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FISCAL IMPACT STATEMENT

LS 6982 | **NOTE PREPARED:** Jan 15, 2012
BILL NUMBER: HB 1322 | **BILL AMENDED:**

SUBJECT: Paths to Quality Tax Credits.

FIRST AUTHOR: Rep. Behning | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State
DEDICATED
FEDERAL

Summary of Legislation: The bill establishes the Paths to Quality tax credits.

It provides that an individual is entitled to a refundable income tax credit for each child attending a child care facility that voluntarily participates in the Paths to Quality rating system (qualified child care facility) that has a quality rating of Level 2 or higher.

It provides that a taxpayer is entitled to a refundable income tax credit for certain eligible business and employer child care expenses.

It provides that a qualified child care facility is entitled to a refundable income tax credit for providing child care services to a child participating in the Child Care and Development Voucher Program, or if the child is in foster care. It provides that the amount of the credit is calculated based on the quality rating of the qualified child care facility and the monthly average number of children who participate in the Child Care and Development Voucher Program and attend the qualified child care facility.

It requires the Division of Family Resources to adopt rules to administer the Paths to Quality rating system.

Effective Date: Upon passage; January 1, 2013.

Explanation of State Expenditures: *Family and Social Services Administration (FSSA):* The bill establishes in statute the Paths to Quality Program to be administered by the Division of Family Resources, FSSA. The program is to be a voluntary child care facility quality rating and improvement system implemented by the Division in partnership with organizations specified in the bill. The bill requires the Division to adopt rules to administer the quality rating system. The requirement to establish this program will have no administrative or fiscal impact on the Division since the program has been fully implemented by the Division and available statewide since 2009.

The Paths to Quality Program provides the following quality ratings for child care facilities:

(1) Level 1: Health and safety needs of children met.
(2) Level 2: Environment supports children's learning.
(3) Level 3: Planned curriculum guides child development and school readiness.
(4) Level 4: National accreditation (the highest indicator of quality) is achieved.

Department of State Revenue (DOR): The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the new tax credits. The DOR's current level of resources should be sufficient to implement the new tax credits.

Explanation of State Revenues: *Summary* - The bill establishes three income tax credits for expenses related to "qualified child care facilities". A qualified child care facility is (1) a licensed child care center, (2) a licensed child care home, or (3) a licensed child care ministry that voluntarily participates in the Paths to Quality Program currently being implemented by FSSA and established under the bill and that attains a quality rating of Level 2, 3, or 4 under the program. The credits would be available to individual and corporate taxpayers, as applicable, beginning in tax year 2013. The revenue loss from these tax credits would likely begin in FY 2014, but could begin in FY 2013 if taxpayers change their quarterly estimated payments in the first half of 2013.

The new tax credits are:

(1) A credit for individual taxpayers who incur expenses relating to a dependent child attending a qualified child care facility.
(2) A credit for individual and corporate taxpayers for qualified child care facility expenses incurred by a business or employer for the business's or employer's employees.
(3) A credit for qualified child care facilities that participate in the federal Child Care and Development (CCDF) program.

The estimated annual revenue loss from these credits is reported in the table below. It is important to note that the revenue loss estimates comprise an estimate of taxpayers currently making creditable expenditures. The revenue loss could potentially be higher to the extent that the credit induces additional taxpayers to incur creditable child care expenses.

Tax Credit	Revenue Loss (in millions of dollars)
Credit for child care expenses incurred by taxpayer for dependent child	15.5
Credit for business/employer child care facility expenses	Indeterminable but potentially significant.*
Credit for child care facilities participating in CCDF program	13.85 - 27.7
Total	**29.35 - 43.2**
*See discussion of credit below for scenario of potential revenue loss.	

Credit for Child Care Expenses Incurred for a Dependent Child: This is a refundable credit that may be claimed by an individual taxpayer for each dependent child who regularly attends a "qualified child care facility". A qualified child care facility is (1) a licensed child care center, (2) a licensed child care home, or (3) a licensed child care ministry that voluntarily participates in the Paths to Quality Program currently being implemented by FSSA and established under the bill and that attains a quality rating of Level 2, 3, or 4. It is estimated that the credits claimed by taxpayers could potentially total $15.5 M annually. This estimate is based on the current number of child care centers, child care homes, and child care ministries in the Paths to Quality Program and the current quality levels of these providers. The number of children in each child care facility is based on the average licensed capacity of child care centers and child care homes. The average capacity for child care centers is assumed for child care ministries. The credit is effective beginning in tax year 2013, so the revenue loss from the credit would begin in FY 2014.

