CHILD CARE EXPENSE CREDIT & LOW-INCOME CHILD CARE EXPENSE CREDIT

EVALUATION SUMMARY

JANUARY 2019
2019-TE5

THESE EVALUATIONS WILL BE INCLUDED IN COMPILATION REPORT SEPTEMBER 2019

	CHILD CARE EXPENSE CREDIT	LOW-INCOME CHILD CARE EXPENSE CREDIT
YEAR ENACTED	1996	2014
REPEAL/ EXPIRATION DATE	None	January 1, 2021
REVENUE IMPACT	$2.73 million	$2.30 million
NUMBER OF TAXPAYERS	27,036	5,889
AVERAGE TAXPAYER BENEFIT	$101	$391
IS IT MEETING ITS PURPOSE?	Yes, to a limited extent	Yes, for most intended beneficiaries

WHAT DO THESE TAX EXPENDITURES DO?

CHILD CARE EXPENSE CREDIT. Taxpayers with an annual income of up to $60,000 can receive a state income tax credit worth 50 percent of their federal Child and Dependent Care Tax Credit for child care expenses.

LOW-INCOME CHILD CARE EXPENSE CREDIT. Taxpayers with an annual income of $25,000 or less can receive a state income tax credit of 25 percent of their child care expenses (capped at $500 for one child and $1,000 for two or more children). A taxpayer can only claim the Low-Income Child Care Expense Credit if they are ineligible for the Child Care Expense Credit.

WHAT IS THE PURPOSE OF THESE TAX EXPENDITURES?

According to statute [Section 39-22-119.5(1)(a)(III), C.R.S.], the purpose of the Child Care Expense Credit is to "make child care more affordable for working families." Statute [Section 39-22-119.5, C.R.S.] states that the purpose of the Low-Income Child Care Expense credit is to "fix the [Child Care Expense Credit] so that all low-income working families are able to claim the credit regardless of the amount of their federal child care expenses credit." Because the Low-Income Child Care Expense Credit was designed to work with the Child Care Expense Credit, we inferred that the Low-Income Child Care Expenses Credit was also intended to make child care more affordable for working families.

WHAT DID THE EVALUATION FIND?

We determined that both credits are meeting their purpose of making child care more affordable for working families because they partially offset the cost of child care. However, the extent to which the credits help taxpayers with typical child care costs is small.

We also determined that there continue to be substantial disparities in the credit amount some taxpayers receive from the credits.

WHAT POLICY CONSIDERATIONS DID THE EVALUATION IDENTIFY?

The General Assembly could consider decoupling the Child Care Expense Credit from the federal Child and Dependent Care Tax Credit to increase the benefit and stability of the Child Care Expense Credit and provide more even treatment to taxpayers across incomes and family types.

CHILD CARE EXPENSE CREDIT & LOW-INCOME CHILD CARE EXPENSE CREDIT

EVALUATION RESULTS

WHAT ARE THESE TAX EXPENDITURES?

The Child Care Expense Credit (Child Care Credit) [Section 39-22-119, C.R.S.] and Low-Income Child Care Expense Credit (Low-Income Credit) [Section 39-22-119.5, C.R.S.] work in tandem to provide tax credits to qualifying families with child care expenses. The Child Care Credit was enacted in 1996 and amended most recently in 2018 by House Bill 18-1208, which increased the credit amount available for some taxpayers. The Low-Income Credit was established in 2014 by House Bill 14-1072 and is set to expire on January 1, 2021. This Credit provides an alternative credit for families who do not qualify for the Child Care Credit due to a lack of sufficient taxable income.

CHILD CARE CREDIT

Under Section 39-22-119(1), C.R.S., to qualify for the Child Care Credit, taxpayers must have federal adjusted gross income of $60,000 or less and claim the federal Child and Dependent Care Tax Credit (Federal Credit) on their federal tax return. To claim the Federal Credit, taxpayers must meet the following requirements under 26 USC 21:

- The taxpayer must incur child care expenses in order to work or look for work.
- The expenses must be incurred to provide child care for children under age 13.

- The expenses must cover an eligible form of child care, which includes daycare, before or after school care, and expenses for summer camps.

As shown in EXHIBIT 1.1, the amount available under the Child Care Credit is based on taxpayers' Federal Credit amount and prior to Tax Year 2019, was adjusted based on taxpayers' federal adjusted gross income. Beginning in Tax Year 2019, due to changes under House Bill 18-1208, the credit is now calculated as 50 percent of taxpayers' Federal Credit amount. The maximum Child Care Credit taxpayers can receive is $525 for one child, or $1,050 for two or more children.

