



State Child Care Tax Benefits

Montana Economic Affairs Interim
Committee

Eric Syverson, Senior Policy Specialist
NCSL Fiscal Affairs Program

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Agenda

State Child Care Tax Benefits



Supporting Families

- **Child and Dependent Care Expense Credits**
- **Child Tax Credits**
- **Earned Income Tax Credits**



Supporting Employers

- **Employer Child Care Credits**



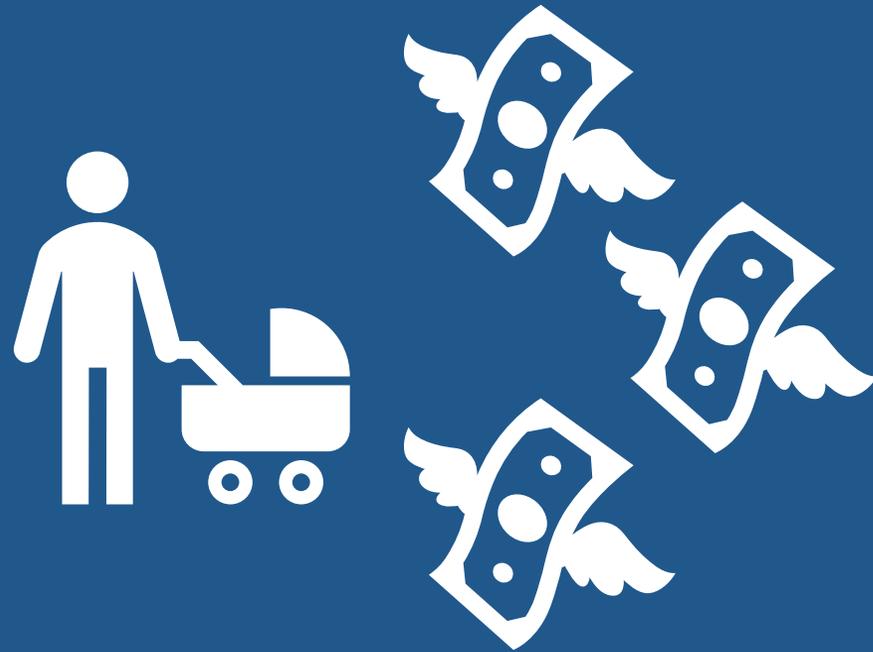
Growing the Child Care Workforce

- **Child Care and Early Childhood Educator Tax Incentives**



Supporting Families

State Using Tax Policy to Defray Expenses



Federal Child and Dependent Care Tax Credit

The Basis for Many State CDCTCs

Adjusted Gross Income	Percentage of Expenses
\$1 to \$15,000	35%
\$15,001 to \$17,000	34%
\$17,001 to \$19,000	33%
\$19,001 to \$21,000	32%
\$21,001 to \$23,000	31%
\$23,001 to \$25,000	30%
\$25,001 to \$27,000	29%
\$27,001 to \$29,000	28%
\$29,001 to \$31,000	27%
\$31,001 to \$33,000	26%
\$33,001 to \$35,000	25%
\$35,001 to \$37,000	24%
\$37,001 to \$39,000	23%
\$39,001 to \$41,000	22%
\$41,001 to \$43,000	21%
\$43,001 and over	20%

What is the tax benefit?

- Nonrefundable federal income tax credit
- Tax credit for costs associated with care expenses for qualifying dependents

Who are qualifying dependents?

- Children under 13
- A person who is mentally or physically unable to care for themselves who has also lived with you for more than 6 months