Quality Level		**Level 2**	**Level 3**	**Level 4**
Credit Per Child		$200	$300	$400
Child Care Centers	**Facilities**	95	149	134
	Children Attending (est.)	10,260	16,092	14,472
	Total Credits (est.)	$2,052,000	$4,827,000	$5,788,000
Child Care Homes	**Facilities**	397	176	100
	Children Attending (est.)	5,161	2,288	1,300
	Total Credits (est.)	$1,032,000	$686,400	$520,000
Child Care Ministries	**Facilities**	18	7	0
	Children Attending (est.)	1,944	756	0
	Total Credits (est.)	$388,800	$226,800	$0

Credit for Child Care Facility Expenses by a Business or Employer: This is a refundable credit that may be claimed by a business or employer making eligible child care expenses on a "qualified child care facility". A qualified child care facility is (1) a licensed child care center, (2) a licensed child care home, or (3) a licensed child care ministry that voluntarily participates in the Paths to Quality Program currently being implemented by FSSA and established under the bill and that attains a quality rating of Level 2, 3, or 4. The child care expenses eligible for the credit can't exceed $50,000 in a tax year. The bill specifies that eligible expenses include the following:

(1) Construction, renovation, or expansion of a qualified child care facility;
(2) Purchase of equipment for a qualified child care facility;
(3) Maintenance and operation expenses of a qualified child care facility; and
(4) payments, not to exceed $5,000 for each child, made by an employer to a qualified child care facility for the child care expenses of a qualified dependent child of an employee of the employer.

The credit is a percentage of the eligible expenses and is equal to: (1) 10% if the facility's quality rating is Level 2; (2) 15% if the facility's quality rating is Level 3; and (3) 20% if the facility's quality rate is Level 4. Under the bill, if the tax credit exceeds a taxpayer's tax liability, the taxpayer may request a refund or may carry over the excess to future years. The taxpayer may not carry back any excess tax credits.

The number of employers that may qualify for this credit is indeterminable, so the potential revenue loss from the credit is indeterminable. However, the revenue loss could be significant. An employer incurring $50,000 in eligible expenses would receive a refundable credit equal to: (1) $5,000 for a Level 2 quality facility; (2) $7,500 for a Level 3 quality facility; or (3) $10,000 for a Level 4 quality facility. Based on County Business Patterns data, there are roughly 144,000 business establishments in Indiana (excluding the education and public administration sectors). If 1,000 Indiana businesses (less than 1% of the above total) each annually incur $50,000 in eligible expenses and these businesses are uniformly distributed across the three quality levels, the annual revenue loss would total $7.5 M.

Credit for Child Care Facilities Participating in Federal CCDF Program: This is a refundable credit that may be claimed by a "qualified child care facility" that provides child care services to a child less than 6 years old who participates in the CCDF program as in effect January 1, 2012. A qualified child care facility is (1) a licensed child care center, (2) a licensed child care home, or (3) a licensed child care ministry that voluntarily participates in the Paths to Quality Program currently being implemented by FSSA and established under the bill and that attains a quality rating of Level 2, 3, or 4.

The refundable credit for qualified child care facilities participating in the CCDF program would be equal to: (1) $1,000 for a Level 2 quality facility; (2) $1,250 for a Level 3 quality facility; or (3) $1,500 for a Level 4 quality facility. Under the bill, if the tax credit exceeds a taxpayer's tax liability, the taxpayer may request a refund or may carry over the excess to future years. The taxpayer may not carry back any excess tax credits.

According to FSSA, as of November 2011, there were 33,891 children authorized to participate in the CCDF program statewide. FSSA also reports that 34.5% of children served are 6 years older or older, so potentially 22,199 children under the age of 6 years were eligible for funding to attend a qualified child care center (whether a licensed child care center, a licensed child care home, or a licensed child care ministry). If these children all attend qualified child care facilities throughout the year and are uniformly distributed across centers with the three required quality levels, the revenue loss from this credit would total $27.7 M annually. If half of these children (11,100) attended qualified child care facilities and were uniformly distributed across facilities with the three required quality levels, the revenue loss would total $13.85 M.

<u>Explanation of Local Expenditures:</u>

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; FSSA, Division of Family Resources.

Local Agencies Affected:

Information Sources: U.S. Census Bureau, *County Business Patterns by NAICS, 2009.* Family and Social Services Administration, Paths to QUALITY- Indiana's Child Care Quality Rating and Improvement System, http://www.in.gov/fssa/2554.htm. FSSA, *CCDF Fact Sheet: Indiana - Statewide Summary, Voucher and Contract Centers Programs, November 2011*. Division of Family Resources, *Monthly Management Report, November 2011.* Dawn Hetzel, FSSA, (317) 690-6422.

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