Enhanced Child and Dependent Care Tax Credit for Quality

For many New York families with young children, child care is their largest monthly bill. New York State ranks among the most expensive states for child care in the nation.[i] The average cost for full-time center-based care is $15,000 a year for an infant, and more than $13,000 for a toddler, preschooler or school-age child. The average cost for full-time care by a family-based provider for an infant is almost $11,000 a year, and just over $10,000 for older children. This cost can be higher in programs that emphasize and prioritize quality including by supporting education and credentialing of child care educators; paying educators fair wages; keeping proportion of educators, directors and children at recommended levels. The shortage of child care subsidies and other supports to help families cover child care costs causes significant economic hardship to working New York families, and deprives many children of access high-quality early learning experiences.

New York families can receive this refundable tax credit if they are eligible for the state's child and dependent care tax credit, and their child care provider participates in a recognized quality measurement system, like QUALITYstarsNY, or has taken other steps to ensure high quality child care.

Eligibility: Currently, New York State offers a child and dependent care tax credit. It is a fully refundable tax credit that is available to low-income and middle income working New York families a credit at tax time for a portion of their child care expenses. At present, the law allows tax filers to claim up to $3,000 in annual expenses for one child, or $6,000 for two, and additional, smaller amounts for additional children.

To come closer to reflecting the true cost of care, the enhanced credit would strengthen the law in two ways. First, it would double the creditable amount of child care expenses for one child to $6,000, for two, to $12,000, with additional increased amounts for additional children. This would mean the maximum a family with one child could receive from the state's child and dependent tax credit would double from $1,155 per year to $2,310, and for a family with two eligible children, the maximum would increase from $2,310 to $4,620. Second, for families enrolled in a high-quality child care program, defined as one that has undergone an external evaluation by a recognized rating organization or agency in the previous twelve months, and was rated to be in good standing or of good, very good or excellent quality, the family would be entitled to claim another $1,000 in expenses for one child, and $2,000 for two or more children. The quality measure must be beyond compliance with regulations to substantiate eligibility for claiming credit(s). The quality measure needs to be easily verified. For equity purposes, the quality measure needs to be available in all parts of the state and for all types of programs.

Tax Credit Benefit: Enhancing the state's child and dependent care tax credit to double the creditable amount for all eligible families, and increase the creditable amount further for families with children enrolled in a program that prioritizes quality would:

- provide working families with children a significant economic boost, moving more working families out of poverty or near poverty, and into economic security.
- drive more resources to New York's hardworking child care educators who are struggling to make ends meet.

- enable and encourage families to seek out and prioritize quality in choosing child care providers.

Louisiana School Readiness Tax Credit: Between 2008 and 2011 in Louisiana 10,900 families claimed this partially refundable credit that would be somewhat comparable to the enhanced child and dependent care credit we are proposing. On average, each year the number of claims between 2009 and 2010 more than doubled and continues to increase. The average amount of tax credits received by parents amount between 2010-2011.

Louisiana School Readiness: Child Care Expense (Family) Tax Credit[1]	
2016 Amount	$2.3 million
# of Recipients	413,338 Families
Average per Recipient	$173
How Determined	Families are eligible for tax credit based upon the quality rating of the center.
Features	Refundable up to $25,000 in income; builds on existing state child care tax credit, from 50 – 200% based on rating and income.

Next Steps

- Determine appropriate way to measure quality: Currently, there isn't a statewide QIRS in New York. Programs are not mandated to participate in a QIRS, but programs are participating in a classification that can certifies quality. Although some programs participate in QUALITYstarsNY and QUALITYstarsNY the QIRS are not available statewide or mandatory. With all the varying methods to measure and certify quality, there is a need to use a measurement to allow for a tax credit.

- Work with NYS Tax and Finance to estimate costs: Currently, New York has many tax credits to support many investment initiatives. This proposal was brought to the attention of the NYS Tax and Finance Division of Policy. They had no objections to the concept of a tax credit for families. The tax code and tax forms will need to be amended to support the credit and how the credit can be documented.

[1] Policy Institute for Children: Louisiana

Child Care Director and Staff Tax Credit

The Child Care Director and Staff Tax Credit allows for ECE professionals to receive a refundable tax credit for advancing their career qualifications while working for at least six months out of a year in a licensed child care facility that participates in a quality rated or participating in a quality measured accredited organization directly related to early child care education. Additionally, early childhood educators must be registered in the Aspire Registry. The Aspire Registry track the credential and professional classification levels for early childhood professionals.

