

# **Joint Committee on Children, Youth, and Families**

*Senator Nancy J. King, Senate Chair  
Delegate Ariana B. Kelly, House Chair*

## **Agenda**

**Tuesday, November 15, 2016, 10:00 a.m.**

**Room 120, House Office Building**

**Annapolis, Maryland**

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**I. Call to Order and Chairs' Opening Remarks**

**II. Department of Legislative Services**

- Mr. J. Ryan Bishop, Senior Manager
- Mr. Benjamin A. Blank, Policy Analyst
- Mr. George H. Butler, Senior Policy Analyst

**III. Center for American Progress**

- Mr. Simon Workman, Associate Director, Early Childhood Policy

**IV. Discussion – Recommendations and Potential Legislation Regarding Child Care**

- Topics to Consider Based on Prior Meetings Include:
  - a. Child Care Affordability – Tax Incentives and Child Care Subsidy Program
  - b. Barriers to Quality Child Care
  - c. Child Care Licensing – Process and Cost

**V. Closing Remarks and Adjournment**

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# **Tax Incentives for Child and Dependent Care Expenses**

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**Presentation to the  
Joint Committee on Children,  
Youth, and Families**

**Department of Legislative Services  
Office of Policy Analysis  
Annapolis, Maryland**

**November 15, 2016**

# Overview

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- A number of federal and Maryland tax incentives are available to assist taxpayers with the costs of raising children
- At the federal level, these include the child tax credit (CTC), the child and dependent care tax credit (CDCTC), flexible spending accounts (FSA), and the earned income tax credit (EITC)
- In Maryland, these incentives include the State CDCTC, the child and dependent care expenses subtraction modification (deduction), the State EITC, and the poverty level tax credit
- In 2013, taxpayers received approximately \$45 million in State and local income tax benefits from the State CDCTC and subtraction modification

# Federal Tax Incentives

# Federal Tax Incentives

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- CTC
- CDCTC
- FSA
- EITC (discussed in the Additional Maryland Tax Incentives section)
- Employer-provided Child Care Tax Credit

# Child Tax Credit

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- The CTC helps working families offset the costs of raising children
- The tax credit is worth up to \$1,000 per qualifying child, depending on level of income and other criteria
- The credit amount is reduced or eliminated for taxpayers with federal adjusted gross income above a certain amount

# Qualifying for the CTC

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- The credit may be claimed for a qualifying child if six criteria are met
  - **Age Test:** A child must have been under 17 years of age at the end of the tax year
  - **Relationship Test:** The child must be the taxpayer's son, daughter, stepchild, foster child, brother, sister, stepbrother, stepsister, or a descendant of any of these individuals, which includes a grandchild, niece, or nephew
  - **Support Test:** The child must not have provided more than half of their own support

# Qualifying for the CTC (cont.)

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- **Dependent Test:** The taxpayer must claim the child as a dependent on the taxpayer's federal tax return
- **Citizenship Test:** The child must be a U.S. citizen, U.S. national, or U.S. resident alien
- **Residence Test:** The child must have lived with the taxpayer for more than half of the taxable year



# CTC Refundability

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- If a taxpayer's CTC is greater than the amount of income tax owed, the taxpayer may be able to receive some or all of the credit as a refund
- A taxpayer can receive a refund of the credit equal to 15% of their earnings above \$3,000, up to the credit's full \$1,000-per-child value

# Child and Dependent Care Tax Credit

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- The CDCTC is a credit for expenses related to the care of a child or other dependent
- A taxpayer may be eligible to claim the credit if the taxpayer paid someone to care for their child or dependent during the taxable year and meets certain requirements
- The care must have been provided so the taxpayer – and spouse if married filing jointly – could work, look for work, or be in school

# CDCTC Value

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- The credit is worth between 20% and 35% of qualifying expenses, depending upon the level of federal adjusted gross income, and is nonrefundable
- The taxpayer may use up to \$3,000 of expenses paid in a year for one qualifying individual or \$6,000 for two or more qualifying individuals when calculating the credit
- The maximum credit is \$1,050 for one qualifying individual and \$2,100 for two or more qualifying individuals

# CDCTC Phase-down

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- Higher credit values apply to individuals with lower federal adjusted gross income
- Individuals with incomes below \$15,000 qualify for the full 35% credit
- That percentage falls by 1% for each additional \$2,000 of income (or part thereof) until it reaches 20% for families with incomes of at least \$43,000
  - There is no maximum income limitation on claiming the credit

# Flexible Spending Accounts

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- Employees can set aside up to \$5,000 per year of their salary in an FSA to pay for dependent care expenses
- The money in the account is used for child care expenses, just as with the CDCTC, but only one parent must work to claim a benefit from an FSA
- Money in an FSA is not subject to income or payroll taxes
- Contributions do not roll over and are “use it or lose it”

# **Interaction Between FSAs and the CDCTC**

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- If a family has child care expenses that exceed the amount set aside in an FSA, the family may qualify for a CDCTC
  - Families first calculate their allowable CDCTC expenses (maximum of \$3,000 for one qualifying individual or \$6,000 for two or more qualifying individuals)
  - If this calculation exceeds the amount of salary set aside in an FSA, a taxpayer may claim a CDCTC based on the difference

# Percentage of Taxpayers that Benefit from Federal Incentives

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- **CTC:** Approximately 70% of all families with children claim the credit, including the refundable portion, providing approximately \$57 billion annually
- **CDCTC:** Approximately 12% of families with children claim the credit
  - Some do not benefit because they do not have childcare expenses or only one spouse works or attends school
- **FSAs:** Approximately 54% of State and local government workers and 36% of private industry workers have access to FSAs
  - Likelihood of access varies based on industry and income, with lower income individuals less likely to have access

