


Committee for Economic Development Using Refundable Tax Credits to Improve Professional Development & Increase Wages

**Alliance for Early Success
Elevating State Policies For/With the Early Education Profession:
Taking Stock, Moving Forward**
September 25, 2019


REASONED SOLUTIONS
IN THE NATION'S INTEREST



About Our Panel

- Grace Reef, Outreach Consultant 
Committee for Economic Development

- Louise Stoney, President
Stoney Associates 

- Bill Jaeger, VP of Early Childhood & Policy Initiatives,
Colorado Children's Campaign 

Through the lens of business leaders, policy analysts, and advocates spur discussion about:

- Using refundable tax credits to incent professional development & increase wages
- Organizing non-traditional partners to support wage strategies
- Lessons learned from enacted models and those that fell short
- Customizing tax credit wage strategies in your state 😊

Why Tax Credits?

- **Salience** Tax policy essentially defines American values and touches nearly every American. Taxes influence how citizens consume, work, save and invest.
- **Stability** Tax credits typically remain in effect unless repealed. In some states a 2/3 majority vote is required to repeal a tax policy.
- **Efficiency** Tax credits use an existing administrative infrastructure to administer funds.
- **Equity and Flexibility** Tax credits are available to all eligible taxpayers (individual or business) and many provider types. If well-crafted & linked to quality, could reinforce a range of systems, such as: QRIS, T.E.A.C.H. scholarships, CDA, etc.

Tax Credits vs Tax Deductions

- A tax credit is more valuable to a taxpayer than a tax deduction of the same amount.
- A **tax credit** reduces the taxes paid, dollar-for-dollar.
- A **tax deduction** lowers taxable income, and is worth more to a taxpayer in a higher tax bracket than to one in a lower tax bracket.

For Example:



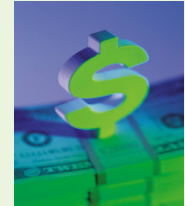
A taxpayer in the 35% tax bracket:

- a \$100 tax deduction reduces taxes owed by \$35 (35% of the amount spent).
- But, a \$100 tax credit reduces taxes owed by \$100 (100% of the amount spent).

Tax Credits vs Tax Deductions

- A tax credit isn't worth anything to a taxpayer who owes no tax unless the credit is *refundable*.
- Many child care teachers make such low wages that they do not owe much in taxes, so a non-refundable credit is of little value to them.

For Example:



- A taxpayer who is eligible for a *tax credit* worth \$500 and who owes only \$100 in taxes can only claim \$100 of the credit.
- If the same tax credit were **refundable**, the taxpayer could claim the full \$500. (*And, would receive a \$400 refund*).

Elements of a SMART ECE Tax Credit

System-building

Motivating politically

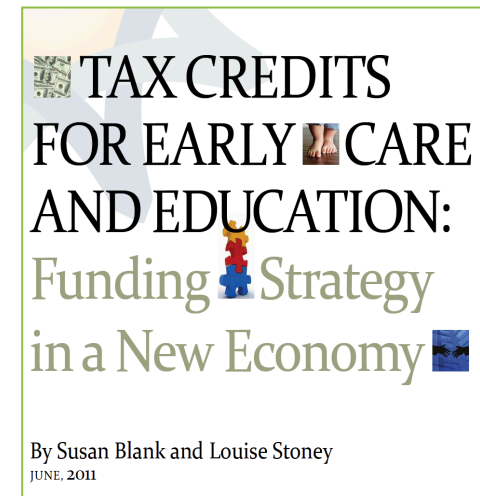
Accessible to taxpayers

Rewarding financially

Trackable

To be effective, tax policy must be designed to augment and coordinate with – but not replace – existing direct subsidies.

Tax credits alone are not likely to produce the results we desire for children.