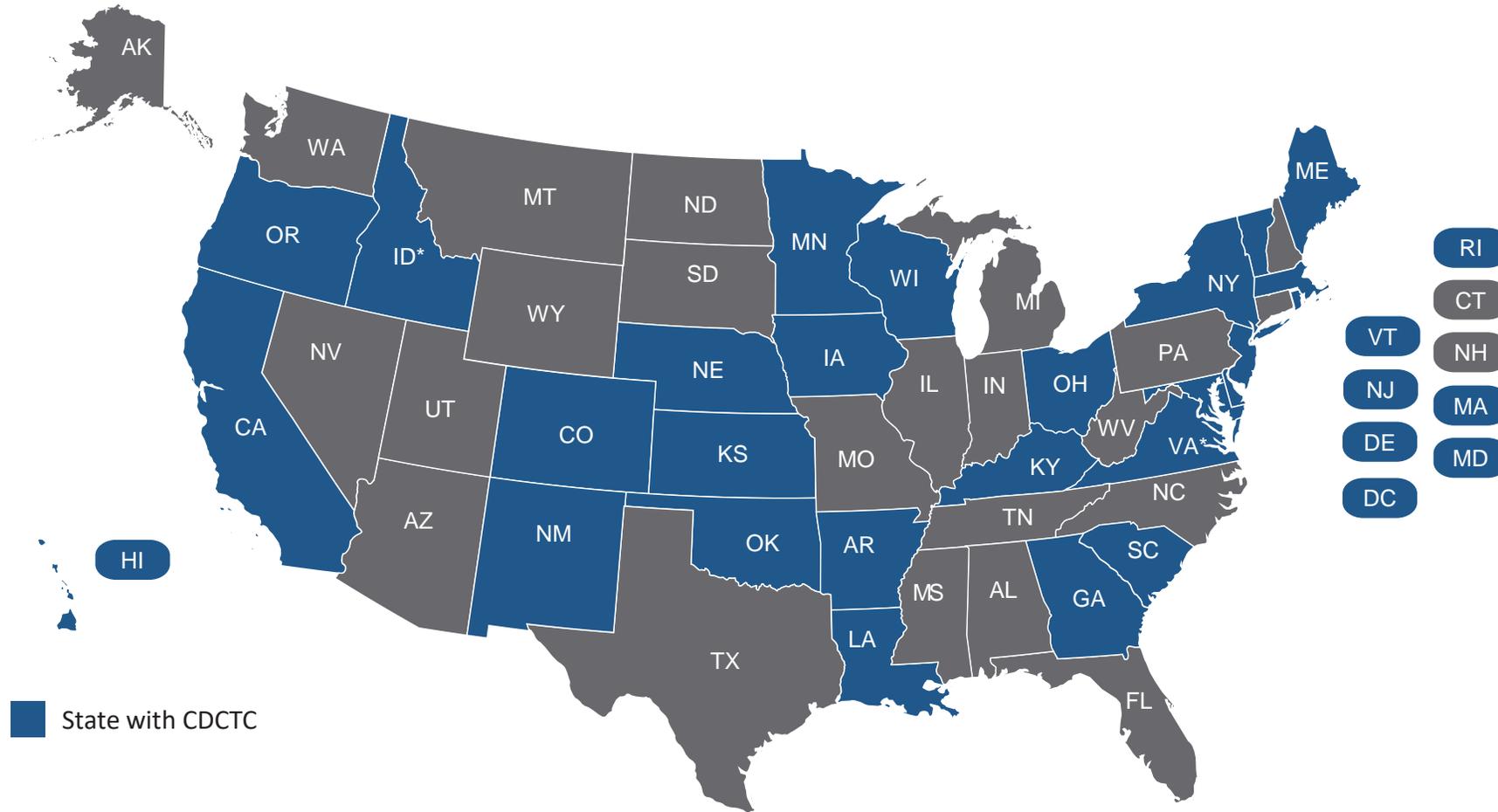
How much is the benefit?

- Based on qualifying expenses associated with care of qualifying dependents
- 20% to 35% of total care expenses, depending on income
- Expense amounts limited to \$3,000 for one dependent or \$6,000 for two or more
- Maximum credit amount: \$1,050 for one dependent or \$2,100 for two or more dependents

