
HOUSE BILL No. 1322

DIGEST OF INTRODUCED BILL

Citations Affected: IC 6-3.1-34; IC 12-17.2-2-14.

Synopsis: Paths to quality tax credits. Establishes the paths to quality tax credits. 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. Provides that a taxpayer is entitled to a refundable income tax credit for certain eligible business and employer child care expenses. 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. 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. Requires the division of family resources to adopt rules to administer the paths to quality rating system.

Effective: Upon passage; January 1, 2013.

Behning

January 11, 2012, read first time and referred to Committee on Ways and Means.

C
o
p
y



PRINTING CODE. Amendments: Whenever an existing statute (or a section of the Indiana Constitution) is being amended, the text of the existing provision will appear in this style type, additions will appear in **this style type**, and deletions will appear in ~~this style type~~.

Additions: Whenever a new statutory provision is being enacted (or a new constitutional provision adopted), the text of the new provision will appear in **this style type**. Also, the word **NEW** will appear in that style type in the introductory clause of each SECTION that adds a new provision to the Indiana Code or the Indiana Constitution.

Conflict reconciliation: Text in a statute in *this style type* or ~~this style type~~ reconciles conflicts between statutes enacted by the 2011 Regular Session of the General Assembly.

C
o
p
y

HOUSE BILL No. 1322



A BILL FOR AN ACT to amend the Indiana Code concerning taxation.

Be it enacted by the General Assembly of the State of Indiana:

1 SECTION 1. IC 6-3.1-34 IS ADDED TO THE INDIANA CODE
2 AS A **NEW** CHAPTER TO READ AS FOLLOWS [EFFECTIVE
3 JANUARY 1, 2013]:

4 **Chapter 34. Paths to Quality Tax Credits**

5 **Sec. 1. As used in this chapter, "child care facility" means a:**

- 6 (1) child care center licensed under IC 12-17.2-4;
- 7 (2) child care home licensed under IC 12-17.2-5; or
- 8 (3) child care ministry licensed under IC 12-17.2-6.

9 **Sec. 2. As used in this chapter, "dependent child" means a child**
10 **less than six (6) years of age who:**

- 11 (1) qualifies as a dependent of a taxpayer (as defined in
- 12 Section 152 of the Internal Revenue Code); and
- 13 (2) is the natural or adopted child of the taxpayer or, if
- 14 custody of the child has been awarded in a court proceeding
- 15 to someone other than the mother or father, the court
- 16 appointed guardian or custodian of the child.

17 **If the parents of a child are divorced, the term refers to the parent**



1 who is eligible to take the exemption for the child under Section
2 151 of the Internal Revenue Code.

3 Sec. 3. As used in this chapter, "division" means the division of
4 family resources established under IC 12-13-1-1.

5 Sec. 4. As used in this chapter, "eligible business or employer
6 child care expense" has the meaning set forth in section 14 of this
7 chapter.

8 Sec. 5. As used in this chapter, "pass through entity" means a:

9 (1) corporation that is exempt from the adjusted gross income
10 tax under IC 6-3-2-2.8(2);

11 (2) partnership;

12 (3) trust;

13 (4) limited liability company; or

14 (5) limited liability partnership.

15 Sec. 6. As used in this chapter, "paths to quality program" has
16 the meaning set forth in IC 12-17.2-2-14.

17 Sec. 7. As used in this chapter, "qualified child care facility"
18 means a child care facility that voluntarily participates in the paths
19 to quality program.

20 Sec. 8. As used in this chapter, "qualified dependent child"
21 means a dependent child who attends a qualified child care facility
22 that receives a level 2 through level 4 quality rating.

23 Sec. 9. As used in this chapter, "quality rating" means the level
24 number awarded to a qualified child care facility under the quality
25 rating system.

26 Sec. 10. As used in this chapter, "quality rating system" means
27 the quality rating system established by the division under
28 IC 12-17.2-2-14(c).

29 Sec. 11. As used in this chapter, "state tax liability" means a
30 taxpayer's total tax liability that is incurred under:

31 (1) IC 6-3-1 through IC 6-3-7 (the adjusted gross income tax);

32 (2) IC 27-1-18-2 (the insurance premiums tax); and

33 (3) IC 6-5.5 (the financial institutions tax);

34 as computed after the application of the credits that under
35 IC 6-3.1-1-2 are to be applied before the credits provided in this
36 chapter.

37 Sec. 12. As used in this chapter, "taxpayer" means an
38 individual, a corporation, a partnership, or other entity that has
39 state tax liability.

