

# SCHOOL READINESS TAX CREDITS - SB 361

**Background** - Research demonstrates that as much as half of school failures may be due to gaps in learning and development before school entry. A recently released national study of child care licensing ranked Louisiana number 51 of 52. Efforts are underway to implement a Quality Rating System for child care centers. However, an increase in quality care will increase costs for providers and parents.

**Solution** - Tax policy is a funding option available to states as a means to support and increase quality child care. The School Readiness Tax Credits (**SB 361**), described below, are a comprehensive tax policy based on the quality of the child care setting as determined by the Quality Rating System.

**Benefit** - All Louisianans benefit as high quality child care has been shown to be one of the most effective ways to improve school readiness, school performance, high school graduation rates, job performance, and adult productivity.

## **Tax Credits to Parents/Consumers**

Families with a child under six enrolled in child care would be eligible for a refundable tax credit based upon the quality rating of the center. This credit would help defray the increased costs associated with higher quality child care.

## **Tax Credits to Providers**

This credit would assist providers as they incur increased costs that are associated with providing higher quality care (e.g., improving facilities, enhancing learning supplies, paying higher wages for higher educated staff). The refundable tax credits would be tied to the level of quality as measured by the rating system and the number of children served in the Child Care Assistance Program.

## **Tax Credits to Child Care Professionals**

An occupational tax credit has the potential to partially address the persistent problem of retaining qualified staff. The refundable credits would be provided directly to child care professionals based on increased levels of educational attainment. These credits would effectively provide bonus funds for salaries into the child care system without driving up the price of care and thereby the costs paid by families.

## **Tax Credits to Business**

This tax credit would be provided to businesses/employers that support quality child care. These credits may include employers who construct, renovate, or expand a child care center, purchase equipment for a center, maintain and operate a center, or subsidize child care for their employees. The amount of the tax credit would be tied to the quality rating of the facility.

**I. Tax Credits to Parents/Consumers**

Tax credits to parents will be an increase to the current state child care tax credit based on the parents choosing higher quality child care centers. In 2007, the existing state child care tax credit provides the following tax relief:

<b>Basic Provision</b>	<b>Eligible Expenses</b>	<b>Refundable</b>	<b>Maximum Credit for One Child</b>	<b>Maximum Credit for Two or More Children</b>
A credit for child care of a specified percentage of the federal child care tax credit for “child care expenses claimed” by the tax filer as follows*:	Expenses eligible for the federal child care credit			
50% if federal AGI is \$25,000 or less		Yes	\$525	\$1050
30% if federal AGI is \$25,001-\$35,000		No, but may carryover unused portion	\$261	\$522
10% if federal AGI is \$35,001-\$60,000		No, but may carryover unused portion	\$72	\$144
Greater than \$60,000		No, but may carryover unused portion	\$25	\$25

\*This tax credit is specifically designed to assist working parents (both parents working or a single parent working) as it can only be used for work-related expenses for the care of a child under the age of 13. A percentage of the child care expenses can be used to offset earned income. If there is no income, then there can be no credit.

With this proposed tax credit, working parents would receive a tax benefit based on the quality rating of the child care center. These tax credits would help offset some of the increased cost of higher quality child care. If a parent purchases care from a:

<b>Star Rating of Center</b>	<b>Increase to Existing State Tax Credit</b>	<b>Maximum Credit for One Child</b>	<b>Maximum Credit for Two or More Children</b>
5 Star	200%	\$1575	\$3150
4 Star	150%	\$1313	\$2625
3 Star	100%	\$1050	\$2100
2 Star	50%	\$788	\$1576
1 Star	No change	\$525	\$1050
Center not participating in Quality Rating System	No change	\$525	\$1050

**II. Tax Credits to Providers**

Tax credits to providers would be a new tax credit. Providers would receive a tax credit based on the quality rating of their center and the number of children they serve who participate in the Child Care Assistance Program<sup>1</sup>. These credits would have two intended benefits:

- 1) To offset a portion of the increased cost of providing higher quality care
- 2) To improve access to quality care for children in the Child Care Assistance Program.

The credits would be applied as follows:

<b>Star Rating of Center</b>	<b>Proposed Tax Credit (per child on Child Care Assistance)</b>
5 Star	\$1,500
4 Star	\$1,250
3 Star	\$1,000
2 Star	\$750
1 Star	No credit
Center not participating in Quality Rating System	No credit

**III. Tax Credits to Child Care Professionals**

Tax credits to child care professionals would be a new tax credit. The credit would be refundable, and variable with a high and low end to differentiate between various levels of credentialing and/or educational attainment. A credit of \$3000 would be granted for those with the highest educational attainment with lesser credits of \$2500, \$2000 and \$1500 available for others based on the Staff Qualifications criteria of the Quality Rating System.

The purpose of these credits is to address retention of child care professionals, especially highly qualified teachers. A great challenge to the success of the Quality Rating System will be the ability of child care centers to hire and retain such workers. Professionals in the child care sector earn little over the minimum wage. As they work to improve their skills, they often leave child care to teach in the school system or leave the field completely to obtain higher pay. Several states have successfully addressed this challenge through wage supplement programs. One of the most efficient and effective processes to implement a wage supplement program is through the tax system.

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<sup>1</sup>Administered by the Office of Family Support in the Department of Social Services, the Child Care Assistance Program assists low-income families in paying for the child care they need in order to pursue or maintain work, attend school or participate in job training.

**IV. Tax Credits to Business**

Tax credits to Louisiana businesses that support quality child care would be a new tax credit. Employers would be able to claim a credit on their tax returns for eligible child care expenses based on the quality rating of the center receiving their support. This credit refundable and would be in lieu of a deduction from taxable income.

The credits would be as follows:

<b>Star Rating of Center</b>	<b>Proposed Tax Credit</b>
5 Star	20% of eligible expenses
4 Star	15%
3 Star	10%
2 Star	5%
1 Star	No tax benefit
Center not participating in Quality Rating System	No tax benefit

Examples of the eligible child care expenses are:

- a) Employers who construct, renovate, or expand a child care center, purchase equipment for a center, or maintain and operate a center may claim up to \$50,000 in expenses.
- b) Employers may claim up to \$5,000 for expenses for each child for whom the employer pays for child care services to support employees.
- c) Employers who purchase child care slots actually provided or reserved for children of employees may claim up to \$50,000 in expenses.
- d) Employers may claim a tax credit for up to \$5,000 in fees and grants to child care resource and referral services.

These credits would incentivize the infusion of additional capital into the child care sector by increasing the connection between the business community and efforts to support early childhood development.

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