The most important indicator of a high-quality early care and education (ECE) program is the quality of the teachers and caregivers who interact with children every day. In 2007, members of the National Forum on Early Childhood Policy and Programs and the National Scientific Council on the Developing Child conducted an extensive review of early childhood program evaluation coupled with a review of the literature on neuroscience, behavioral and developmental science to determine what ECE elements most predicted positive child outcomes. This review underscored the importance of highly skilled teachers in high-quality ECE.[2]

Eligibility: The enhanced credit would be available to directors and staff who are employed at a child care program that has a quality child care program that has undergone an external evaluation by a recognized rating organization or agency in the previous twelve months, and was rated to be in good standing or of good, very good or excellent quality. The quality measure must be beyond compliance with regulations to substantiate eligibility for claiming credit(s). The quality measure needs to be easily verified. For equity purposes, the quality measure needs to be available in all parts of the state and for all types of programs.

The refundable tax credit is based on the educational level attained through Aspire. The Aspire Registry is an online system that help teachers, directors, family child care providers and trainers keep track of their employment history, education, ongoing professional development, and contributions to the field. As early childhood and school age professionals receive training and continue their carrier ladder. Aspire maintains the information along with the educational levels that have been achieved. This career ladder is intended for early childhood educators who work directly with children and families. Each professional level is based on formal education, and the steps within each level allow for progression based on experience in the field, and additional early childhood credentials or certification.

To receive the tax credit, a percentage is automatically calculated for all Aspire members. The credit is adjusted annually by the percentage increase in the Consumer Price Index United States city average for all urban consumers (CPI-U), as prepared by the United States Department of Labor, Bureau of Labor Statistics, as determined by the secretary of the Department of Revenue on December first of the preceding calendar year. The tax credit is claimed on the Resident Individual Income Tax return or the Nonresident and Part-Year Resident Individual Income Tax Return.

Tax Credit Benefit: This tax credit will help provide the incentives for professional development, and rewards educational attainment.

- Incentivizing teachers of young children to strengthen their credentials;
- Increase quality child care programs;

[2]. Early Care and Education Compensation Policy Options for Louisiana, Louise Stoney, August 2013

- Encourages professional growth;
- Increase in pay and programming support and economic activity in the community; and
- Enhance the quality of ECE programs.

Louisiana School Readiness Tax Credit: Between 2008 and 2015, the number of staff achieving Teacher Level 1 credential (Child Development Associate credential) increased from 963 to 3,598 and the number of staff that attained higher-level credentials increased from 284 to 2,156.[3]

Because of the tax credit, the number of child care directors and staff enrolled in Louisiana Pathways Career Ladder's with credentials classified as Levels 1 to 4 more than tripled, the number of directors and staff with Career Ladder credentials classified above Level 1 increased almost six-fold, and the proportion of directors and staff with Career Ladder credentials classified above Level 1 almost doubled between 2008 and 2011.[4]. Even though some of the ECE professionals that participated in Pathways between 2008-2011 may not have qualified for the tax credit, they found individuals learn about the opportunities for advancing and potentially receiving financial assistance to improve their professional growth that could make them eligible for the tax credit. In addition, Pathways staff reported an increase in demand for college-level courses for ECE professionals [5]

Next Steps

- <u>ECAC Workforce Development Work Group, Aspire and Child Care Resource and Referral Agencies</u>: Share the brief to gain input and recommendations.

- <u>Require an Aspire Registry</u>: Aspire tracks the professional levels which are based on formal education. The steps within each level allow for progression based on experience working with children and families, additional ECE credentials, and NYS Teacher or Administrator Certification. ECE educators can use the career ladder, in conjunction with the NYS Core Competency Assessment and the Professional Development Planning Tool, to plan and track their professional growth.[6] Currently, there is no state mandate for ECE professionals to enroll in Aspire. In addition, other than to track their career ladder and professional training and education there is no other incentive for ECE professionals to enroll. Over the past six years approximately 60,000 ECE professionals have an account in Aspire. Colleges and universities that offer degrees and certificates in early child care are encouraging their students to enroll in Aspire.

