UPDATED DECEMBER 2023

CHILD CARE TAX CREDIT POLICY OVERVIEW

ZEROTOFIVE MONTANA

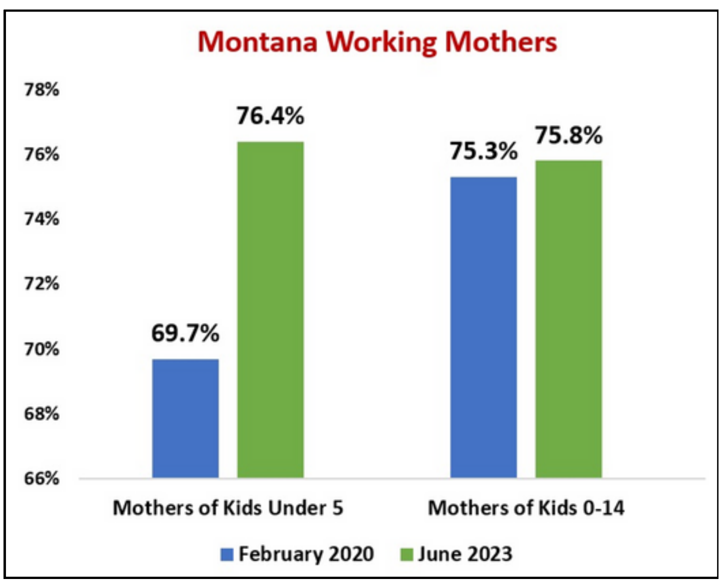
BACKGROUND

Currently, 22 states and the federal government offer tax credits to employers to help improve access to child care for working parents.

The availability, affordability, and quality of child care are challenges throughout the country. While there is no singular strategy to address all child care challenges, employer-based tax credits can help better support working parents to promote economic growth and support the healthy development of children.

ECONOMIC IMPACT OF PARENTS IN THE WORKFORCE

About 45,500 children under age 6 have all available parents in the workforce (both parents in a married couple and the single head of household in single parent families).i Yet in most communities, parents struggle to find care. In 2022, the Montana Department of Labor and Industry conducted a study that found that licensed child care capacity met only 43% of the estimated demand.[2] Shortages exist in every county with 59% of counties identified as child care deserts (i.e., supply meets less than one-third of demand). There are six counties in Montana without a single licensed child care provider.[3]



Additionally, mothers are participating in the workforce at higher rates than prior to the pandemic (March 2020).

Tax credit strategies are continuing to expand across states as a policy solutions aimed at reducing the cost of child care for working parents, increasing the revenues of child care businesses, and incentivizing employers to invest in local child care solutions.

TAX CREDITS TO EXPAND THE CHILD CARE SUPPLY

Twelve states currently have employer tax credits to expand the supply of child care. (Arkansas, Colorado, Connecticut, Georgia, Illinois, Louisiana, Mississippi, New York, Oregon, South Carolina, Virginia, and West Virginia). These credits are based on employer expenses to acquire, construct, reconstruct, renovate or otherwise improve real property so that it may be operated by the employer, or a combination of employers, to provide child care for employees.[4]

TAX CREDITS TO EXPAND THE CHILD CARE SUPPLY AND PROMOTE AFFORDABLE CARE

Sixteen states currently have tax credits for employer-sponsored child care (i.e., child care onsite or contracted care within the community) to support employees. (Arkansas, Colorado, Connecticut, Georgia, Illinois, Iowa, Kansas, Maryland, Mississippi, New Mexico, New York, Oregon, Rhode Island, South Carolina, Virginia, and West Virginia).[5] Montana had two similar credits that were repealed in 2021 as part of a tax reform package eliminating 15 tax credits.

TAX CREDITS TO ADDRESS THE CHILD CARE WORKFORCE SHORTAGE AND TO PROMOTE PROFESSIONAL DEVELOPMENT

Three states currently have refundable tax credits to increase child care wages, which are among the lowest wages across all occupations. (Louisiana, Nebraska, and Colorado).[6] Louisiana's tax credit was enacted in 2007 and is adjusted annually for inflation.[7]

These credits are earned. They are tied to certifications and levels of higher education in early childhood development attained by the child care workforce. By increasing wages, these credits have helped with job recruitment and retention, which helps child care providers offer care within the community.

