

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6530

BILL NUMBER: SB 239

NOTE PREPARED: Feb 22, 2013

BILL AMENDED: Feb 21, 2013

SUBJECT: Tax Credit for Quality Child Care.

FIRST AUTHOR: Sen. Holdman

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State

Summary of Legislation: (Amended) This bill establishes the Paths to QUALITY income tax credit. It provides that an individual may claim a nonrefundable income tax credit for each dependent child attending a child care facility that voluntarily participates in the Paths to QUALITY rating system, and that facility has a quality rating of level 2 or higher. The bill provides that the amount of the credit is based on the number of months the dependent child attends the facility and the quality rating of that child care facility.

This bill requires the Division of Family Resources to adopt rules to administer the Paths to QUALITY rating system.

Effective Date: Upon passage; January 1, 2014.

Explanation of State Expenditures: *Family and Social Services Administration (FSSA):* The bill establishes in statute the Paths to QUALITY Program. The program is to be a voluntary child care facility quality rating and improvement system implemented by the FSSA in partnership with the organizations specified in the bill. The bill requires the FSSA to adopt rules to administer the program. The FSSA should be able to comply with the provisions in the bill with their current level of staffing and resources because the program has been fully implemented by the FSSA since 2009.

Department of State Revenue (DOR): The DOR will incur additional expenses to revise forms, instructions, and software programs to implement the tax credit established by this bill. The DOR should have sufficient resources to make the necessary modifications to successfully administer it.

Explanation of State Revenues: (Revised) *Summary* - The bill establishes a nonrefundable Individual Adjusted Gross Income (AGI) Tax credit for taxpayers who have a dependent child attending for at least 100 hours per month at a child care facility participating in the Paths to QUALITY program that has attained a rating of Level 2, 3, or 4. The credit goes into effect beginning in 2014, but the revenue loss to the state General Fund will likely begin in FY 2015. The estimated revenue loss from taxpayers claiming this credit could total \$5.3 M per year. The amount of future credits could increase as more facilities participate in the Paths to QUALITY program.

(Revised) *Additional Information* - This nonrefundable credit may be claimed by an individual taxpayer whose dependent child attends a qualified child care facility. The bill defines a qualified child care facility as a licensed child care center, licensed child care home, or registered child care ministry that participates in the Paths to QUALITY program and attains a rating of Level 2 or greater. The credit may be claimed for each dependent under the age of 6 attending a qualified child care facility.

The credit equals the number of months a child attends a facility for at least 100 hours multiplied by a set amount determined by the facility's Paths to QUALITY rating:

- If the facility's Paths to QUALITY rating is Level 4, the credit equals \$20 per dependent per month.
- If the facility's Paths to QUALITY rating is Level 3, the credit equals \$15 per dependent per month.
- If the facility's Paths to QUALITY rating is Level 2, the credit equals \$5 per dependent per month.

Estimated Distribution of the Tax Credit by Paths to QUALITY Institution Type

Quality Level		Level 2	Level 3	Level 4
Credit Per Dependent Per Month		\$5	\$15	\$20
Child Care Centers	Facilities	62	175	149
	Qualifying Children (est.)	4,942	13,948	11,876
	Total Credits (est.)	\$250,200	\$1,993,400	\$2,207,600
Child Care Homes	Facilities	203	280	107
	Qualifying Children (est.)	1,948	2,686	1,027
	Total Credits (est.)	\$98,600	\$383,700	\$190,800
Child Care Ministries	Facilities	17	17	0
	Qualifying Children (est.)	953	953	0
	Total Credits (est.)	\$48,200	\$136,200	\$0

The estimate is based on the current number of facilities participating in the Paths to QUALITY program, their current Paths to QUALITY ratings, and the average capacity of each type of qualified child care facility. In addition, the estimate makes some assumptions on attendance. The bill only allows the credit to be claimed for the months where the child attended for at least 100 hours. It would be approximately 23 hours per standard

work week. So, a child would have to attend 5 days per week for at least 4.6 hours per day or nearly 3 days a week for 8 hours per day. According to the National Center for Education Statistics, the mean hours per week a child under the age of 6 spends in nonparental care is 29.5. Based on this information and provided that it is unlikely that a child would qualify for the credit for a full 12 months due to vacations, holidays, and sick days, the estimate assumes that only 73.8% of children in the sample will qualify for 11 months out of the year. The estimate also accounts for the potential for some taxpayers to have insufficient tax liabilities to exhaust the nonrefundable credit amounts.

Revenue from the Individual AGI Tax is deposited in the state General Fund. The credit is nonrefundable and may not be carried forward or carried back.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Family and Social Services Administration: Division of Family Resources.

Local Agencies Affected:

Information Sources: U.S. Department of Education, National Center for Education Statistics; FSSA: Paths to QUALITY website, <http://www.in.gov/fssa/finder/2554.htm> ; FSSA, *CCDF Fact Sheet: Indiana - Statewide Summary Voucher and Contract Centers Program*, July 2012; FSSA, *Paths to QUALITY Program Monthly Management Report*, October 2012; FSSA, *Child Care Licensing Unit: Monthly/YTD Report*, October 2012; LSA Income Tax Database.

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