Source: 26 U.S.C.A. § 21

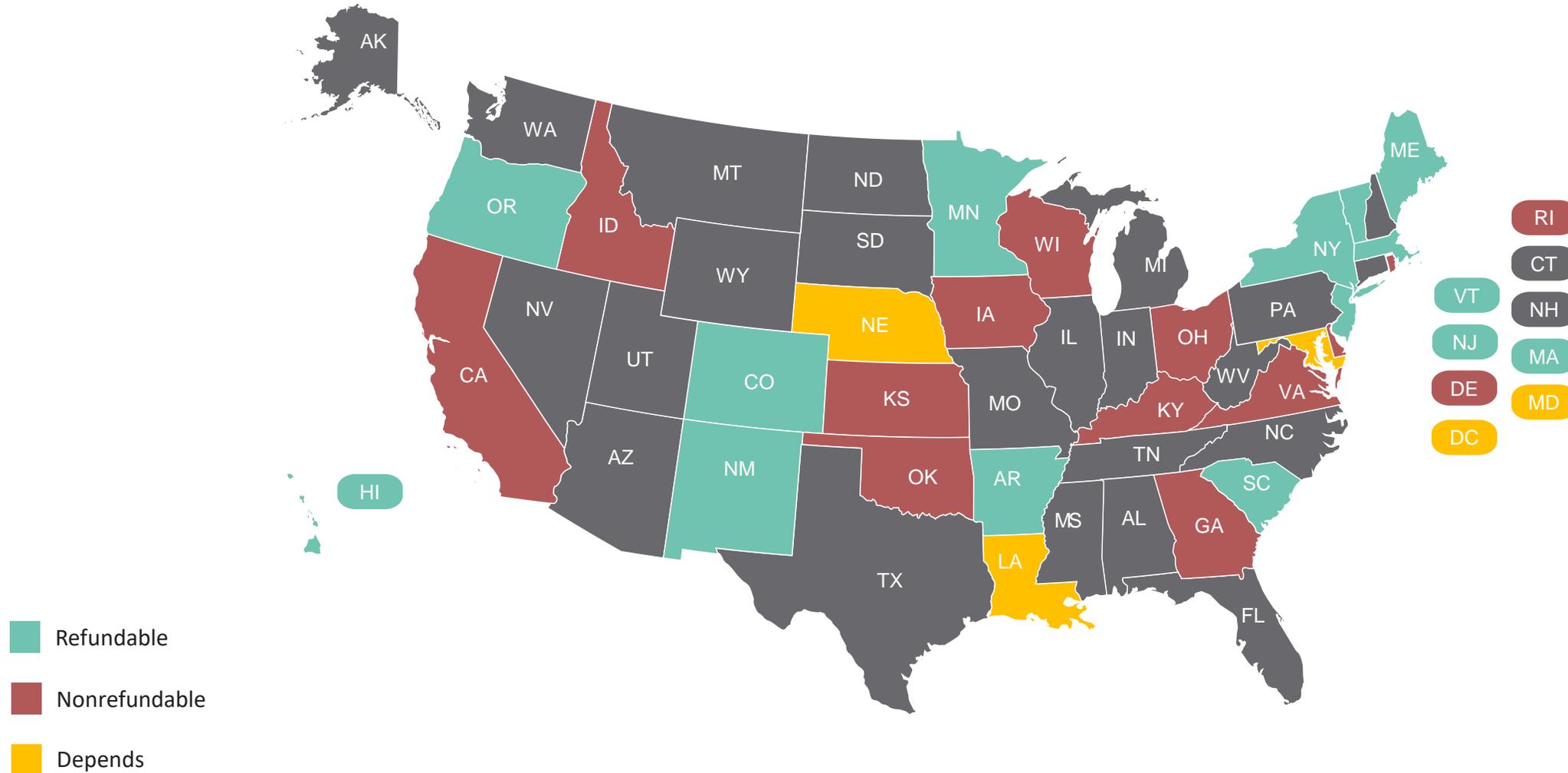
State Child and Dependent Care Tax Credits

50-State Comparison

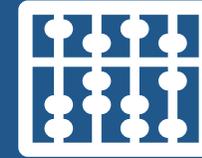


State Child and Dependent Care Tax Credits

50-State Comparison: Refundable or Nonrefundable Credits



State Child and Dependent Care Tax Credits (CDCTC)



Policy Design - Eligibility and Credit Amounts

Eligibility

- Adhere to federal definitions for dependents
- Target credits specifically for children or adult dependents

Credit Amounts

- Flat Amount
- Percentage of federal credit
- Graduated amounts
- Deductible expenses

50-State Comparison: Credit Amounts

Flat Amount (3 States)

D.C., MA, NM

Percentage of Federal Credit (12 States)

AR, CO, DE, D.C., GA, KS, KY, ME, OK, SC, VT, WI

Graduated Amounts (12 States)

CA, HI, IA, LA*, MD, MN, NE, NJ, NY, OH, OR, RI

Deductible Expenses (2 States)

ID, VA

Child and Dependent Care Tax Credits (CDCTC)

