

## SECTION 4.3

# STATE INNOVATION INITIATIVES: TAX CREDITS

At a time of limited resources, some states have created tax credits to strengthen the quality of child care, expand access to quality care or promote additional investments in child care to supplement appropriated funds. A tax credit allows certain taxpayers to subtract the amount of the credit from the total taxes they owe the state.

Table 4-1

### OPPORTUNITIES AND CHALLENGES OF CHILD CARE TAX CREDITS

OPPORTUNITIES	CHALLENGES
Can supplement existing resources.	Typically insufficient to promote systemic change on its own.
Perceived as an investment or incentive for investment, rather than a tax.	Difficult to distribute equitably across the state because child care programs may not be distributed evenly across the state. For example, investment in urban areas could be disproportionate.
Serves as additional means to increase funding.	Tax credits can be complicated and require active outreach to engage individuals and businesses.
Tax credits for professional development are really wage supplements, particularly to the extent that they are refundable.	If not refundable, low-wage individuals may not be able to take advantage of them.
Tax credits are an important incentive for both investing in a social good and enabling investors to realize an economic benefit (i.e., reduce taxes otherwise owed).	Businesses without tax liability have little incentive to use tax credits.

## ELEVATING CHILD CARE

### Louisiana, Colorado and Oregon each created tax credits to improve the quality of child care.

► **Louisiana:** Louisiana’s School Readiness Credit is a broad-based effort to provide incentives for parents to choose quality child care, for providers to serve children whose care is paid for with a subsidy and improve quality under a unified quality rating system, for professional development for directors and teachers, and to promote employer investments in quality care and Child Care Resource and Referral agencies to assist parents in finding quality care.

- ▶ **Colorado:** The Colorado Child Care Contribution Credit promotes quality care by encouraging individuals and businesses to donate to child care programs.
- ▶ **Oregon:** The Oregon Child Care Contribution Credit promotes quality care by encouraging individuals and businesses to donate to a state fund used to improve the quality of child care and to promote access to quality care.

## THE STATE OF LOUISIANA

In 2007, the Louisiana State Legislature passed legislation to provide five tax credits, which are collectively referred to as the School Readiness Tax Credits. The credits are designed to strengthen the quality of child care and incent professional development within the early learning workforce. Starting in 2018, the state required all providers serving children on a public subsidy to be rated using the Classroom Assessment Scoring System (CLASS). CLASS scores determine star levels for purposes of the tax credit.

### The School Readiness Tax Credit package includes:

- ▶ The Child Care Expense Tax Credit (for parents)
- ▶ The Child Care Provider Tax Credit (for programs)
- ▶ A tax credit for child care directors and staff (for child care personnel)
- ▶ A tax credit for business-supported child care
- ▶ A tax credit for donations to Child Care Resource and Referral agencies

## FOR PARENTS

The child care expense tax credit allows parents with children under age six who attend a program with at least two stars (out of five) in the state's unified quality rating system to receive a tax credit, which increases as the star-rating of the child care program increases. More than 13,300 parents claimed the credit in 2016. The average credit in 2016 was \$173.

## FOR STAR-RATED CHILD CARE PROGRAMS

Child care providers who care for foster children or children who participate in the Child Care Assistance Program (child care subsidy) are eligible for a refundable credit based on the average monthly number of those children who attend the program multiplied by a credit amount that increases as the star rating of the program increases. More than 450 providers claimed the credit in 2016 with an average credit of \$10,655.

## FOR CHILD CARE WORKFORCE PROFESSIONAL DEVELOPMENT

Child care directors and staff are eligible for a refundable credit if they work at least six months for a licensed program that participates in the unified quality rating system and are enrolled in the Louisiana Pathways Child Care Career Development System. Over 4,000 directors and teachers claimed an average credit of \$2,154 in 2016. The credit increases as the level of professional development increases.

## FOR BUSINESSES

A business tax credit is available for employers that support quality child care. The credit is a percentage of eligible expenses and is based on the quality rating of the child care program (i.e., the credit increases as the quality of the program increases). The average credit in 2016 was \$7,573.

### Eligible support includes:

- ▶ Expenses to construct, renovate, expand or repair an eligible child care center, purchase equipment for a center or maintain or operate a center. Expenses cannot exceed \$50,000 in per tax year.
- ▶ Payments made to an eligible child care program for child care services to support employees, not to exceed \$5,000 per child per tax year.
- ▶ The purchase of child care slots at an eligible child care program not to exceed \$50,000 per tax year.
- ▶ The credit is 20 percent of expenses for five-star programs, 15 percent of expenses for four-star programs, 10 percent of expenses for three-star programs, and five percent of expenses for two-star programs.

