

HB 18-1208: Expand Child Care Expenses Income Tax Credit

Reps. Duran & Winter/Martinez Humenik

Frequently Asked Questions – Updated March 5, 2018

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Senate Finance

1. How is the state Child Care Expenses Income Tax Credit calculated under current law and how would it change under HB 18-1208?

- a. When a taxpayer files their **federal** tax return, they can claim a **portion** of \$3,000 in child care expenses for one child (or a portion of \$6,000 for two or more) if they incurred these costs so **they could work** and if it was for the care of a dependent under age 13. The size of the credit they can claim depends on their income. For example, those making less than \$15,000 can claim 35% of their expenses and the amount incrementally increases so that those making \$43,000 or more can claim 20% of their expenses. This means that the maximum credit that can be claimed for a family with a single child ranges from \$600 (for a family earning \$43,000 or more with at least \$3,000 in child care expenses) to \$1,050 (for a family earning less than \$15,000 with more than \$3,000 in child care expenses). If a family has multiple children and incurs at least \$6,000 (for multiple children), then the size of the credit could be larger, but no more than \$2,100 for a family with two children making \$15,000 and \$1,200 for a family with two children making more than \$43,000.
- b. Recognizing that the cost of child care is much more substantial than these federal caps, the state of Colorado (similar to 26 other states) also includes a **state-level** tax credit for child care expenses. Under current law, taxpayers can claim on their state tax return a **percentage of the credit** they claimed on their federal return. For those making less than \$25,000, taxpayers can claim 50% of their federal credit; those making between \$25,000 and \$35,000 can claim 30% of their federal credit; and those making \$35,000 to \$60,000 can claim 10% of their federal credit. There is no state tax credit available to those making more than \$60,000.
- i. Under current law, a family with one child and at least \$3,000 in child care expenses could claim the following:

Family income	Federal credit	State credit
\$15,000	\$1,050	\$525
\$30,000	\$810	\$243
\$40,000	\$660	\$66
\$60,000+	\$600	\$0

- ii. Under current law, a family with multiple children and at least \$6,000 in child care expenses could claim the following:

Family income	Federal credit	State credit
\$15,000	\$2,100	\$1,050
\$30,000	\$1,620	\$486
\$40,000	\$1,320	\$132
\$60,000+	\$1,200	\$0

- c. If HB 18-1208 passed, two changes would happen: (1) the tax credit would now be available to families making more than \$60,000, but less than \$150,000 and (2) increase the size of the state tax credit to 80% of what the taxpayer claimed on their federal return for all eligible taxpayers.

- i. Under the new law, a family with one child and at least \$3,000 in child care expenses could claim the following

Family income	Federal credit	State credit
\$15,000	\$1,050	\$840
\$30,000	\$810	\$648
\$40,000	\$660	\$528
\$60,000-\$150,000	\$600	\$480

- ii. Under the new law, a family with multiple children and at least \$6,000 in child care expenses could claim the following

Family income	Federal credit	State credit
\$15,000	\$2,100	\$1,680
\$30,000	\$1,620	\$1,296
\$40,000	\$1,320	\$1,056
\$60,000+	\$1,200	\$960

2. Why does the bill increase the credit's availability for families above \$60,000 in income and how does it benefit those making less than \$60,000?

- a. The bill recognizes that, with increasing costs of living in Colorado, \$60,000 in income is a difficult threshold at which to end the tax incentive to work that is created by the child care expenses credit. In most communities in Colorado, a self-sufficient standard of living is at least double or more the federal poverty rate, or \$50,000 to \$60,000 for a family of four. This is the income level at which families begin to make the transition away from public assistance programs and toward independence through work. By cutting off access to this powerful work incentive just at the time when families are beginning to make ends meet increases the probability they will fail to make a sustained leap to financial independence. It is also the income level at which many communities no longer make families eligible for child care subsidies via the Colorado Child Care Assistance Program (CCCAP). By reaching deeper into the middle class, this bill helps (1) smooth the cliff that families face in moving off of public assistance, (2) acknowledges that the cost of child care is something that both low and moderate income families struggle with, and (3) promotes labor force participation and less reliance on public assistance.
- b. Since the federal tax credit is more generous for lower income families (recognizing that these families face the greatest barriers to work participation and economic security due to child care expenses), tying our state credit to the federal one means that the size of the benefit is greatest (at both the federal and state level) for families earning the least. The bill proposes an increase, for all eligible income levels, in the size of the tax credit which means that all families would see a greater benefit from the credit.

