry knowledge or expertise, and to them, no question was too big or too small. In addition, the team was always responsive and encouraging, so it was easy to trust their advice. Every resource that I've been eligible for and applied for, I've been guided by the TA support.*

**FIGURE 3** Please select the stimulus funding programs that you APPLIED for. Check all that apply. (n=46)

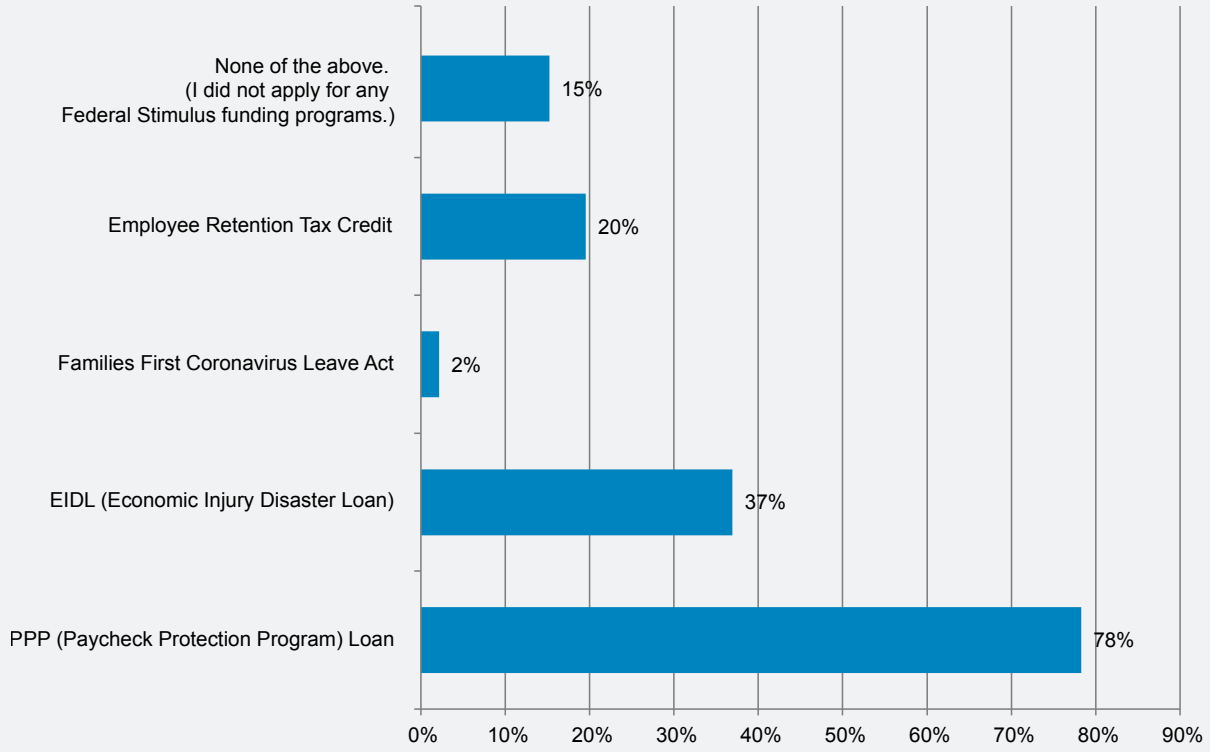
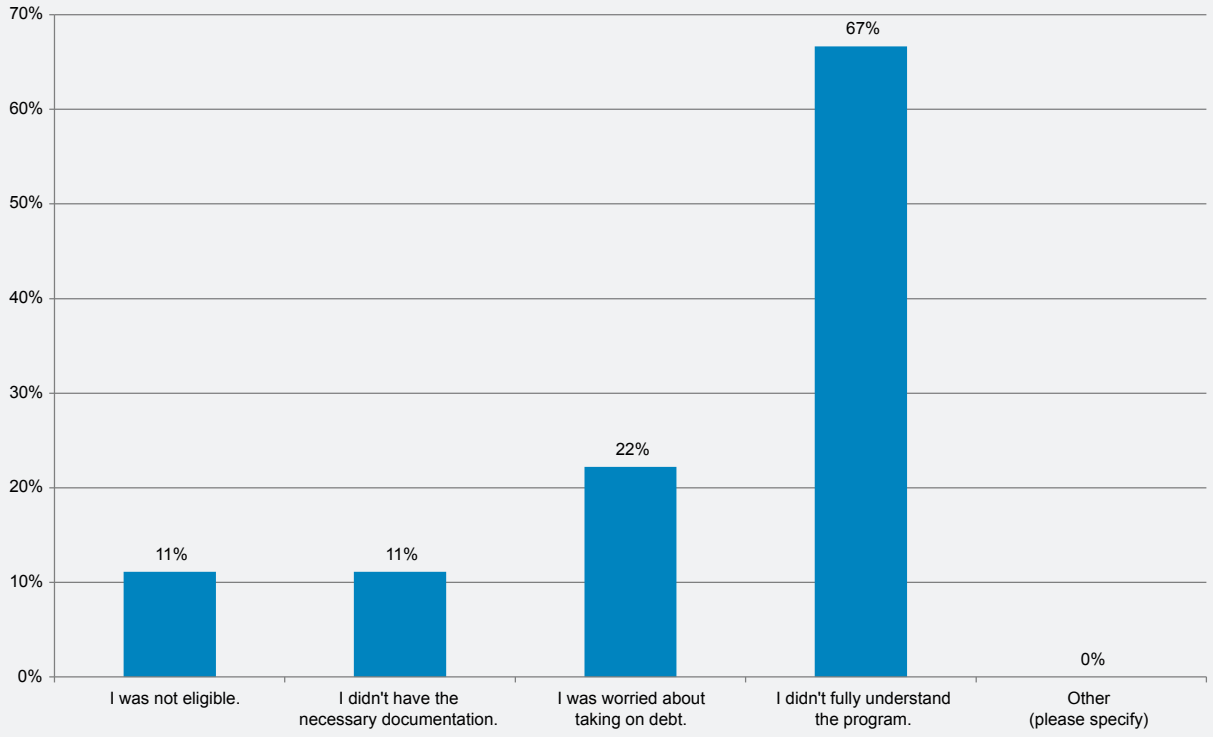



**FIGURE 4** What is the reason that you didn't apply for a PPP (Paycheck Protection Program) loan? (n=9)



## Observation 2
## Relief funding provided a lifeline to child care businesses.

The COVID-19 pandemic created a perfect storm for the already fragile child care business model. Unsustainably low enrollment, higher expenses, the need to operate under more intense guidelines, and other operational challenges made it difficult to nearly impossible for programs to operate. It's estimated that nationwide, 10% of child care centers and 10% of family child care homes were closed by the end of 2020.[1]

To help stay afloat and fill in the gaps caused by both dramatic losses in revenue and higher expenses (due to increased health and safety needs), providers turned to relief funding in the form of grants, loans, and other in-kind supports. Over 77% of providers received the PPP loan (with hopes for forgiveness), 31.82% received the EIDL, and 13.64% received the Employee Retention Tax Credit (ERTC). As shown in **TABLE 2**, the ERTC funding received totaled **$10,032,758**, which was significantly more funding than accessed through the PPP (**$8,358,375**). The ERTC funding also did not require repayment. Many providers were unaware of this funding prior to their participation in TA. Without the support of the NJ stimulus TA program, these critical dollars would not have been infused within the network of child care businesses.

While many providers may have only received funding from one source, others took advantage of the ability to blend funding. They strategically utilized funds according to their allowable use to help maximize their impact, allowing the business to maintain staff on payroll and retain critical infrastructure.

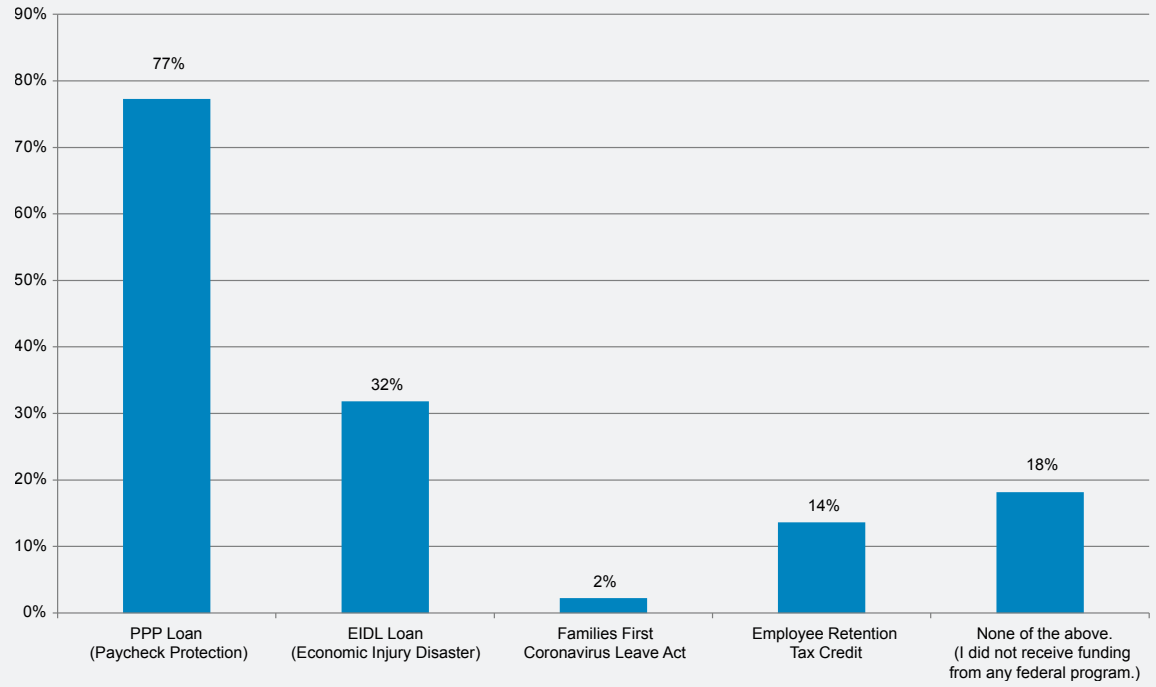
**"Having a child care business during the pandemic was a financial nightmare!"**
—NJ provider

Using a scale of 1–5, with 5 being "extremely important," providers were asked to rank how important the funding received was in helping them stay in business. The weighted average among 41 providers responding was a unanimous 4.59. It is clear that these funds provided a lifeline for child care providers.

**"Caution tape out and 'for sale' sign up. We weren't sure how long the pandemic would last, and we didn't have money saved but had to keep paying rent. We were nervous."**
—NJ provider

1 Child Care Data by State. Child Care Aware® of America. (2021, July 8). https://www.childcareaware.org/our-issues/research/ccdc.

**FIGURE 5** Please select the programs that you RECEIVED funding from. Check all that apply. (n=44)



## PRISCILA ALVAREZ

The Learning Studio

**CHILDCARE CENTER, CLIFTON, NEW JERSEY**

*Before I started working in childcare 11 years ago, I was a pharmaceutical sales representative that sold insulin. It was eye-opening to learn about how many children were diabetic or at high-risk due to poor eating habits and unhealthy behavior. I started thinking that I wanted to do something, to affect change, to make a difference. My center is medium-sized, not big, but larger than some. We want to create an environment where children feel safe and can obtain all the tools they need to learn and succeed when they get older. My team and I strive for our classrooms to be places where our kids can have fun and play. That's really the best way for them to learn.*

*There are so many challenges as a business owner in this line of work. I play all the roles during the day, with the kids, with parents, even with my staff. When you work with children all day, you have to be present, with your mind, your heart. Even when we have a bad day, we have to provide love and care. It is difficult to find people that are able to be emotionally and mentally prepared to do that every day. We're also affected by the economy. Our families are hardworking, but parents are still hesitant to send their kids to school, or they aren't making enough money to afford care.*

*Our enrollment has been low since the pandemic hit last year. Without the stimulus funding or the state subsidy, I'm not sure it would be doable. At some point, I may have to make the decision to close our doors. The technical assistance the program provided helped me access the resources I've needed to keep going this long. It was invaluable expertise and guidance right when I needed it. One of the first things I did was increase my teachers' salaries, because they weren't making enough and I needed to keep them, but with our current enrollment numbers we have more expenses than revenue.*

*This has been such a difficult time, personally and professionally. Right now, I am just focused on what I need to do to survive. The Stimulus TA team basically took my hand and guided me through everything, including PPP, NJEDA, and other grant applications. Getting the Employee Retention Tax Credit was especially helpful. My focus right now is increasing enrollment, getting more kids in the door. I always need more help with marketing, advertising, and social media promotion. I don't have time to be more effective promoting my business, but want more families to know I'm here.*

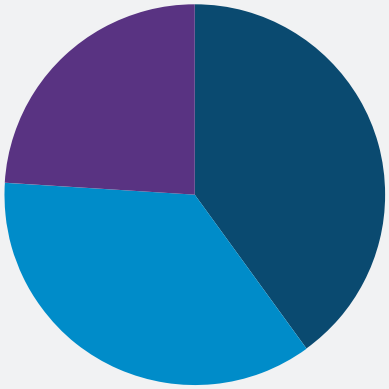
## Not all relief funding was created equal.

Without a doubt, the preferred funding for child care providers was grant funds that did not come with repayment requirements. The PPP program received an overwhelming response due to its forgiveness aspect.

While the EIDL made capital funds more accessible to small businesses, it is still long-term debt that providers must plan to repay during a time of financial uncertainty for their businesses. Over 40% of providers indicated that they took on debt over the past year to stay in business (**FIGURE 6**). The TA included budgeting to capture future debt repayment and strategies to boost revenues so that the businesses can manage their debt effectively.

The debt that was taken on, from respondents who provided the amount of their debt, ranged from $2,800 to $250,000.

**FIGURE 6** Did you take on debt over the past year to help you stay in business during the pandemic? (n=42)



- Yes — 40%
- No — 36%
- Prefer not to answer — 24%

## LORI MILLER

Busy Bee Academy

**CHILDCARE CENTER, FAIRFIELD, NEW JERSEY**

*My two sisters and I own Busy Bee Academy. We're a local, women-owned, family-run business. The children motivate me every day, seeing them grow, learn, and mature. Just when things get difficult or you've had a hard day, one of them will come up spontaneously and hug your leg, and it makes it all worth it. We have such a big influence on these children and their families; they trust us and rely on us to take care of and teach their little ones.*

*We love working with families, but at the end of the day, we have a business that runs on thin margins. We don't make a lot of money, there are no benefits, so it's hard to find employees. During the pandemic, we got hit from all sides — we were closed for a few months. Parents were not asked to pay for tuition; however, rent was still due, and we weren't sure how long it would last. There wasn't enough money in the bank to keep going; we weren't prepared — no one was prepared. Even now, we have reduced class sizes and can't accept as many kids as before. I still worry about us or our teachers getting sick, or when the account balance gets low. We try to keep expenses down and save more money than before.*

*At the height of all of that uncertainty, the Stimulus Technical Assistance program was a lifeline. We had experts who could help us figure out our options. Beyond that, the TA team was hopeful and kept us focused on the future. It was nice to know that someone was out there, caring about us and our business, and answering any questions we had along the way. Sometimes answers would come back within 30 minutes and that was invaluable.*

*There will always be a need for what we do, but the support is limited. Guidelines and requirements from federal agencies and the state are always changing, and it can be hard to keep parents informed. The stimulus funding and other grants we've received have been essential, not just for the Lysol we need even when the price goes up, but also for flood damage our building has experienced, or to buy various supplies.*

## Observation 3:
## Tax preparation is weak and even damaging.

Through quality tax preparation, businesses can strengthen their financial status and mitigate potentially devastating financial events, such as federal audit stemming from blatantly inappropriate business practices. Upon observations and feedback from providers made during the technical assistance, Civitas Strategies saw the value in analyzing child care providers' federal tax returns to provide data to inform the sector on 1) ways that child care businesses are reducing tax liability, 2) missed opportunities to reduce tax liability, 3) areas of audit vulnerability, and 4) quality of child care tax preparation.