40 Sec. 13. (a) Each taxable year, a taxpayer is entitled to credit
41 against the taxpayer's state tax liability for each qualified
42 dependent child who regularly attends a qualified child care

C
O
P
Y



1 facility, if the qualified child care facility has a quality rating of
 2 level 2, level 3, or level 4. If the amount of the credit provided by
 3 this section to a taxpayer during a particular taxable year exceeds
 4 the sum of the taxes imposed on the taxpayer under IC 6-3 for the
 5 taxable year after the application of all credits that under
 6 IC 6-3.1-1-2 are to be applied before the credit provided by this
 7 chapter, the excess shall be returned to the qualifying taxpayer as
 8 a refund.

9 (b) Subject to section 18 of this chapter, the maximum amount
 10 of the credit to which a taxpayer is entitled for each qualified
 11 dependent child for a taxable year equals the following amounts:

12 (1) If the qualified dependent child attends a qualified child
 13 care facility with a quality rating of level 4, four hundred
 14 dollars (\$400).

15 (2) If the qualified dependent child attends a qualified child
 16 care facility with a quality rating of level 3, three hundred
 17 dollars (\$300).

18 (3) If the qualified dependent child attends a qualified child
 19 care facility with a quality rating of level 2, two hundred
 20 dollars (\$200).

21 Sec. 14. (a) As used in this section, an "eligible business or
 22 employer child care expense" includes expenses and payments, not
 23 to exceed fifty thousand dollars (\$50,000), for the:

24 (1) construction, renovation, or expansion of a qualified child
 25 care facility;

26 (2) purchase of equipment for a qualified child care facility;

27 (3) maintenance and operation expenses of a qualified child
 28 care facility; and

29 (4) payments, not to exceed five thousand dollars (\$5,000) for
 30 each child, made by an employer to a qualified child care
 31 facility for the child care expenses of a qualified dependent
 32 child of an employee of the employer.

33 (b) A taxpayer that pays an eligible business or employer child
 34 care expense during a taxable year with respect to a qualified child
 35 care facility with a quality rating of level 2, level 3, or level 4 is
 36 entitled to a credit against the taxpayer's state tax liability for the
 37 taxable year in an amount determined under subsection (c).

38 (c) Subject to section 18 of this chapter, the maximum amount
 39 of a credit under this section for a taxpayer in a taxable year equals
 40 the product of the taxpayer's eligible business and employer child
 41 care expenses for the taxable year, multiplied by the following
 42 applicable percentage:

C
O
P
Y



1 (1) If the eligible business and employer child care expenses
2 were paid with respect to a qualified child care center with a
3 quality rating of level 4, twenty percent (20%).

4 (2) If the eligible business and employer child care expenses
5 were paid with respect to a qualified child care center with a
6 quality rating of level 3, fifteen percent (15%).

7 (3) If the eligible business and employer child care expenses
8 were paid with respect to a qualified child care center with a
9 quality rating of level 2, ten percent (10%).

10 **Sec. 15. (a)** A qualified child care facility is entitled to a credit
11 against the qualified child care facility's state tax liability for a
12 taxable year if the qualified child care facility has a quality rating
13 of level 2, level 3, or level 4, and provides child care services to a
14 child less than six (6) years of age who participates in the Child
15 Care and Development Fund program administered under 45 CFR
16 98, as in effect January 1, 2012, during the taxable year.

17 (b) Subject to section 18 of this chapter, the maximum credit
18 that a qualified child care facility is entitled to under this section
19 equals the amount determined in STEP FOUR of the following
20 formula:

21 **STEP ONE:** Determine, for each month of the taxable year,
22 the number of children who participate in the Child Care and
23 Development Fund program administered under 45 CFR 98,
24 as in effect January 1, 2012, and attend the qualified child
25 care facility during the month.

26 **STEP TWO:** Add the amounts determined under STEP ONE
27 for each month of the taxable year.

28 **STEP THREE:** Divide the STEP TWO amount by twelve (12).

29 **STEP FOUR:** Multiply the STEP THREE amount by the
30 following:

31 (A) If the qualified child care facility has a quality rating
32 of level 4, one thousand five hundred dollars (\$1,500).

33 (B) If the qualified child care facility has a quality rating
34 of level 3, one thousand two hundred and fifty dollars
35 (\$1,250).

36 (C) If the qualified child care facility has a quality rating
37 of level 2, one thousand dollars (\$1,000).