Policy Design – Income Limitations

State	Income Limitations
California	\$100,000 or less
Colorado	\$25,000 starts phase-out
	Single: \$167,400 Head-of-Household: \$167,400 Married Filing Jointly: \$167,400 Married Filing Separately: \$83,700
Washington, D.C.	
Iowa	\$90,000 or less
	\$30,000 for individuals or less
Maryland	\$50,000 for married couples or less
	One dependent: \$71,210 or less
Minnesota	Two or more dependents: \$83,210 or less
Nebraska	\$29,000 starts phase-out
New Jersey	\$150,000 or less
New Mexico	\$30,160 starts phase-out
New York	\$150,000 or less
Ohio	\$40,000 or less
Oklahoma	\$100,000 or less
Rhode Island	\$150,000 or less

Federal Child Tax Credit

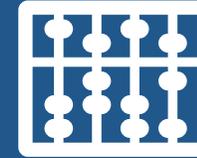
Tax Year 2023

- Nonrefundable income tax credit for taxpayers with dependents under the age of 17
- Credit amount: \$2,000 per qualifying child
- Income limits: \$200,000 or less (\$400,000 married filing jointly)
- Additional child tax credit: Refundable
 - *Max credit amount \$1,600 per child*
- **Potential expansion in 2025 awaiting debate and passage in the Senate**



State Child Tax Credits (CTC)

Policy Design - Eligibility and Credit Amounts



Eligibility

- Differing age requirements
 - Children under 17: AZ, ID, ME, MD, MN, NM, NY, OK
 - Other specified age: CA, CO, MA, NJ, OK, UT, VT

Credit Amounts

- Flat Amount
- Percentage of federal credit
- Graduated amounts

50-State Comparison: Credit Amounts

Flat Amount (7 States)

AZ, ID, ME, MD, MA, OR, VT

Percentage of Federal Credit (2 State)

OK, NY*

Graduated Amounts (6 States)

CA, CO, MN, NJ, NM, UT

State Child Tax Credits (CTCs)

Policy Design – Income Limitations

State	Income Limitations
California	\$25,000 starts phase-out
Colorado	Single: \$25,000 starts phase-out Joint: \$35,000 starts phase-out
Maryland	\$15,000 or less
Minnesota	Single: \$31,168 starts phase-out Joint: \$36,979 starts phase-out
New Jersey	\$30,000 starts phase-out
New Mexico	\$25,000 starts phase-out
New York	Single: \$75,000 starts phase-out Joint: \$110,000 starts phase-out
Oklahoma	\$100,000 or less
Oregon	\$26,450 starts phase-out
Utah	Single: \$43,000 starts phase-out Joint: \$54,000 starts phase-out
Vermont	\$125,000 starts phase-out

Federal Earned Income Tax Credit (EITC)