In turn, Luminary Evaluation Group analyzed a set of 60 child care business' federal tax returns submitted through the NJ Stimulus Technical Assistance project. This provided insight on the aforementioned research questions and resulted in a set of recommendations to increase tax preparation quality amongst the sector. The report, *New Jersey Child Care 2019 Tax Analysis*, is included as *Attachment A*. While there were various eye-opening findings, the following findings are significant and underscore the importance of including federal taxation best practices in conversations regarding provider's business practices and financial wellbeing:

- Home-based child care providers are not maximizing common and relevant business deductions. The combined impact of missed deductions in this group amounts to an estimated $17,555.97.
- 83% of home-based providers did not utilize the Business Use of Home deduction.

Key observations from the analysis are included in **FIGURE 7**.

**FIGURE 7** New Jersey Child Care 2019 Tax Analysis Observations

**Key deductions are being missed that can reduce tax burden.**

**Deductions were misused, creating legal and financial liabilities.**

**Better supports and advice are needed for providers.**

### THERESA BLOUNT

Little Angels Childcare

**HOME-BASED PROVIDER, NEWARK, NEW JERSEY**

*Before I opened my business 13 years ago, I worked with the school district in public schools for 20 years. I had a variety of roles, including office assistant and teacher's aide. Those experiences helped me a great deal in managing my business and guiding me through the last year. When I entered my 50s, I needed a change. I had a desire to connect with and support my community, and there was an unmet need for family childcare. Most parents want to have their kids in a school where the classrooms and resources are not overwhelmed, so I went into home care to ensure my size stays small and I can connect with the children and the parents as much as possible.*

*I want to make a difference in the lives of the kids I work with. I am able to strengthen their reading and math skills, but more than that I can help mold and develop their character. I want to shape outstanding citizens, who are generous givers and able to express themselves in a healthy way. In a lot of ways, I'm helping grow the parents, too. Many of them are young, so I remind them about medical visits, help with their resumes, or point them to assistance for utilities. Sometimes they just need to sit and talk, so I put the tea kettle on and listen for a while before they head home with their child.*

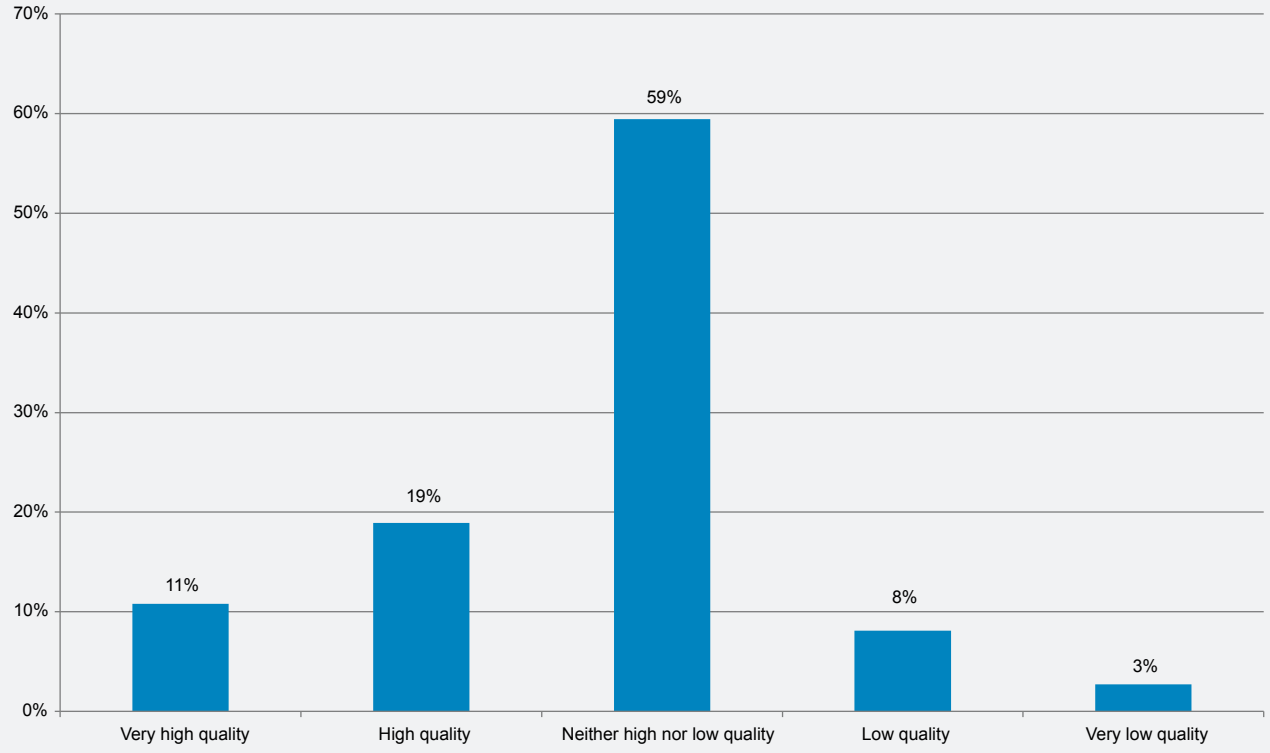
*This past year with COVID was really challenging, and I had no idea how it would work out. Even when we first reopened last September, I wasn't sure I was going to make it. Honestly, the fight for me wasn't the pandemic, it was a financial fight to save my business and my livelihood. Thank goodness myself and peers in my network had opportunities available through the Stimulus Technical Assistance program. We found out what we were eligible for, what we could qualify for, and how to apply. I also began to see my financial possibilities differently. I got a business plan and analyzed the needs of families in my community. Not everyone was working 9–5, Monday through Fridays. If I wanted to survive and make money, I had to change how things worked. So, I opened slots for childcare in the "third shift" and in the evenings. I've since doubled my income.*

*I smile when I think of working with Gary and the TA team. Even when he talks about complicated things, his tone is approachable, and he makes it easy to understand. They showed us how to put the puzzle together to qualify for stimulus funds. Gary's door was always open; no question was too big or too small. The TA team familiarized themselves with New Jersey childcare issues, and the rules in our state and county so we could access the resources we needed. Since I started working with them, I've really changed how I manage my business. I'm better at bookkeeping, I file my taxes differently, and I manage my payroll and expenses differently. Despite the pandemic, I feel more confident now as an entrepreneur.*

Child Care businesses, a significant sector of small business, must view tax preparation strategies as a vehicle to keep critical dollars in their programs. However, most providers did not have a positive response to the quality of their 2020 tax preparation, with 70.3% of providers labeling the experience either low-quality or neutral (**FIGURE 8**).

Based on this data, providers are aware that they are not using tax preparation effectively, but likely do not have the time, resources, or data to support the implementation of best practices in the oft-intimidating, unavoidable world of taxation.

**FIGURE 8** Based on your experience applying for funding this year, how would you rate the quality of your 2020 tax preparation? (n=37)




## Observation 4:
## Further support is needed to ensure the survival of child care businesses.

All but one of the forty-six (97.8%) survey respondents reported that their business is currently open. While it is promising to know that they managed to remain open throughout the tumultuous year of 2020 and early 2021 (mainly due to the relief funding received), there are still impacts stemming from the pandemic that providers will have to grapple with, possibly for years to come.

Staying open is only half the battle. Providers are facing daily challenges with issues such as low enrollment and difficulties with recruiting and retaining staff, which impact their viability. While it appears that the sector has not lost the number of programs originally estimated, for those facilities that managed to stay afloat, survey data is estimating that only 68% of children are attending child care nationwide compared to pre-pandemic numbers. For the NJ providers surveyed, 59.5% report not being satisfied with their current enrollment levels (**FIGURE 9**). This volatile enrollment spurs the need for providers to be more resilient about budgeting and cash flow management, and to monitor these items on a more frequent basis than in the past.

### SABRINA PEEBLES

Brian's Place

**HOME-BASED PROVIDER, NEWARK, NEW JERSEY**

*I named my business after my son, who passed away from cancer when he was twelve. He was actually the one who convinced me to get into this business. He kept saying I needed to take care of babies, and about a month after he passed, a family member was looking for someone to watch her young child. I volunteered to help her, and I was surprised to find that I really enjoyed it. It was a breath of fresh air. That was 16 years ago. You would think after that many years I would get tired of this work, but I'm motivated every day to take care of these kids, to make sure they have the love they need, they are learning, and they have healthy meals.*

*Last year was really rough. Everything came to a standstill when the pandemic hit and I didn't know how to keep going financially. The Stimulus Technical Assistance program helped me tighten up the business side of things and give me confidence in planning and preparing for the future. Now I have policies and procedures in place, even with my families, that guide our structure and keep us on track. After all, I'm a small business. My worries now have nothing to do with the kids; I worry about finances and business operations, about bookkeeping and paying staff members.*

*In September 2021 we merged with another company to assist more kids and better leverage our resources, so I feel confident about future growth. Of course, I still have a lot to learn about accounting and bookkeeping. It gets overwhelming and if I miss one thing, everything is thrown off. Because of what we've been through, I always try to think ahead and make sure we have a plan in place.*

**FIGURE 9** How was your business impacted by COVID-19? Check all that apply. (n=26)

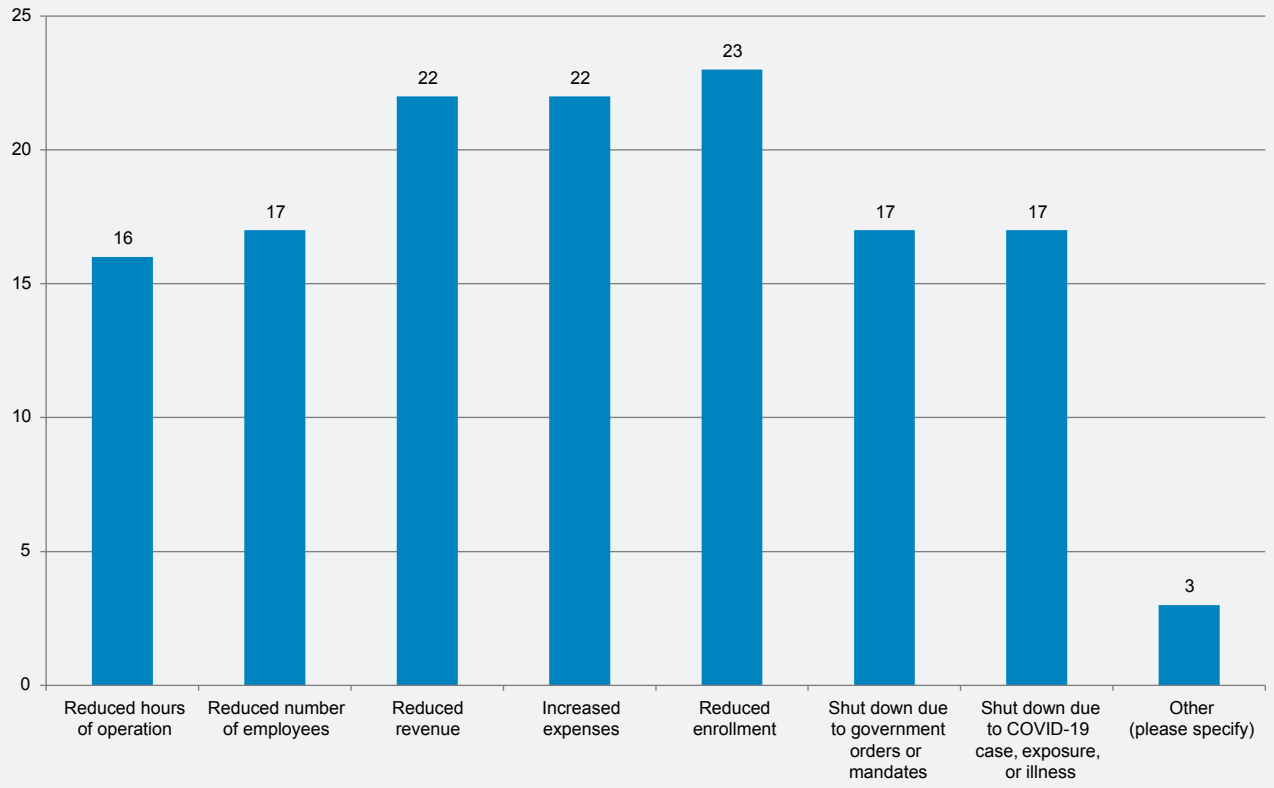
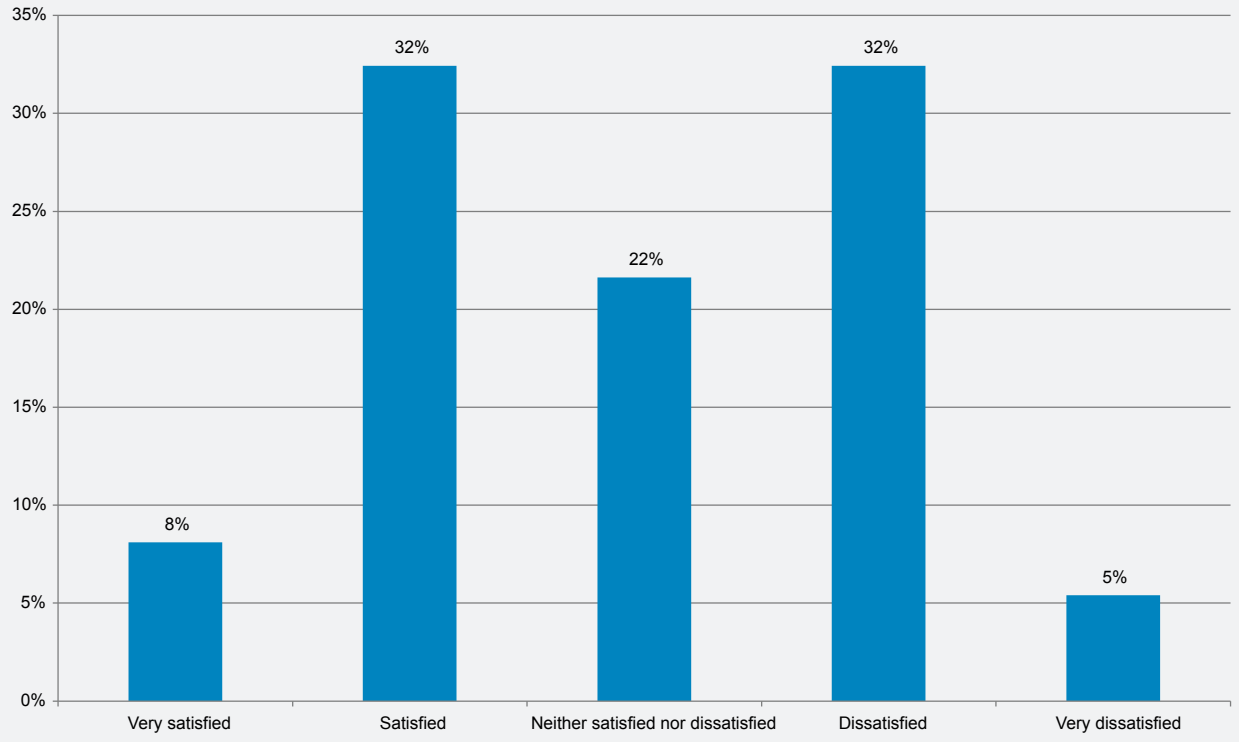
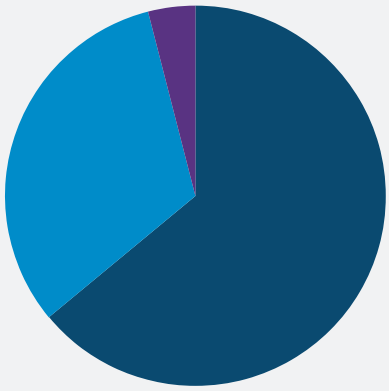



**FIGURE 10** How satisfied are you with your current enrollment levels? (n=37)



Although COVID-19 may have shifted child care needs for families, there are programs that have been fortunate to see their enrollment stabilize and reach pre-pandemic levels. Those programs express feelings of optimism, but still fear the uncertainty of variants of COVID-19, which could worsen the pandemic and revert all gains they have made. One of those gains would be the ability to retain, rehire, or recruit staff. Sixty-four percent of survey respondents indicated that the pandemic negatively affected their number of employees (**FIGURE 11**).