# Employer-provided Child Care Tax Credit

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- In addition to the aforementioned credits that can be claimed by individual taxpayers, employers may claim a credit for providing child care services
- The credit may be claimed for 25% of the qualified child care facility expenditures, plus 10% of the qualified child care resource and referral expenditures paid or incurred by an employer during the tax year
- Qualified expenditures include:
  - Amounts paid or incurred to acquire, construct, rehabilitate, or expand property to be used as part of a child care facility of the employer; or
  - Operating expenses of a qualified child care facility, or for contracting these services with a qualified child care facility to provide child care services to employees
- The credit is limited to no more than \$150,000 per tax year



# Maryland Tax Incentives

# Maryland CDCTC

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- A taxpayer may claim a nonrefundable State income tax credit for child and dependent care expenses equal to a percentage of the federal CDCTC
- The credit starts at 32.5% of the federal credit allowed and phases out for a taxpayer with federal adjusted gross income above \$41,000 (\$20,500 for individuals who are married but file separate income tax returns)
- In order to claim the credit, the taxpayer's federal adjusted gross income may not exceed \$50,000 (\$25,000 for a married individual filing a separate return)
  - This maximum threshold is fixed and not adjusted for inflation
- The maximum credit that may be received is \$341 for a taxpayer with one qualifying individual and \$683 for a taxpayer with two or more qualifying individuals

# Calculation of Maryland CDCTC

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Filing Status of Married Filing Separately with Federal Adjusted Gross Income of		Credit %	For All Other Filing Statuses with Federal Adjusted Gross Income of	
<u>At Least</u>	<u>But Less Than</u>		<u>At Least</u>	<u>But Less Than</u>
\$0	\$20,501	32.50%	\$0	\$41,001
20,501	21,001	29.25%	41,001	42,001
21,001	21,501	26.00%	42,001	43,001
21,501	22,001	22.75%	43,001	44,001
22,001	22,501	19.50%	44,001	45,001
22,501	23,001	16.25%	45,001	46,001
23,001	23,501	13.00%	46,001	47,001
23,501	24,001	9.75%	47,001	48,001
24,001	24,501	6.50%	48,001	49,001
24,501	25,001	3.25%	49,001	50,001
25,001	Or Over	0.00%	50,001	Or Over

Source: Comptroller's Office

# **Maryland Child and Dependent Care Subtraction Modification**

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- Allows the taxpayer to subtract from taxable income expenses incurred for household and dependent care services not exceeding the dollar limit allowed under the Internal Revenue Code
- Legal maximums are \$3,000 for one qualifying individual and \$6,000 for two or more qualifying individuals

# **Tax Incentives in Other States**

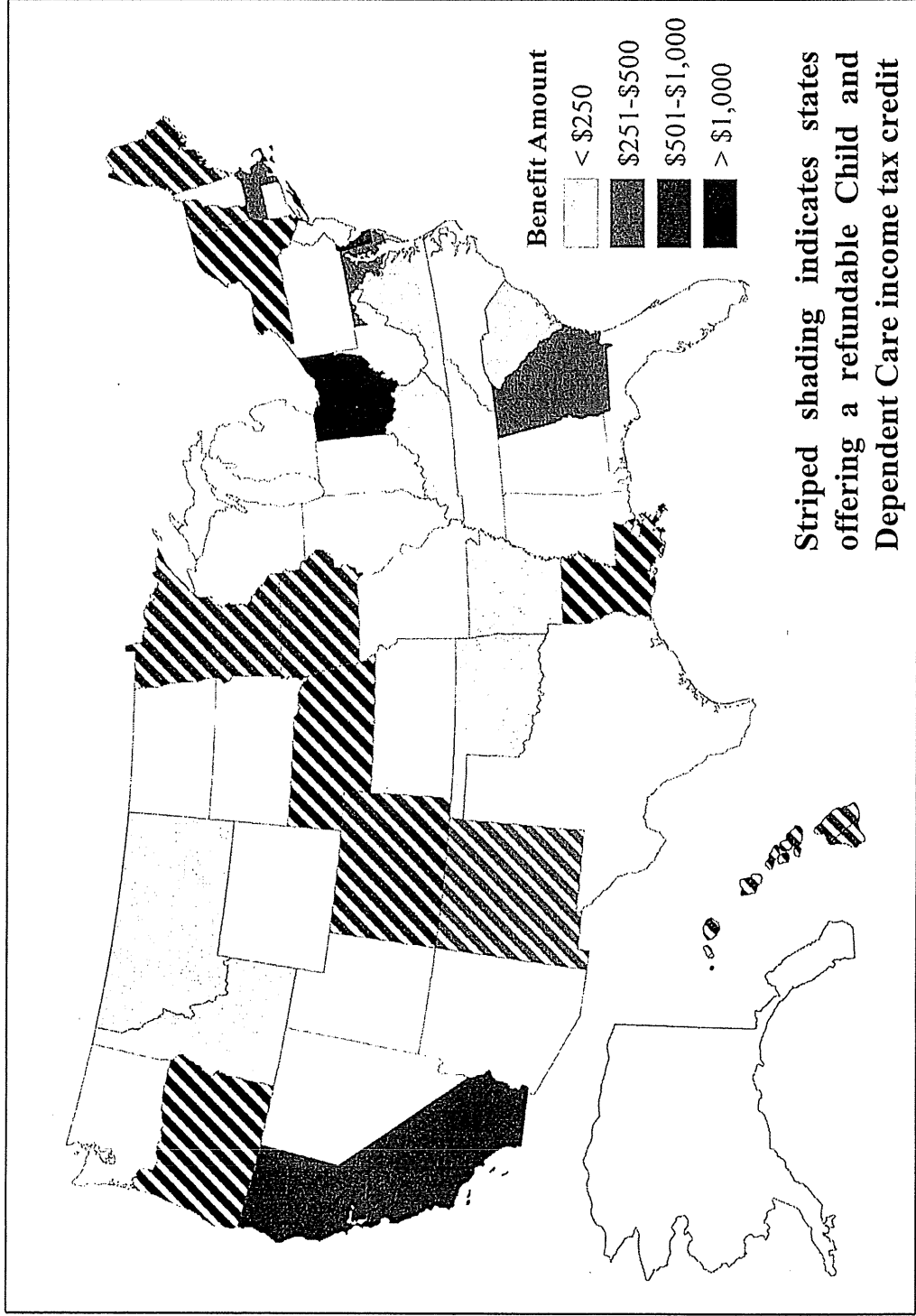
# Child and Dependent Care Tax Incentives in Other States