Louisiana School Readiness Tax Credits in 2016

A Successful Support for the Child Care Industry and Early Childhood Education

Type of Credit	Child Care Expenses (Family)	Provider	Directors & Staff	Business Support	Resource & Referral
2016 Amount	\$2.3 M	\$4.8 M	\$8.7 M	\$371 K	\$947 K
# of Recipients	13,338 Families	454 Providers	4,044 Directors & Staff	49 Businesses	229 Businesses
Average Per Recipient	\$173	\$10,655	\$2,154	\$7,573	\$4,133
How Determined	<ul style="list-style-type: none"> Families are eligible for tax credit based upon the quality rating of the center 	<ul style="list-style-type: none"> Providers receive a tax credit based on center rating and the number of children they serve in CCAP or foster care 	<ul style="list-style-type: none"> Based on education level (4 levels – CDA (national certification with a high school degree) through a Masters Degree Must work at a center in rating system (at least 6 months) Star rating does NOT impact this credit 	<ul style="list-style-type: none"> Employers receive a credit for a percentage of “eligible child care expenses” based on the quality rating of the center (e.g. construction, slots for employees) 	<ul style="list-style-type: none"> Employers may claim a tax credit for up to \$5,000 in grants to child care resource and referral agencies
Features	<ul style="list-style-type: none"> Refundable up to \$25,000 in income Builds on existing state child care tax credit, from 50 – 200% based on rating and income 	<ul style="list-style-type: none"> Refundable From \$750 – \$1,500 per CCAP child based on star rating For-profits and non-profits are eligible 	<ul style="list-style-type: none"> Refundable From \$1658-3315 based on education level Adjusted annually based on CPI 	<ul style="list-style-type: none"> Refundable Percentage ranges from 5 – 20% based on star rating Maximum expense is \$50,000 (w/credit as percentage) 	<ul style="list-style-type: none"> Refundable Credit is dollar for dollar Maximum is \$5,000

The SRTC has 5 types of credits wrapped into a pkg.

Our focus today is just on the wage piece.

Glad to talk at the end (if time) about the other pieces.

More information: <https://www.policyinstitute.org/school-tax-credits>. Source for table above: LA Department of Revenue, 2016

Impact of Louisiana SRTC

They are maximizers. Help state CCDF match, encourage local investment and incent quality (and enable improvement) within child care assistance, not capped (SRTC \$ increased 327.5% -- \$4M in 2009 to \$17.1M in 2016.)

They drive improvement. Dramatic increase in number of child care staff who participate in professional development (up over 400%) and who obtain credentials; increased number of centers participating in QRIS + rated at higher levels; increased number and proportion of lower-income children enrolled in higher-quality centers.

They are (almost) untouchable. Established in law (2007) and supported by three different administrations on both sides of the aisle.

They build a practitioner constituency. ECE directors + teachers swarmed the room when tax credits were up for review by legislative committee. ECE trainers + TA providers routinely cite credits as incentives for participation.

Accountants and tax preparers are their best friends. Usage of credits occurred and increased when and where accountants and tax preparers encouraged people to take advantage of them.

Teacher-Director Credits: 2018 Improvements

- Louisiana created an early childhood ancillary certificate (CDA+) and required by 2019 – **all lead teachers in publicly funded centers to have it**
- Revised SRTC to encourage and reward attainment of ancillary certificate
 - More than doubled the value of credit (~\$3,300 annually) for teachers with ancillary certificate who have continuously worked in publicly-funded center for more than 2 years
 - Did not increase value of credit for more highly qualified teachers (In other words, credit is same for CDA+ and BA degrees)
 - Credits still include an annual COLA

For Directors:

- Site directors can earn credits based on site performance (CLASS), as well as their professional credentials
- No directors lose current credits, just option for moving up director levels for higher credit

State Policy Changes

- Enactment of Act 3 completely revised ECE accountability system
- SRTC needed to change... legally (no more QRIS) and to link to new approach (CLASS, provider profiles, minimum qualifications)
- Desire to address retention & center quality improvement led to increasing value of the ancillary certificate (CDA+) and linking credits to longevity in field & site performance.