**FIGURE 11** For those with employees, did COVID-19 affect the number of employees at your business? (n=28)



- Yes, the number of employees went down. — 64%
- No, the number of employees stayed the same. — 32%
- Yes, the number of employees went up. — 4%

"Workforce development in general is a big issue."
—NJ provider

However, providers are more aware than ever before that the mutually exclusive relationship between staffing and enrollment cannot be understated. At the top of providers' fears — and the current reality — is the inability to fill open seats due to a lack of staff. Through technical assistance, providers learned strategies to adapt to current uncertainties and employ practices that are within their control (i.e. marketing strategies, pricing, recruitment strategies, etc.) to alleviate these impacts.

## HANEUSKA VAZQUEZ

Haneuska's Creative Hands Family Childcare

**HOME-BASED PROVIDER, EWING, NEW JERSEY**

*I have always loved working with kids, but I started my career in childcare at the daycare where I took my son 14 years ago. I saw how they worked with the kids, and I thought, "I can do this too!" I offered to jump in and help wherever they needed, and I worked as a helper, then classroom assistant, then teacher. When we moved to central New Jersey in 2015, I decided to open my own business out of my house. We started with a few kids and have been lucky enough to keep growing.*

*Of course, I also have experience as a parent. I remember how it feels to decide to leave your child in the care of someone else, and trust them to take care of and teach your baby during the crucial years when they're young, before they go to school. I love that my work every day is to provide a place where the children in my care learn and grow and I am able to support their families.*

*We faced a lot of challenges last year, between closures, reduced enrollment, and uncertainty resulting from the pandemic. When my business was closed for two months in the spring of 2020, I didn't know what would happen next. Working with the New Jersey Stimulus Technical Assistance program during and after that time ensured that we had people trying to help us, explain what was going on, and where we could go for help. The TA team helped me apply for a PPP loan, so at least we had money coming in. Through working with them, I learned how I could be more organized in my business operations moving forward.*

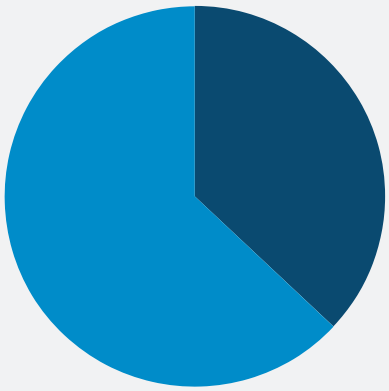
*We're now at full enrollment; I have 5 kids in my care. However, I find that we're spending more money than before the pandemic, due to all the extra cleaning and sanitizing that's needed. We often run out of supplies before the end of the month. In 2021 we have more expenses in general and everything is more expensive than before. I have dreams of growing and expanding my business, but for now I'm focused on keeping full enrollment, working with each child and their family, and making sure we're taking advantage of all the business opportunities out there. Thankfully, I know now through my work with New Jersey Stimulus Technical Assistance that I have everything I need in my hands to meet whatever challenge comes next.*

**Providers are in search of more basic business resources that have not been prioritized in the past.**

Many of the challenges that providers faced when applying for relief funding revealed that certain business best practices were not in place, and many providers needed "a place to start" in terms of understanding and employing these practices. Many sole proprietors were not paying themselves or had poorly or incorrectly prepared taxes which complicated things for the PPP and impacted their applications. The majority of the denied applications were due to a lack of required documentation — items that should have been readily available to an operational business, such as a proof of payroll or income documentation.

Having reserves, or emergency savings, proved to be a way that businesses can mitigate financially devastating events. However, the majority of the providers surveyed (63.4%) did not have emergency savings in place (**FIGURE 12**).

**FIGURE 12** Do you have emergency savings? (n=41)




## RUBY SMITH

Le Petit Infant Toddler Academy

**CHILDCARE CENTER, EWING, NEW JERSEY**

*As a PhD in Educational Leadership and retired principal, I've made my career in this field. I know that it is incredibly difficult for families to find quality, affordable care for the youngest children, newborns through toddlerhood. When I was first starting out, I wanted to give back to the community and I knew I could meet the need, so I specialize in working with the littlest kids. Our parents deserve to work, have peace of mind when they're away, and know their children are taken care of. It makes me feel accomplished when our families are truly satisfied with the service we provide.*

*This was a new location of the business, and we opened right before the pandemic hit. However, where most daycares had to close and started losing money and staff, we became an essential provider. The pandemic has worked a little in our favor and kept us going. Currently, our enrollment is still low though. If I were a parent of a baby, I know I would be unsure about taking my kid to daycare, so that's why my staff and I take this very seriously. I think the only thing I can hope for is that the pandemic really ends. Once family members return to work full-time, there will always be a need for this type of quality care.*

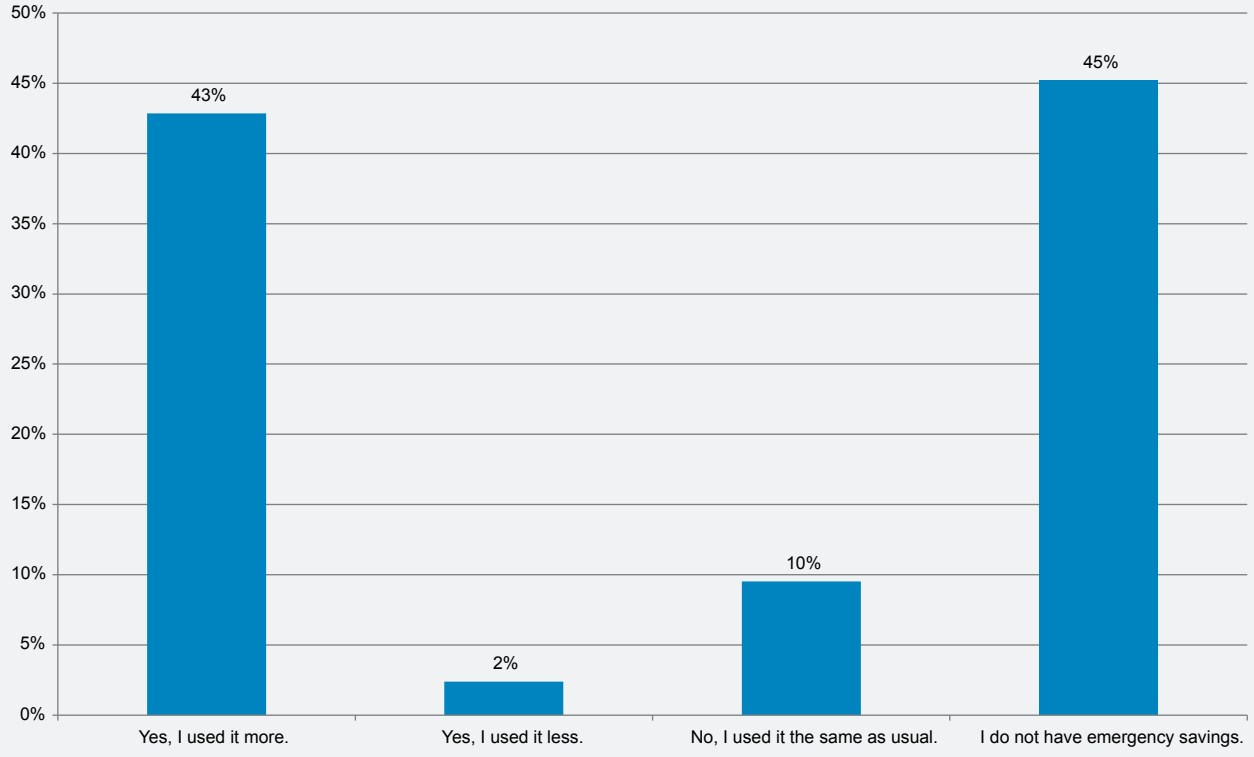
*I am a small business with a small number of employees. In 2020, Gary and the Stimulus TA team helped us complete our PPP loan application. I had no idea what I was doing, but their guidance helped us get that stimulus money. That helped me cover employee paychecks, but my largest bill was — and still is — rent. In addition, 98% of our students receive the state subsidy, and I worry about when the temporary enrollment-based payments revert to attendance measurement again at the end of this year. It will be hard for us, and I have no doubt that other centers will suffer and potentially close as well.*

For those providers that did have emergency savings, the majority of them needed to access those savings to pay for expenses throughout the pandemic (**FIGURE 13**).

Due to the lack of emergency savings, or depletion of funds, providers will need strategies to build their reserves. Having access to emergency savings could help alleviate some of the current fears and concerns that providers expressed during the data collection. Their greatest worries were:

- "Needing to close classrooms for positive cases; this will take a financial toll on us."
- "The unknowns of COVID moving into the fall and if it gets worse, it will impact our staffing."
- "The [looming] rising minimum wage — how can we afford it?"

**FIGURE 13** If you have emergency savings, did you use it more or less during the pandemic? (n=42)



**Providers are rethinking strategies to ensure they remain a viable option for families and staff.**

The impacts of COVID-19 have providers rethinking strategies to ensure they are offering competitive wages and benefits to staff, and competitive pricing for families. Many providers have been hit with severe staffing shortages and challenges with recruiting and retaining qualified staff. Many have also been forced to take a more proactive approach to increasing and maintaining adequate enrollment. As a result, providers are more interested in making data-informed decisions to answer questions such as: "How do I set my rates?" "How do I determine if I am paying competitive wages?" and "How do I determine child care supply and demand to support marketing strategies?"

When asked about things they wish they had access to that would strengthen their child care business and make it more profitable, respondents listed:

- "Staffing — where to get staff and how much to pay them. We're not sure if we're using the right pay rates."
- "Market rate studies around salaries and what other programs are charging families. It feels like guesswork and it's hard to find out what others are doing because it's a 'well-guarded secret.'"
- Better ways to perform financial forecasting, especially with the looming raise in minimum wage.

## ROSE WONG

Princeton Nursery School

**CHILDCARE CENTER, PRINCETON, NEW JERSEY**

*Our center has been in business for 93 years, since 1929, and we are a nonprofit in every sense of the word. We provide over $400,000 in scholarships every year, and the only requirement is that you're a working parent trying to break the poverty cycle. That has always been our mission. We do a lot of fundraising and support of the community to make this happen and operate on a shoestring budget.*

*We are not a normal preschool; our families are in need. We provide a variety of wrap-around support services for them. For example, they receive both perishable and non-perishable food for home, in addition to the three freshly prepared meals we provide for the children here at school. We provide clothing for our families, emergency tuition coverage, and angel funding for any emergency they might face. In 2020, we were forced to close for 4 months — for the first time in our history — but we continued to provide remote lessons, school supplies, food, even rent assistance. It was a very traumatic and difficult time for us and our families, but the New Jersey Stimulus Technical Assistance program provided a valuable sounding board and touchpoint for us during upheaval.*

*I've been working in education administration for 31 years. I worked at numerous private schools before coming here almost five years ago. Princeton Nursery School was looking for someone to run the school and help jumpstart fundraising, and I had experience with both. I knew I could make a difference here, and we have turned things around considerably, but there were times in those first six months I was here that I wasn't sure we'd make payroll. Now, we've expanded our wrap-around programming for families, added nutrition and wellness services, and added a social worker to our staff. We are open year-round because our families need to work, as they are restaurant workers, landscapers, cleaners. We work every day to make sure the children thrive and experience the joy of learning, not just survive. Every child here is safe and taken care of.*

*The Stimulus TA team gave me someone to turn to during the pandemic when I needed expert advice and guidance. Things were changing so quickly, and the information coming at us was very confusing. I have a background in accounting and economics, and that was helpful for me, but I still needed to ask questions about eligibility and applications. One of the big things we took away from our work with Gary and the team was that we needed to rethink our crisis plan, adjust what we needed in reserves, and spell out our financial back-up plan. It was great long-term planning, but it also helped our short-term plan because once we reopened, we were always nervous we'd have to close again.*

*We are at full capacity now, even have a waitlist. We don't know what fundraising will look like this year, but we're working hard on it. For nearly all of last year, when we reopened, we were at reduced capacity as required, and that hurt us financially. The stimulus help we applied for and received with the assistance of the TA team helped make ends meet where they could. I wish that level of support could continue for providers moving forward. That kind of business support and professional development isn't really available for us otherwise.*

## SUSAN DANNEMILLER

Children's Day Preschool of Passaic

**CHILDCARE CENTER, PASSAIC, NEW JERSEY**

*I just celebrated my 20th anniversary working with Children's Day, and this is my 14th year as Executive Director. Before being ED, I had a variety of different roles, including working directly with children and their families as a therapist. We have a stellar team here, and I'm so proud of this school. It's a joy to work here and bring about change for our children and families. Our goal isn't just to make the world a better place — we know that when we nurture the growth of strong, resilient children, we are helping to create individuals who are better equipped to handle the inevitable challenges of this world. We want our children to be prepared for everything they might have to confront after they leave us. We're focused on the whole child, including their social emotional wellbeing, their physical and mental health. We are concerned with, and provide a great deal of support to, the whole family as well; they are an important part of their child's wellbeing.*

*With everything that our communities and businesses like ours have been through in the last 18 months, we feel very lucky. In some ways, we're in a better place financially. We've weathered a lot of storms and we're concentrating now on bringing everything to pre-COVID levels. I worry a great deal about the general stability of our industry, particularly wage and workforce issues. The pandemic and ensuing crisis caused me to look at our financial and operational systems more critically. We took a lot for granted, so I had to adapt and communicate much more quickly than we did before. We're a well-established agency and had a lot of financial practices in place that helped us, but because of our work with the Stimulus TA team, I came away with more confidence in our decision-making. It was validating in a lot of ways. The board members and I trusted their outside, impartial voice and advice.*

*Moving forward we're spending time thinking about wage parity and how I can keep and invest in my staff. My board and I want to raise wages and bring up compensation rates for front-line staff, but we don't know where that money will come from. The children in our care are low-income and have high need; even our private paying families are barely making ends meet. I am also concerned about burnout in my staff, and the impact of asking them to do just one more thing. They are stressed out and we're not at the finish line yet.*

*In addition, I think that it would be so helpful to have an independent, third-party analyze wages, rates, and sustainability across the industry. We are all flying blind right now, and more market analysis would help providers like myself make better business decisions and share practices that are working. There's so much I don't know about my peer organizations because of the silos that exist and perceived competition, even in neighboring communities. It was incredibly helpful to have the Stimulus TA team to call when we didn't know what to do. The way options and information were presented to us was so reassuring and calming. It brought down my anxiety and increased my confidence to have access to them.*

# Conclusion

Overall, the NJ Stimulus Technical Assistance provided child care business owners with an opportunity to access critical relief funding, which contributed to their ability to remain in business throughout the COVID-19 pandemic. As revealed in the various provider profiles throughout this report, the TA provided was characterized as informative, approachable, realistic, and results-driven. Providers benefited from having targeted TA, which was not only based on practices specific to their sector of business but was also tailored to their *individual* needs. This allowed them to feel empowered to continue along their pathway of business resiliency so that they can strengthen their businesses for years to come.

