



**INDIVIDUAL INCOME TAX
CORPORATE FRANCHISE TAX
Childcare Provider & Facility Credits**

February 28, 2019

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of S.F. 1110 (Anderson, P.), As Proposed to be Amended (SCS1110A-1)

	Fund Impact			
	<u>F.Y. 2020</u>	<u>F.Y. 2021</u>	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>
		(000's)		
Credit for Payment to Childcare Facility	\$0	(\$16,800)	(\$35,100)	(\$54,000)
Childcare Professionals Credit	\$0	(\$7,700)	(\$16,100)	(\$24,700)
Childcare Providers Credit	<u>\$0</u>	<u>(\$6,100)</u>	<u>(\$12,700)</u>	<u>(\$19,600)</u>
General Fund Total	\$0	(\$30,600)	(\$63,900)	(\$98,300)

Effective beginning tax year 2020.

EXPLANATION OF THE BILL

The bill creates three refundable tax credits related to childcare, as described below.

Credit for payments to a qualifying childcare facility. A taxpayer may claim a credit against the individual income tax equal to a percentage of the amount paid to a childcare facility on behalf of a qualifying dependent child. The credit percentages and the maximum credit are based on the facility's Parent Aware quality rating as of December 31 of the taxable year and the number of qualifying children as follows:

	Four-star		Three-star		Two-star		One-star	
	%	Max credit	%	Max credit	%	Max credit	%	Max credit
1 child	150	\$ 1,050	100	\$ 850	50	\$ 650	25	\$ 500
2 + children	150	\$ 2,100	100	\$ 1,700	50	\$ 1,300	25	\$ 1,000

Credit for childcare professionals. Eligible childcare professionals may claim a credit against the individual income tax. The amount of credit depends on the career lattice step of the professional as follows:

	Development Associate (steps 6-8)	Associate's degree (step 9)	Bachelor's degree (step 10)
Credit Amount	\$500	\$1,500	\$3,000

Eligible childcare professionals include individuals who have a career lattice step level of six or greater and have been employed at the licensed facility for at least six months of the taxable year.

EXPLANATION OF THE BILL (Cont.)

Credit for childcare providers. A childcare provider may claim a credit against the individual income tax or corporate franchise tax based on the average monthly number of children who attend a childcare facility operated by the provider who meet the following qualifications:

- The child is not yet enrolled in kindergarten;
- Was homeless or in foster care or in need of child protective services at some point during the tax year;
- Received funds through the Child Care Assistance program under chapter 119B or the Pathway early learning scholarship program under section 124.165; or
- Had a parent younger than 21 who was pursuing a high school degree (or equivalent).

The credit per child varies by the facility's rating as follows:

	Four-star	Three-star	Two-star	One-star
Credit per child	\$2,000	\$1,500	\$1,000	\$500

For nonresidents and part-year residents, the credits would be apportioned based on the percentage of their income that is attributable to Minnesota.

REVENUE ANALYSIS DETAIL*Credit for payments to a childcare facility*

- According to Parent Aware, Minnesota's Quality Improvement and Registry Tool, as of December 31, 2018 there were 2,814 child care and early education programs holding a Parent Aware Rating. This represents about 24% of all early childcare facilities in Minnesota.
- Parent Aware reports that, of the childcare facilities rated, 61% received a four-star rating, 14% received three stars, 14% received two stars, and 11% received one star.
- It is assumed that the average size of the facilities is the same for every level of rating.
- Tax year impacts are allocated to the following fiscal year.
- A growth rate of 3% is assumed. Take-up in the new credit was phased in over three years.
- Eligibility depends on the Parent Aware rating. If the number of facilities rated by Parent Aware increased, the cost of the credit could be substantially higher.

Credit for childcare professionals.

- About 10,800 childcare professionals would be eligible for the credit, according to data from DHS. The credit was assigned based on each professional's lattice level.
- Tax year impacts were allocated to the following fiscal year.
- A 3% growth rate is assumed. Take-up in the new credit was phased in over three years.

REVENUE ANALYSIS DETAIL (Cont.)

Credit for childcare providers

- According to the Department of Education report "Early Learning Scholarships 2018," there were about 9,000 children five years of age or younger in the Pathway scholarship program who attended a Parent Aware rated childcare facility in tax year 2018. They are assumed to be eligible for the credit.
- Credits were calculated based on the number of scholarship enrollees at facilities with each star rating.
- Tax year impacts are allocated to the following fiscal year.
- A 3% growth rate is assumed. Take-up in the new credit was phased in over three years.
- If the number of facilities rated by Parent Aware increased, the cost of the credit could be substantially higher.

Minnesota Department of Revenue
Tax Research Division

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