Louisiana School Readiness Tax Credits

For more information:

- ✓ [Louisiana Policy Institute for Children](#)
(type “School Readiness Tax Credits” in the search bar)
- ✓ [April 4, 2016 testimony on the credits before the Louisiana Revenue and Fiscal Affairs Committee](#)
(go to the 58 minute mark)
- ✓ [Pathways to High-Quality Child Care: The Workforce Investment Credit](#), Committee for Economic Development (2017)
- ✓ [Extra Credit: How Louisiana is Improving Child Care](#), National Women’s Law Center (2015)
- ✓ [Testimony before the Louisiana Revenue Study Commission](#)
(October 2012)
- ✓ [Tax Credits for Early Care and Education: Funding Strategy in a New Economy](#) (2011)
- ✓ [Alliance for Early Childhood Finance, Finance Strategies](#)

Podcast:

[Early Learning and The Louisiana Story](#)

CED host Mike Petro hosts a panel discussion with

- Melanie Bronfin, Executive Director, Louisiana Policy Institute for Children;
- Louise Stoney, national ECE financing expert; and
- Sonjia Joseph, Executive Director at Clara's Little Lamb Preschool Academy in New Orleans

Colorado's Early Childhood Educator Tax Credit



How did this idea come together in Colorado?

- Lead-up to 2017 Legislative Session
- 2017 Teacher Shortage Report
- Summer of 2018 Interim Early Childhood & School Readiness Legislative Commission
- 2019 Legislation (<http://leg.colorado.gov/hb19-1005>)

What does the bill do?

- Refundable, annual tax credit tied to an educator's credential level, and adjusted annually for inflation
- \$500 → \$750 → \$1,000 for ECP I through ECP III, then \$500 for ECP IV through VI
 - 85%+ of educators are ECP II through III; ECP III is a classroom teacher and ECP IV is a center director (although latest crosswalk may make an ECP II eligible to be a classroom teacher)
- Minimum level of quality (Level 2) in QRIS (Colorado Shines)
- Must have a CCCAP (CCDBG) fiscal agreement or be Head Start or Early Head Start
- 5 year sunset
- Anticipated \$5.6M in declined revenue, \$150K in Dept. of Revenue implementation costs

Colorado's Early Childhood Educator Tax Credit



Why was this chosen as an approach & who coalesced around it?

- Workforce crisis
- Fiscal reform partnerships
- Colorado's unique fiscal constraints (TABOR state- Taxpayer Bill of Rights)
- Urgency over compensation-related strategies
- Building a coalition

What was the political strategy & story?

- Bipartisanship (always)
- 3 committees in each chamber, 6(!) total
- Budget negotiations & implications of full-day kindergarten and a proposed tax for Pre-K
- Amended from a \$12M tax credit to \$5.6M to fit state budget from the Speaker
- Introduced Day 1, passed on Last Day
- Technical fix in 2020 due to a drafting error (no impact on timing, fiscal cost, etc.)

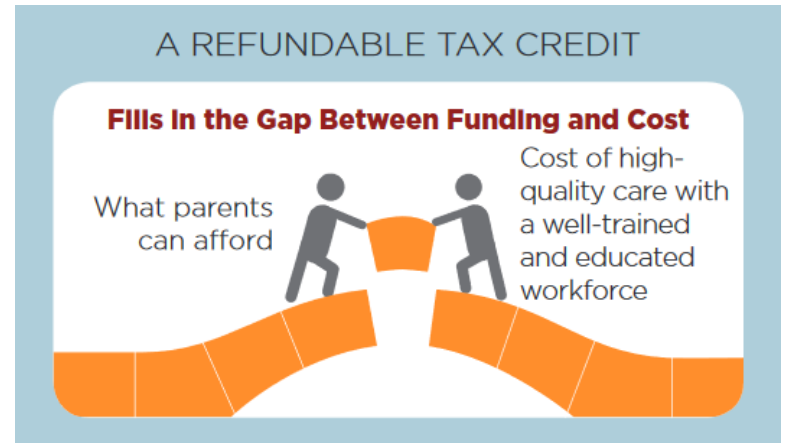
Re-thinking Compensation: Earned Tax Credits as Wage Supplements

- **What we know:** child care wages are low.
(median \$22,290/year, \$10.70 per hour)
- **Low to high:** median wages among states
Mississippi: \$17,880/ \$8.84 per hour
DC: \$29,810/ \$14.33 per hour
- **Child care is a business.** Operating revenues: private pay fees (families) & state subsidies (provider payment rates)



Customizing Tax Credits/Embedding in State Systems

- **ECE Registry:** Most states have a registry of some type (voluntary or mandatory).
- **Career Pathways:** Most states have some type of career pathway (certifications, higher levels of education, etc.).
- **State QRIS.** Most states have some type of QRIS (whether it's stars, levels, points, some type of hybrid – and many include increasing levels of certification or education for the workforce).
- **Scholarships:** Many states offer some type of scholarship assistance to access PD/ Education. (e.g., T.E.A.C.H or another tuition support strategy for higher ed)



Tax credits don't require a new program; they can link to what states have.

