



INVESTING IN EARLY CHILDHOOD DEVELOPMENT
Financing Options for West Virginia

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October 29– Finance & Government Committee

 west virginia
Center on
Budget & Policy

OVERVIEW

- ✧ Child Care Tax Credits & Subsidies
 - ✧ *A Closer Look: Minnesota & Louisiana*
- ✧ Endowments (Future Fund)
- ✧ Social Impact Bonds
- ✧ Obama’s Universal Pre-K Initiative
- ✧ Other revenue options
- ✧ Minimum wage?

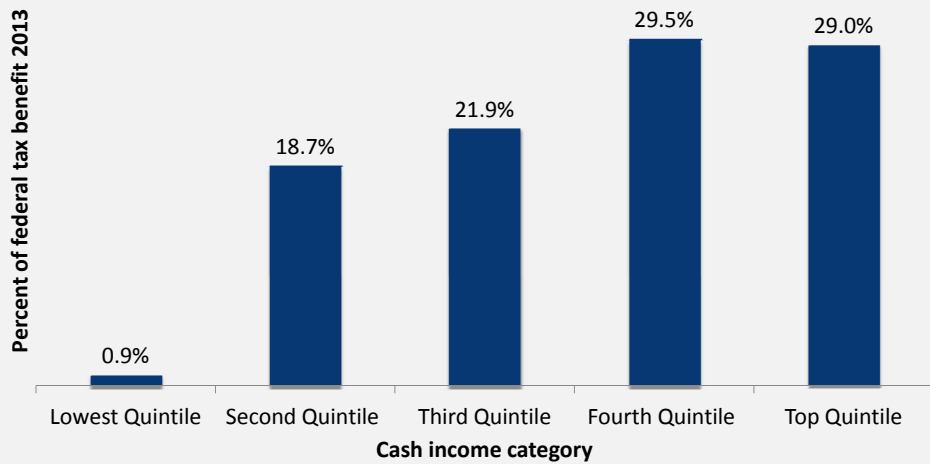
State Child and Dependent Care (CADC)

- Two Main State Tax Policies:
 - Tax Credits
 - Income Tax Deductions
- Child Care and Dependent Care Tax Credit (CADC)
 - Established in 1976; 18 states offer a credit based on federal.
 - Covers employment-related expenses for both children (under age 13) and adult dependents (incapable of self-care).
 - Covers expense of \$3,000 for one child and up to \$6,000 for multiple children or dependents.
 - Maximum credit is \$2,100.
 - Nonrefundable: Families not owing federal income taxes cannot use credit, so it fails to incentivize workforce entry.
 - Not indexed to inflation, unlike EITC.
 - In 2010, WV had the lowest share of income tax returns claiming the CADC at 2.3 percent (16,722).

Federal CDTC Rates & Maximum Amounts

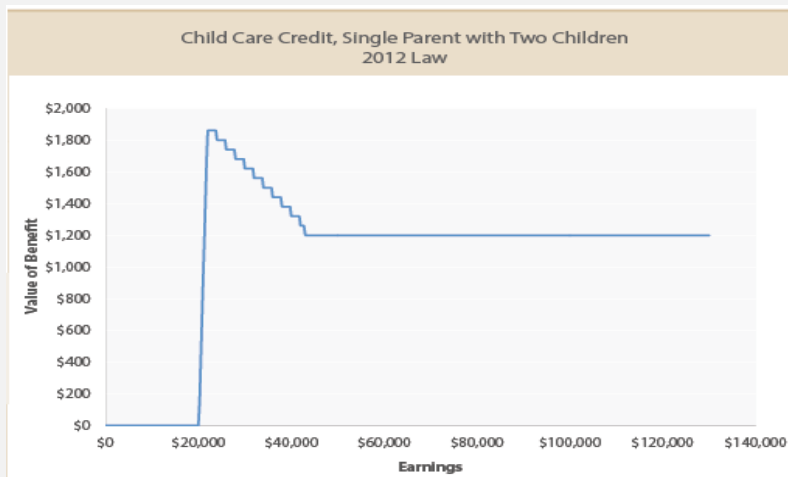
Adjusted Gross Income	Percent of Expenses Credited	One Child/Dependent	Two or More Children/Dependents
\$0–\$15,000	35%	\$1,050	\$2,100
\$15,001–\$17,000	34%	\$1,020	\$2,040
\$17,001–\$19,000	33%	\$990	\$1,980
\$19,001–\$21,000	32%	\$960	\$1,920
\$21,001–\$23,000	31%	\$930	\$1,860
\$23,001–\$25,000	30%	\$900	\$1,800
\$25,001–\$27,000	29%	\$870	\$1,740
\$27,001–\$29,000	28%	\$840	\$1,680
\$29,001–\$31,000	27%	\$810	\$1,620
\$31,001–\$33,000	26%	\$780	\$1,560
\$33,001–\$35,000	25%	\$750	\$1,500
\$35,001–\$37,000	24%	\$720	\$1,440
\$37,001–\$39,000	23%	\$690	\$1,380
\$39,001–\$41,000	22%	\$660	\$1,320
\$41,001–\$43,000	21%	\$630	\$1,260
\$43,001+	20%	\$600	\$1,200