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- Maryland and 25 other states, including the District of Columbia, provide tax incentives for child and dependent care expenses that reduce the amount of income tax owed by families
  - 12 states offer refundable credits
  - 10 states offer nonrefundable credits
  - <sup>5</sup>~~4~~ states offer deductions

# States with Child and Dependent Care Tax Incentives

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# Calculation of Tax Incentives in Other States

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- 17 states calculate their state credits as a percentage of the federal credit
  - Some states provide a credit based on the amount of the federal credit for which the taxpayer is potentially eligible that is unreduced by the taxpayer's federal tax liability
  - Other states base their credits on the amount of the federal credit actually received



## **Calculation of Tax Incentives in Other States (cont.)**

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- Idaho, Maryland, Massachusetts, and Virginia provide a deduction for expenses eligible for the federal credit
- Montana provides a deduction for expenses that is not determined by the federal credit

## **Value of Tax Credits in Other States**

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- Generally, credit amounts for individuals with two or more qualifying individuals vary from \$420 in South Carolina to \$2,310 in New York
- Oregon's recently enacted Working Family Child and Dependent Care credit has maximum limits of \$9,000 for the care of one qualifying individual and \$18,000 for the care of two or more qualifying individuals

## **Child and Dependent Care Tax Incentives Offered in Neighboring Jurisdictions**

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- Delaware – Nonrefundable credit equal to 50% of the credit that may be claimed for federal income tax purposes
- District of Columbia – Nonrefundable credit equal to 32% of the credit allowable for federal income tax purposes
- Virginia – Deduction equal to the amount of credit allowable for federal income tax purposes
- Pennsylvania and West Virginia do not offer incentives

# **Tax Incentives for Child and Dependent Care Providers**

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- **Louisiana**
  - Child Care Provider Tax Credit
  - School Readiness Directors and Staff Tax Credit
- **Nebraska**
  - School Readiness Tax Credit

# **Additional Maryland Tax Incentives**

# Earned Income Tax Credit

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- Low-income taxpayers may be eligible for both a federal and State EITC
  - Each credit is refundable
- The federal EITC is one of the largest federal anti-poverty programs
- Maryland and about half of the states offer some type of earned income credit that supplements the federal credit
- Approximately \$300 million in total State credits have been claimed annually in recent years
- The number and amount of credits claimed have increased significantly over time

# Poverty Level Tax Credit

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- Generally, if a household's Maryland State tax exceeds 50% of the federal EITC, and the household's earned income and federal adjusted gross income are below the poverty level, the household may claim a credit of 5% of its earned income
- In 2014, 44,639 taxpayers claimed \$6.4 million in poverty level tax credits

# **Costs of Maryland Child and Dependent Care Tax Incentives**



# Costs of Maryland CDCTC

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- The number of taxpayers claiming the credit and the aggregate cost of the credit have diminished over time
- The number of claimants peaked in 2004 at 40,546 taxpayers, with a steady decline since that time
- 24,336 taxpayers claimed the credit in 2014, which is a decrease of almost 40% from 2004
- Adjusted for inflation, annual credit costs peaked at \$9.4 million in 2003, dropping to \$3.6 million by 2014
- The average credit per claimant has decreased from \$218 in 2000 to \$149 in 2014

# Geographic Distribution of CDCTCs

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- Claims for the CDCTC are not distributed equally across the State
- Taxpayers in Baltimore City and Anne Arundel, Baltimore, Montgomery, and Prince George's counties account for almost 80% of the credits claimed in tax year 2014, while taxpayers in 11 counties received a total of less than 1% of the credits

# Costs of Maryland Child and Dependent Care Subtraction Modification

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- Annual claims for the subtraction modification have experienced some fluctuation over the last 15 years
- The amount of claims for the subtraction modification peaked in 2006 with \$640 million in child and dependent care expenses claimed, equating to approximately \$30 million in total State income tax benefits and \$19 million in local income tax benefits
- During the Great Recession, the amount claimed decreased dramatically, by 29.2%, to a low of \$460 million in expenses claimed in 2008
- The amount claimed in 2013 was approximately \$527 million, which equated to total State income tax benefits of approximately \$25 million and local income tax benefits of approximately \$16 million

# Options

# Options

Center for American Progress



# Child Care Tax Credits

Presentation to Maryland Joint Committee  
on Children, Youth, and Families

Simon Workman  
Associate Director, Early Childhood Policy  
Center for American Progress

November 15, 2016

## What are Child Care Tax Credits?

- Market intervention – help promote and finance quality
- Closely tied to Quality Rating and Improvement Systems
- Why use tax system? (Stoney & Mitchell, 2007)
  - Salient – tax policy influences how citizens consume, work, save, and invest
  - Stable – not subject to annual appropriations
  - Equitable – refundability helps redistribute resources, advancing credit helps increase access to high-quality for low-income
  - Efficient – utilizes already existing tax infrastructure; no ‘welfare stigma’
  - Flexible – families can choose any eligible child care program
- Work best when used to augment and help coordinate – not replace – existing direct subsidies.
- Can address multiple areas of early childhood policy – support families, workforce, providers



