

Child Care Tax Credit Impact: Examples demonstrating the need for state law change

Table 1 compares the benefits for an example family earning \$50,000 per year versus a sample family earning \$15,000 per year.

Example Family	Federal Tax Credit	State Tax Credit	Total Savings
1. Comparison Case (example of a parent who <i>does</i> benefit from the current law)	Single mother with one child pays \$4,000 per year to send the child to an afterschool program. Mother earns \$50,000 per year	Expenses claimed capped at \$3,000. Mother can claim \$3,000 x .20%, therefore she gets a reduction in federal taxes of \$600	Mother can claim 10% of the federal tax credit claimed. \$600 x 10% means a reduction in state taxes of \$60
2. Current Law (example of a parent who <i>falls through the cracks</i> of the current law)	Single mother with one child pays \$4,000 per year to send the child to an afterschool program. Mother earns \$15,000 per year	Mother could claim \$3,000 x .35%, or \$1,050, but she does not owe income tax because her income is too low, and this tax credit is not refundable. She gets \$0	Mother can claim 50% of the federal credit claimed, and state law says the credit is refundable, but 50% of \$0 = \$0
3. The Fix (same scenario as example 2 if the EOPRTF "Income Tax Credit for Child Care Expenses bill passed.)	Single mother with one child pays \$4,000 per year to send the child to an afterschool program. Mother earns \$15,000 per year	Same as above, unless Congress changes the federal tax credit to be refundable. She gets \$0	PROPOSED CHANGE: The credit equals 25% of the total expenses of \$4,000= \$1000, except that the total credit is capped at \$500 = \$500

Table 1

Under current law, a single mother earning \$50,000 per year would see a tax benefit of \$660 to partially defray the costs of child care, while another single mother in the same situation making only \$15,000 per year would see a tax benefit of \$0. This is because a single mother earning \$15,000 per year does not owe income tax, and the Federal Tax Credit is not refundable. Under the proposed state law change, she would get \$500.

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