## FOR DONATIONS TO RESOURCE AND REFERRAL AGENCIES

Businesses can receive a credit for donations up to \$5,000 per year to Child Care Resource and Referral agencies. The average credit in 2016 was \$4,133.

In 2016, 49 businesses claimed the credit generally and 229 businesses claimed the credit for donations to Child Care Resource and Referral agencies. In total for 2016, the credits resulted in an additional \$17.1 million for child care. Some of this funding also was used as state match for the Child Care and Development Block Grant (CCDBG) program and the Temporary Assistance for Needy Families Program (TANF).

Star Rating of the Center	Center Performance Rating	Center Performance Score (based on CLASS observations)
5 Star	Excellent	6.00-7.00
4 Star	Proficient	5.25-5.99
3 Star	Proficient	4.50-5.24
2 Star	Approaching Proficient	3.75-4.49
1 Star	Approaching Proficient	3.00-3.74

Source: Louisiana Department of Education

# THE STATE OF COLORADO

## THE Child care CONTRIBUTION TAX CREDIT

The Child care Contribution Tax Credit in Colorado was enacted in 1998 and has been amended several times. Individuals and corporations can claim a credit for contributions made to qualifying child care organizations for eligible purposes. In-kind contributions such as labor, materials and other non-cash donations do not qualify for the credit.

When originally enacted, the credit was equal to 25 percent of the value of the donation. In 2000, the credit was amended to increase the value of the credit to 50 percent of the donation.

## QUALIFYING ORGANIZATIONS

Licensed child care centers, child placement agencies, family child care homes, foster care homes, youth shelters, residential child care facilities, secure residential treatment centers and registered child care programs (providing the same services as licensed providers and registered with the Colorado Department of Revenue).

## ELIGIBLE PURPOSES

Contributions to promote child care in Colorado for the establishment or operation of a child care program to establish a grant or loan program for families who require financial assistance for child care, for the training of child care providers, for the provision of information and referral services to assist parents in obtaining child care.

Credits are limited to \$100,000 per year for individuals and businesses and are not refundable (i.e., any credits that exceed tax liability are carried forward for up to five years). There is no limit on the amount of overall donations that can be claimed. The credit was extended in 2018 and sunsets in 2024. In 2013, 11,720 households claimed an estimated \$6.3 million in credits. In addition, 17 employers claimed the credit at an estimated value of \$5,268.

## OF NOTE

In 2008, the Colorado State Legislature passed a “revenue growth trigger” that was designed to prohibit the use of all state credits if general fund revenue projections were insufficient to allow operating appropriations to increase by at least six percent. Credits that otherwise could have been taken at the time, were deferred until the state was in a better financial position, at which time current and “back credits” would be allowed. The State Legislature repealed the trigger in 2011 for tax years 2013 and beyond.

# THE STATE OF OREGON

## THE Child care CONTRIBUTION TAX CREDIT

The Child Care Contribution Tax Credit in Oregon was enacted in 2003. Donations are not made to individual child care programs, but rather to the Office of Child Care, which uses the funding for child care initiatives. The tax credit is worth 75 percent of the contribution and is not refundable, but may be carried forward to be used within the four years. The total amount of credits is capped at \$500,000 per year, which yields \$667,000 in revenue to be used for child care.

Funds are distributed to child care programs throughout the state on a competitive basis and have been used to increase provider wages, expand access to professional development, reduce parent costs to less than 10 percent of family income and improve the quality of care.

## ELIGIBLE GRANT RECIPIENTS

To be eligible for grants through this fund, providers are required to be regulated by the Office of Child Care, accept children whose care is paid for by a subsidy, provide high quality care as defined by the Early Learning Council in collaboration with the Oregon Advisory Council and permit monitoring visits. In addition, home-based providers must enter into an agreement to continue to provide child care services for at least two additional years and provide care to children from at least two families that have incomes of 85 percent or less of the state median for the region. For centers, at least 25 percent of the families served by the center must have income at 85 percent or less of the median for that region. Priority is given to applicants who charge low-income families less than 10 percent of gross family income.

## OF NOTE

The Oregon Child Care Contribution Tax Credit passed as a pilot in 2001. The original concept, modeled after the federal low-income housing tax credit, was advocated by the Enterprise Foundation. At \$500,000, the cap on allowable credits is low. Future legislative efforts may be pursued to increase the cap.