38 **Sec. 16. (a)** This section applies to a tax credit provided under
39 section 14 or 15 of this chapter. If the amount of a credit
40 determined under section 14 or 15 of this chapter for a taxpayer in
41 a taxable year exceeds the taxpayer's state liability for the taxable
42 year, the taxpayer may:

C
o
p
y



- 1 (1) request from the department a refund of any unused
- 2 credit; or
- 3 (2) carry over the excess to the immediately following taxable
- 4 years.

5 The amount of any carryover under subdivision (2) is reduced to
 6 the extent that the taxpayer uses the carryover to obtain a credit
 7 under this chapter for a subsequent taxable year.

8 (b) A taxpayer may not carry back any unused credit.

9 Sec. 17. If a pass through entity is entitled to a credit under this
 10 chapter but does not have state tax liability against which the tax
 11 credit may be applied, a shareholder, a partner, or a member of
 12 the pass through entity is entitled to a tax credit equal to:

- 13 (1) the tax credit determined for the pass through entity for
- 14 the taxable year; multiplied by
- 15 (2) the percentage of the pass through entity's distributive
- 16 income to which the shareholder, partner, or member is
- 17 entitled.

18 Sec. 18. (a) This section applies if the quality ratings of a
 19 qualified child care center on which a credit provided under
 20 section 13, 14, or 15 of this chapter is calculated change during the
 21 taxable year in which the credit is claimed. If a qualified child care
 22 facility receives two (2) or more different quality ratings during a
 23 taxpayer's taxable year, the credit to which the taxpayer is entitled
 24 shall be prorated using the following formula based on the number
 25 of months during the taxpayer's taxable year that the qualified
 26 child care facility maintains a particular quality rating:

27 STEP ONE: For each quality rating level received by a
 28 qualified child care facility during the taxable year, determine
 29 the applicable tax credit amount awarded for the particular
 30 quality rating level.

31 STEP TWO: Divide the STEP ONE amount for each rating
 32 level received by the qualified child care facility during the
 33 taxable year by twelve (12).

34 STEP THREE: Multiply the STEP TWO amount for each
 35 quality rating level received by the qualified child care facility
 36 during the taxable year by the number of months during the
 37 taxable year that the qualified child care facility maintained
 38 the particular quality rating. The result shall be rounded to
 39 the nearest one-hundredth (0.01).

40 STEP FOUR: Add the STEP THREE amounts.

41 (b) The quality rating for a qualified child care facility for the
 42 month a qualified child care facility quality rating changes is the

C
o
p
y



1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42

lower quality rating maintained by the qualified child care facility during that month.

Sec. 19. Not later than January 15 of each year, the division shall send a letter to each qualified child care facility certifying the quality rating awarded to the qualified child care facility for each month during the previous calendar year.

Sec. 20. To receive a credit under this chapter, a taxpayer must claim the credit on the taxpayer's annual state tax return or returns in the manner prescribed by the department. The taxpayer shall submit to the department all information that the department determines necessary to validate eligibility and calculate of each credit provided under this chapter.

Sec. 21. The department and the division shall jointly adopt rules under IC 4-22-2 to administer this chapter.

SECTION 2. IC 12-17.2-2-14 IS ADDED TO THE INDIANA CODE AS A NEW SECTION TO READ AS FOLLOWS [EFFECTIVE UPON PASSAGE]: **Sec. 14. (a)** As used in this section, "program" refers to the paths to quality program established by subsection (b).

(b) The paths to quality program is established. The program is a voluntary child care facility quality rating and improvement system implemented by the division in partnership with the following:

- (1)** Indiana Association for the Education of Young Children.
- (2)** Indiana Association for Child Care Resource and Referral.
- (3)** Indiana Head Start Collaboration Office.
- (4)** Indiana Department of Education.
- (5)** Early Childhood Alliance.
- (6)** 4 C's of Southern Indiana.

(c) The division shall adopt rules under IC 4-22-2 to administer the paths to quality rating system. The rules must include procedures that outline eligibility and application procedures for the program, the establishment of procedures relating to the rating process, and the establishment or alteration of standards used in the rating process.

(d) The division shall adopt rules under IC 4-22-2 to establish the steering council of the program to make recommendations to the division on program issues and resources. Rules adopted under this subsection must require that council members must be appointed from partner organizations that assist in the implementation of the program and serve to coordinate the project plan.

C
o
p
y



1 **SECTION 3. An emergency is required for this act.**

C
o
p
y