## Louisiana School Readiness Tax Credits

- Package of 5 separate tax credits, enacted in 2007
  1. Provider
  2. Directors and Staff
  3. Child care expenses
  4. Business child care expenses
  5. Contributions to resource and referral agencies
  
- Total annual funding: \$16 million
  - Funding increased 350% between 2008 and 2012
  - Serves as state match for federal CCDBG funds



# 1. Child Care Provider Credit

- Refundable credit to support and promote program quality
- Requirements:
  - Providers participate in QRIS
  - Provider serves children in child care subsidy program, or foster children
- Amount based on number of eligible children who attend & QRIS rating
- 2014: \$4 million in credit to 405 providers.
- Average annual credit per provider: \$9,900

Quality Rating of Child Care Facility	Tax Credit Per Eligible Child (annual)
Five Star	\$1,500
Four Star	\$1,250
Three Star	\$1,000
Two Star	\$750



## 2. Credit for Child Care Directors and Staff

- Refundable credit to support early childhood workforce
- Requirements:
  - Employed for at least 6 months at licensed child care facility in tax year
  - Provider participates in QRIS
  - Employee participates in career development system
- Amount based on education level attained
- Adjusted annually for inflation
- 2014: \$8.1 million in credits to 3,770 directors and staff
- Credits range from \$1,630 – \$3,260
- Average annual credit per employee: \$2,150

### 3. Child Care Expense Credit

- Refundable credit to support cost of high-quality child care
- For low-income families with children under 6 enrolled in programs with a QRIS rating of 2 stars or above
- Increases the amount of the state child care tax credit by 50-200%
- Refundable if family income less than \$25,000
- 2014: \$3.2 million in credits to 14,500 families
- Average subsidy increase per child: \$221

Quality Rating of Child Care Facility	Increase to Child Care Tax Credit
Five Star	200%
Four Star	150%
Three Star	100%
Two Star	50%



## Other Credits

### 4. Business-Supported Child Care Credit

- Refundable tax credit for eligible business child care expenses
  - 2014: \$401k in credits to 57 businesses
  - Average credit: \$7,040 per business

### 5. Credit for Donations to Resource & Referral Agencies

- Non-refundable tax credit for donations made to resource and referral agencies
  - 2014: \$370k in credits to 190 businesses
  - Average credit: \$4,370 per business



## Key Takeaways from Louisiana

- Drive improvement and access to quality
  - Increase in number of centers participating in QRIS and the number at higher quality levels
  - Increase in number of credentialed teachers and directors
  - Increase in number of low-income children in high-quality programs
- Tax credits serve as maximizers – match for federal funds and encourage local investment in quality
- Accountants and tax preparers key to encouraging people to take advantage of them
- Credit amounts don't fully cover cost of quality – led to many mid-level quality centers.



## Nebraska School Readiness Tax Credit

- Modeled on Louisiana tax credit – narrowed focus in order to pass
  - Workforce credit
  - Provider credit
- Introduced and championed by Chair of Appropriations Committee in 2016 session
  - Nebraska’s small legislative body allowed for personal outreach to Senators
  - Holland Children’s Movement advocacy organization instrumental
- Coincided with development of state QRIS – Step Up to Quality

# Tax Credit for the Early Childhood Workforce

- Refundable tax credit to encourage teachers and directors to improve knowledge, skills, abilities
- Must have at least a CDA or a one-year certificate/diploma in ECE or child development, and be working in QRIS rated program
- Credit amount based on staff member classification – as defined by Nebraska Department of Education

Eligible Staff Member's Classification	Employee Tax Credit (annual)
Level IV	\$1,500
Level III	\$1,250
Level II	\$750
Level I	\$500

# Tax Credit for Early Childhood Programs

- Non-refundable credit to support ECE programs to achieve and maintain quality
- Must have a QRIS rating of 3 or above, and be serving low-income children through state child care subsidy system
- Value of credit determined by average monthly number of subsidy children attending, and quality rating of program

Quality Rating of Eligible Program	Tax Credit Per Eligible Child (annual)
Step Five	\$750
Step Four	\$500
Step Three	\$250





## Key Takeaways from Nebraska

- **Flexible approach** – started broad, made changes to ensure passage
  - Narrowed focus to workforce and providers
  - Added 5-year sunset
  - \$5 million annual cap
- **Importance of helping fiscal analysts understand how the QRIS works**
- **Framing around key messages**
  - Support for small businesses (child care providers) and impact of child care industry on state economy
  - Importance of program quality, especially for low-income children



## Additional Options for Consideration

- **Advancing credit throughout tax year**
  - Assists low-income families to cover cost of child care
  - Assists providers to cover upfront operational costs of higher quality
  - Eligibility based on prior-year income – eligible for full calendar year
- **Importance of refundability**
  - Many ECE workers and families don't earn enough to pay income taxes so can't take advantage unless refundable
  - If refundability not possible, next best option is to allow credit to be applied to taxes in future years
- **Link to cost of quality and tie credits to inflation**
  - Incentives should be tied to actual cost to achieve and maintain quality
  - Link to inflation ensures value of credit is maintained



# Resources

## Louisiana School Readiness Tax Credits

- National Women's Law Center evaluation: [http://www.nwlc.org/sites/default/files/pdfs/final\\_nwlc\\_louisianataxcreditsreport.pdf](http://www.nwlc.org/sites/default/files/pdfs/final_nwlc_louisianataxcreditsreport.pdf)
- Legislation: <http://revenue.louisiana.gov/IndividualIncomeTax/SchoolReadinessTaxCredit>