The greatest impact among providers was undoubtedly the $19 million of relief funding secured through the TA. This funding would have otherwise been missed. It proved crucial for stabilizing many child care providers through mid-2021.

There were many impactful reports of improved business practices such as budgeting and cash flow, bookkeeping, clearer policies and procedures, paying oneself, business banking, staff retention strategies, tax preparation strategies, and more. These improved practices, leveraged with the relief funding secured, lead to a brighter outlook and hope for viability for these providers and the children and families that benefit from their essential services.

Based on the evaluation findings, Luminary presents the following recommendations to guide future policy and programmatic efforts for a sustained impact on child care businesses:

1. **Child care providers, especially those that are home-based, are often not viewed as "small businesses" by themselves and others.** This was evident through the TA document reviews associated with stimulus application preparation and observed practices and conversations with providers. Many of the participating providers were not well-versed in business practices, some of which could impact their ability to remain a viable business in both the near- and long-term future. Systems must focus more on business development skills for child care providers.
2. **Policy and advocacy groups should be attuned to small business laws, regulations, and opportunities, and integrate them into wider policy change efforts.** There were hundreds of billions of dollars available in relief funding to small businesses, but many providers were unaware, and that information was not highlighted in provider circles. The result was a substantial amount of relief funding left on the table. The information that *was* available was not comprehensive nor accurate enough for providers to feel confident in applying independently for these funds. The TA made available through the NJ Stimulus TA project was successful based on the ability to apply small-business best practices and advocacy to child care businesses. Providers trusted the source of the information and were readily updated on important changes, deadlines, and future implications accordingly.
3. **Child care providers took on debt during the pandemic and accessing EIDL forgiveness could be vital.** Nationally, many advocacy and other sector-focused organizations pushed the EIDL loan as a means of suitable relief funding. Many providers reported exhausting their savings and taking on debt, via EIDL and other means, to withstand the pandemic. Many repayment plans are now in effect, due at the worst possible time as the field has yet to recover. The EIDL includes liens on providers' homes — it is not to be trifled with. For the child care field in general, 30 years of debt was a bad idea. And now, the field should advocate for relief (as some business groups are starting to do) or total forgiveness for small, under-resourced businesses like child care.
4. **More resources and education are required to ensure quality tax preparation.** Providers are currently using unreliable and risky methods to prepare and submit annual tax returns, leaving them vulnerable to potential audits. Additionally, many providers are not using common deductions for small businesses, and those specific to the rendering of child care services. Through an analysis of tax

returns collected throughout the TA, it's estimated that the combined impact of missed deductions among providers in the data set amounts to an estimated $17,555.97. Providers then are subject to pay self-employment tax and income tax on inflated profits. Providers, professional tax preparers, and those organizations providing business technical assistance to child cares should be aware of best practices in tax preparation. Luminary Evaluation Group created the *Confidence in Quality Tax Prep Rubric© for Child Care Providers* so that a provider or partner can evaluate if their federal tax returns are consistent with best practices for their program type and feel confident that they are maximizing their time and tax dollars. Furthermore, shared services related to tax preparation for child care providers should be explored.

5 **Child care still needs near- and long-term financial support.** Access to federal stimulus funding was vital for many child care providers' survival through much of 2021. However, the money is largely exhausted. The PPP ended in May 2021, FFCRA leave ended in September 2021, and the ERTC at best ends in December 2021 (the current infrastructure bill could retroactively end it as of September 2021). Yet child care providers continue to experience financial stress from increasing labor costs, still-low enrollment, and continued COVID costs (such as quarantine closures).

In the near-term, providers will need access to additional stimulus funding. While the American Rescue Plan Act of 2021 provided funds for supporting child care, their supply has been delayed and many states have found, without support similar to that provided in this project, the most vulnerable child care businesses have difficulty accessing funds.

Even if child care providers survive the pandemic, they will still need help. Provider cost of care and parent ability to pay higher rates are not increasing at the same rate. This leaves a significant gap for child care providers, leading them to make tough and crippling decisions such as laying off staff, and shuttering classrooms to stay afloat.

This, in turn, has damaging impacts on the economy and children's early learning as the supply of child care decreases and parents are forced to forgo employment to stay home to care for their children. Many providers cited the state's increase in subsidy rates, and continuity of such payments based on enrollment, as a determining factor in their financial solvency. The providers that were observed to have the best chances at a long-term recovery were those with a significant subsidy or other contracted funding.

# Survey Data
## Provider Demographic Data

The following figures display demographic data for the child care providers that participated in the TA and responded to the evaluation survey.

**FIGURE 14** What county is your child care business located in? (n=46)

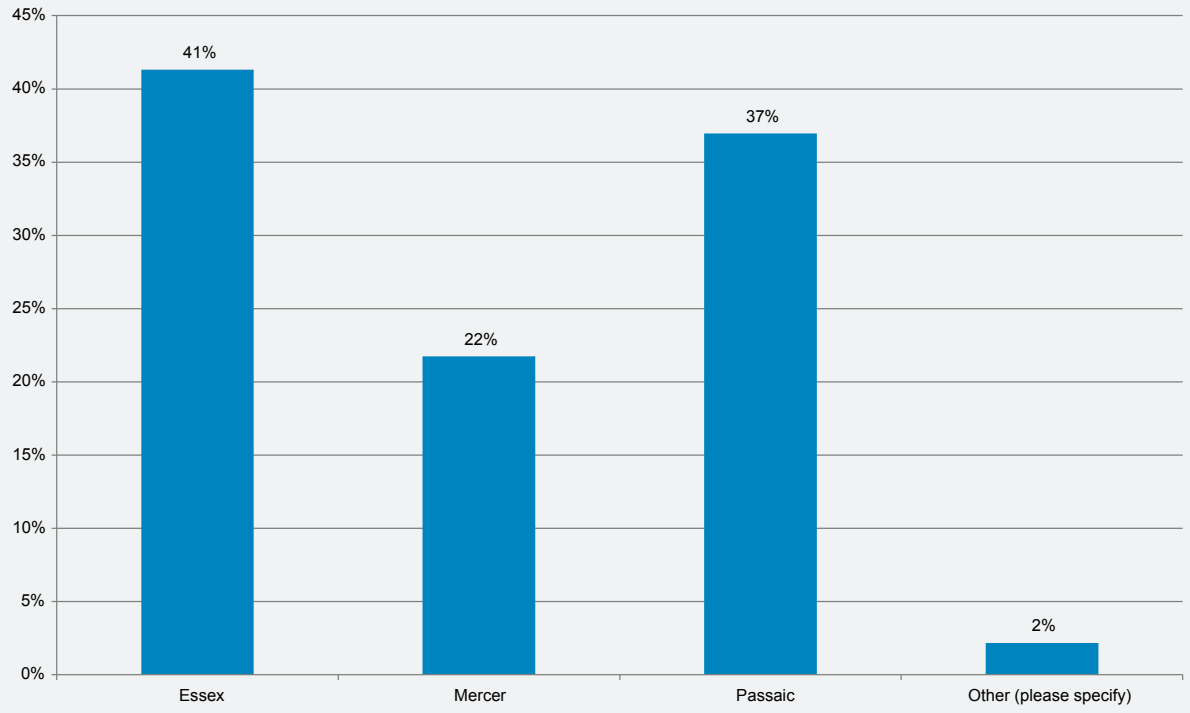
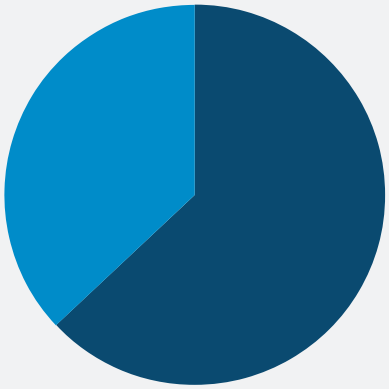
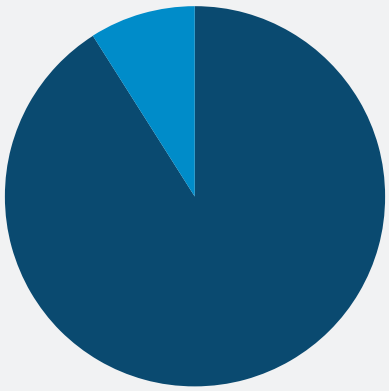



**FIGURE 15** Is your business a home-based family care provider or a child care center? (n=46)



- Home-based family child care provider — 63%
- Child care center — 37%

**FIGURE 16** Does your child care accept subsidies? (n=46)



- Yes — 91%
- No — 9%

**FIGURE 17** How long has your child care business been in operation? (n=46)

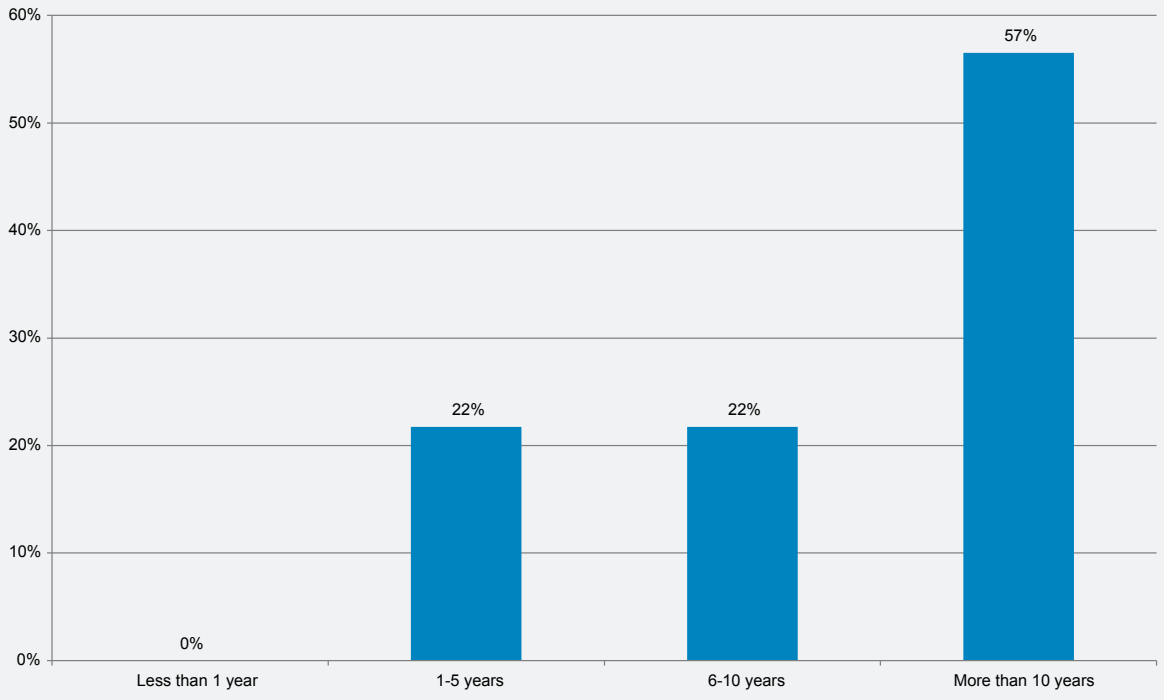
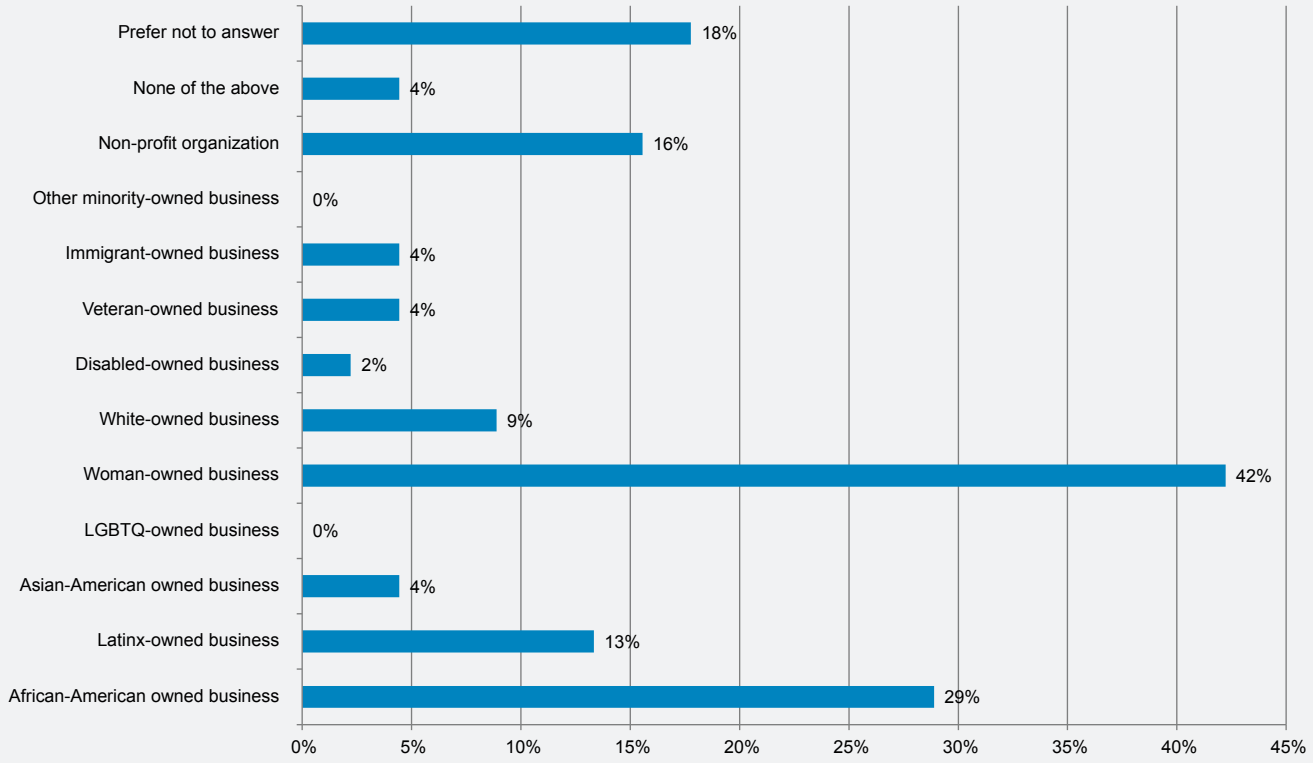



**FIGURE 18** Do any of the following apply to your child care business? (Please check all that apply.) (n=45)



# Attachment A
## New Jersey Child Care 2019 Tax Analysis

# Executive Summary

It is estimated that each year, small businesses spend 2.5 billion hours preparing tax returns or corresponding with the Internal Revenue Service (IRS) about the preparation of their returns. Ninety percent (90%) of small businesses employ tax preparation professionals to prepare their returns, to some extent, and provide representation, if needed, during an audit. The total cost of tax professional services for small businesses amounts to more than $16 billion.[1] While it is nearly impossible for small business owners to know the tax code inside-and-out, there are some tax basics that small business owners should know so that they can advocate for themselves and save money.