Tax Year 2023

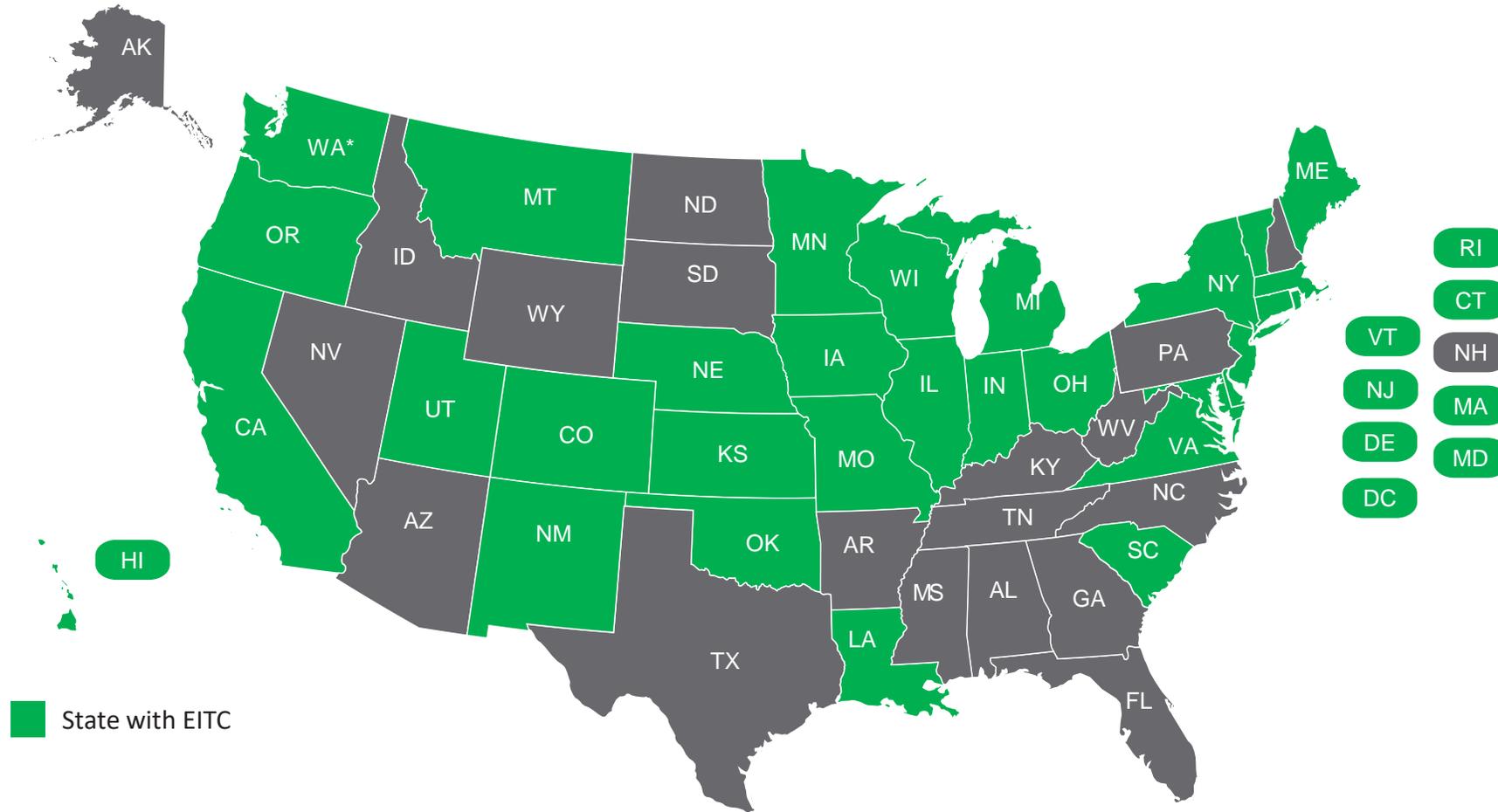
Table 1: Tax Year 2023 Federal EITC Income Limits and Credit Amounts

Number of Children	Maximum Credit	Maximum Earnings	
		Single	Married
Zero	\$600	\$17,640	\$24,210
One	\$3,995	\$46,560	\$53,120
Two	\$6,605	\$52,918	\$59,478
Three or More Children	\$7,430	\$56,838	\$63,698

- Refundable income tax credit
- Credit amount depends on earnings, number of children and marital status
- Credit amount: \$2,000 per qualifying child
- Qualifying child: under 19 or 24 if full-time student

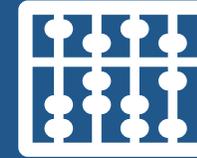
State EITCs

50-State Comparison



State EITCs

Policy Design - Eligibility and Credit Amounts



Eligibility

- Match federal requirements mostly

Credit Amounts

- Percentage of federal credit or other methods
- Credit amounts range widely
 - 4% in WI
 - 10% in MT
 - 125% in SC

50-State Comparison: Credit Amounts

Percentage of Federal Credit (28 States and D.C.)

CO, CT, DE, D.C., HI, IL, IN, IA, KS, LA, ME, MA, MA, MI, MO, MT, NE, NJ, NM, NY, OH, OK, OR, RI, SC, UT, VT, VA, WI

Other Methods (3 States)

- CA – Uses different income levels and phase out calculations than the federal EITC
- MN – Matches 4% of the first \$8,750 of earned income
- WA – Flat dollar dependent on household size

Policy Design

Tax Benefits Supporting Families

Refundable or Nonrefundable?

- Benefits those with little or no state taxable incomes
- Increase administrative and compliance costs

Eligibility Requirements?

- Match federal credits?
- Earnings requirements?
- Available to those with Social Security numbers?
- Different age requirements?