EXHIBIT 1.1.
CHILD CARE CREDIT CALCULATION

Federal Adjusted Gross Income	Tax Years Prior to 2019	Tax Year 2019 and Later
Up to $25,000	50 percent of Federal Credit	50 percent of Federal Credit
$25,001 to $35,000	30 percent of Federal Credit	
$35,001 to $60,000	10 percent of Federal Credit	

SOURCE: Office of the State Auditor analysis of existing law and changes from House Bill 18-1208, which will go into effect for Tax Year 2019.

To claim the Child Care Credit, a taxpayer must first determine their Federal Credit amount. The Federal Credit is calculated by multiplying the actual child care expenses a taxpayer incurred during the year, capped at $3,000 for one child and $6,000 for two or more children, by a discounting factor based on the taxpayer's adjusted gross income to determine the maximum credit amount available. EXHIBIT 1.2 provides the maximum Federal Credit available at each income level, assuming actual child care expenses of $3,000 for one child, or $6,000 for two or more children.

EXHIBIT 1.2. MAXIMUM CREDIT RATE FOR THE FEDERAL CHILD AND DEPENDENT TAX CREDIT BY INCOME LEVEL TAX YEAR 2018			
Adjusted Gross Income (dollars)	Credit Rate (percent)	Maximum Credit (dollars)	
		One Child	Two or More Children
15,000 or less	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
43,000 and over	20	600	1,200
SOURCE: Internal Revenue Service.			

Once a taxpayer calculates the maximum Federal Credit they can receive, they must also calculate their total tax liability based on their federal taxable income to determine the amount of Federal Credit they can actually claim. Specifically, the amount of Federal Credit a taxpayer can claim is the smaller of the maximum credit shown above or their federal tax liability. For example, a taxpayer who incurred $3,000 in child care expenses with an adjusted gross income of $45,000 and a federal tax liability of $1,000, could take a maximum Federal Credit of $600. To determine the amount of Child Care Credit that they can include on their state tax return, the taxpayer would then multiply the $600 Federal Credit amount by the appropriate percentage shown in Exhibit 1.1, which for Tax Year 2018 was 10 percent for this income level, to arrive at a Child Care Credit of $60. However, if that same taxpayer had a federal tax liability of only $500, they could not take the maximum Federal Credit amount, and would instead be limited to a $500 Federal Credit and a Child Care Credit of $50.

Although taxpayers with lower incomes are technically eligible for the Federal Credit, many do not have any taxable income or tax liability and therefore cannot claim a credit on their federal tax return. For example, for Tax Year 2017, a married couple filing jointly with an adjusted gross income of $20,000 and one child would have no taxable income or tax liability after subtracting the standard deduction and exemptions from adjusted gross income. As a result, even if this family incurred over $3,000 in child care expenses, it would not be able to claim a Federal Credit, and therefore, would also be unable to claim the Child Care Credit. The Low-Income Credit provides an alternative for these taxpayers.

