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Contact: Professor Jack (Anthony) Gierzynski

Anthony.Gierzynski@uvm.edu

517 Old Mill, Burlington, VT 05405-4110

The School Readiness Tax Credit Initiative and the Child Care Tax Credits Initiative

The Louisiana School Readiness Tax Credit is an act that passed in 2007. The initiative is designed to provide incentives for quality childhood development in the state. Child care facilities are provided with monetary incentives to deliver the highest quality education possible, and families are encouraged to seek out this high quality child care for their children. The credit was enacted with the goal of increasing the quality of childhood development in Louisiana. Georgia's Child Care Tax Credit Initiative, passed in 2006, provides tax credits to adult taxpayers who made payments for dependent or child care in the prior fiscal year. The initiative was designed to provide financial relief to taxpayers who pay for someone to care for their dependent while they work or search for work.

Louisiana's School Readiness Tax Credit

Louisiana's School Readiness Tax Credit (SRTC), passed in 2007 as Act 394, provides tax breaks for families, child care providers, and businesses that support child care programs. The tax credit is an attempt to encourage child care facilities to participate in the Quality Start program run by the Louisiana Department of Child and Family Services (DCFS) and provides incentives for parents to enroll their children in child care facilities. The Quality Start Child Care Rating System evaluates child care facilities and offers support for improvements. Parents can also use Quality Start to find the highest rated child care facilities in Louisiana.[1] The Rating System can be found in the hyperlink in footnote 2.[2] The SRTC provides 5 different tax credits: (1) a child care expense credit for adults with enrolled children, (2) a credit for child care providers, (3) a credit for child care directors

[1] Elise Read, "Louisiana Quality Start Program," *National Conference of State Legislatures,* Retrieved April 25, 2016, http://www.ncsl.org/Portals/1/Documents/nalfo/LASchoolReadinessTaxCredit.pdf.

[2] Department of Child and Family Services, "Louisiana Quality Start Child Care Rating System MODEL," Revised March 2012, Retrieved April 29, 2016, http://qrslouisiana.org/assets/files/QS%20Model%20March%202012%2012%206.pdf.

and staff, (4) a credit for businesses that support child care, and (5) a credit for businesses that donate to resource and referral agencies.[3]

The child care expense credit is provided to adults with a dependent under the age of six. If the child has attended a child care facility within in the past year, with a quality rating of at least two stars, the adult taxpayer qualifies for the credit.[4] The school readiness child care expense credit is an addition to the existing Louisiana child care expense credit. The credit amount depends on the quality rating of the facility the child attended, as shown in Table 1. For taxpayers with an annual income of $25,000 or less, the credit is refundable. This means the credit can be claimed even if it exceeds the taxpayer's tax liability. For those with an annual income of over $25,000, the credit is nonrefundable. If the credit exceeds the taxpayer's liability, the excess credit can be carried over for up to five years.[5] An example of how to calculate the tax credit can be seen in Table 2. If a taxpayer has two or more dependents that attended child care facilities participating in the quality rating system, the credits will be calculated separately.

Table 1: **Child Care Expense Tax Credit**

Quality Rating of Child Care Facility	Percent of Louisiana Child Care Tax Credit
Five Star	200%
Four Star	150%
Three Star	100%
Two Star	50%
One Star or not participating in Quality Start	0%

Source: Louisiana Department of Revenue, "School Readiness Tax Credit," Retrieved April 25, 2016, http://www.revenue.louisiana.gov/IndividualIncomeTax/SchoolReadinessTaxCredit.

[3] Louisiana Department of Revenue, "School Readiness Tax Credit," Retrieved April 25, 2016, http://www.revenue.louisiana.gov/IndividualIncomeTax/SchoolReadinessTaxCredit.
[4] Ibid.
[5] Ibid.

Table 2: Calculating the Child Care Expense Credit		
	Example 1	**Example 2**
Family's federal adjusted gross income$	$20,000	$30,000
Refundable or nonrefundable tax credit	Refundable	Nonrefundable
State child care credit amount	$50	$50
Qualified dependents under age six that attended a quality rated child care facility	1	2
Quality rating of the child care facility for first child	3*	4*
Percentage of state child care credit allowed for first child	100%	150%
School readiness child care expense tax credit for first child ($50 x 150%)	$50 (for one child, at Level 3, the tax credit is ($50 x 100%))	$75
Quality rating of the child care facility for second child		3*
Percentage of state child care credit allowed for second child		100%
School readiness child care expense tax credit for second child ($50 x 100%)		$50
Total school readiness child care expense tax credit ($75 + $50)		$125
The $125 school readiness child care expense credit can be claimed in addition to the $50 regular child care credit and can be applied against the taxpayer's liability with any excess credit carried forward for up to five years.		
Source: Louisiana Department of Revenue, "School Readiness Tax Credit," Retrieved April 25, 2016, http://www.revenue.louisiana.gov/IndividualIncomeTax/SchoolReadinessTaxCredit.		