## Nebraska School Readiness Tax Credits:

- Background: [http://www.childrensmovement.com/srtc\\_lb889](http://www.childrensmovement.com/srtc_lb889)
- Bill (LB889): [http://nebraskalegislature.gov/bills/view\\_bill.php?DocumentID=28185](http://nebraskalegislature.gov/bills/view_bill.php?DocumentID=28185)

## Additional information:

- Alliance for Early Childhood Finance paper on tax credits as a quality improvement strategy: "Using Tax Credits to Promote High Quality Early Care and Education Services" (2007) by Louise Stoney and Anne Mitchell: [http://www.earlychildhoodfinance.org/downloads/2007/StonMitch\\_UsingTaxCreditsPromoteServices2007.pdf](http://www.earlychildhoodfinance.org/downloads/2007/StonMitch_UsingTaxCreditsPromoteServices2007.pdf)
- Center for American Progress proposal for High-Quality Child Care Tax Credit: "A New Vision for Child Care in the United States" (2015) by Katie Hamm and Carmel Martin: <https://www.americanprogress.org/issues/early-childhood/reports/2015/09/02/119944/a-new-vision-for-child-care-in-the-united-states-3/>

# Questions

**Simon Workman**

Associate Director, Early Childhood Policy  
Center for American Progress

202-599-9698

[sworkman@americanprogress.org](mailto:sworkman@americanprogress.org)



## Early Learning in Maryland

By Jessica Troe July 2016

Maryland families need access to affordable child care and preschool to support working parents and to ensure that children start kindergarten ready to learn. During the first five years of life, children learn critical skills such as language and socio-emotional regulation, which provide a foundation for lifelong learning.<sup>1</sup> High-quality preschool and child care can support healthy development and enable parents to work. Unfortunately, too many children are left behind by the status quo. In fact, differences in children's cognitive abilities by income are evident at only 9 months old and significantly widen by the time children are age 2.<sup>2</sup> Early learning has positive impacts for children, families, and the economy.<sup>3</sup> It's time to work to put these programs within reach.

### Maryland families need access to high-quality child care and preschool

Maryland has 423,253 children under age 6,<sup>4</sup> 72 percent of whom have all available parents in the workforce.<sup>5</sup>

High-quality child care and preschool programs help narrow school readiness gaps, which is particularly important for children of color and those living in low-income families.<sup>6</sup>

### The cost of child care is out of reach for families

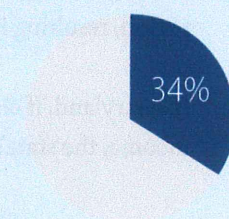
Annual costs at a child care center in Maryland average \$23,032 for an infant and a 4-year-old,<sup>9</sup> which is 26 percent of the median income for families with children.<sup>10</sup>

For low-income families and people of color, the average cost of child care would constitute the majority of income in most cases.<sup>11</sup>

### The current child care system is failing Maryland families

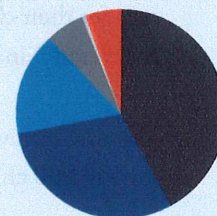
On average, the Child Care and Development Block Grant, or CCDBG, serves only 8 percent of federally eligible children in Maryland.<sup>12</sup> This results in only 18,300 Maryland children served through CCDBG funds.<sup>13</sup> Of those served, 56 percent attend licensed or regulated center-based care.<sup>14</sup>

### Children living in low-income families<sup>7</sup>



■ Share of children younger than age 6 living in low-income households

### Race and ethnicity of U.S. children younger than age 5<sup>8</sup>



42% ■ White  
30% ■ African American  
16% ■ Latino  
6% ■ Asian  
<0.5% ■ American Indian and Alaska Native  
<0.5% ■ Native Hawaiian and Other Pacific Islander  
5% ■ Two or more races

58 percent of Maryland's children under age 5 are children of color.

### Maryland families need greater access to high-quality preschool programs

The Maryland Prekindergarten Program provides public preschool for 4-year-olds in low-income families. Maryland also has 25 learning centers to provide comprehensive services for children under age 6.<sup>15</sup> This preschool program meets 8 quality benchmarks set by the National Institute for Early Education Research and spends \$3,572 annually per student.

In Maryland, 13 percent of 3-year-olds and 46 percent of 4-year-olds are enrolled in a public preschool program.<sup>16</sup>

### Investing in high-quality early learning programs affects economies

Making child care more affordable for families can increase mothers' workforce participation, resulting in a boost to the state's economy.<sup>17</sup>

In Maryland, if child care costs did not exceed more than 10 percent of a family's income, the state's economy would increase nearly \$43.78 million.<sup>18</sup>

### We can do better for Maryland families

The Center for American Progress proposes two solutions to put high-quality child care and preschool within reach for Maryland families and create an early childhood learning continuum for children:

- A new High-Quality Child Care Tax Credit would help families afford high-quality care for their children. This tax credit would benefit an estimated 74,000 children in Maryland<sup>19</sup> and save families an average of \$10,697 per year on child care costs.<sup>20</sup>
- Voluntary universal preschool for all 3- and 4-year-olds.<sup>21</sup> This would increase access for 119,000 children in Maryland.<sup>22</sup>

*Jessica Troe is the Policy and Outreach Coordinator for the Early Childhood Policy team at the Center for American Progress.*

### Cost of child care as a share of income for people of color<sup>10</sup>

American Indian	N/A
Asian and Pacific Islander	22%
African American	39%
Latino	43%

### Cost of child care as a share of income for low-income families<sup>11</sup>

100 percent of the federal poverty level	95%
150 percent of the federal poverty level	63%
200 percent of the federal poverty level	48%