LOW-INCOME CREDIT

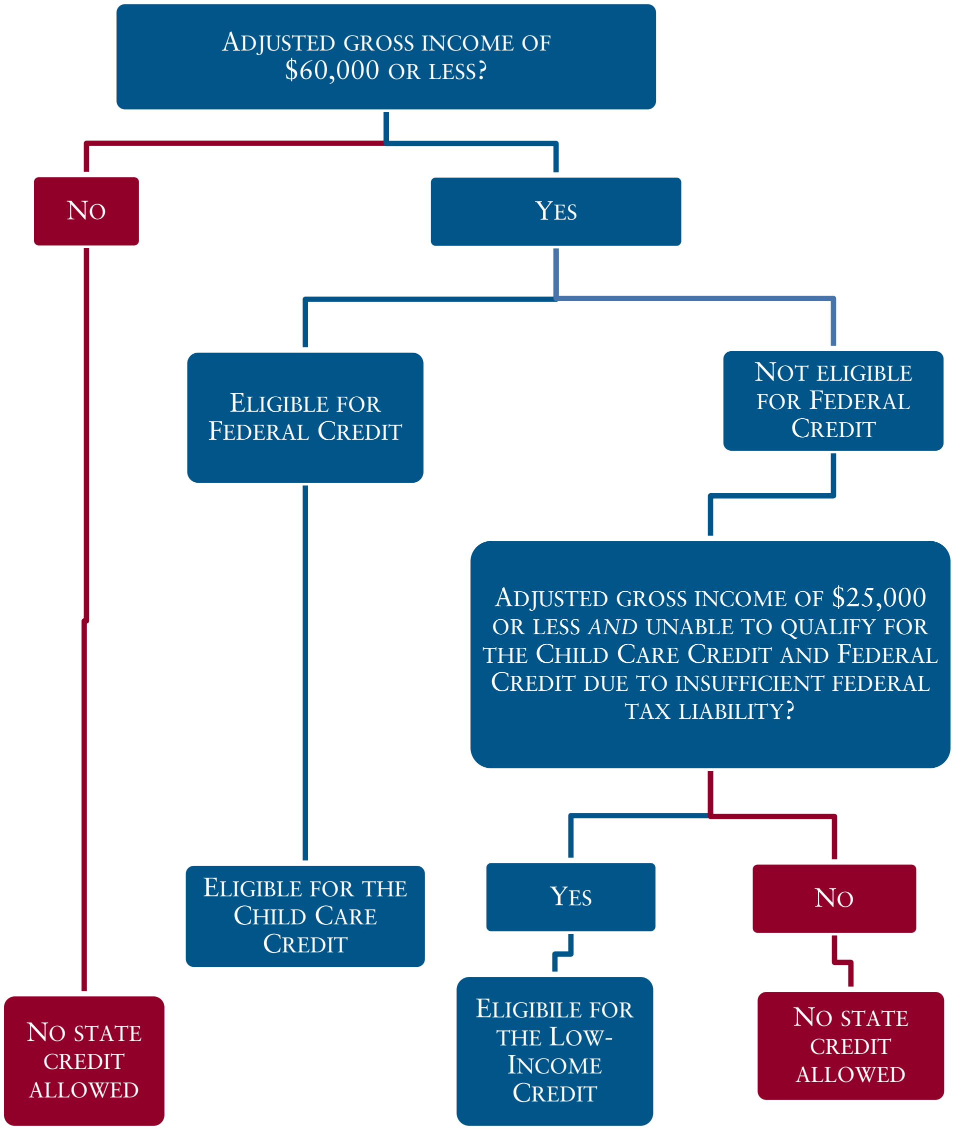
To qualify for the Low-Income Credit, taxpayers must:

- Have a federal adjusted gross income of $25,000 or less.
- Have insufficient tax liability to claim the Child Care Credit.
- Incur child care expenses for a child who is less than 13 years old.
- Meet all the requirements for claiming the Federal Credit other than having sufficient federal tax liability.

The Low-Income Credit amount is 25 percent of a taxpayer's annual child care expenses, which for purposes of calculating the credit, cannot exceed the taxpayer's earned income for the year. For taxpayers who file a joint return, the expenses used for calculating the credit cannot exceed either of the spouses' earned incomes for the year. For example, if a married couple filing jointly had one spouse who earned $15,000 for the year and the other earned $1,000, and they incurred $3,000 in child care expenses, they could only claim $1,000 in expenses (the lesser of the spouses' incomes) and would be eligible for a $250 credit (25 percent of expenses). The maximum credit amount is capped at $500 for one dependent child and $1,000 for two or more dependent children.

EXHIBIT 1.3 shows the interplay between the eligibility requirements for the Child Care Credit and Low-Income Credit.

EXHIBIT 1.3.
CHILD CARE CREDIT AND LOW-INCOME CREDIT
ELIGIBILITY REQUIREMENTS



SOURCE: Office of the State Auditor review of Sections 39-22-119 and 119.5, C.R.S.

Both the Child Care Credit and Low-Income Credit are refundable, meaning that taxpayers receive a tax refund for the credit amount to the extent that the credit exceeds the taxes owed to the State. To claim either credit, a taxpayer must file a state Individual Income Tax Return (Form