  In New York, to encourage ECE professionals to increase their professional growth, the intrastate related to the tax credit would be like Louisiana, and the credit amount should increase based on inflation.

- <u>Identify Quality Rating Measuring Systems</u>: Currently, there isn't a statewide QIRS in New York. Programs are not mandated to participate in a QIRS, but programs are participating in a classification that can certifies quality. Although some programs participate in QUALITYstarsNY and QUALITYstarsNY the QIRS are not available statewide or mandatory. With all the varying

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[3] Stoney, Louise, Louisiana Policy Institute for Children, "Giving Credit Where It's Due: School Readiness Tax Credits Benefit Louisiana Families and Communities" (2016)
[4] Extra Credit: How Louisiana is Improving Child Care
[5] Extra Credit: How Louisiana is Improving Child Care
[6] New York Works for Children

methods to measure and certify quality, there is a need to use a measurement to allow for a tax credit.

- Receive Approval from NYS Tax and Finance: This proposal was brought to the attention of the NYS Tax and Finance Division of Policy. They had no objections to the concept of a tax credit to ECE professionals if there was a mechanism to track the credentials. The tax code and tax forms will need to be amended to support the credit and how the credit can be documented.

Child Care Provider Tax Credit

A credit to child care providers who own and operate an early child care education program where care is given to children receiving a child care subsidy and the program is participating in a recognized quality measurement system.

While most working families still rely on relatives and other informal care arrangements, many working parents rely upon regulated child care. Regardless of the child care setting, all children should be enrolled in high quality programs. Linking a Quality Rating Improvement System (QRIS) or a recognized quality measurement system to a tax credit sends a clear message that participating in in quality improvement activities is not only important, but a wise investment[7]

When providers connect their program with an investment tied to quality all families benefit, especially families who receive child care subsidies. National Women's Law Center concludes the most vulnerable children had increase access to the high-quality child care.

Also, the Child Care Provider Tax Credit allows for financial growth to child care programs. Most child care providers could view their programs as business. In 2012, more than 768,500 child care establishments produced $41.5 billion and provided implement for 1.7 million wage, salary, and self-employed workers.[8] In New York, there were 77,100 established child care programs in 2012 and generated $3.4 million for the state.

Child care sector continues to evolve to meet the demands of both working parents and employers in the United States; and although federal and state efforts to help offset the cost of child care continue to play a major role in helping low-income working parents enter and remain in the labor force it is not enough. Investments in child care is necessary to support the demand not only for child care, but quality child care.

Eligibility: Child care providers are eligible to receive a refundable tax credit if they own and operate an early child care education program where care is given to children in which their family receives a child care subsidy. In addition, providers are eligible for enhanced credit if their program is a high-quality child care program that has undergone an external evaluation by a recognized rating organization or agency in the previous twelve months, and was rated to be in good standing or of good, very good or excellent quality. The quality measure must be beyond compliance with regulations to substantiate eligibility for claiming credit(s). The quality measure needs to be easily verified. For equity purposes, the quality measure needs to be available in all parts of the state and for all types of programs. The tax credit is based on the average monthly number of children who attend in which their family is receiving a child care subsidy and on the quality of the child care.

Tax Credit Benefit:

- Enhance quality amongst child care providers;
- Create greater access to higher quality care for all children;
- Support an industry of small businesses by encouraging people to invest in early child education/care;
- Financial growth to child care programs through investment;

[7] Stoney, Louise, Louisiana Policy Institute for Children, "Giving Credit Where It's Due: School Readiness Tax Credits Benefit Louisiana Families and Communities" (2016)

[8] Child Care in State Economies, Region Track: Regional Economic Forecasting and Analysis

- Increase in pay and programming support;
- Incentive for local investment in early care and education;
- Economic benefit to the community; and
- Improving outcomes for all New York's young children.

Louisiana Child Care Tax Credit: When Louisiana link their QRIS, between 2009-2016 participation in Quality Starts increases significantly from 484 centers to 814. In addition, centers with higher quality ratings increased dramatically. In 2009, there were only 6 percent participating centers had ratings of 3 or above (out of 5); and in 2016, 70 percent of the participating centers received ratings of a Star 2 or higher. In Louisiana, like most states experience a decline in child care subsidy funding. However, the percentage of subsidized children enrolled in higher-quality settings still increased. Between 2009 and 2016, the percentage of children under age six were enrolled in centers with ratings of 3 stars or above increased from 20 percent in 2006 to 46 percent in 2016.