The child care provider tax credit is offered to those who own and operate a participating child care facility. The credit is calculated by multiplying the average monthly number of children at the facility by the credit amount, which is based on the quality rating of the facility. The prospective credit amounts can be seen in Table 3. The child care provider credit can be applied against individual income tax, corporate income tax, or corporation franchise tax.[6]

In addition to the tax credit, some child care providers qualify to receive quarterly bonuses based on the quality rating of the facility. Licensed child care centers in Louisiana are categorized into either Class A or Class B, depending on the Louisiana child care licensing criteria that is met by the facility; licensing criteria can be found in the link in footnote 6.[7] Both Class A and Class B centers are eligible to participate in the quality rating system, but only Class A providers are eligible for the bonuses. Bonuses are issued at the end of each calendar quarter to Class A facilities based on their quality rating. The bonus is calculated as a percentage of all payments made to the facility through the Child Care Assistance

[6] Ibid.

[7] Department of Social Services Bureau of Licensing, "Child Day Care Center," Louisiana Administrative Code Title 48- Chapter 53, November 1, 2003, Retrieved April 25, 2016, https://daycare.com/louisiana/.

Program (CCAP) administered by the Louisiana Department of Education.[8] The bonus percentages are then based on the quality rating of the facility, and can be seen in Table 4.

Table 3: Child Care Provider Tax Credit	
Quality Rating of Child Care Facility	**Tax Credit Per Eligible Child**
Five Star	$1,500
Four Star	$1,250
Three Star	$1,000
Two Star	$750
One Star or not participating in Quality Start	$0
Source: Louisiana Department of Revenue, "School Readiness Tax Credit," Retrieved April 25, 2016, http://www.revenue.louisiana.gov/IndividualIncomeTax/SchoolReadinessTaxCredit.	

Table 4: Tiered Bonus Payments	
Quality Rating Facility	**Quarterly Bonus Percentage**
One Star Level	0%
Two Star Level	3%
Three Star Level	8%
Four Star Level	13.5%
Five Star Level	20%
Source: Louisiana Department of Revenue, "School Readiness Tax Credit," Retrieved April 25, 2016, http://www.revenue.louisiana.gov/IndividualIncomeTax/SchoolReadinessTaxCredit.	

The director and staff credit is provided to directors and staff members who have worked at facilities that have participated in the quality rating system for at least six months. Directors and staff member must also enroll in the Louisiana Pathways Child Care Career Development System (LPCCCDS) in order to receive the credit. LPCCCDS helps child care staff members further their careers by providing scholarships for training and education.[9] Additionally, the DCFS works with Child Care Resource and Referral agencies to provide services; this includes things such as education and training for child care providers.[10] The credit amount depends on the level of training the employee obtained through Louisiana Pathways, and the rates are adjusted annually according to the Consumer Price Index United States city average. The possible credit amounts for 2012 are presented in Table 5. This credit is refundable.[11]

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[8] Department of Children & Family Services, "Quality Start Child Care Rating System," Retrieved April 25, 2016, http://qrslouisiana.org/child-care-providers/incentives.

[9] Northwestern State University of Louisiana, "Mission Statement," Louisiana Pathways, Retrieved April 25, 2016, http://pathways.nsula.edu/home-louisiana-pathways-child-care-career-development-system/.

[10] Department of Children & Family Services, "Quality Start Child Care Rating System."

[11] Louisiana Department of Revenue, "School Readiness Tax Credit."

Table 5: School Readiness Directors and Staff Tax Credit	
School Readiness Tax Credit Levels	**Amount of 2012 Refundable School Readiness Tax Credit**
Director I	$1,573
Director II	$2,097
Director III	$2,621
Director VI	$3,146
Child Care Teacher I	$1,573
Child Care Teacher II	$2,097
Child Care Teacher III	$2,621
Child Care Teacher VI	$3,146
Source: Louisiana Department of Revenue, "School Readiness Tax Credit," Retrieved April 25, 2016, http://www.revenue.louisiana.gov/IndividualIncomeTax/SchoolReadinessTaxCredit.	