Income Requirements

- Phase-out credits or create a credit cliff?
- Phase-outs prevent benefit cliffs and elevated effective tax rates
- Higher credit income cliff means more taxpayers access benefits

Credit Amount Mechanism

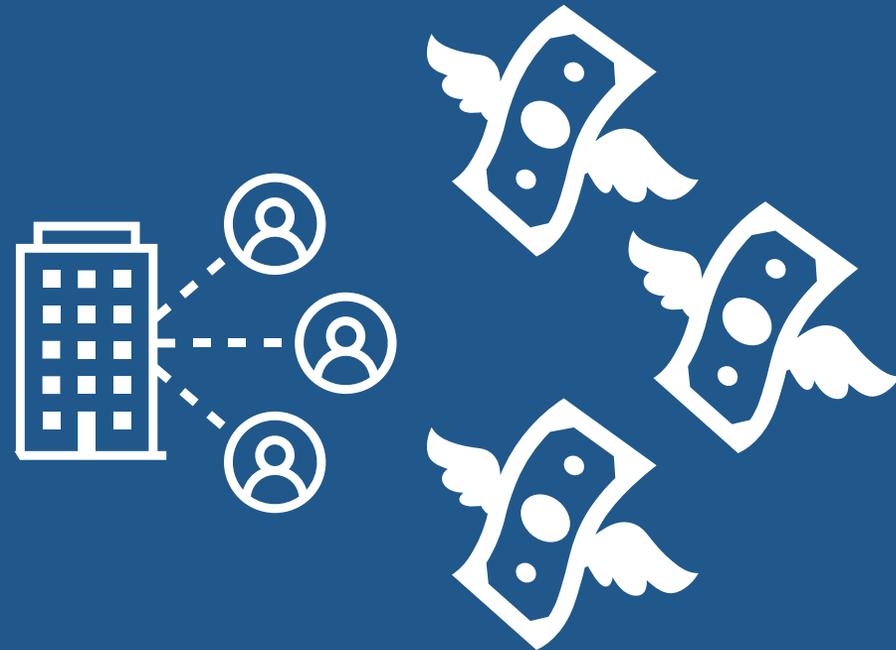
- Tied to Federal credit amounts?
- Flat dollar vs graduated amounts base on income?
- Per child or per household?
- Indexing for inflation?
- Monthly or annual credit disbursement?





Supporting Employers

State Using Tax Policy to Incentivize Provision of Child Care



Business Child Care Tax Benefits

State Using Tax Policy to Incentivize Provision of Child Care



Varying State Policy Landscape

- Corporate and Personal Income Tax
 - Exemptions for child care expenses
 - Credits for child care expenses
 - Deductions for child care expenses
- Property Tax
 - Exemptions for child care facilities