Next Steps:

- <u>Child Care Resource and Referral Agencies</u>: Share the brief to gain input and recommendations.

- <u>Quality Rating</u>: Currently, there isn't a statewide QIRS in New York. Programs are not mandated to participate in QUALITYstarsNY and QUALITYstarsNY is not available statewide. Consequently, there is a need to use a measurement to allow for a tax credit.

- <u>New York State Office of Children and Family Services Division of Child Care (DCC)</u>: The Division of Child Care is responsible for administering the New York's Child Care Subsidy Program. They have a method of tracking the number of children who receive a child care subsidy. Through their Child Care Time and Attendance Payment System the Division of Child Care tracks the child care subsidy payments for subsidized children. In order to calculate the tax credit, the DCC would have to provide data regarding the monthly average number of children receiving a subsidy by facility.

- <u>Receive Approval from NYS Tax and Finance</u>: This proposal was brought to the attention of the NYS Tax and Finance Division of Policy. They had no objections to the concept of a tax credit for child care providers if there was a mechanism to track the star levels.

Child Care Resource and Referral Agencies Tax Credit

Businesses may also receive a tax credit for donations made to Child Care Resource and Referral Agencies (CCR&Rs). These are not-for-profit agencies contract with the Office of Children and Family Services to provide information and services. CCR&Rs are on the front lines, providing direct assistance and support to parents, child care providers, and employers in their communities.

In 2017:

- 38, 762: referral requests from parents were handled by 35 CCR&R agencies statewide
- 7,046: training sessions were sponsored by CCR&R agencies
- 28,937: child care providers and early childhood educators who received training.

The credit is equal to the amount donated for fees and grants to a CCR&R, but cannot exceed $5,000 per tax year. The refundable credit can be taken against individual income tax, corporation income tax, or corporation franchise tax depending on the business's entity type. Businesses can claim both the CCR&R and the Businesses Support Tax Credit.

Of all the tax credits, the CCR&R Tax Credit does not expressively take child care quality into account.

Tax Credit Benefit: CCR&R's can use the donated funds to purchase a lot of materials and services for their early child care communities, such as:

- Expand technical assistance to train and mentor teachers on how to effectively use learning materials with children, specialized teacher training on important topics;
- Provide professional development conferences for child care teachers;
- Allow businesses to turn their tax liability into an investment in early care and education. Employers have the power to decide where their tax dollars go.
- Encourages private sector support for early childhood education. Children are our future workforce.
- Stimulate working families need for quality, reliable care for their children. Quality Child Care Increases Work Productivity
    - Invest in CCR&Rs allows for additional training, technical assistance and coaching to be provided to child care programs to improve their quality.

Resources:

- https://sites.google.com/a/lpssonline.com/on-track-by-5/School-Readiness-Tax-Credits
- https://www.lpssonline.com/uploads/Sb5SRTCpacket112014.pdf
- https://robinleblanccpa.com/business-tax-tips-ccrr/
- http://www.childrenscoalition.org/assets/ccnl15048%20srtc%20one%20sheet%20p3.pdf

Louisiana School Readiness Tax Credit: Between 2008-2011 the number of businesses that claim the CCR&R Tax Credit varied. For example, in 2008, there were 142 CCR&R claims, but in 2009 the number of claims increase to 337. Thereafter, the number of claims continue to decline to 169 in 2011.

If a business is owned by a sole proprietor or is a flow-through entity such as a limited liability company, partnership or S-corporation, it claims credit on the individual Income Tax Return.[9] In 2008, the amount claim on individual returns was much higher than the amount claimed on corporate returns. However, over the years the corporate returns have risen. In Louisiana, CCR&R's reported that businesses thought the tax credit was too good to be true and they would not receive all the money the donated to a CCR&R. Also, in Louisiana the credit amount is link to CCR&R fees and grants; therefore, the credit amount has been well below the $5,000. However, between 2008 and 2011 CCR&Rs in Louisiana received $961,000.

Louisiana School Readiness: Child Care Resource and Referral (CCR&R) Tax Credit[10]	
2016 Amount	$947,000
# of Recipients	229 Businesses
Average per Recipient	$4,133
How Determined	Businesses may claim a tax credit for up to $5,000 in fees and grants to CCR&R's.
Features	Dollar for dollar match.