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## Endnotes

- 1 Julia B. Isaacs, "Impacts of Early Childhood Programs" (Washington: First Focus and Brookings Institution, 2008), available at [http://www.brookings.edu/~media/Research/Files/Papers/2008/9/early-programs-isaacs/09\\_early\\_programs\\_isaacs.PDF](http://www.brookings.edu/~media/Research/Files/Papers/2008/9/early-programs-isaacs/09_early_programs_isaacs.PDF).
- 2 National Center for Education Statistics, "Early Childhood Longitudinal Program (ECLS): Birth Cohort (ECLS-B)," available at <https://nces.ed.gov/ecls/birth.asp> (last accessed April 2016).
- 3 Jennifer Erickson, ed., "The Middle Class Squeeze" (Washington: Center for American Progress, 2014), available at <https://www.americanprogress.org/issues/economy/report/2014/09/24/96903/the-middle-class-squeeze/>.
- 4 Bureau of the Census, "Current Population Survey, Annual Social and Economic Supplement, 2015," available at <http://www.census.gov/cps/data/cpstablecreator.html> (last accessed April 2016).
- 5 Bureau of the Census American FactFinder, "Table GCT2302: Percent of Children Under 6 Years Old with All Parents in the Labor Force - United States - States; and Puerto Rico, Universe: Own children under 6 years in families and subfamilies, 2010-2014 American Community Survey 5-Year Estimates," available at [http://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS\\_14\\_5YR\\_GCT2302\\_US01PR&prodType=table](http://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_14_5YR_GCT2302_US01PR&prodType=table) (last accessed April 2016).
- 6 Allison Friedman-Krauss, W. Steven Barnett, and Milagros Nores, "How Much Can High-Quality Universal Pre-K Reduce Achievement Gaps?" (Washington: Center for American Progress, 2016), available at <https://www.americanprogress.org/issues/education/report/2016/04/05/132750/how-much-can-high-quality-universal-pre-k-reduce-achievement-gaps/>.
- 7 National Center for Children in Poverty, "50 State Data: Income levels of children under age 6," available at <http://www.nccp.org/tools/table.php?db=dem&data=per&state=&ids=1&states=&title=50-State%20Data&age=6&unit=Children&inc=Low-Income&denom=char&cat=1> (last accessed April 2016).
- 8 Kids Count Data Center, "Child Population By Race And Age Group," available at <http://datacenter.kidscount.org/data/tables/8446-child-population-by-race-and-age-group?loc=1&loct=2#detailed/2/2-52/false/869/68,69,67,12,70,66,71|62/17078> (last accessed April 2016).
- 9 Author's analysis based on data from Child Care Aware of America, "Parents and the High Cost of Child Care: 2015 Report" (2015), available at <http://usa.childcareaware.org/wp-content/uploads/2016/03/Parents-and-the-High-Cost-of-Child-Care-2015-FINAL.pdf>.
- 10 Author's analysis based on data from *ibid.* and the 2014 U.S. median income as measured by Kids Count Data Center. See Kids Count Data Center, "Median Family Income Among Households With Children," available at <http://datacenter.kidscount.org/data/tables/65-median-family-income-among-households-with-children?loc=1&loct=2#detailed/2/2-52/false/869,36,868,867,133/any/365> (last accessed April 2016).
- 11 Author's analysis based on data from Child Care Aware of America, "Parents and the High Cost of Child Care" and the 2014 median income as measured by Kids Count Data Center. See Kids Count Data Center, "Median Family Income Among Households With Children By Race And Ethnicity," available at <http://datacenter.kidscount.org/data/tables/8782-median-family-income-among-households-with-children-by-race-and-ethnicity?loc=1&loct=1#detailed/2/2-52/false/36/4038,4040,4039,2638,2597,4758,1353/17618> (last accessed April 2016).
- 12 Office of Child Care, "Investments in Early Childhood," April 12, 2016, available at <http://www.acf.hhs.gov/programs/occ/investments-in-early-childhood>.
- 13 Office of Child Care, "FY 2014 Preliminary Data Table 1 - Average Monthly Adjusted Number of Families and Children Served," May 26, 2015, available at <http://www.acf.hhs.gov/programs/occ/resource/fy-2014-preliminary-data-table-1>.
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- 15 W. Steven Barnett and others, "The State of Preschool 2015: State Preschool Yearbook" (New Brunswick, NJ: National Institute for Early Education Research, 2016), available at <http://nieer.org/sites/nieer/files/2015%20Yearbook.pdf>. In states that do not serve 3-year-olds or with no preschool program, enrollment rates include federal Head Start only.
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- 17 Josh Bivens and others, "It's time for an ambitious national investment in America's children" (Washington: Economic Policy Institute, 2016), available at <http://www.epi.org/publication/its-time-for-an-ambitious-national-investment-in-americas-children/>.
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- 19 Bureau of the Census, "Current Population Survey, Annual Social and Economic Supplement, 2015."
- 20 Katie Hamm and Carmel Martin, "A New Vision for Child Care in the United States" (Washington: Center for American Progress, 2015), available at <https://www.americanprogress.org/issues/early-childhood/report/2015/09/02/119944/a-new-vision-for-child-care-in-the-united-states-3/>.
- 21 For a full description of CAP's universal preschool proposal, see Cynthia Brown and others, "Investing in Our Children" (Washington: Center for American Progress, 2013), available at <https://www.americanprogress.org/issues/education/report/2013/02/07/52071/investing-in-our-children/>.
- 22 Author's calculations based on data from Bureau of the Census, "Current Population Survey, Annual Social and Economic Supplement, 2015," available at <http://www.census.gov/cps/data/cpstablecreator.html> (last accessed April 2016) and W. Steven Barnett and others, "The State of Preschool 2015: State Preschool Yearbook" (New Brunswick, NJ: National Institute for Early Education Research, 2016), available at <http://nieer.org/sites/nieer/files/2015%20Yearbook.pdf>.