Child Care businesses, a significant sector of small business, must view tax preparation strategies as a vehicle to keep critical dollars in their programs. As a small business, every dollar of profit is subject to self-employment tax and income tax. Through employing the basics, providers can reduce their tax liability and ensure they are being fairly treated and not overtaxed.

The review of tax returns was undertaken based on the observations made by Civitas Strategies, through their efforts from April 2020 onward, that child care providers were systematically missing key deductions, even with professionally prepared returns, resulting in lost income. Concurrently, there was evidence of tax preparation errors increasing providers' risk of audit, fines, and penalties. With tight profit margins in child care, any revenue that can be increased or liability that can be mitigated can be critical for the operation's survival.

Accordingly, Luminary Evaluation Group was engaged to conduct an independent evaluation and analyzed 60 provider tax returns. The tax returns consisted of 54 home-based and 6 center-based programs. The goal of this analysis was to study provider financial data, particularly for home-based providers, to understand child care profit and expenses, discover how child care owners are utilizing common business deductions, and to learn what best practices can be shared and what recommendations can be made to inform the larger child care sector based on these findings.

Based on all data analyzed, the team concluded that **home-based child care providers are not maximizing common and relevant business deductions. The combined impact of missed deductions in this group amounts to an estimated $17,555.97**. Additionally, there are numerous audit liabilities that were identified which could result in thousands of dollars in past taxes and penalties.


## Acknowledgments

First and foremost, the Luminary Evaluation Group team thanks the many child care leaders who contributed to the development of this evaluation. We would like to first acknowledge our gratitude for Tom Copeland, who generously shared his past experiences in analyzing child care provider tax returns for decades and his wisdom on the topic overall.

We also want to thank a number of early childhood leaders who shaped this process and report:

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- **Alan Taylor**, Southwest Human Development
- **Nancy Thomson**, Child Care Connection
- **Kelly Turner**, Civitas Strategies
- **Kara Waddell**, Child Care Associates


1 William, D. (2020). Is the IRS Targeting Small Businesses? Yep, Says One Expert. https://smallbiztrends.com/2016/09/irs-targeting-small-businesses.html

# Introduction

In March 2020, the onset of the COVID-19 pandemic destabilized vulnerable child care systems across the country. In response to this impact, a group of funders sought ways to support child care providers in Essex, Passaic, and Mercer counties in New Jersey. They include:

- The Maher Charitable Foundation
- The Henry and Marilyn Taub Foundation
- The Turrell Fund
- The Nicholson Foundation in New Jersey
- The New Jersey Pandemic Relief Fund

This group of funders consulted with Programs for Parents, 4C's of Passaic, and Child Care Connection (the local Child Care Resource & Referral [CCR&R] agencies), who were working tirelessly to assist both home-based providers and centers through this difficult time. The CCR&Rs communicated the need for additional capacity and expertise to strengthen provider businesses and connect to needed federal funding.

To meet this need, Civitas Strategies was engaged in April 2020 to provide technical assistance to providers as they applied for the Paycheck Protection Program (PPP). The PPP is a forgivable federal loan program designed to provide funding to small businesses (defined as those with 1 to 500 employees). Throughout the course of the technical assistance engagement, Civitas Strategies collected child care tax returns to aid in the PPP application. To apply for the PPP, 2019 taxes were needed.

When additional federal stimulus became available in 2021, the Civitas Strategies team was once more engaged to help providers apply for Round 2 of the PPP, as well as Employee Retention Tax Credits and Families First Coronavirus Relief Leave. In this round of funding, the Civitas Strategies team was granted permission to voluntarily receive providers' tax returns as part of the effort, as well as permission to use them in research. Though a relatively small number of returns were shared (n=60), it is one of — if not the most — extensive tax data set for child care to date.

**FIGURE 1** Observations

**Observation 1**
Key deductions are being missed that can reduce tax burden.

**Observation 2**
Deductions were misused, creating legal and financial liabilities.

**Observation 3**
Better supports and advice are needed for providers.

# Evaluation Methodology

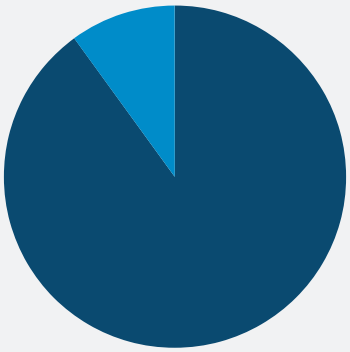
The evaluation relied on a data set of tax returns primarily from 2019. These returns were voluntarily offered by providers in the assessment of eligibility and application for stimulus funding with the caveat that they could be used for research. Though a biased sample, it is a rare collection of data within the child care field.

The evaluation consisted of recording entries from the Schedule C tax form — *Profit or Loss from Business (Sole Proprietors)* and was focused on answering the following key questions:

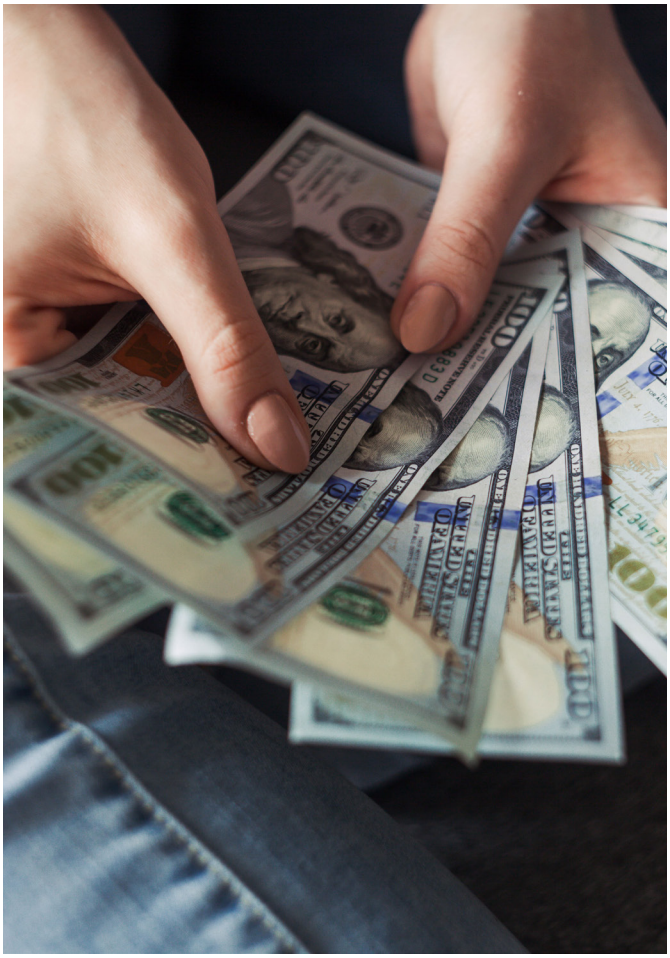
- Are providers accurately capturing costs by claiming expenses in common categories — utilities, supplies, rent, insurance, licensing fees, etc.?
- How aggressively are providers using other expenses?
- How are home providers utilizing Time-Space? What is the average amount claimed for business use of home?
- How are providers using the wages deduction?
- Are providers using unusual categories like management fees or professional fees?
- Are programs potentially leaving cash revenue or expenditures unreported?
- What is the average (and range) of profit margins for centers? Homes? Are they running at a significant loss?

Each return was individually reviewed using the Confidence in Quality Tax Prep Rubric© based on the research questions.

**FIGURE 2** Tax Returns Analyzed by Provider Type (n=60)



Homes — 54
Centers — 6



# Observations

The review of the data resulted in three observations, specifically:

1. Key deductions are being missed that can reduce tax burden.
2. Deductions were misused, creating legal and financial liabilities.
3. Better supports and advice are needed for providers.

## Observation 1:
Key deductions are being missed that can reduce tax burden.

Early in the analysis it became clear that providers were inconsistently using deductions. Most cases were missing opportunities to reduce their tax burden (and increase income), creating potential legal and tax liabilities through errors in many cases. Though businesses generally want to generate profit (i.e., a financial gain from their business), when it comes to taxation, they want to minimize the amount of net profit since it reduces their tax burden.

Taxes can quickly add up for small business owners. All but one of the providers in our sample were sole proprietors. In their case, 92.35% of the net profit is first subject to a self-employment tax of 15.3%. Then, the remaining profit is subject to taxation as income. These amounts can add up quickly. One other business was a limited liability corporation taxed as an S Corporation — this decreases the tax burden since the net profit is only taxed as ordinary income (though limited liability corporations do also have higher costs to maintain).

**FIGURE 3** Calculating Taxable Income


**Net Revenue** is determined by taking all revenue from the business and subtracting expenses.

## Varied Profit Margins

Overall, there were a varied range of gross receipts (the business' income), expenses (the operating costs), and profit (the revenue left after paying expenses) for the home and center-based tax returns analyzed.

Among the pool of providers, the ranges of these financial data sets varied greatly. There was a home-based provider that only took in $744 for the year while another logged $67,843 in gross receipts. One claimed $57,789 in expenses while several others claimed none. One provider logged what appeared to be $40,000 in income. On the other hand, a separate provider logged a significant deficit, with a net profit of -$9,327. Some observations were made regarding the extreme variations in income and expenses, which are noted further in this report.

**TABLE 1** **Home Providers:** Average, Median & Range of Revenue, Expense & Profit (n=54)0

| | AVERAGE | MEDIAN | RANGE MIN | RANGE MAX |
|---|---|---|---|---|
| Gross Receipts | $28,248.20 | $27,998.00 | $774.00 | $67,843.00 |
| Expenses | $13,849.85 | $10,486.50 | — | $57,789.00 |
| Profit | $12,968.19 | $11,893.00 | $(9,327.00) | $40,000.00 |
| Profit Margin | 51% | 54% | -41% | 100% |

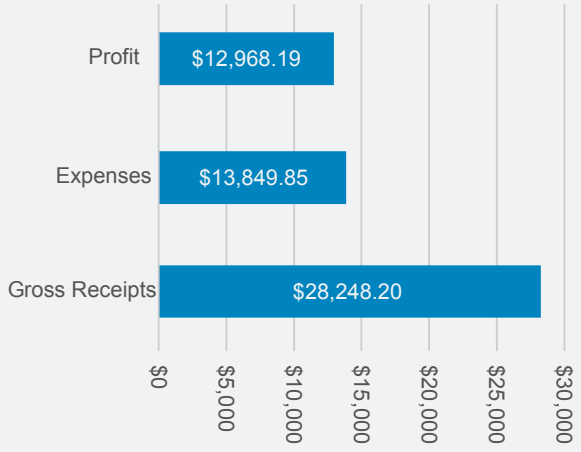
**TABLE 2** **Center Providers:** Average, Median & Range of Revenue, Expense & Profit (n=6)

| | AVERAGE | MEDIAN | RANGE MIN | RANGE MAX |
|---|---|---|---|---|
| Gross Receipts | $172,113.00 | $136,756.50 | $34,116.00 | $441,335.00 |
| Expenses | $129,572.50 | $107,522.50 | $4,195.00 | $343,013.00 |
| Profit | $40,657.67 | $28,663.50 | $(34,050.00) | $138,690.00 |
| Profit Margin | 15% | 23% | -48% | 59% |

Center-based programs in the pool of tax returns also had varied financial results. The lowest amount of gross receipts was $34,116 for the year, while the highest gross receipts tallied $441,335. This range is also present in the expenses line item for centers, with the lowest expense line item totaling $4,195 and the highest totaling $343,013. While the average profit margin for centers was 15% (which is still a bit higher than expected for typical centers[2]), it's important to note that this included one provider with a profit margin of -48% and one of 59%.

The average gross receipts for homes were $28,248.20. The average expenses for a home program were $13,849.85, leaving a profit of $12,968.19. This is an average profit margin of 51%.

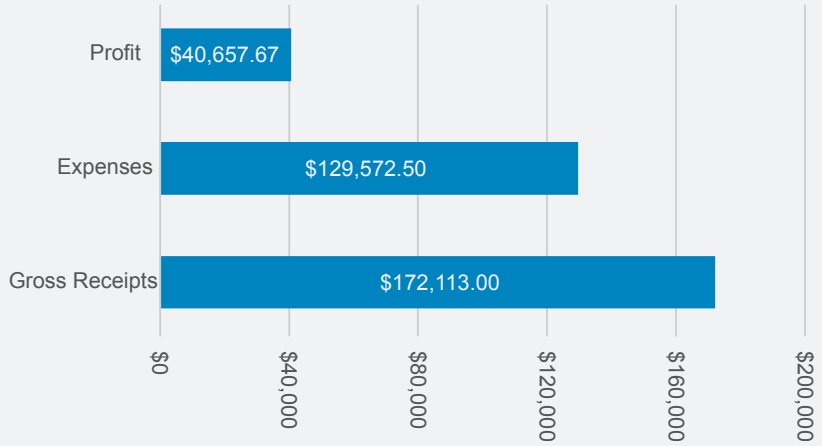
**FIGURE 4** **Home Providers:**
Average Gross Receipts, Expenses & Net Profit (n=54)




The variation in income and expenses observed in this data set is consistent with what other thought leaders in ECE business practices have seen over the years. Such variations make statistical measures, such as averages and medians, less useful, however they are helpful in this analysis to reinforce basic truths regarding the low income for child care providers and how inconsistently they are reporting expenses.

The average gross receipts for centers were $172,113. The average expenses for a center program totaled $129,572.50, leaving a profit of $40,657.67. This is an average profit margin of 15%.

**FIGURE 5** **Center Providers:**
Average Gross Receipts, Expenses and Net Profit (n=6)




The varied profit margins point to a few opportunities and liabilities for providers. First, the unusually high average profit margins could mean that some providers are underutilizing deductions. Since the regulatory environment for child care is, relative to other industries, strict, there are likely similar costs for all providers. When there is great variation in profit, as seen here, that can indicate that some providers are not taking all appropriate deductions.

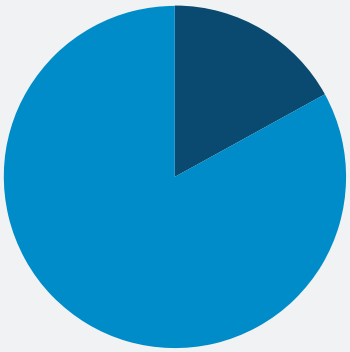
2 Early Childhood Education Fiscal Hub Report (2019) https://williampennfoundation.org/sites/default/files/reports/ECE_Fiscal_Hub_Report_FINAL.pdf

In the data set, 18 providers (30%) took a low number of deductions, which we defined as 35% or less of revenue as expenses for this study. All of these were home-based programs and included four providers that claimed zero deductions. Thirteen percent (13%) of providers took a high number of deductions, which we defined as 85% or more of revenue as expenses for this study. This included six home-based providers and two centers. In many instances, these providers' expenses exceeded their business revenue, indicating that they operated at a loss for that year. Because of the lack of expenses claimed, the four providers without expenses had a 100% profit margin (on paper) that was subject to self-employment and income taxes. These providers had an average profit of $17,428 which would first be subject to the full self-employment tax of $2,666 plus income tax at the provider's ordinary tax rate. Even using the lowest tax rate of 10% would result in an additional $1,743 in taxes owed. The missed deductions were clear (as shown in **FIGURE 6**) when it comes to the use of the Time/Space Calculation for business use of the home, for which 83% of home-based providers did not utilize this allowance at all.