Largest Benefits Go to High-Income Households



Source: Urban-Brookings Tax Policy Center, <http://www.taxpolicycenter.org/briefing-book/key-elements/family/child-care-subsidies.cfm>

Credit doesn't adequately help working poor



Source: Author's Calculations. Assume all income is from earnings and both children qualify for all benefits. Maag, Rennane, Steuerle, 2011.

State Tax Subsidies for Child Care

Making the Grade for Care

Ranking State Child and
Dependent Care Tax Provisions

Enter your standard deduction (see left margin)
Subtract line 22 from line 20. If line 22 is more than line 20, enter 0.
Multiply \$2,000 by the total number of exemptions claimed on Form 1040, line 6d.
Subtract line 24 from line 23. If line 24 is more than line 23, enter 0. This is your taxable income.

Tax, including any alternative minimum tax (see page 30)
Credit for child and dependent care expenses (see page 30)
Attach Schedule 2.

Credit for the elderly or the disabled (see page 30)
Schedule 3.

Education credits (see page 30)
Rate reduction credit (see page 30)
Child tax credit (see page 30)
Adoption credit (see page 30)
Add lines 27 through 30 and line 31. This is your total credits.

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NATIONAL
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EXPANDING THE POSSIBILITIES

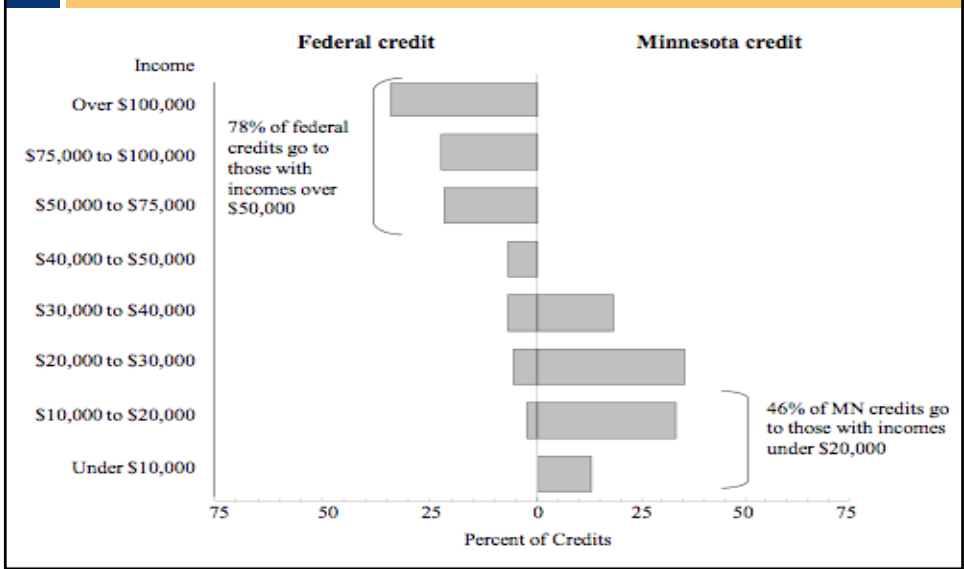
Report Card

A-	New York, Oregon (WFCC)
B+	California, Hawaii, Iowa, Louisiana (school readiness), Minnesota, Nebraska
B	Louisiana (household expense), Ohio, Vermont (LICADC)
B-	Arkansas (early childhood program), Colorado, Louisiana (child care), Maine, Oregon (CADC)
C+	Delaware, District of Columbia, Georgia, Maryland (credit), New Mexico, North Carolina
C	Arkansas (CADC), Kansas, Kentucky, Massachusetts, Oklahoma, Rhode Island, South Carolina, Vermont (CADC)
C-	Idaho
D	Maryland (deduction), Virginia
D-	Montana
F	Alabama, Arizona, Connecticut, Illinois, Indiana, Michigan, Mississippi, Missouri, New Jersey, North Dakota, Pennsylvania, Utah, West Virginia, Wisconsin