The credit for businesses that support child care is based on the quality rating of the child care facility they are supporting. The refundable credit is available for eligible support, which incorporates providing expenses for the construction, expansion, or maintenance of a participating facility; payments made to a facility for child care services are to support employees or enrollment of an employee's child at an eligible facility. The credit is calculated as a percent of the business's expenses based on the quality rating of the child care facility that is being supported; the credit percentages can be seen in Table 6.[12] The credit can be applied against individual income tax, corporation income tax, or corporation franchise tax.

Table 6: Tax Credit for Business-Supported Child Care	
Quality Rating of Facility	**Percent of Expenses**
5 Star	20%
4 Star	15%
3 Star	10%
2 Star	5%
1/0 Star(s)	0%
Source: Louisiana Department of Revenue, "School Readiness Tax Credit," Retrieved April 25, 2016, http://www.revenue.louisiana.gov/IndividualIncomeTax/SchoolReadinessTaxCredit.	

Additionally, businesses that donate to Child Care Resource and Referral agencies are eligible for a tax credit. These agencies team up with the State to provide information and services to child care providers. The refundable credit is equal to the amount donated, but cannot exceed $5,000 per tax year. The credit can be applied against individual income tax, corporation income tax, or corporation franchise tax.[13]

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[12] Ibid.
[13] Ibid.

Georgia's Child Care Tax Credits Initiative

The Child Care Tax Credits Initiative (CCTCI) provides an incentive to help people with low to moderate income reduce the amount of taxes owed to the government. The purpose of the CCTCI is to help free up of resources that can be then used for child care expenses.[14] The bill, "An Act to amend Article 2 of Chapter 7 of Title 48 of the Official Code of Georgia Annotated,"[15] was passed unanimously in February 2006 by both houses of the state legislature, and was signed in to law by Governor Perdue in 2006. The CCTCI mandates that a taxpayer will be allowed a credit against the tax that is imposed by Code Section 48-7-20 on qualified child and dependent care expenses. This allows families to reduce the amount of tax owed or potentially receive money back from the state.

Code Section 48-7-20 imposes a tax on every resident of Georgia, determined by the taxpayer's income amount that is taxable, which is defined by Code Section 48-7-27. A tax is enacted on all nonresidents as well. In regards to non-resident's Georgian taxable net income, if not otherwise exempted, the tax is imposed on the taxpayer for services performed, property owned, proceeds of any lottery prize awarded by the Georgia Lottery Corporation, or from business carried on in the state.[16] People with different marital status, number of qualifying children, or different income will be categorized under different percentages within the income tax bracket. An individual's filing status must be single, married, filing jointly, head of household, or qualifying widow with a dependent child.[17]

The tax credit is decided by applying a percentage to the amount credit stipulated by the federal Dependent Care Credit (Section 21 of the Internal Revenue Code), which is "claimed and allowed pursuant to the Internal Revenue Code."[18] The percentages are broken down as:

1. Ten percent for all taxable years beginning on or after January 1, 2006, and prior to January 1, 2007;
2. Twenty percent for all taxable years beginning on or after January 1, 2007, and prior to January 1, 2008; and
3. Thirty percent for all taxable years beginning on or after January 1, 2008.

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[14] Jessica Hathaway, "Tax Credits for Working Families: Earned Income Tax Credit (EITC)," *National Conference of State Legislatures,* January 19, 2016, Retrieved April 25, 2016, http://www.ncsl.org/research/labor-and-employment/earned-income-tax-credits-for-working-families.aspx.

[15] Georgia General Assembly, "2005-2006 Regular Session- HB 1080 Income Tax Credit; Qualified Child and Dependent Care Expenses," Retrieved April 25, 2016, http://www.legis.ga.gov/Legislation/en-US/display/20052006/HB/1080.

[16] LexisNexis Practice Insights, "2010 Georgia Code Title 48- Revenue and Taxation Chapter 7- Income Taxes Article 2- Imposition, Rate, and Computation; Exemptions § 48-7-20- Individual tax rate; tax table; credit for withholding and other payments; applicability to estates and trusts," *Justia,* 2010, Retrieved April 25, 2016, http://law.justia.com/codes/georgia/2010/title-48/chapter-7/article-2/48-7-20.

[17] Ibid.

[18] Georgia General Assembly, "2005-2006 Regular Session- HB 1080 Income Tax Credit; Qualified Child and Dependent Care Expenses."