**83% of home-based sole proprietors did not utilize the Time/Space expense line.**

The IRS allows for a deduction of the business use of your home. However, the IRS requires that you calculate the amount of space used for business and the amount of time it is used to distinguish business use and costs from personal ones. To claim a deduction for the business use of their home, child care providers can determine the amount using Form 8829, or they can elect to use a simplified method provided by the IRS.

**FIGURE 6** Use of Time/Space for Home Providers (n=54)



Used Home Space — 17%
Did Not Use Home Space — 83%

The simplified method is performed by multiplying $5 by the provider's time percentage (total hours of the year the home is used for business) by the square footage of the area of the home used for business purposes. The total area cannot exceed 300 square feet, and the maximum deduction using the simplified method is $1,500.[3]

For many child care providers, the simplified method represents less than their real costs, so they should use the Time-Space method to determine the business use of their home through Form 8829:

## Space

Typically, space is measured using the square feet of your home regularly used for care and the total square footage of the home. Regular use includes areas that may be used all day (such as a play area) as well as areas that are regularly used for only part of the day (rooms for naps, preparing food, etc.).

Providers can then take the space used in their home for care and divide it by the total square footage of their home to get a percentage.

*Space used for care ÷ total square footage of your home = percentage of your home that you use for child care*

## Time

Time is the total number of hours a provider used their facility on average. This includes not only the time that they are caring for children, but also the time they used the space for cleaning, cooking, bookkeeping, and preparing for the care of children.

*# hours a day care provided x 5 days a week x 48 weeks + # hours when facility is closed but preparing for care = Total # of hours used for care*

*Total # of hours used for care/8,760 (the total hours in a year) = Time percentage of business use of home*

## Time/Space Calculation[4]

*Multiply the space percentage by the time percentage.*

This percentage is then used to calculate the percentage of home expenses that can be claimed for business use, such as mortgage, rent, utilities, home insurance, telephone, and cable.

3 Internal Revenue Service, 2019 Instructions for Schedule C https://www.irs.gov/pub/irs-prior/i1040sc--2019.pdf

4 Time/Space Calculation is the method used by the US Internal Revenue Service to determine the business use (and deductibility) of a home that also has personal use. In recognition of Tom Copeland's abilities to communicate with providers, we have used his expression "time/space calculation" since it is more widely used and understood in child care.

## Average Amount Claimed for Business Use of Home

The average amount of the Time/Space deduction claimed among the 9 providers using this expense was $6,597.38. If using the simplified method, the total would not exceed $1,500. Because we only had access in most cases to the Schedule C, and not the Form 8829 *Expenses for Business Use of Your Home* tax forms, we cannot conclude if the providers who used this expense did so correctly. Based on the high average dollar amount and the state of their returns, we believe it is likely that the calculation is not being performed correctly for those who are using it.

## Consistently Missed Common Deductions

Home-based providers consistently did not claim common business expenses. Only 41% of providers claimed utility expenses, just 22% claimed office expenses, and a little more than half (54%) claimed supply expenses. Just 9% of home-based providers claimed taxes and licenses, and only 20% claimed repairs and maintenance.

Taking into consideration the average amount of these expenses in this data set, if providers claimed these common expenses, they would total $10,958.59. When you add the average time-space expense claimed to this, the total of missed common expenses reaches $17,555.97. Using these expenses would have lowered a provider's taxable income by $17,555.97.

**TABLE 3** The Impact of Deductions on Tax Liability

| SAMPLE REVENUES | DEDUCTIONS CLAIMED | NET PROFIT SUBJECT TO TAX | TAX LIABILITY |
|---|---|---|---|
| $40,000 | 0 | $40,000 | Higher |
| $40,000 | $10,000 | $30,000 | Lower |

## Commonly Claimed Business Expenses for Providers

**FIGURE 7** shows commonly available small business deductions for sole proprietors, partnerships, and LLCs.

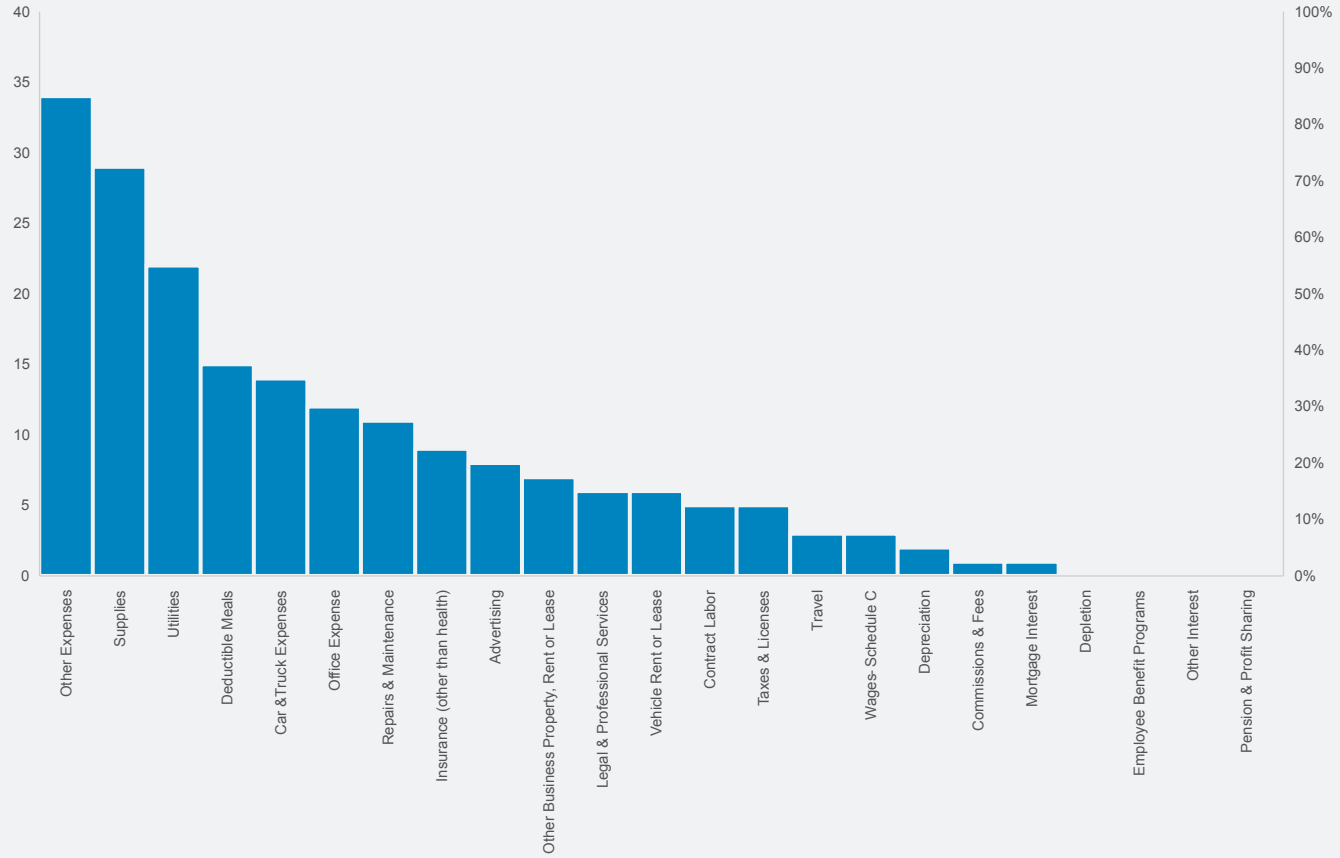
**FIGURE 7** Common Small Business Tax Deductions

## Home-Based Providers

**FIGURE 8** displays the business expenses claimed for home-based providers. The top expense claimed was "Other Expenses" which typically included expenses for telephone, cable, supplies such as diapers, meals and snacks for children, and utilities. These expenses should be claimed on their proper expense line item on the Schedule C, however, to accurately capture usage and costs.

The next most common expenses were Supplies, Utilities, Deductible Meals, and Car and Truck Expenses.

**FIGURE 8** **Home Providers:** Business Expenses Claimed (n=54)

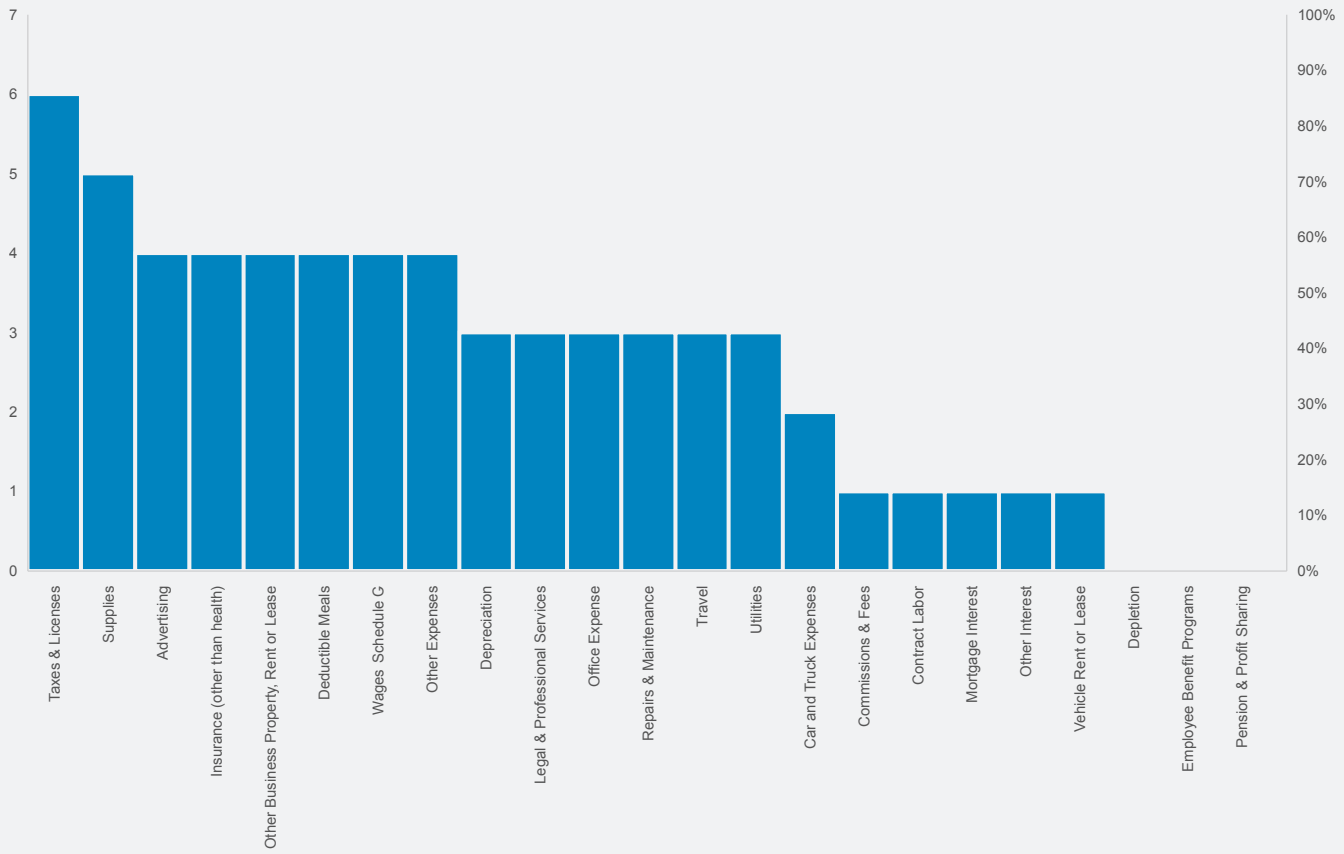


## Center-Based Providers

**FIGURE 9** displays the business expenses claimed for center-based providers. Overall, the center-based providers had consistent behavior across the categories of expenses. However, there was still inconsistent use of common business expenses claimed, such as Utilities (50%).

The most claimed business expense was Taxes and Licenses, which 100% of programs claimed, followed by Supplies, which five of the six programs claimed. Other common expenses claimed for centers were Advertising, Insurance, Other Business Property Rent or Lease, Wages, Deductible Meals, and Other Expenses.

**FIGURE 9** Business Expenses Claimed (Center Providers) (n=6)



## Observation 2:
Deductions were misused, creating legal and financial liabilities.

"Indeed, the chances of a Schedule C [IRS profit or loss form filed by sole proprietors and other self-employed taxpayers] being audited are almost twice as great as a small corporation being audited," —Donald T. Williamson, professor of taxation at American University's Kogod School of Business, Washington, D.C.[1]

### Providers are engaging in dangerous behavior, which can lead to time-consuming audits and costly penalties.

In addition to providers not claiming business expenses that they should, there were consistent instances of providers improperly claiming certain business expenses.

**FIGURE 10** Deductible meals, explained.


For instance, one of the top expenses claimed among home-based providers was Deductible Meals (Line 24b). According to the IRS, this includes expenses for meals while traveling away from home for business. Your deductible business meal expenses are a percentage of your actual business meal expenses or standard meal allowance, usually 50%. Fifteen of the fifty-four home-based providers claimed this expense for an average amount of $2,908.47. This includes a home-based provider who claimed $10,988 for this expense. This could cause a red flag, triggering an audit alert due to the use of this deduction, which is meant to be for the owner's personal business meals at 50% cost. Centers on the other hand, averaged $1,337.50 for the deductible meals expense, with the highest amount being just $1,833. Based on the consistent use of this deduction among home-based providers, it can be concluded that they are erroneously using this line for their food costs associated with children's meals.

Vehicle Rent or Lease (Line 20a) was used by 11% of the home-based providers with an average expense of $6,823.17. According to the IRS, this expense should only be for the business portion of the rent or lease for the vehicle. Based on the high dollar amount for the expense, and burden of recording, it is likely that home-based providers are not calculating only the business use of the vehicle.

Car and Truck Expenses (Line 9) was used by 26% of home providers for an average amount of $2,792. While this is a deduction that providers can and should take, there is a burden of recording that is clear by the IRS and necessary to justify the deduction total. We would caution providers to ensure they are adhering to the guideline set forth for the calculation of this expense and that they have the proper documentation to justify it in the event of an audit.

While not common across the group of returns analyzed, it is worth mentioning other notable misuses of business expenses. One home provider claimed $10,000 in commission and fees, and two home providers claimed depreciation for an average of $8,704. These are not commonly associated with running in-home child care programs and could raise an automated audit alert.

### Questionable Application of Wages

Throughout the technical assistance conducted by Civitas Strategies, some providers reported paying wages in cash but not reporting them. Though this reduces their near-term tax burden, it is a long-term audit liability. Further, at least one provider admitted to reporting substantial cash wages paid as "wages" to get the deduction — essentially paying untaxed wages but claiming them as taxable in an effort to reduce tax liability. Not paying payroll taxes on wages is clearly illegal and can result in paying penalties and interest if audited.