3. What are the pro-work features of this tax credit?
 - a. If work is truly the path toward economic security and upward mobility, policies that allow individuals to remain in the workforce are key. Child-care assistance is one policy that research consistently shows increases employment among low-income populations. Since the tax credit is only available to individuals who incur expenses related to child care so that they can earn an income, it is designed a strategy to reduce the penalties people incur so that they can work. With many families weighing whether or not to work when consider child care, this bill lowers the barriers to earning an income and improving one's economic prospects as a family.
4. Why does the child care expenses tax credit promote family choice in care arrangements?
 - a. Using the tax system to distribute resources to help cover child care costs allows families one of the greatest levels of choice and flexibility to find the child care provider that meets their needs. For child care affordability strategies to meet the principles of **supporting choice and fiscal viability**, it needs to be targeted to those families that actually have child-care expenses related to a working parent.¹ The tax credit could be used to pay for caregiving of the parent's choice, including nannies, preschools, family child care homes and other community-based and private child-care facilities. As long as the expenses are incurred due to child care for a dependent under the age of 13 that is needed to work and that the recipient of those payments reports the income they receive from the payment for care, the nature of the provider is flexible to meet each family's unique needs.
5. How does the child care expenses tax credit interact with flexible savings accounts/dependent care accounts in paying for child care?
 - a. Flexible savings/dependent care accounts allow individuals to deduct income pre-tax that can be used to pay for qualified expenses, including child care. If individuals utilize their pre-tax contributions to their flexible/dependent care accounts to pay for child care, those expenditures are not eligible expenses under the Child Care Expenses Tax Credit. Taxpayers cannot receive a double tax benefit for their child care expenditures. If, however, a taxpayer, uses a flexible/dependent care savings account for their first \$5,000 in child care expenses, but has additional costs above that, the expenses beyond the costs paid for with the pre-tax dollars are eligible under the child care expenses tax credit. In no instance, though, can the same expenses paid for with pre-tax dollars be claimed under the child care expenses tax credit.
6. How does this tax credit interact with the low-income child care expenses tax credit (HB 14-1072)?
 - a. Colorado adopted a low-income child care tax credit in 2014 in recognition that the federal tax credit was not always available to lowest income taxpayers due to the structure of their federal tax liability and the tie between the state's child care expenses tax credit makes the state credit unavailable to many. The low-income child care expenses tax credit created by HB 14-1072 (see C.R.S. 33-22-119.5) is not available to individuals who have insufficient tax liability to claim the child care expenses tax credit in 39-22-119 that HB 18-1208 expands. **In short, someone could not claim both the low-income child care expenses tax credit in 39-22-119.5 and the child care expenses tax credit addressed in HB 18-1208.**
7. How does this tax credit interact with families receiving a child care subsidy?
 - a. Individuals receiving a child care subsidy via the Child Care Assistance Program (CCCAP) cannot claim their expenses under this tax credit with the exception of their unreimbursed,

eligible child care costs such as the required co-payments in the program. From HB 18-1208: (3) *The child care expenses credits allowed under subsection (1) 8 SUBSECTIONS (1) AND (1.7) of this section shall not be allowed to a 9 resident individual who is receiving child care assistance from the state 10 department of human services except to the extent of the taxpayer's 11 unreimbursed out-of-pocket expenses that result in a federal credit for 12 child care expenses.*

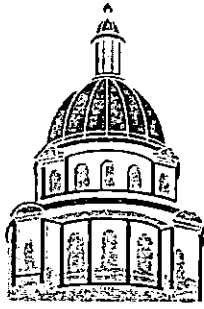
8. What is the difference between HB 18-1208 (Child Care Expenses Tax Credit) and HB 18-1004 (Child Care Contribution Tax Credit) and do we need both?
 - a. HB 18-1208 (Child Care Expenses Tax Credit) is designed to help families *afford* child care. HB 18-1004 (Child Care Contribution Tax Credit) is designed to help providers *offer* child care. Each approach is necessary to address unique challenges. On the one hand, HB 18-1208 is targeted at consumers of child care who face barriers to joining the workforce. On the other hand, HB 18-1004 is targeted to the providers of child care who struggle to make ends meet, supply care adequate to meet demand, compensate their workforce adequately, and fill the gaps to offer the care families rely on. Each alone is inadequate to address all of the issues facing the care needs that families face. But, in combination, these two tax policies can help families *access* child care and help the providers families rely on *offer* child care.