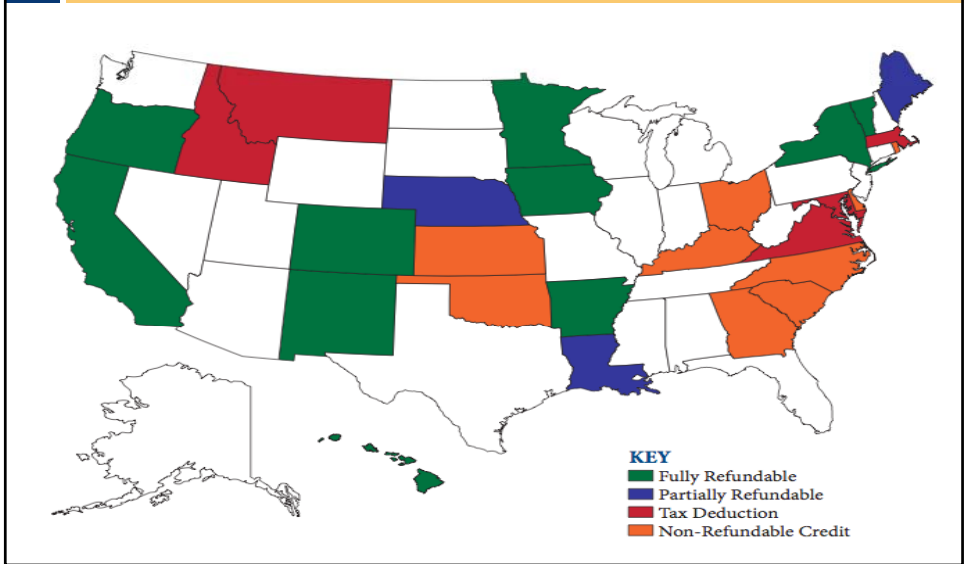
Minnesota Dependent Care Credit

- Tied to “eligible expenses” of federal CADC:
Maximum of 35%
- Maximum (refundable) credit: \$720 for one child
dependent and \$1,440 for two or more. AVG \$395
- Phases out with incomes over \$24,300 and fully
phases out at \$37,950

Distribution of Federal and Minnesota Credits by Income, 2009



West Virginia does not offer a tax deduction or credit for child care



Best Practices for Child and Dependent Care Credits

- Credits need to be fully refundable so low-income families receive full benefit.
- The maximum dollar value of credit should be adequate (range: \$240 to \$2,310) and target low-income tax filers.
- Unlike federal credit, which is available to everyone, state credit should phase out (e.g. EITC) and target low- and moderate-income families.
- Credit can go toward *just* child care expenses, instead of credit for care of dependents physically or mentally incapable of self-care (if WV wants to reduce costs).
- Higher expense limits (many states use federal limits)
- Index expenses and credits to inflation.