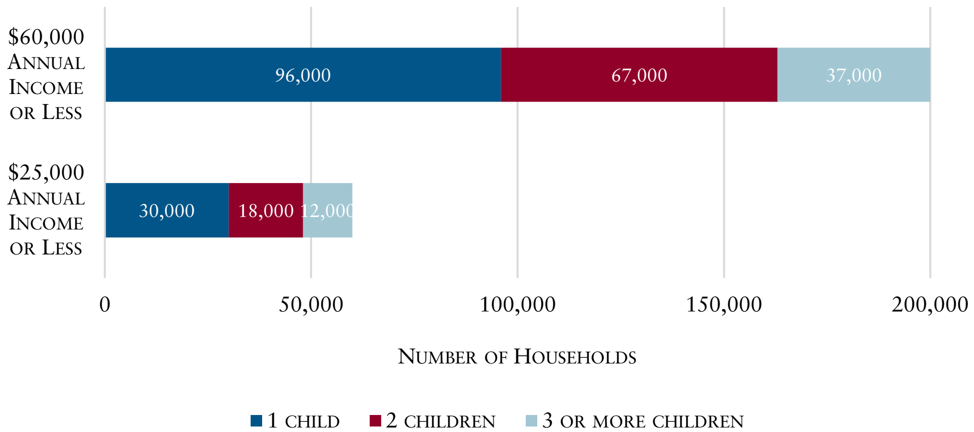
DR 104) with the Department of Revenue supported by several other forms and documents. Specifically, the taxpayer must complete the Child Care Expense Tax Credit Form (DR 0347) to calculate the amount of the credit, and provide information related to the child care provider and qualifying child(ren). The taxpayer must also attach their federal tax return (Form 1040 or 1040A) and federal Schedule 2441 to show the Federal Credit amount they claimed or to show that they lacked sufficient federal tax liability to claim the credit (this documentation is required for the Low-Income Credit even if the taxpayer did not actually file a federal tax return). Taxpayers then enter the credit amount on their state Credits for Individuals Form DR 104CR. Taxpayers report the value of the credit and all other refundable credits in aggregate on a single line on their state tax return (DR 104).

WHO ARE THE INTENDED BENEFICIARIES OF THE TAX EXPENDITURES?

Statute [Section 39-22-119.5(1)(a)(III), C.R.S.] identifies working families as the intended beneficiaries of the Child Care Credit. Although statute does not explicitly identify the intended beneficiaries of the Low-Income Credit, based on the legislative declaration [Section 39-22-119.5(1), C.R.S.], we inferred that this credit was intended to benefit working families who are not eligible for the Child Care Credit due to a lack of sufficient taxable income.

Data we obtained from the State Demographer shows that in Calendar Year 2016, there were approximately 200,000 households in Colorado with an annual income of less than $60,000 and at least one child under the age of 13. Additionally, there were approximately 60,000 households in Colorado with an adjusted gross income of less than $25,000 and at least one child under the age of 13. Although we lacked data necessary to determine how many of these households qualified for either credit, they represent the State's population that could potentially qualify for the credits based on their income and age of their children. EXHIBIT 1.4 shows the breakdown, by income levels and the number of children in each household, for the potential beneficiaries of both credits.

EXHIBIT 1.4.
NUMBER OF COLORADO HOUSEHOLDS THAT COULD BE POTENTIAL BENEFICIARIES OF THE CHILD CARE CREDIT AND LOW-INCOME CREDIT



SOURCE: Office of the State Auditor analysis of State Demographer data.

WHAT ARE THE PURPOSES OF THE TAX EXPENDITURES?

According to statute [Section 39-22-119.5(1)(a)(III), C.R.S.], the purpose of the Child Care Credit is to "make child care more affordable for working families." Statute [Section 39-22-119.5 (1)(b), C.R.S.] also states that the purpose of the Low-Income Credit is "to fix the [Child Care Credit] so that all low-income working families are able to claim the credit regardless of the amount of their federal child care expenses credit." Because the Low-Income Credit was designed to work in conjunction with the Child Care Credit, we inferred that the Low-Income Credit was also intended to make child care more affordable for working families.

ARE THE TAX EXPENDITURES MEETING THEIR PURPOSE AND WHAT PERFORMANCE MEASURES WERE USED TO MAKE THIS DETERMINATION?