Some home-based providers (9%) reported using contractor labor. Just one center provider in the data set used contractor labor, however they did not claim any employee wages paid. This could mean they are relying exclusively on contractors to staff their program (which is unlikely). This brings up questions since providers indicated in conversations around the stimulus that they were using 1099 contractors in ways that were consistent with actual employees. Misclassification of a contractor can cost providers a great deal of money and time. If they make a mistake, even an "honest one" where they just feel that they didn't know, they can be liable for:

- 100 percent of the employer taxes they should have been contributing all along.
- A portion of the employee's contribution to payroll taxes. (Yes, the employer must pay a portion of the taxes they would never have paid in the first place.)
- Penalties and interest.
- The price of any missed benefits and other compensation, such as paid time off, that the worker didn't get as a contractor.

## Use of Owner's Pay as a Strategy to Reduce Tax Liability

Many of the child care owners are not paying themselves effectively. In our set, one reported paying themself as a contractor but did not report the income. In other cases, we observed that sole proprietors and LLC providers are not taking the opportunity to reduce their tax burden by paying themselves. Currently, these business owners are subject to self-employment tax as well as income tax. They could elect to be an S Corporation and pay themselves a reasonable wage (resulting in a deduction) using a low-cost system like Gusto. They could then take the remaining profits (after paying themselves) as a capital gain, after having a 20% pass through income deduction. An extreme example of this is "LSV," a center provider in our data set. They reported almost $140,000 in net profit. This provider could have paid themselves a "reasonable wage" per US IRS guidance and reduced this burden.

## Observation 3

Better supports and advice are needed for providers.

Ninety percent (90%) of small businesses employ tax preparation professionals to prepare their returns, to some extent, and provide representation, if needed, during an audit.[5] That is, they are not preparing their taxes themselves manually or online, nor are they using tax services offered by community-based organizations. While we are unable to capture the exact number of providers in this study that used professional tax preparation services, we believe the number to be a significant portion. Anecdotally, the Civitas Strategies team learned in talking with providers through their stimulus effort that most are using local preparers based on recommendations from friends and families, or because of limited access to services (as one provider said, "She is the only person around."). In some cases, providers are paying significant amounts for preparation. Again, it is anecdotal, but in the course of their work with providers, the Civitas Strategies team heard of tax preparation costs ranging from $700 to $1,000. Providers are getting the short end of the stick, unfortunately, as they entrust these professionals to compile accurate returns while maximizing opportunities to reduce their tax liability. They are paying professionals, while unknowingly exposing themselves to audits and paying more tax than they should.

Concurrently, as this analysis shows, there are many deductions being missed. Further, there are legal and financial liabilities being generated. Though some of these issues may rest with provider's choices in what they report to their tax preparer, the greater burden is on the preparers themselves, many of whom do not appear to be acting in the best interest of their clients.

Even with new information on what to look for in provider's taxes coming from this study, providers will likely need to: a) understand which deductions they should look for (and the tax form lines they are on) so they can increase accountability with preparers, and b) have options beyond their immediate area for preparers that are lower cost and provide a more effective service.

5 William, D. (2020). Is the IRS Targeting Small Businesses? Yep, Says One Expert. https://smallbiztrends.com/2016/09/irs-targeting-small-businesses.html

# Recommendations

Much can be concluded from the ability to analyze such a wide set of provider tax returns. The majority of providers appear to have used professional tax services to prepare their returns, yet most, if not all, contained obvious errors. If used correctly, tax returns can provide a vehicle to put much-needed dollars back into child care programs to benefit the operators (who are often not paying themselves) and the children in their care. However, when not done properly, providers lose out by paying professional preparation fees (totaling 3% or more of their profit) in addition to potentially missed deductions of $17,555.97 on their Schedule C. That is equivalent to 60% of the average gross revenue for home-based child care providers in missed deductions. The tax impact of these missed deductions may be mitigated, in part, by other factors on the individual's tax return (such as a spouse's income, child care credits, or a mortgage deduction).

While the subject of tax preparation can be daunting, with appropriate education and resources, providers can be empowered to take an active part in understanding their taxes and apply best practices to reduce their tax liability. Accordingly, Luminary Evaluation Group created the Confidence in Quality Tax Prep Rubric© under a Creative Commons CC BY-NC license allowing use and adaption with attribution for non-commercial purposes. This rubric can be evolved over time, but its purpose is to allow a provider to evaluate if their returns are consistent with best practices for their program type. This rubric can be used widely, also by organizations who offer business technical assistance to child care providers, to ensure they are applying these practices. Providers can then use this rubric to guide tax preparation with their paid preparer, or feel empowered to submit their own returns and save several hundred dollars. The rubric can also be used to retroactively review past submitted tax returns. Through this opportunity for the assessment of past taxes, providers can search for errors and amend returns for up to three years, receiving money they overpaid in already returns that were previously submitted.

Highlighting the use of tax savings as a financial strategy to strengthen child care businesses is crucial, as these savings can benefit providers by allowing them to stay in business longer and using the savings to improve their financial situations (i.e., invest in higher quality elements for their program, stay current on bills, maintain their facility, etc.). Luminary presents the following recommendations to guide future policy and programmatic efforts to have a sustained impact on child care businesses based on the evaluation findings:

1. Offer resources, webinars, and targeted technical assistance for child care providers on tax preparation tips and the use of the Time/Space deduction for home-based child care providers.
2. Design materials for child care providers to share with their tax preparer on common expenses, emphasizing the use of the Time/Space deduction (including widespread use of the rubric).
3. Improve financial recordkeeping for child care providers to streamline tax preparation efforts. Offer tools and technical assistance with recommendations that will improve accuracy and understanding of taxes (i.e., formatting recordkeeping categories to align with tax expense lines).
4. Implement provider shared service for tax preparation services. This can help save on tax preparation costs, increase accuracy of returns, and allow for knowledge sharing to further inform the sector. We suggest including well-informed providers who can help prepare the taxes of their peers.

# Confidence in Quality Tax Prep Rubric©
## for Child Care Providers

**Luminary Evaluation Group** created the Confidence in Quality Tax Prep Rubric© for Child Care Providers so that a provider or partner can evaluate if their federal tax returns are consistent with best practices for their program type. This rubric was informed by an analysis of a set of child care provider tax returns. It can be used widely, especially by organizations who offer business technical assistance to child care providers, to ensure they are applying these practices. Providers can also use this rubric with their paid preparer to guide tax preparation or feel empowered to submit their own returns and save several hundred dollars on fees. The rubric can also be used to retroactively review past submitted tax returns. Through this opportunity for the assessment of past taxes, providers can search for errors and amend returns for up to three years, receiving back money they overpaid in already submitted returns. 

There are a number of different terms that are associated with the tax return process. To help make this process more understandable, we have created a **glossary** which includes some of those that are most common.

*Disclaimer: The information in this rubric does not constitute tax advice. Individuals should always seek professional advice or actual guidance from the Internal Revenue Service (IRS) if they have any questions regarding their tax returns.*


## Glossary

### Money coming into your business

**Revenue/Income** is the total income your business makes by selling goods or delivering a service. This will be reflected on Line 7.

**Net Profit**, also known as **Taxable Income**, is how much money is left after all your business costs are deducted from all of your revenue. This will be reflected on Line 31 as a positive dollar amount. Profit = revenue *minus* expenses.

### Money going out/costs to conduct your business

A **Loss** is when your costs to conduct business exceed the income that you had come in. This is the opposite of profit, reflected on Line 31 as a negative dollar amount.

**Expenses** refer to any amount of money that you spend on anything within your business. The IRS categorizes allowable expenses on Lines 8 through 27a.

**Depreciation** is a way to allocate the costs of a fixed asset over the period in which the asset is useable to the business. You record the full transaction when the asset is bought, but the value of the asset is gradually reduced by subtracting a portion of that value as a depreciation expense each year. Noteworthy things that depreciate are: vehicles, homes or other buildings, furniture, and equipment. Businesses will enter their depreciation expenses on Line 13.

### Money you owe as a result of doing business

**Tax Liability** for sole proprietors is the amount of tax they are required to pay. In their case, 92.35% of their net profit is first subject to a self-employment tax of 15.3%. Then, the remaining profit is taxed as income at their individual tax rate. As you see, the lower your profit, the lower your tax liability will be.

### Money the government owes your business

**Deductions** can help reduce your tax liability. You can deduct certain expenses which will subtract the cost of the expenses from your taxable income. Allowable expenses are already categorized on Lines 8 through 26 however you may have other expenses that do not fit into those categories. Those other expenses should go on Line 27a. The result of using deductions is a lower tax liability for you, or even a tax refund.

A **Refund** is owed to you if your business deductions exceed your tax liability. The difference will come back to you in the form of cash.

## Confidence in Quality Tax Prep Rubric©

## 2021 Form 1040 Schedule C Tax Form Rubric

| LINE ENTRIES | COMMONLY USED FOR CHILD CARE BUSINESSES? | NOTES |
|---|---|---|
| LINE 1<br>**Gross Receipts** | **Required** | Enter all revenue earned for the year, including all parent fees paid, subsidy revenue, food program. |
| LINE 4<br>**Cost of Goods Sold** | **No** | Use of this line could trigger an audit alert since it would be extremely uncommon (if ever used) in child care. |
| LINE 5<br>**Gross Profit** | **Required** | This will usually be equal to Line 1. |
| LINE 8<br>**Advertising** | **Yes** | Enter all expenses for ads, flyers, business cards, and promotional materials. |
| LINE 9<br>**Car & Truck Expenses** | **Yes, use caution** | Providers can deduct the actual expenses of operating their car for business (gas, oil, repairs, insurance, license plates, tolls, parking, etc.) by calculating the percentage of time that the vehicle is used for business.<br>Alternatively, they can perform the Standard Mileage rate calculation: multiply the number of business miles driven by 56 cents and add to this amount your business portion of car loan interest and parking fees and tolls.<br>**You must be able to document how you came to the total entered.** |
| LINE 10<br>**Commissions & Fees** | **No** | Providers using this expense are encouraged to seek professional advice. |
| LINE 11<br>**Contract Labor** | **Yes, use caution** | Enter all payments made to 1099 contractors. Providers should be mindful not to misclassify employees as contractors. For more information on classifying workers, see When Is Someone a Contractor or Employee? |
| LINE 12<br>**Depletion** | **No** | Providers using this expense are encouraged to seek professional advice. |
| LINE 13<br>**Depreciation** | **Yes, use caution** | Depreciation must be applied only for business use of certain property.<br>Providers using this expense are encouraged to seek professional advice. |
| LINE 14<br>**Employee Benefit Programs** | **Yes, use caution** | If you offer employee benefits, enter amounts paid for employee benefits (i.e., health plans, supplemental insurance, life insurance).<br>This is not a typical expense for home-based providers.<br>Providers using this expense are encouraged to seek professional advice. |
| LINE 15<br>**Insurance (other than health)** | **Yes** | Enter amounts paid for liability insurance and any other business-related insurance. |
| LINE 16A<br>**Mortgage Interest** | **Yes** | Enter amounts paid in mortgage interest on an owned business property. For home-based providers, this is likely a part of their time/space calculation already. |
| LINE 16B<br>**Other Interest** | **No** | This refers to other interest such as credit card interest.<br>Providers using this expense are encouraged to seek professional advice. |
| LINE 17<br>**Legal & Professional Services** | **Yes** | Enter amounts paid for legal and other services such as accounting, consulting, tax preparation, etc. |
| LINE 18<br>**Office Expense** | **Yes** | Enter amounts paid for office supplies and postage. |
| LINE 19<br>**Pension & Profit Sharing** | **No** | This must be a company-sponsored program (i.e., not the provider's personal or spouse's retirement plan).<br>Providers using this expense are encouraged to seek professional advice. |

| LINE ENTRIES | COMMONLY USED FOR CHILD CARE BUSINESSES? | NOTES |
|---|---|---|
| LINE 20A<br>**Vehicle Rent or Lease** | **Yes** | Enter the business portion of your vehicle rental or lease cost.<br>For a company car, this would be 100% of costs.<br>For use of personal vehicle for business-related purposes, enter business-related costs only. |
| LINE 20B<br>**Other Business Property Rent or Lease** | **Yes** | Enter the amounts paid for renting business property. |
| LINE 21<br>**Repairs & Maintenance** | **Yes** | Enter amounts for repairs and maintenance made in the child care facility.<br>Home-based providers should include repairs made to spaces used for child care. If the repair is of a common area, that would be captured in the time/space calculation. |
| LINE 22<br>**Supplies** | **Yes** | Enter the amounts for materials and supplies (i.e., classroom supplies, learning materials, toys, diapers and wipes, cleaning supplies, etc.) |
| LINE 23<br>**Taxes & Licenses** | **Yes** | Enter the amounts for license fees. |
| LINE 24A<br>**Travel** | **Yes** | Enter amounts for lodging and transportation associated with business travel (i.e., conference attendance). |
| LINE 24B<br>**Deductible Meals** | **Yes, use caution** | Enter the amounts for your meals while on business travel or business-related meetings.<br>**Note that this line should not be used to claim food expenses for children's meals. Those expenses can go on Line 27a, Other Expenses.** |
| LINE 25<br>**Utilities** | **Yes** | Enter amounts paid for utilities for the child care facility.<br>For home-based providers this is likely included their time/space calculation already. |
| LINE 26<br>**Wages** | **Yes, use caution** | Enter the total salaries and wages for the year for W-2 employees and yourself (if you pay yourself through payroll).<br>For more information on paying yourself, see Paying Yourself: A Guide for Sole Proprietors. |
| LINE 27A<br>**Other Expenses** | **Yes** | Enter amounts for all other expenses that do not fall into the above categories (i.e., professional development expenses, membership fees, special events for the children, children's food expenses, etc.). |
| **# of Expenses Claimed** | | This number should never be zero. There will always be expenses to claim for your small business. |
| LINE 28<br>**Total Expenses** | | This is the sum of all claimed Schedule C expenses. |
| LINE 30<br>**Business Use of Home (Yes or No?)** | | Home-based providers operating from their primary residence should always claim business use of home. **This applies to expenses that have a shared personal and business use.** If a provider has an expense that is 100% business use, that expense should be fully claimed on the applicable expense line.<br>Business use of home does not typically apply to center-based programs. |
| **Time/Space Percentage (%)** | | To calculate time/space, view this worksheet. |
| LINE 30<br>**Time/Space Calculation ($)** | | Amount calculated from worksheet. |
| LINE 31<br>**Net Profit or Loss** | | This is your revenue minus expenses. |

# Confianza en la Calidad de la Rúbrica de Preparación de Impuestos©
## para Proveedores de Cuidado Infantil

**Luminary Evaluation Group** creó Confianza en la Calidad De la Rúbrica de Preparación de Impuestos© para Proveedores de Cuidado Infantil para que un proveedor o socio pueda evaluar si sus declaraciones de impuestos federales son consistentes con las mejores prácticas para su tipo de programa. Esta rúbrica fue informada por un análisis de un conjunto de declaraciones de impuestos de proveedores de cuidado infantil. Puede ser utilizado ampliamente, especialmente por organizaciones que ofrecen asistencia técnica comercial a los proveedores de cuidado infantil, para garantizar que estén aplicando estas prácticas. Los proveedores también pueden usar esta rúbrica con su preparador pagado para guiar la preparación de impuestos o sentirse facultados para presentar sus propias declaraciones y ahorrar varios cientos de dólares en tarifas. La rúbrica también se puede usar para revisar retroactivamente las declaraciones de impuestos presentadas anteriormente. A través de esta oportunidad para la evaluación de impuestos pasados, los proveedores pueden buscar errores y enmendar las declaraciones por hasta tres años, recibiendo dinero de vuelta que pagaron en exceso en las declaraciones ya presentadas. Esta rúbrica ha sido creada bajo una licencia Creative Commons CC BY-NC que permite su uso y adaptación con atribución y con fines no comerciales.