A Closer Look: Louisiana SRTC

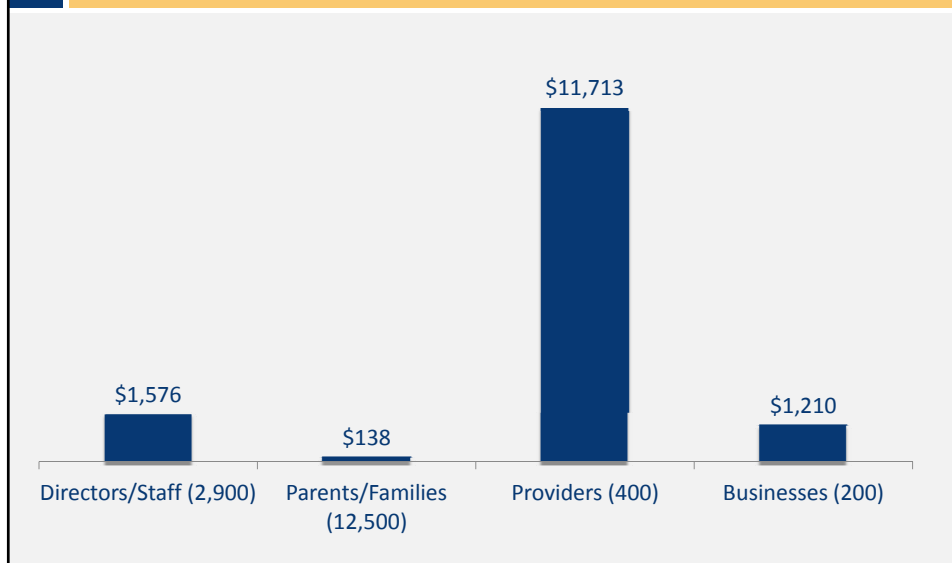
- School Readiness Tax Credits (SRTC) are a package of tax credits started in 2008 to improve quality and education of early care.
- They include state tax credits for (see handouts):
 - Teachers/Directors: eligible for a refundable tax credit if they teach in a center that participates in Quality Start. The value of the credit, which ranges from \$1,500 to \$3,000, is based on the level of education the individual has attained.
 - Parents/Families: child under six years old who is enrolled in a child care program that has a Quality Star rating of at least two stars are eligible for a tax credit, and that credit increases in value with higher ratings. For example, a family with one child who attends a child care center with a two-star rating is eligible for a credit of \$788; that same family qualifies for a \$1,575 credit if the child is cared for in a center with a five-star rating. The credit is refundable for families with annual incomes below \$25,000.
 - Child Care Providers: that participate in Quality Start are eligible to receive a refundable tax credit based on the number of stars they earn and on the number of children in the subsidized Child Care Assistance Program or in foster care whom they serve. The value of the credit, which is available to nonprofit as well as for-profit providers, ranges from \$750 to \$1,500 per child. Funds from the tax credit are in addition to—not in lieu of—child care subsidy reimbursements.
 - Businesses that provide financial support to centers that participate in Quality Start are eligible for a credit with its value based on the star rating of the center. Businesses may also receive a tax credit for donations up to \$5,000 made to child care resource and referral agencies.