In Montana, recruitment and retention of the child care workforce is challenging because wages are about $12.84 per hour ($26,720 annually).[8] When programs lack staff, they can have waiting lists for care, which limits parent choices.

CHILD CARE PROPERTY TAX EXEMPTIONS

Three states offer partial property tax exemptions for child care businesses in an effort to retain the current supply of child care and to grow it. (Colorado, North Dakota, and Texas).[9] While not a tax credit, property tax exemptions can support child care providers by lowering the taxes for these businesses.

PUBLIC-PRIVATE PARTNERSHIPS: EMPLOYER CHILD CARE SOLUTIONS

In the past few years, seven states have enacted legislation to match employer contributions to help employees afford child care or to build or expand care in underserved communities (e.g., child care deserts). (Iowa, Kentucky, Michigan, New York, North Dakota, Texas, and Wisconsin).[10] New York is the most recent state to enact an employer grant/match program in 2023.

For example, in North Dakota, the Working Parents Child Care Relief Program was enacted as a pilot. The state matches employer contributions of at least $300 in monthly child care benefits to employees with infants and toddlers in licensed care. Families must have income at or below 150% of state median income (SMI) to qualify.

In Kentucky, the state matches employer contributions for employees using programs that participate in Kentucky All Stars (the state quality rating and improvement system).

The state match is 100% of employer contributions for families with income between 85% - 100% SMI. The state match declines as income rises. Once families reach 180% SMI or higher, the state match is capped at 50%.

Wisconsin's Partner Up! Grant Program provides funding to support partnerships between employers that purchase slots at regulated child care programs within the community and the parents who utilize community care.

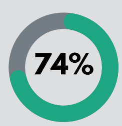
TAX CREDIT STRATEGIES

As with grant programs, there is no one singular tax strategy to solve the array of challenges that parents face in finding and affording child care. However, there are states addressing the supply shortage of child care through the tax code. There are states incentivizing employers to help parents afford child care. There are states with tax strategies to support compensation strategies for the child care workforce.

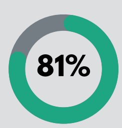
What are the child care challenges Montana seeks to address? Can the tax credit be utilized to support greater employer engagement to help address these challenges? It's time for a conversation. Employers depend on working parents. And, many parents depend on child care in order to work. Access to child care supports children, parents, employers, and communities. Economic growth depends on working parents.

MONTANA VOTERS WANT ACTION ON EARLY CHILDHOOD ISSUES

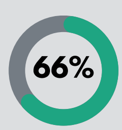
A POLL BY ZERO TO FIVE MONTANA FOUND WIDESPREAD SUPPORT FOR INVESTING IN EARLY CHILDHOOD PROGRAMS.



Agree that tax credits help parents offset the cost of raising a child.



Favor a state tax credit for employers who provide child care to their workers, when told that the Montana state government repealed a tax credit for employers in 2021.



Favor state tax credits in Montana to supplement wages for the child care workforce.

Next Steps: Zero to Five Montana is available to assist you with policy strategies. As a member of the national Alliance for Early Success, we can connect with policy leaders in other states, as well as national organizations that can also provide consultation.

Please email us at info@zerotofive.org.

[1] U.S. Census Bureau, Table B23008, Age of Own Children Under 18 Years in Families and Subfamilies by Living Arrangements by Employment Status of Parents, 2022 American Community Survey, 1-Year Estimates.
[2] Montana Department of Labor & Industry, Childcare Supply and Demand in Montana, February 2023.
[3] Ibid.
[4] Committee for Economic Development (CED) of The Conference Board, State Tax Credits for Child Care, December 2023
[5] Ibid.
[6] Ibid.
[7] Louisiana Department of Revenue, School Readiness Tax Credits.
[8] U.S. Bureau of Labor Statistics, Child Care Wages, (2022).
[9] Committee for Economic Development (CED) of The Conference Board, State Tax Credits for Child Care, December 2023.
[10] Committee for Economic Development (CED) of The Conference Board, State Partnerships with Employers (2023).