**Testimony Concerning Child Care Tax Incentives and  
Child Care Affordability for the Middle Class  
Presented to the Joint Committee on Children, Youth, and Families**

**November 15, 2016**

The high cost of child care poses enormous challenges for working families in Maryland at many—perhaps even most—socio-economic levels. While the State’s Child Care Subsidy Program currently provides limited assistance for very low-income families (those earning no more than \$23,676 in a family of three, for example), most Maryland families must meet child care costs largely on their own. To keep middle-income parents earning and keep their young children learning, the State can improve income tax provisions that help families afford child care.

Maryland Family Network has worked since 1945 to improve the availability, affordability, and quality of child care, family support services, and early education. We have been active in state and federal debates on education and welfare reform and are strongly committed to ensuring that low- and moderate-income families—and indeed, all families—have the supports they need to care for their children and achieve self-sufficiency.

Maryland has both a state child care tax credit and a child care tax deduction. Maryland taxpayers earning up to \$50,000 are entitled to a non-refundable state child care tax credit, with a maximum value from \$683 for families earning \$15,000 or less, to \$390 for families earning up to \$50,000. Neither the amount of the credit nor the income ceiling offers significant assistance to middle-income families, whose annual child care bill for a child under age two can easily exceed \$10,000. All Maryland families are eligible for a child care tax deduction of \$3,000 for one child or \$6,000 for two or more children. The maximum value of the tax deduction, for families in the highest tax bracket earning over \$300,000, is \$345. However, these tax provisions could be modified to make them more beneficial to families.

Make the credit refundable: The lowest-income families are likely to have so little state tax liability that unless the credit is refundable, they will derive little or no actual benefit from it. Without refundability, a tax credit that looks generous on paper may in fact provide relatively little assistance to

many families. In addition, refundable credits put cash in low- and moderate income families' hands to help meet child care and other expenses. Making the Maryland child care tax credit refundable is the best way to enable low- and moderate-income families to benefit from it.

Base the credit on an unreduced federal credit: Maryland's credit is based on the federal child and dependent care tax credit (CDCTC), which is also nonrefundable. Many families lack the federal tax liability to fully take advantage of a nonrefundable credit like the federal CDCTC, even though the federal credit is designed to benefit lower income families the most. For example, for tax year 2015, a single mother with two children and an adjusted gross income (AGI) of \$29,000 will only have \$775 in federal tax liability (after standard deductions and personal exemptions)—so although she is entitled to a federal CDCTC of \$1,680, she can only claim a federal credit of \$775, because the credit is not refundable.<sup>[1]</sup> For tax year 2015, married couples with two children and an AGI of \$29,000 will only have \$40 in federal tax liability (after standard deductions and personal exemptions)—so although they are entitled to a federal child and dependent care tax credit of \$1,680, they can only claim a federal credit of \$40 because the credit is not refundable.<sup>[2]</sup> If families have no, or a small, federal CDCTC, their Maryland credit will similarly be small or nonexistent. Thus, the Maryland credit could offer a more significant benefit to low- and moderate-income families if it were based on the federal CDCTC before it is reduced by federal tax liability, or if families could claim the Maryland credit without regard to whether or not they claimed the federal credit.

Increase the child care tax deduction to reflect the actual cost to families: When parents pay in excess of \$10,000 per child in fees for child care, a \$6,000 deduction for two or more children—which will result in, at most, a \$345 tax savings—is not a significant incentive to encourage parents to choose high-quality child care. We urge the State to consider raising the maximum deduction to cover the full child care cost that families pay.

MFN thanks the Committee for its consideration.

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<sup>[1]</sup> All figures are National Women's Law Center calculations. Assumes \$6,000 in child care costs.

<sup>[2]</sup> Assumes \$6,000 in child care costs.



**Caring For Maryland's Most Important Natural Resource™**

## Maryland State Child Care Association

Christina Peusch  
Executive Director  
2810 Carrollton Road  
Annapolis, MD. 21015  
Phone: (410)-820-9196  
Email: [mscca1@comcast.net](mailto:mscca1@comcast.net)  
Website: [www.mscca.org](http://www.mscca.org)

*November 15, 2016*

Joint Committee on Children, Youth and Families  
Nancy J. King, Senate Chair  
Ariana B. Kelly, House Chair  
House Office Building  
6 Bladen Street, Room 120  
Annapolis, MD 21401

**Senator Nancy King, Delegate Kelly and Esteemed Committee Members:**

*The Maryland State Child Care Association (MSCCA) is a non-profit, statewide, professional association incorporated in 1984 to promote the growth and development of child care and learning centers in Maryland. We have 10 Chapters in Maryland and represent membership in Baltimore City, as well as 23 counties. MSCCA has over 2500 members and our members provide care and learning for more than 12,000 children therefore assisting over 20,000 working parents. We believe children are our most important natural resource and work hard to advocate for children, families and for professionalism within the child care provider community.*

MSCCA supports affordable child care and tax benefits for ALL parents through:

~**Refundable** tax credits

~**Expanding/Increasing** the current subtraction benefit in Maryland

~**Requiring parents to provide the license/registration number of the legal child care provider/program** on tax forms which will promote accountability and reward law abiding, taxpaying providers and parents in Maryland

Maryland legislators passed HB 329 and SB 312 in 2016 which imposes penalties for anyone advertising for child care services without posting a valid license/registration number. This legislation is an important step in the effort to eliminate illegal, unsafe child care practices. Children need to be protected, parents need to be informed and legal, licensed, professional child care programs should not have to compete with unlicensed, illegal care. Requiring parents to provide a valid license number issued by the state of Maryland for child care providers/programs when filing the 502 forms or any child care related IRS forms will allow licensed child care to be a better choice financially for parents while also holding the child care provider and the parent accountable and prevent fraudulent practices.