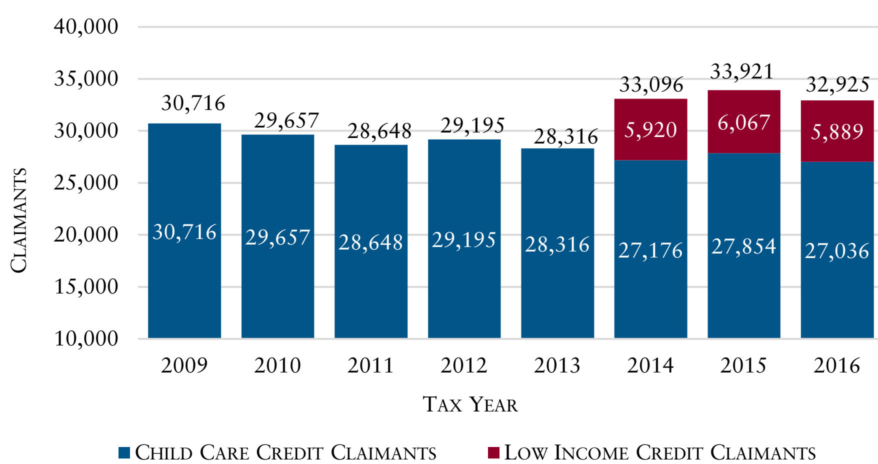
We determined that the Child Care Credit and Low-Income Credit are meeting their purpose of making child care more affordable for working families. However, the Low-Income Credit does not completely address the potential disparities in the credit amount taxpayers receive.

Statute does not provide quantifiable performance measures for either the Child Care Credit or the Low-Income Credit. Therefore, we created and applied the following performance measures to determine the extent to which the expenditures are meeting their purpose:

PERFORMANCE MEASURE #1: *The extent to which the Child Care Credit and Low-Income Credit are being claimed by eligible taxpayers.*

RESULT: Overall, we found that the number of taxpayers claiming one of the credits to offset child care costs increased from about 28,000 in Tax Year 2013, the year before the Low-Income Credit became available, to 33,000 in Tax Year 2016, an 18 percent increase. EXHIBIT 1.5 shows total claimants for each credit type from Tax Year 2009 through 2016.

EXHIBIT 1.5. CHILD CARE AND LOW-INCOME CREDITS CLAIMED TAX YEARS 2009 THROUGH 2016[1]



SOURCE: Office of the State Auditor analysis of Department of Revenue data on the number of taxpayers claiming the Child Care Credit and Low Income Credit.
[1]Department of Revenue data for Tax Years 2014 and 2016 combined aggregate claimants for the each credit type and only data from Tax Year 2015 provided disaggregated data for each credit. We estimated the breakdown of data between the two credits for Tax Years 2014 and 2016 assuming the same proportion of taxpayers used the credits each year as took it in 2015.

PERFORMANCE MEASURE #2: *The extent to which the Child Care Credit and Low-Income Credit are offsetting child care expenses.*

RESULT: We found that the Child Care Credit and Low-Income Credit typically offset child care expenses by a relatively small amount, although their impact can vary substantially based on the amount of credit taxpayers qualify for and their child care expenses. Specifically, based on our analysis of Department of Revenue data for Tax Year 2016 we found that, on average, taxpayers claimed about a $153 credit. Based on our estimates for the number of taxpayers claiming each credit, for Tax Year 2016, the Child Care Credit provided an average benefit of $101 and the Low-Income Credit provided an average benefit of $391. Depending on taxpayers' individual circumstances, they can receive up to a maximum Child Care Credit of $525 per child or a maximum Low-Income Credit of $500 per child (up to two children).

However, it is important to note that due to House Bill 18-1208, the average Child Care Credit taxpayers receive is likely to increase substantially (the Low-Income Credit amounts remain unchanged) beginning in Tax Year 2019. As discussed, the bill increases the credit amount by substantially increasing the proportion of the Federal Credit higher-income taxpayers can claim. Based on our review of Department of Revenue information on the income levels of taxpayers who claimed the Child Care Credit in Tax Year 2016, we estimate that if these same taxpayers had calculated their credit amount under the provisions of House Bill 18-1208, the average credit they received would have increased from $101 to $248.

We found that the credit amounts available for the Child Care Credit and Low-Income Credit offset a relatively small proportion of typical child care costs. Specifically, according to a 2015 analysis of child care costs in Colorado prepared by the University of Colorado at Denver, as shown in EXHIBIT 1.6, the average annual cost of full-time child care ranges from $6,200 to $17,600 per child, depending on the age of the child and type of care.

EXHIBIT 1.6.
AVERAGE ANNUAL COST OF CHILD CARE
BY PROVIDER TYPE
CALENDAR YEAR 2015

AGE OF CHILD	FULL-TIME CHILD CARE CENTER AVERAGE ANNUAL COST	FULL-TIME IN-HOME PROVIDER AVERAGE ANNUAL COST	BEFORE/AFTER SCHOOL CARE AND FULL-TIME SUMMER CARE
0-1	$17,600	$10,300	N/A
1-2	$16,300	$10,900	N/A
2-3	$15,200	$10,000	N/A
3-5	$13,300	$10,100	N/A
5-12	$12,400	$8,600	$6,200

SOURCE: Office of the State Auditor compilation of information from a 2015 University of Colorado-Denver Colorado Child Care Rate Market Study.