Some modeled after federal Employer-provided child care credit

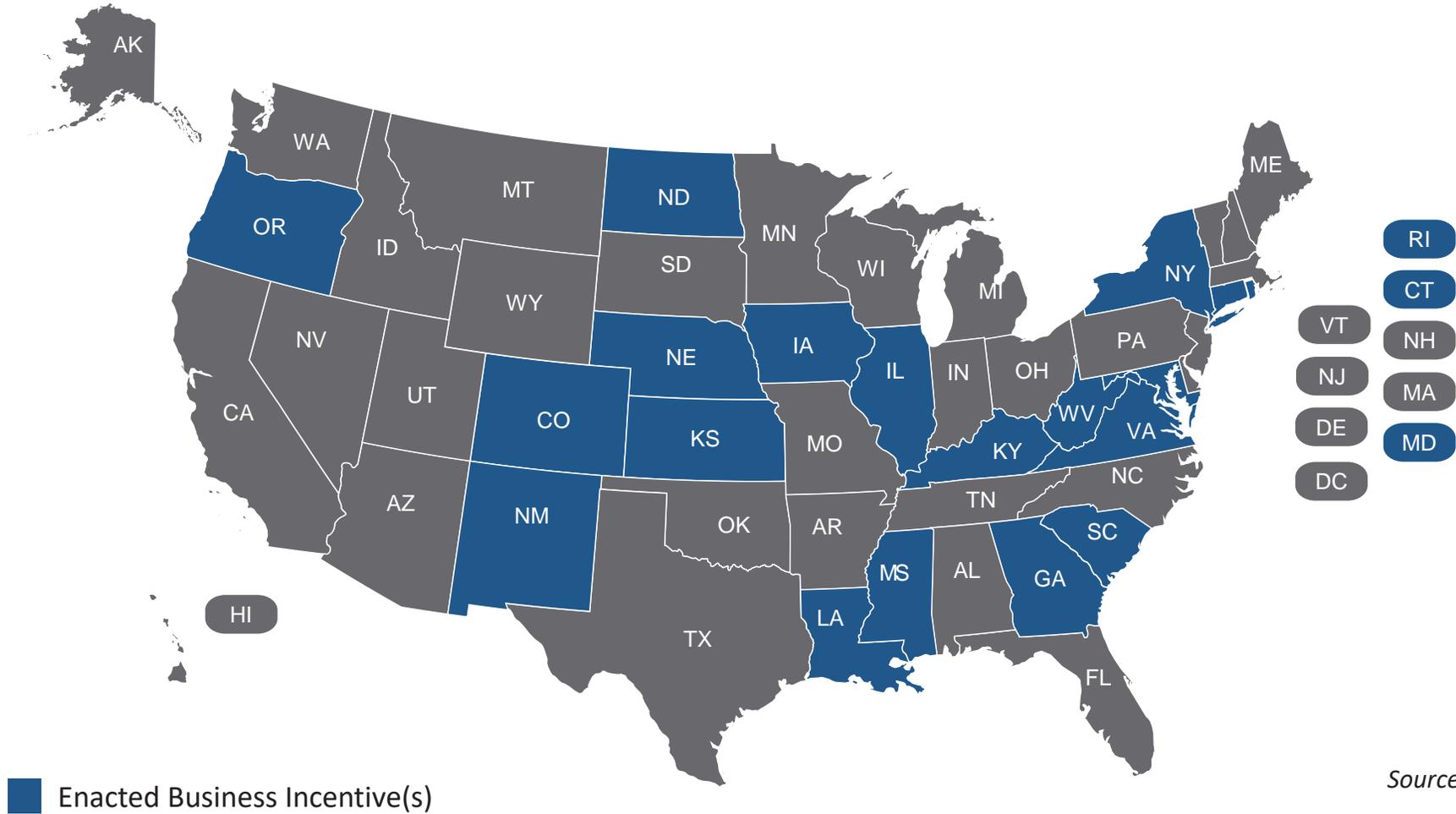
- Tax credit up to \$150,000 per year to offset 25% of child care facility expenditures and 10% of resource and referral expenditures

Contribution Incentives

- Tax credits for monetary contributions
- State matching business contributions for employee child care costs

Business Child Care Tax Benefits

50-State Comparison



Source: [Tootris](#)



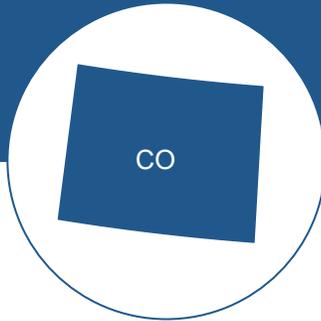
Growing the Child Care Workforce

State Using Tax Policy to Influence Labor Markets



State Early Educator and Child Care Worker Tax Benefits

Income Tax Credits



Colorado's Early Educator Tax Credit



Louisiana's Credit for Child Care Directors and Staff



Nebraska's School Readiness Tax Act

- Refundable individual income tax credits for ECE and child care staff
- Require recipients to work at least 6 months in licensed provider
- Increased credit amount based on years of service, credentials
- LA and NE will index credit amounts to inflation

Additional Resources

- NCSL: [*Earned Income Tax Credit Overview*](#)
 - NCSL: [*Earned Income Tax Credit Enactments*](#)
- NCSL: [*Child Tax Credit Overview*](#)
 - NCSL: [*Child Tax Credit Enactments*](#)
- Tax Policy Center: [*Constructing a Child Tax Credit That Fits Every State*](#)
- Institute on Taxation and Economic Policy: [*States are Boosting Economic security with Child Tax Credits in 2023*](#)
- Bipartisan Policy Center: [*State Child Care Tax Supports for Businesses and Parents*](#)
- U.S. Department of Labor, Women's Bureau: [*Childcare prices in Local Areas*](#)





Thank you for joining today!

Eric Syverson

Senior Policy Specialist

Eric.Syverson@ncsl.org



www.ncsl.org



@NCSLorg



Denver
7700 East First Place,
Denver CO 80230

Washington D.C.

444 North Capitol Street, N.W.
Suite 515,
Washington, D.C. 20001