Hay una serie de términos diferentes que están asociados con el proceso de declaración de impuestos. Para ayudar a que este proceso sea más comprensible, hemos creado este **glosario** que incluye algunos de los más comunes.

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## Glosario

### Dinero que entra en su negocio

**Ingresos/Ingresos** es el ingreso total que su empresa obtiene mediante la venta de materiales o la prestación de un servicio. Esto se reflejará en la Línea 7.

**La ganancia neta**, también conocida como **ingreso imponible**, es la cantidad de dinero que queda después de que todos los costos de su negocio se deducen de todos sus ingresos. Esto se reflejará en la Línea 31 como un monto positivo en dólares. Beneficio = ingresos *menos* gastos.

### Dinero que sale/ costos para llevar a cabo su negocio

Una **pérdida** es cuando sus costos para realizar negocios exceden los ingresos que había entrado. Esto es lo opuesto a la ganancia, reflejada en la Línea 31 como una cantidad negativa en dólares.

**Los gastos** se refieren a cualquier cantidad de dinero que gaste en cualquier cosa dentro de su negocio. El IRS clasifica los gastos permitidos en las Líneas 8 a 27a.

**La depreciación** es una forma de asignar los costos de un activo fijo durante el período en el que el activo es utilizable para el negocio. Usted registra la transacción completa cuando se compra el activo, pero el valor del activo se reduce gradualmente restando una parte de ese valor como gasto de depreciación cada año. Las cosas notables que se deprecian son: vehículos, casas u otros edificios, muebles y equipos. Las empresas ingresarán sus gastos de depreciación en la Línea 13.

### Dinero que debe como resultado de hacer negocios

**La obligación tributaria** para los propietarios únicos es la cantidad de impuestos que deben pagar. En su caso, el 92,35% de su beneficio neto está sujeto en primer lugar a un impuesto sobre el trabajo por cuenta propia del 15,3%. Luego, la ganancia restante se grava como ingreso, a su tasa impositiva individual. Como puede ver, cuanto menor sea su ganancia, menor serásu obligacióntributaria.

### Dinero que el gobierno le debe a su negocio

**Las deducciones** pueden ayudar a reducir su obligación tributaria. Puede deducir ciertos gastos que restarán el costo de los gastos de sus ingresos imponibles. Los gastos permitidos ya están categorizados en las Líneas 8 a 26, sin embargo, es posible que tenga otros gastos que no encajan en esas categorías. Esos otros gastos deberían ir en la Línea 27a. El resultado de usar deducciones es una menor obligación tributaria para usted, o incluso un reembolso de impuestos.

Se le debe un **reembolso** si las deducciones de su negocio exceden su obligación tributaria. La diferencia volverá a usted en forma de efectivo.

***Descargo de responsabilidad:*** *La información en esta rúbrica no constituye asesoramiento fiscal. Las personas siempre deben buscar asesoramiento profesional o orientación real del Servicio de Impuestos Internos (IRS) si tienen alguna pregunta con respecto a sus declaraciones de impuestos.*

## Confianza en la calidad de la Rúbrica de Preparación de Impuestos©

## Rúbrica del Formulario 1040 Anexo C del Formulario de Impuestos de 2021

| ENTRADAS DE LÍNEA | ¿USO COMÚN PARA EMPRESAS DE CUIDADO INFANTIL? | NOTAS |
|---|---|---|
| LÍNEA 1<br>**Ingresos Brutos** | **Obligatorio** | Ingrese todos los ingresos obtenidos para el año y debe incluir todas las tarifas de los padres pagadas, los ingresos del subsidio, el programa de alimentos. |
| LÍNEA 4<br>**Costo de los Materiales Vendidos** | **No** | El uso de esta línea podría desencadenar una alerta de auditoría, ya que sería extremadamente poco común (si alguna vez se usa) en el cuidado infantil. |
| LÍNEA 5<br>**Beneficio Bruto** | **Obligatorio** | Esto generalmente será igual a la Línea 1. |
| LÍNEA 8<br>**Publicidad** | **Sí** | Ingrese todos los gastos de anuncios, volantes, tarjetas de visita y materiales promocionales. |
| LÍNEA 9<br>**Gastos de Carros y Camiones** | **Sí, tenga cuidado** | Los proveedores pueden deducir los gastos reales de operación del automóvil para negocios (gas, petróleo, reparaciones, seguros, matrículas, peajes y estacionamiento, etc.) calculando el porcentaje de tiempo que el vehículo se utiliza para negocios.<br>Alternativamente, pueden realizar el cálculo de la tasa estándar: multiplique el número de millas comerciales recorridas por 56 centavos y agregue a esta cantidad la parte de su negocio de intereses de préstamos para automóviles y tarifas y peajes de estacionamiento.<br>**Debe poder documentar cómo llegó al total ingresado.** |
| LÍNEA 10<br>**Comisiones y Honorarios** | **No** | Se recomienda a los proveedores que utilizan este gasto que busquen asesoramiento profesional. |
| LÍNEA 11<br>**Mano de Obra Contratada** | **Sí, tenga cuidado** | Ingrese todos los pagos realizados a 1099 contratistas. Los proveedores deben tener en cuenta no clasificar erróneamente a los empleados como contratistas. Para obtener más información sobre la clasificación de trabajadores, consulte ¿Cuándo es alguien un contratista o empleado? |
| LÍNEA 12<br>**Agotamiento** | **No** | Se recomienda a los proveedores que utilizan este gasto que busquen asesoramiento profesional. |
| LÍNEA 13<br>**Depreciación** | **Sí, tenga cuidado** | La depreciación debe aplicarse solo para el uso comercial de cierta propiedad.<br>Se recomienda a los proveedores que utilizan este gasto que busquen asesoramiento profesional. |
| LÍNEA 14<br>**Programas de Beneficios para Empleados** | **Sí,tenga cuidado** | Si ofrece beneficios para empleados, ingrese los montos pagados por los beneficios para empleados (es decir, planes de salud, seguro complementario, seguro de vida).<br>Este no es un gasto típico para los proveedores a domicilio.<br>Se recomienda a los proveedores que utilizan este gasto que busquen asesoramiento profesional. |
| LÍNEA 15<br>**Seguro (distinto de la salud)** | **Sí** | Ingrese los montos pagados por el seguro de responsabilidad civil y cualquier otro seguro relacionado con el negocio. |
| LÍNEA 16A<br>**Intereses Hipotecarios** | **Sí** | Ingrese los montos pagados en intereses hipotecarios sobre una propiedad comercial propia. Para los proveedores basados en el hogar, es probable que esto ya sea parte de su cálculo de tiempo/espacio. |
| LÍNEA 16B<br>**Otros Intereses** | **No** | Esto se refiere a otros intereses, como los intereses de la tarjeta de crédito. Se recomienda a los proveedores que utilizan este gasto que busquen asesoramiento profesional. |
| LÍNEA 17<br>**Servicios Legales y Profesionales** | **Sí** | Ingrese los montos pagados por servicios legales y de otro tipo, como contabilidad, consultoría, preparación de impuestos, etc. |
| LÍNEA 18<br>**Gastos de Oficina** | **Sí** | Ingrese los montos pagados por suministros de oficina y franqueo. |
| LÍNEA 19<br>**Participación en las Pensiones y los Beneficios** | **No** | Este debe ser un programa patrocinado por la compañía (es decir, no el plan de jubilación personal o del cónyuge de los proveedores).<br>Se recomienda a los proveedores que utilizan este gasto que busquen asesoramiento profesional. |

| ENTRADAS DE LÍNEA | ¿USO COMÚN PARA EMPRESAS DE CUIDADO INFANTIL? | NOTAS |
|---|---|---|
| LÍNEA 20A<br>**Alquiler o Arrendamiento de Vehículos** | **Sí** | Ingrese la parte comercial del costo de alquiler o arrendamiento de su vehículo.<br>Para un carro de empresa, esto sería el 100% de los costes.<br>Para el uso del vehículo personal para fines relacionados con el negocio, ingrese solo los costos relacionados con el negocio. |
| LÍNEA 20B<br>**Alquiler o Arrendamiento de Otros Bienes Comerciales** | **Sí** | Ingrese los montos pagados por el alquiler de propiedades comerciales. |
| LÍNEA 21<br>**Reparaciones y Mantenimiento** | **Sí** | Ingrese los montos por reparaciones y mantenimiento realizados en el centro de cuidado infantil.<br>Los proveedores en el hogar deben incluir reparaciones hechas a los espacios utilizados para el cuidado infantil. Si la reparación es de un área común, eso se capturaría en el cálculo de tiempo/espacio. |
| LÍNEA 22<br>**Suministros** | **Sí** | Ingrese las cantidades de materiales y suministros (es decir, suministros para el aula, materiales de aprendizaje, juguetes, pañales y toallitas, artículos de limpieza, etc.) |
| LÍNEA 23<br>**Impuestos y Licencias** | **Sí** | Introduzca los importes correspondientes a las tasas de licencia. |
| LÍNEA 24A<br>**Viajes** | **Sí** | Ingrese los montos para alojamiento y transporte asociados con los viajes de negocios (es decir, asistencia a conferencias) |
| LÍNEA 24B<br>**Comidas Deducibles** | **Sí, tenga cuidado** | Ingrese los montos de sus comidas durante un viaje de negocios o reuniones relacionadas con los negocios.<br>**Tenga en cuenta que esta Línea no debe usarse para reclamar gastos de alimentos para las comidas de los niños. Esos gastos pueden ir en la Línea 27a Otros gastos.** |
| LÍNEA 25<br>**Servicios Públicos** | **Sí** | Ingrese los montos pagados por los servicios públicos para el centro de cuidado infantil.<br>Paralos proveedores basados en elhogar, es probable que esto ya incluya su cálculo de tiempo/espacio. |
| LÍNEA 26<br>**Salarios** | **Sí, tenga cuidado** | Ingrese los salarios y salarios totales para el año para los empleados W-2 y para usted mismo, si se paga a sí mismo a través de la nómina.<br>Para obtener más información sobre cómo pagarse a sí mismo, consulte Pagarse a Sí Mismo: Una Guía para Propietarios Únicos |
| LÍNEA 27A<br>**Otros Gastos** | **Sí** | Ingrese los montos para todos los demás gastos que no caen en las categorías anteriores (es decir, gastos de desarrollo profesional, cuotas de membresía, eventos especiales para los niños, gastos de alimentos para niños, etc.). |
| **# de Gastos Reclamados** | | Este número nunca debe ser cero. Siempre habrá gastos que reclamar para su pequeña empresa. |
| LÍNEA 28<br>**Gastos Totales** | | Esta es la suma de todos los gastos reclamados del Anexo C. |
| LÍNEA 30<br>**Uso Comercial del Hogar (¿Sí o no?)** | | Los proveedores basados en el hogar que operan desde su residencia principal siempre deben reclamar el uso comercial del hogar. **Esto se aplica a los gastos que tienen un uso personal y comercial compartido.** Si un proveedor tiene un gasto que es 100% de uso comercial, ese gasto debe reclamarse completamente en la Línea de gastos aplicable.<br>El uso comercial del hogar generalmente no se aplica a los programas basados en el centro. |
| **Porcentaje de Tiempo/Espacio (%)** | | Para calcular el tiempo y el espacio, vea esta Cálculo de Tiempo/Espacio. |
| LÍNEA 30<br>**Tiempo/Espacio ($)** | | Cantidad calculada a partir de la hoja de cálculo. |
| LÍNEA 31<br>**Ganancias o Pérdidas Netas** | | Estos son sus ingresos menos gastos. |

# About Luminary Evaluation Group

Luminary Evaluation Group is a program evaluation firm that helps nonprofits and funders identify what is working, what is not working, and what options exist to enhance programming. At the core of our collaborative process is deep contextual exploration, anchored by qualitative data collection and analysis. We listen, observe, and build reciprocal relationships with our clients, and facilitate sharing and exploration between stakeholders. Our deep contextual knowledge of nonprofit programs, challenges, and goals allows us to work with stakeholders to identify useful questions for the base of the evaluation protocol, and to understand the issues and contexts of a given evaluation project. This enables us to develop an appropriate evaluation plan to reflect the reality of a program, capture existing knowledge, and produce essential new insights. Our clients report being able to clearly see actionable next steps from evaluation findings.

## SERVICES

- **Program Evaluation**
  We help nonprofits assess their impact and make data-driven decisions based on findings and recommendations.
- **Evaluation Capacity Building**
  Organizations often conduct data collection and assessment with their own staff. We help them build evaluation plans and ongoing practices that they can implement.
- **Logic Models**
  A solid logic model is the foundation impact. We help organizations build and refine logic models.
- **Model Capture**
  Good programs need good materials. We help organizations codify and articulate their program models by designing user-friendly and attractive written manuals and guides.
- **Surveys, Interviews, and Focus Groups**
  As part of Luminary's commitment to equity and culturally responsive practices, surveys are available in all languages. We also offer focus groups and qualitative interview services in both English and Spanish.

## Contact Us

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LUMINARY
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## TEAM

**Alison LaRocca**
**Managing Director**
Alison has spent her career working at the intersection of nonprofit research, senior level advisement, and strategy. Alison is the Managing Director of Luminary Evaluation Group. Luminary's mission is to improve the lives of children and families by conducting high-quality, participatory research for funders and nonprofit organizations of every size, capacity, and budget who are interested in understanding, articulating, and growing their impact. In this role, Alison brings her particular expertise in participatory evaluation and human centered design, instrument development, data collection, and quantitative and qualitative data analysis. As an evaluator, Alison helps clients communicate research effectively to key stakeholders and other broad audiences. Specifically, she supports organization leaders as they work to use data effectively, incorporate evidence-based practices into programs and policies, assess effectiveness, and improve outcomes. Alison is a graduate of Williams College and holds a Master's in Elementary Education from Merrimack College.

**LaToshia DeVose**
**Senior Consultant**
LaToshia has 11 years of experience working in various capacities on initiatives geared toward increasing child care program capacity. She is a firm believer that every business operator has the ability to manage an effective business and that every child deserves a quality education. Previously, she served as the ECE Business Development Director with Public Health Management Corporation in Philadelphia. In that role, LaToshia provided leadership and coordination on the Fund for Quality, a high quality child care facility expansion program. During her tenure on that project, over 2,500 new child care seats were created to serve children from low-income families. LaToshia also oversaw the implementation of a local child care facility's improvement grant fund for several years in addition to managing a replication organizational TA/facility program in Washington, D.C. Through this work, tens of thousands of child care seats were improved and/or sustained.

**Erin Murphy**
**Consulting Associate**
Erin is a Consulting Associate with Luminary Evaluation Group, leading all product design efforts. Erin's superpower is making the team's analyses and client reports even more accessible through the use of highly effective, user-friendly structure and design. Her comprehensive understanding of copywriting, copyediting, and design skills are showcased in numerous complex projects for a range of clients in all sectors. Erin holds a Bachelor of Fine Arts in Communication Design from the Massachusetts College of Art and Design.