It is important to consider tax benefits for businesses that support child care, tax benefits for providers, and tax benefits for teachers. While the child care provider community appreciates any financial help we can get, allocating available financial resources towards assisting our parents seems the most efficient and fair way to support our system of child care.

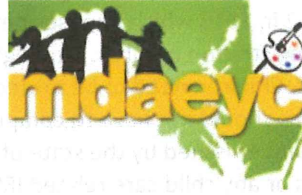
Maryland currently has a subtraction benefit that allows you to reduce your taxable income by your actual child care expenses up to \$3000 (\$6000 for two children), and a tax credit that reduces the amount of tax you owe by up to 32.5% of the federal credit if you are a family making \$41,000 or less. It is phased out to zero if you are making more than \$50,000. It is not refundable, but may be carried forward to another tax year. MSCCA recommends substantially expanding the subtraction benefit so that it is tied to the average cost of care and so that it goes up if costs of care go up. The tax credit should be 50-100% of the federal credit, should be refundable, and should be available to a much higher income level. The goal should be that we meet the federal affordability recommendation that no family pays more than 10% of their income for child care.

The child and dependent care credit is a tax break specifically for working people, says Matt Becker, a financial planner and founder of Mom and Dad Money. "Child care is expensive, and the cost gives many parents pause about whether it's worth returning to the workforce," Becker says. "But the child and dependent care credit can make it a little easier for parents to keep working without putting too much stress on their budget."

New research indicates that the earned income tax credits and child care tax credits have been successful in boosting work effort and earnings generationally. Children whose families receive more income from refundable tax credits do better in school, are likelier to attend college, and likely earn more as adults; they also are likelier to avoid the early onset of disabilities and other illnesses associated with child poverty, which further enhances their earnings ability as adults.

MSCCA appreciates the efforts of this Committee to hear and act on all testimony submitted with the goal of impacting positive, necessary change for children, families and child care providers across the state.

Christina Peusch, Executive Director  
Maryland State Child Care Association



**Maryland Association for the Education of Young Children**

**Contact: Christina Peusch**

**[marylandaeyc@gmail.com](mailto:marylandaeyc@gmail.com)**

**[www.marylandaeyc.com](http://www.marylandaeyc.com)**

Maryland Association for the Education of Young Children (MDAIEYC) is a professional organization of over 1,500 Marylanders who educate and care for young children in all jurisdictions of the State, and is the Maryland affiliate of the National Association for the Education of Young Children. (NAEYC)  
NAEYC is a nationally respected association leading the country in standards of early care and education, as well as influencing public policy at a federal level.

***November 15, 2016***

Joint Committee on Children, Youth and Families

Nancy J. King, Senate Chair

Ariana B. Kelly, House Chair

House Office Building

6 Bladen Street, Room 120

Annapolis, MD 21401

**Senator Nancy King, Delegate Kelly and Esteemed Committee Members:**

MDAIEYC appreciates the opportunity to share written comments on the topic of child care.

MDAIEYC supports affordable child care and tax benefits for ALL parents through:

~**Refundable** tax credits

~**Expanding tax credits and index credits to inflation**

~**Review of state models linking accreditation and tax credits for parents**

~**Requiring parents to provide the license/registration number of the legal child care provider/program** on tax forms which will promote accountability and reward law abiding, taxpaying providers and parents in Maryland

MDAIEYC aligns with NAEYC and recommends making the Dependent Care Tax Credit refundable so that it can help more low-income families afford care. Expand the sliding scale for determining the amount of the credit, to help middle- and low-income families; index the credit to inflation; and provide a larger credit for families using child care programs that attain national accreditation or a higher level on the state's quality-rating system.

There is a model in place connecting tax credits to National Accreditation. Rather than providing incentives to programs, Arkansas and Maine offer a tax credit to families who send their children to an NAEYC-accredited child care programs. In Arkansas, this credit essentially doubles the state child care tax credit. Louisiana has a set of school readiness tax credits that are linked to the state's QRIS. Dependent on the check level rating of a program, as well as the number of children enrolled in the program who receive assistance through the Child Care Assistance Program, child care teachers and directors can receive two types of refundable tax credits. In addition, employers can receive a refundable tax credit for eligible child care expenses, also dependent on the check level rating of the child care program. MDAIEYC recommends review of these models and suggest including all national and state level accredited programs which is inclusive of nationally accredited family child care programs.

Maryland legislators passed HB 329 and SB 312 in 2016 which imposes penalties for anyone advertising for child care services without posting a valid license/registration number. This legislation is an important step in the effort to eliminate illegal, unsafe child care practices. Children need to be protected, parents need to be informed and legal, licensed, professional child care programs should not have to compete with unlicensed, illegal care. Requiring parents to provide a valid license number issued by the state of Maryland for child care providers/programs when filing the 502 forms or any child care related IRS forms will allow licensed child care to be a better choice financially for parents while also holding the child care provider and the parent accountable and prevent fraudulent practices.

It is important to consider tax benefits for businesses that support child care, tax benefits for providers, and tax benefits for teachers. While the child care provider community appreciates any financial help we can get, allocating available financial resources towards assisting our parents seems the most efficient and fair way to support our system of child care.

New research indicates that the earned income tax credits and child care tax credits have been successful in boosting work effort and earnings generationally. Children whose families receive more income from refundable tax credits do better in school, are likelier to attend college, and likely earn more as adults; they also are likelier to avoid the early onset of disabilities and other illnesses associated with child poverty, which further enhances their earnings ability as adults.

MSCCA appreciates the efforts of this Committee to hear and act on all testimony submitted in order to impact positive, necessary change for children, families and child care providers across the state.

Christina Peusch, Executive Director  
Maryland Association for the Education of Young Children