Reminder: Refundable Tax Credit Basic Concepts

**Base the credit
on achieving
competencies
and training**

**Make It voluntary
and reward-based
(higher levels of
education)**

**Boost
wages
through a
refundable
tax credit**

**'Refundable'
means the
lowest paid
providers can
benefit too**

**Index It to
Inflation and
make It large
enough to matter
(~10% Increase)**

Louisiana Example

Median Wage: \$18,610

Level 4 = \$3,300
refundable tax credit.

an increase of 17.7% if
earning \$18,610

Tie the credit to higher
certifications & levels of
education in a
MEANINGFUL amount

Lessons Learned: What to Watch Out for...

Generally...

- ECE advocates not generally well-versed in tax strategies. More comfortable with appropriations. EDUCATE!
- Involve non-traditional partners (e.g., the business community) – child care is a business afterall. 😊
- 18 states tie subsidy receipt to QRIS. Few states have a rated license (mandatory QRIS for all). Be prepared for organized opposition to tax credit tie to QRIS. Organize supporters to show up & speak!
- Reframe: talk about economic impact! Child care helps drive state and local economies. (e.g., \$99.3 billion impact in U.S.) For your state data: <https://www.ced.org/childcareimpact>

Wonk stuff...

- Start early!!! Educate!
- Educate state policymakers **AND** those who write the fiscal estimates. Fiscal estimates can kill you.
- Set credits at meaningful amounts (and adjust annually for inflation)
- Make sure you've got the tech terms correct: S Corps, LLC, sole proprietors (home-based providers), etc.
- Avoid a cap on the amount of the credit if possible
- **WE CAN HELP YOU!**

Why think about tax credit strategies?

t h i n k i n g

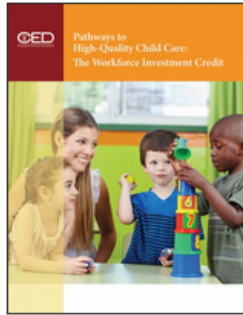


Tax Credits

- Earned, linked to PD
- Supplement wages
- Can be tied to current ECE systems
- Accountability built in
- Don't require parents to pay more

- Not a magic wand, but a strategy to link talent development with higher wages
- Can count toward TANF or CCDF MOE

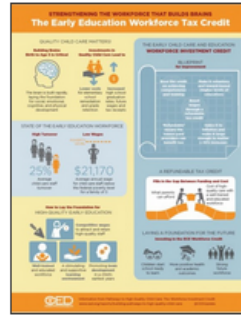
CED Resources States Can Use



Policy Brief



Executive Summary



Infographic



Action Steps for Business Leaders

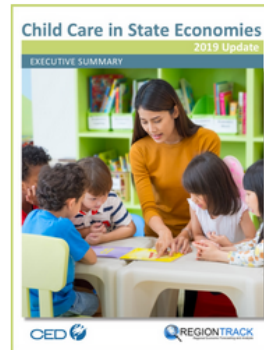


Social Media Toolkit

CED: <https://www.ced.org/reports/early-learning/pathways-to-high-quality-child-care>



Report



Executive Summary



National Overview



Talking Points



Infographic

CED: <https://www.ced.org/childcareimpact>

Questions?

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There are other child care tax strategies in states.

- Louisiana's credit has 5 pieces
- CO and OR have Contribution Tax Credits to address supply & quality
- Many states have piggy-back credits to the federal CDCTC.
- NY just enacted an employer-sponsored credit
- FL and PA allow scholarship tax credits for private schools (child care centers)

We are glad to have a broader discussion on other tax credit strategies. Schedule a call. 😊