9. How do licensing regulations affect the cost of child care & is Colorado dramatically more expensive than other states?
 - Accurately establishing how Colorado ranks in terms of the price of child care is difficult. A single ranking for the price Colorado families pay can be deceiving. In the popular *Parents and the High Cost of Child Care 2016* annual report, Colorado often ranks as expensive for for Center-Based Infant Care, but is usually only in the middle of the pack for for Center-Based School-Aged Children. However, Care.com's 2016 ranking has Colorado as the 17th most expensive state for child care.
 - Child Care Aware, the same organization that names Colorado as one of the least affordable state for infant and toddler care (in child care centers and in homes) also analyzes 15 key benchmarks for quality based in child care centers on our child care licensing regulations in an annual report called "We Can Do Better" (https://usa.childcareaware.org/wp-content/uploads/2015/10/wecandobetter_20rankings2020041013.pdf). They rank Colorado 35th in the quality of our licensing standards and program oversight based on these regulations. **It is difficult to conclude that if we are 35th in the rigor of our program and oversight benchmarks, but high in unaffordability that it is regulations that are driving the costs.** The 15 benchmarks are 1) Comprehensive background checks, 2) child care director qualifications, 3) Lead teacher qualifications, 4) staff orientation requirements, 5) staff training requirements, 6) required learning activities, 7) required health practices in 10 areas, 8) safety practices, 9) parental involvement, 10) staff to child ratios, 11) classroom group sizes, 12) inspection frequency, 13) licensing staff to center ratios, 14) licensing staff qualifications, 15) transparency of licensing reports.
 - In fact, most states have a 4 to 1 ratio for infants to adults. Colorado has a higher ratio (5:1) which is a lower regulatory burden than most states, but also has implications for safety and quality.
 - When examining what drives costs across states, it actually appears that Colorado costs are higher because we pay our child care teachers among the best wages in the country (only four states have higher median salaries: NY, MA, AK, CA).¹¹ Given that child care salaries account for

about 80% of a provider's costs, the fact that we pay our educators better than the national average is a better explanation for our slightly higher costs than other states than a substantially higher regulatory burden. While average salaries in Colorado are still below self-sufficiency (average of less than \$24,000 per year or \$12 per hour), they are slightly higher than in most other states. Child care workers in the state make, on average, about as much as parking lot attendants and non-farm animal caretakers (e.g., doggy daycare) so it is difficult to say that depressing wages further in this industry is a good strategy to increase child care affordability.

¹ <http://www.aei.org/publication/child-care-and-paid-leave-policies-that-work-for-working-parents/>

¹¹ <https://www.ed.gov/news/press-releases/fact-sheet-troubling-pay-gap-early-childhood-teachers>



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**Fiscal Note
Memorandum**

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May 3, 2018

TO: Senator Beth Martinez Humenik

FROM: Greg Sobetski, Senior Economist
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SUBJECT: Fiscal Assessment of Proposed Amendment HB1208_L.010.

This memorandum is an assessment of the fiscal impact of the attached proposed amendment L.010 to House Bill 18-1208. This fiscal assessment is for the impact of the bill with inclusion of this amendment only. Any other added amendment could influence the fiscal impact.

Summary of Proposed Amendment

Amendment L.010 allows the state child care expenses income tax credit in the bill only to taxpayers whose adjusted gross income is less than or equal to \$60,000, consistent with current law. Thus, the bill as amended would not broaden the number of taxpayers to whom the state credit is available. The amount of the state credit is amended to equal 50 percent of the federal child care expenses credit for all qualifying taxpayers, down from 80 percent of the federal credit in the reengrossed bill. The amendment also delays the start date for the state credit in the bill, such that the credit would be available for tax year 2019 but not tax year 2018.

Fiscal Impact of Amendment

Amendment L.010 eliminates the bill's impacts in the current FY 2017-18. For FY 2018-19, the bill's impact on General Fund revenue is reduced from \$18.8 million to \$1.9 million, a decrease of \$16.9 million, and the bill's expenditure impact is eliminated. For FY 2019-20 and subsequent years, the bill's impact on General Fund revenue is reduced from \$18.8 million to \$3.7 million, a decrease of \$15.1 million. For FY 2019-20 only, the bill's General Fund expenditure impact is reduced from \$59,018 and 0.8 FTE to \$11,040 and no FTE. For years beyond FY 2019-20, the bill's expenditure impact is eliminated.

Bill's Revised Fiscal Impact with Amendment

Table 1 shows the revised fiscal impact of HB 18-1208 with Amendment L.010.

Table 1
State Fiscal Impacts Under HB 18-1208 with Amendment L.010

		FY 2018-19	FY 2019-20
Revenue	General Fund	(\$1.9 million)	(\$3.7 million)
Expenditures	General Fund	-	\$11,040
Transfers		-	-
TABOR Refund		(\$1.9 million)	(\$3.7 million)

HB1208_L.010

SENATE COMMITTEE OF REFERENCE AMENDMENT

Committee on Finance.

HB18-1208 be amended as follows:

- 1 Amend reengrossed bill, page 2, line 6, strike "2018," and substitute
- 2 "2019,".

- 3 Page 2, line 12, strike "2018," and substitute "2019,".

- 4 Page 2, line 13, strike "ONE HUNDRED FIFTY" and substitute "SIXTY".

- 5 Page 2, line 18, strike "EIGHTY" and substitute "FIFTY".

- 6 Page 3, line 2, strike "(a)" and strike "subsection (1)" and substitute
- 7 "~~subsection (1)~~ SUBSECTIONS (1) AND (1.7)".

- 8 Page 3, strike lines 7 through 27.

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