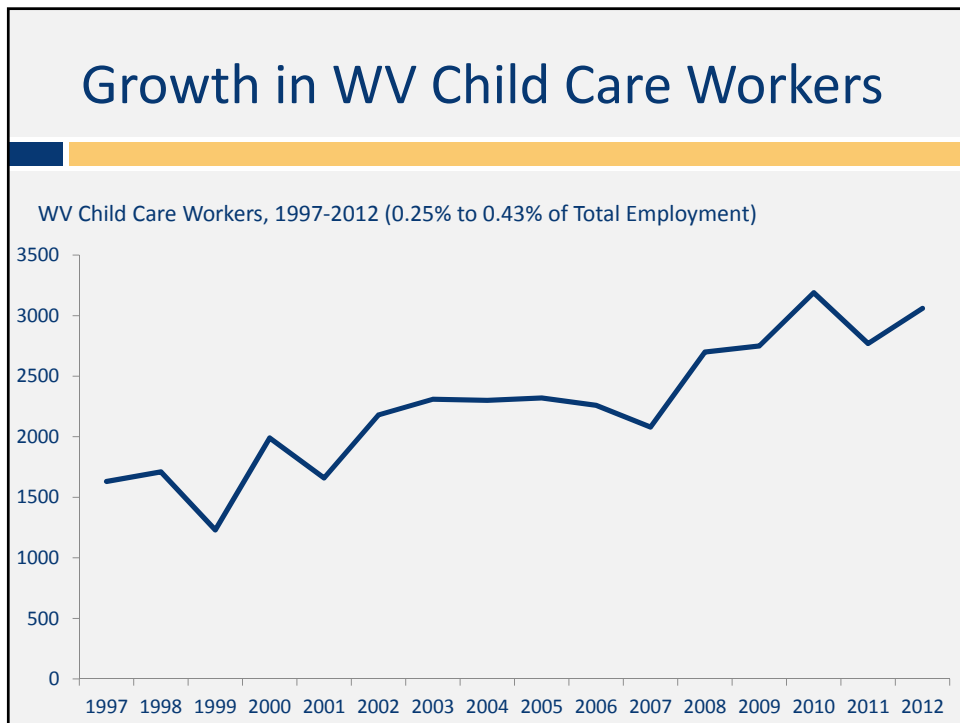
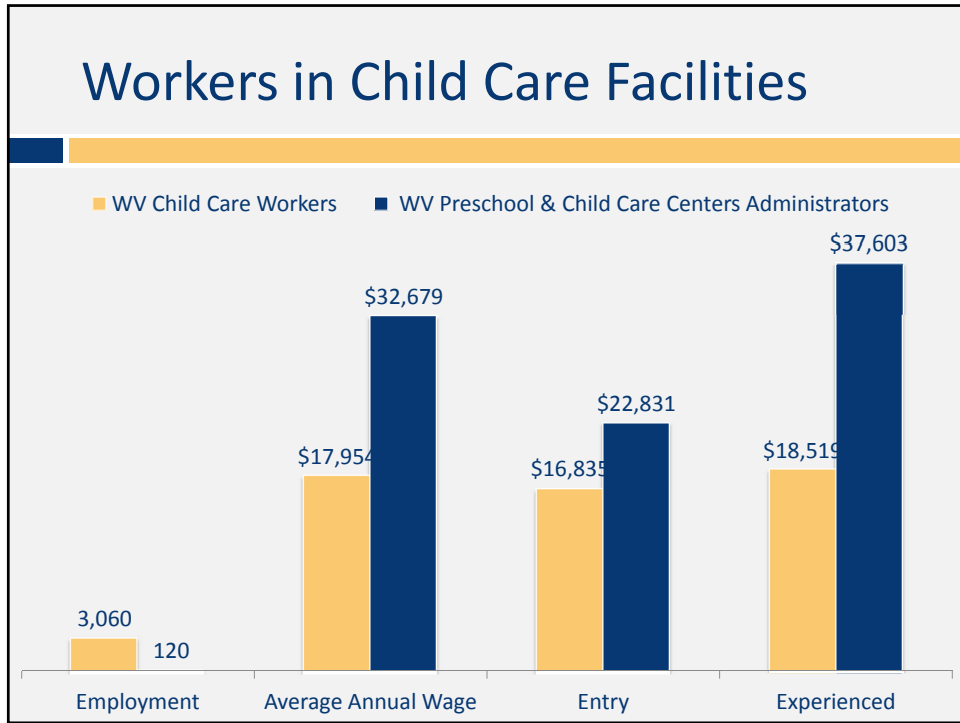
Cost of Louisiana SRTC's 2009-2013

SCHOOL READINESS TAX CREDITS					
	2009	2010	2011	2012*	2013*
Individual Income Tax					
Child Care Expenses for Families	\$11,964,910	\$14,739,029	\$16,584,970	\$16,917,000	17,255,000
Child Care for Quality Start	\$925,020	\$1,414,327	\$1,724,695	\$1,759,000	\$1,794,000
Child Care Provider Credit	\$604,354	\$1,314,150	\$1,866,243	\$1,904,000	\$1,942,000
Child Care Directors and Staff	\$1,303,852	\$3,151,550	\$4,572,750	\$4,664,000	\$4,757,000
Business Supported Child Care Credit	\$11,699	\$25,956	\$28,382	\$29,000	\$30,000
Fees & Grants to Resource & Referral Agencies	\$97,439	\$248,611	\$174,824	\$178,000	\$182,000
Subtotal	\$14,907,274	\$20,893,623	\$24,951,864	\$25,451,000	\$25,960,000
Corporate Income Tax					
Child Care Provider Credit	\$615,250	\$1,504,250	\$2,819,047	\$2,875,000	\$2,933,000
Business Supported Child Care Credit	\$16,000	\$157,700	\$208,345	\$213,000	\$217,000
Fees & Grants to Resource & Referral Agencies	\$0	\$70,000	\$93,700	\$96,000	\$98,000
Subtotal	\$631,250	\$1,731,950	\$3,121,092	\$3,184,000	\$3,248,000
TOTAL	\$15,538,524	\$22,625,573	\$28,072,956	\$28,635,000	\$29,208,000

Source: Louisiana Department of Revenue, Tax Exemption Budget 2011-2012
 *Estimates

Average Credit Amount Per Tax Filer in Louisiana (2011)