Next Step:

- Receive Approval from NYS Tax and Finance: This proposal was brought to the attention of the NYS Tax and Finance Division of Policy. They had no objections to the concept of a tax credit for child care providers if there was a mechanism to track the star levels.

[9] Louisiana Revised Statutes 47:6108(b)(2)-(5) 2013, Supra note 35
[10] Policy Institute for Children: Louisiana

Business Support Tax Credit

Businesses that support quality child care are eligible for a refundable tax credit based on the quality of the program that is participating in a recognized quality measurement system. The credit would be for a percentage of the eligible expenses based on the quality of the child care facility to which the expenses are related, or the quality of the child care facility in which the child attends. The refundable credit could be taken against individual income tax, corporation income tax, or corporation franchise tax depending on the business's entity type. Eligible expenses would include, but not limited to:

- Expenses to construct, renovate, expand, or repair an eligible child care center, purchase equipment for a center, maintain or operate a center, not to exceed $50,000 in expenses per tax year;

- Payments made to an eligible child care facility for child care services to support employees, not to exceed $5,000 per child per tax year; and/or

- The purchase of child care slots at eligible child care programs provided or reserved for children of employees, not to exceed $50,000 per tax year.

Tax Credit Benefit: Quality preschool education is a profitable investment. Rigorous efforts to estimate whether the economic benefits of early childhood education outweigh the costs of providing these educational opportunities indicate that they are a wise financial investment. Available benefit-cost estimates based on older, intensive interventions, such as the Perry Preschool Program, as well as contemporary, large-scale public preschool programs, such as the Chicago Child-Parent Centers and Tulsa's preschool program, range from three to seven dollars saved for every dollar spent.

- Businesses can turn their tax liability into an investment in early care and education.
- Employers have the power to decide where their tax dollars go.
- Better access to quality child care improves employee time and attendance.
- Supports lower income industry which supports return on investment in the local community

Resources:

- http://revenue.louisiana.gov/IndividualIncomeTax/SchoolReadinessTaxCredit
- http://docs.wixstatic.com/ugd/43cca3_beb71ac6373c41f5908b4afbe55c3f9f.pdf
- https://www.registryalliance.org/documents/alliance-conference-2015/144-bridging-the-salary-gap-louisianas-school-readiness-tax-credits
- https://www.nwlc.org/wp-content/uploads/2015/08/final_nwlc_louisianataxcreditsreport.pdf
- https://www.ced.org/pdf/PathwaysToHighQualityChildCare.pdf

Eligibility: This credit is based on the quality of the child care program that has undergone an external evaluation by a recognized rating organization or agency in the previous twelve months, and was rated to be in good standing or of good, very good or excellent quality. The quality measure must be beyond compliance with regulations to substantiate eligibility for claiming credit(s). The quality measure needs to be easily verified. For equity purposes, the quality measure needs to be available in all parts of the state and for all types of programs.

Louisiana School Readiness Tax Credit: Between 2008 and 2011 in Louisiana the number of business that claim for a Tax Credit grew from 30 to 105 and received over $381,200[11].

Louisiana School Readiness: Business Tax Credit[12]	
2016 Amount	$371,000
# of Recipients	49 businesses
Average per Recipient	$7,573
How Determined	Employers receive a credit for a percentage of the "eligible child care expenses" based on the quality rating of the center (e.g. construction, slots for employees)
Features	Percentage ranges from 5 to 20 based on star rating. Maximum expense is $50,000 (with the credit as percentage)

Next Steps

- Engage the Business Community: This brief will be shared with the business community to gain input and recommendations.
- Child Care Resource and Referral Agencies: Share the brief to gain input and recommendations.
- Receive Approval from NYS Tax and Finance: This proposal was brought to the attention of the NYS Tax and Finance Division of Policy. They had no objections to the concept of a tax credit to ECE professionals if there was a mechanism to track the credentials. The tax code and tax forms will need to be amended to support the credit and how the credit can be documented.

[i] *Child Care Aware of America*. (2017). Parents and the High Cost of Child Care. https://usa.childcareaware.org/wp-content/uploads/2017/12/2017_CCA_High_Cost_Appendices_FINAL.pdf

[11] Louisiana Department of Revenue, supra note 100
[12] Policy Institute for Children: Louisiana