The tax credit is based on taxpayer earnings per year and the amount spent on child care. To put this into perspective, 30% of the federal child and dependent tax credit will permit a taxpayer to receive up to a maximum of $1,050 for one child, and $2,100 for two or more children. [19]

Table 7: Household Earned Income Limits		
Annual Household Earned Income	**Maximum per child/dependent adult**	**Maximum total credit (for two or more children/dependent adults)**
$0-$15,000	$1,050	$2,100
$15,001-$17,000	$1020	$2,040
$17,001-$19,000	$990	$1,980
$19,001-$21,000	$960	$1,920
$21,001-$23,000	$930	$1,860
$23,001-$25,000	$900	$1,800
$25,001-$27,000	$870	$1,740
$27,001-$29,000	$840	$1,680
$29,001-$31,000	$810	$1,620
$31,001-$33,000	$780	$1,560
$33,001-$35,000	$750	$1,500
$35,001-$37,000	$720	$1,440
$37,001-$39,000	$690	$1,380
$39,001-$41,001	$660	$1,320
$41,001-$43,000	$630	$1,260
Above $43,000	$600	$1,200
Source: EBO NEXUS, "Child and Dependent Care Tax Credit (Federal)," Retrieved April 25, 2016, http://benefits.ebonexus.com/info/Georgia/ChildAndDependentCareTaxCreditFederal.html.		

Framework and Qualification

To qualify for the tax credit, parents must be paying someone to watch their children, aged 12 or younger, while they are at work. This payment for care cannot be paid to a family member, a person claimed as a dependent, or a child who will not have turned 19 by the end of the year.[20] If one files jointly with a spouse, both individuals must have earned income from wages, salaries, tips, or net earnings from self-employment.[21] The tax credit is not refundable, which means that an individual cannot collect more back from the tax credit than the amount paid in taxes to the federal government. The payments for care

[19] Georgia Department of Revenue, "Child and Dependent Care Tax Credit," June 24, 2010, Retrieved April 25, 2016. http://www.taxcreditsforworkingfamilies.org/state/georgia/#child-and-dependent-care-tax-credit.
[20] EBO NEXUS, "Child and Dependent Care Tax Credit (Federal)," Retrieved April 25, 2016, http://benefits.ebonexus.com/info/Georgia/ChildAndDependentCareTaxCreditFederal.html.
[21] Ibid.

cannot be paid to an individual that the taxpayer can claim as a dependent on their own tax return.[22] The purpose of the care is to allow the parent(s) to work, or to look for work.

Cost and Benefit of the Initiative and Components for Successful Implementation

The cost of the credit to the state over the period from 2009-2013 was $159,345,131, an annual average of $31,869,026.[23] This tax credit is tied to federal credit, which means that if the federal credit ceases to exist, the state credit will also no longer exist. In the 2015 tax year, Georgia's Child Care Tax Credits helped 1.1 million recipients, with an average credit amount per household of $2,692 per year.[24]

Conclusion

In 2006 and 2007 two tax credit initiatives were passed in Georgia and Louisiana, respectively. The Child Care Tax Credit Initiative of Georgia provides a tax credit to adult taxpayers who have made payments for dependent/child care in the past year. This initiative was created to aid taxpayers who pay someone to care for their dependent, by providing financial relief so they can search for work. This credit has increased the likelihood of employment for the taxpayers.[25] The goal of the Louisiana School Readiness Tax Credit is to improve the quality of childhood education and development in Louisiana. It is aimed at providing incentives for the child care benefactors in the state to offer quality childhood development services. Child care facilities are given monetary incentives in order to help them provide the highest quality education they can so that when families these services, they can pick the best quality providers.

This report was completed on May 16, 2016 by Adrian Willing, Cassidy Lang, and Zhenhui Chen under the supervision of Professors Jack Gierzynski, Robert Bartlett, and Eileen Burgin in response to a request from Representative Amy Sheldon.

Contact: Professor Anthony Gierzynski, 517 Old Mill, The University of Vermont, Burlington, VT 05405, phone 802-656-7973, email agierzyn@uvm.edu.

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[22] Ibid.

[23] Cooper, Sherman A., and Laura Wheeler, "Georgia Tax Credits: Details of the Business and Personal Credits Allowed against Georgia's Corporate and Individual Income Tax," *Fiscal Research Center*, September 22, 2015, Retrieved April 25, 2016, http://frc.gsu.edu/files/2015/09/Georgia-Tax-Credits_September-2015.pdf.

[24] Jessica Hathaway, "Tax Credits for Working Families: Earned Income Tax Credit (EITC)."

[25] Chris M. Herbst, "The labor supply effects of child care costs and wages in the presence of subsidies and the earned income tax credit," Rev Econ Household (2010) 8:199-230, June 5, 2009, Retrieved April 29, 2016, http://www.chrisherbst.net/files/Download/C._Herbst_Labor_Supply_Effects.pdf.