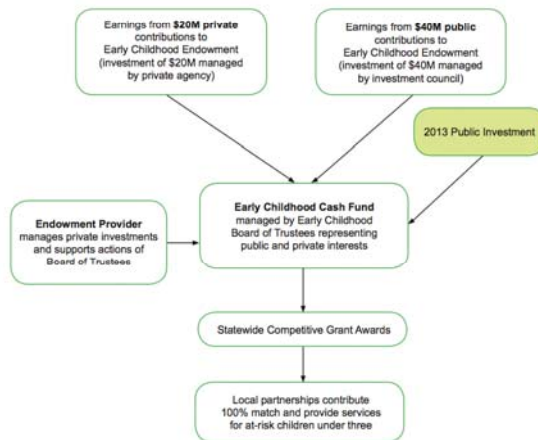




Endowments

- **West Virginia Future Fund**
 - 25% of increase in natural gas severance tax revenue
 - Expected to go toward economic diversification. (\$1-\$4 billion by 2040)
- **Nebraska Early Childhood Education Endowment Fund (Sixpence programs a.k.a. Birth to 3)**
 - Grants range from \$75,000-\$150,000 with a 100% match from the local community.
 - Matching dollars can be existing federal, state or local dollars, private, or in-kind resources.
 - School districts who partner with at least one other community-based entity to serve at risk children birth to three are eligible to submit proposals.

Sixpence Early Learning fund



Early Childhood Public-Private Partnership for At-Risk Children Under 3 Years of Age

Social Impact Bonds

- A Social Impact Bond, also known as a Pay for Success (PFS) Bond, is a contract with a public sector in which a commitment is made to pay for improved social outcomes that result in public sector savings.
- Still in their infancy, but some governments are using them for:
 - Reducing homelessness
 - Reducing recidivism
 - Preventive health services
 - Workforce development
 - Early childhood education
 - Helping unemployed persons re-enter the workforce
- Lyn Kagan believes much more research needs to be done on whether they can work for early childhood education.

Obama Initiative to Expand Early Education

The President's Proposal

Early Education Initiatives

Proposal:

- Invest \$75.00 billion over ten years, including \$2.74 billion in the first year, to expand access to and improve early education programs for preschool children in low- and moderate-income families
- Invest \$15.00 billion over ten years, including \$433.40 million in the first year, to extend and expand evidence-based, voluntary home visiting programs for parent education and support

Nationwide Benefits:

- 1.96 million children in low- and moderate-income families would receive access to preschool in the tenth year. In the first year, 334,805 additional children in low- and moderate-income families would receive access to preschool
- 1.13 million low-income women and their children would potentially be eligible to benefit from voluntary home visiting in the first year

Federal Tobacco Excise Tax Increase as a Revenue Source

Proposal:

- Increase the federal cigarette excise tax by 94¢ per pack
- Increase the federal excise tax on other tobacco products
- Index the federal tobacco tax rates to inflation

Nationwide Benefits:

- Prevent 1.74 million kids alive today from becoming addicted adult smokers over the next 18 years
- Save 989,800 Americans from premature death from smoking
- Save \$63.39 billion in long-term health care costs from adult and youth smoking declines

State Revenue Options

- Tobacco Tax Increase: \$135 million
 - Cigarette Tax increase from 55 cents to \$1.55 per pack whole tobacco products tax increase from 7 to 50 percent.
- Expanding Sales Tax to More Services
 - Personal Services: \$37 million
 - Internet Downloads: \$1-3 million
- Tax of 1% on on Top 1%: \$21.5 million (2009\$)
- Scale back personal itemized deduction: \$137.7 million?
- Extend Workers Comp Debt Taxes on Coal & Natural Gas - \$80-100 million
- Limit Thin-Seam Severance Tax Credit to Underground Steam Coal: \$5-25 million
- Reinstate Estate Tax: \$10-\$20
- Establish Corporate Minimum Tax of \$250 or \$500: \$1-15 million
- Scale back tax expenditures through sunsets, cost caps, or evaluations.
- Market Place Fairness Act: \$51 million

Raise the Wage Floor?

WHO IN WEST VIRGINIA IS HELPED BY RAISING THE MINIMUM WAGE?



Note: Statistics describe civilian workers, ages 16+, that would be affected by an increase in the federal minimum wage to \$10.10 over three years, as explained in *Raising the federal minimum wage to \$10.10 would give working families, and the overall economy, a much-needed boost.* The median age of affected workers nationally is 31 years old. Visit epi.org/issues/minimum-wage for more details.

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