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To: Senator Mark Hass and Representative Phil Barnhart, Co-Chairs, Joint Committee on Tax Credits

From: Representative Alissa Keny-Guyer, Chair

Date: April 28, 2015

RE: House Bill 2116 – Working Family Child and Dependent Care Tax Credit

The House Committee on Housing and Human Services heard HB 2116, Child and Dependent Care Credit (CDC), and HB 2115, Working Family Childcare Credit (WFCC), and recommends sunsetting HB 2115 and folding it into HB 2116. If passed, this bill combines funds from the Working Family Childcare Credit (WFCC) and the Child and Dependent Care Credit (CDC) into one comprehensive refundable tax credit. HB 2116, aimed at assisting low-income working families, would help offset the costs to care for young children and adult dependents while the parent is at work or in school full time.

Below are responses to questions posed in Appendix D, on page 101 of the Legislative Revenue Office's Research Report No. 2-15, *2016 Expiring Tax Credits* (RR 2-15). The responses are based upon the report's findings and the Business and Transportation Committee's deliberations.

What is the public policy purpose of this credit? Is there an expected timeline for achieving this goal?

The public policy purpose of this credit is to enable low-income working families to care for young children and disabled dependents by offsetting care costs so that they may be gainfully employed or attending school full-time. The desired effect of HB 2116 is to provide additional tools to help these families climb out of poverty. High poverty has negative impacts on school performance and many other life-long indicators; the biggest "return on investment" of financial and programmatic support occurs for children ages 0-5. The expected timeline for achieving this goal is ongoing.

- **Who (groups of individuals, types of organizations or businesses) directly benefits from this credit? Does this credit target a specific group? If so, is it effectively reaching this group?**

The primary beneficiaries include:

1. Low-income working families with children 0-12
2. Low-income working families with disabled or incapacitated dependents 13 and up

The current credits do not help the lowest income families since the CDC is not refundable, and the WFCC starts at $8,700 in income. The credit helps 25,000+ families, but there may be many eligible families who are not claiming one or more of the credits. In addition, it is hard for families to wait a year before they get the credit.

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- **What is expected to happen if this credit fully sunsets? Could adequate results be achieved with a scaled down version of the credit? What would be the effect of reducing the credit by 50%?**

Sunset would eliminate vital income for working families caring for young children and adult dependents and would make it harder for people to study at school or enter/stay in the workforce.

- **What background information on the effectiveness of this type of credit is available from other states?**

  A lot of research (in OLIS under Duncan et al, and Bobbie Weber) has shown how important it is to support child care, both because of the high cost, and the return on investment for children attending higher quality care.

- **Is use of a tax credit an effective and efficient way to achieve this policy goal? What are the administrative and compliance costs associated with this credit? Would a direct appropriation achieve the goal of this credit more efficiently?**

The administrative costs for the CDC have been minimal since the state credit is just a percentage of the federal tax credit (so IRS takes the responsibility to audit); WFCC costs roughly $500,000/yr (4 DOR positions) since it is not pegged to a federal credit. A direct appropriation through ERDC is more effective for many reasons (it provides more funding for higher quality care, it pays the childcare provider directly every month, it has its own verification process), but there is not enough funding to meet the whole need through ERDC.

- **What other incentives (including state or local subsides, federal tax expenditures or subsidies) are available that attempt to achieve a similar policy goal?**

  ERDC; Head Start, federal CDC; in-lieu of nursing home are incentive-based policies
  Credits for the severely disabled and children with a disability are cost-offsets

- **Could this credit be modified to make it more effective and/or efficient? If so, how?**

Amendments to make it more effective include:
--Change the CDC income eligibility criteria to FPL based on AGI.
--Support lowest income families by making the credit refundable and extending the credit as soon as they make any earned income, particular as they surpass the maximum income level required for TANF, Medicaid, and ERDC.
--Raise the caps on allowable expenses to better reflect the reality of child and dependent care costs.
--Increasing the proportional credit allowed for families with infants and toddlers, since the costs are highest for those ages.
--Increase the credit for anyone with a disabled person of any age at home to give more options to families outside of institutionalization.