This means that for taxpayers who had typical full-time child care costs for one child, the Child Care Credit would offset between 0.6 percent and 1.6 percent of full time child care costs, based on the $101 average credit taken in Tax Year 2016. Comparatively, the Low-Income Credit would offset between 2.2 percent and 6.3 percent of full-time child care costs, based on the $391 average credit taken in Tax Year 2016.

Though the typical costs of full-time child care often exceed the credit amounts available, many families may significantly reduce these costs by having one parent work less than full-time or alternating parents' work schedules; relying on free or reduced-cost care provided by extended family members, older children or neighbors; or at times, allowing children to be at home unsupervised. Therefore, for some families, the credits may offset child care costs to a greater extent than these figures indicate, although we did not have a source of data showing the extent to which families use these strategies.

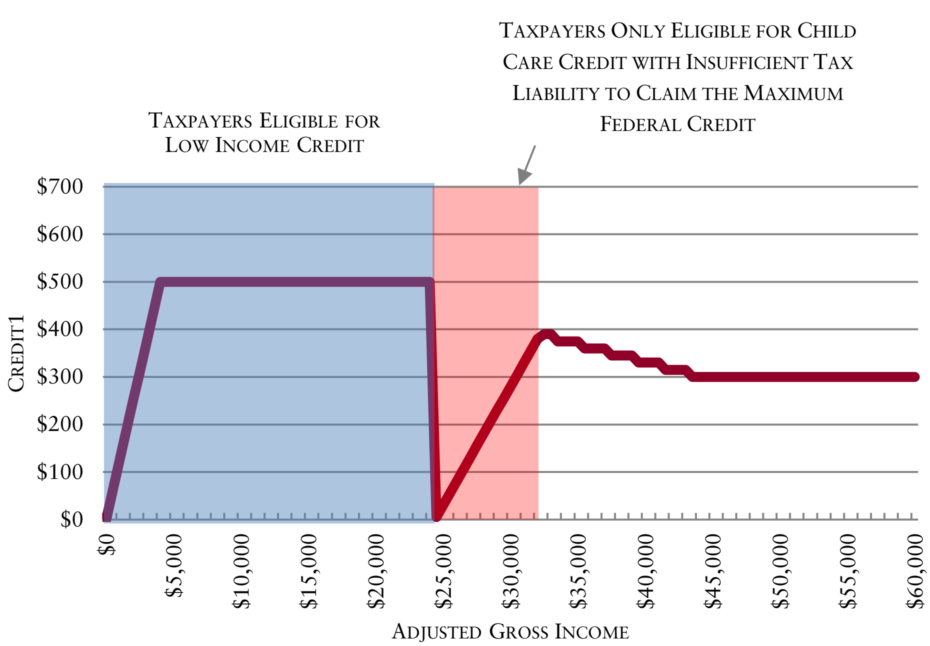
PERFORMANCE MEASURE #3: *The extent to which the Low-Income Credit has addressed the issue of some taxpayers not being able to claim a child care credit due to a lack of federal tax liability.*

RESULT: We found that the Low-Income Credit has significantly expanded the availability of credits to taxpayers who lack adequate federal tax liability to claim the Child Care Credit. Based on

Department of Revenue data, we estimate that in Tax Year 2016, about 5,889 additional taxpayers were able to take a child care credit due to the Low-Income Credit. Because statute only allows taxpayers to claim the Low-Income Credit if they cannot claim the Child Care Credit, these claimants would likely have not been able to receive any credit to offset childcare expenses if the Low-Income Credit was not available.

However, based on our review of the federal and state credits, we found that there is the potential for significant disparities in the amount taxpayers receive. Specifically, we calculated the amount of Child Care Credit or Low-Income Credit taxpayers at a range of adjusted gross incomes would be eligible to claim for Tax Year 2019, assuming they were married filing jointly, took the standard deduction, and incurred at least $3,000 in child care expenses for one child. The results of our analysis are shown in EXHIBIT 1.7.

EXHIBIT 1.7. POTENTIAL CREDITS[1] AVAILABLE TO MARRIED TAXPAYERS FILING JOINTLY TAX YEAR 2019



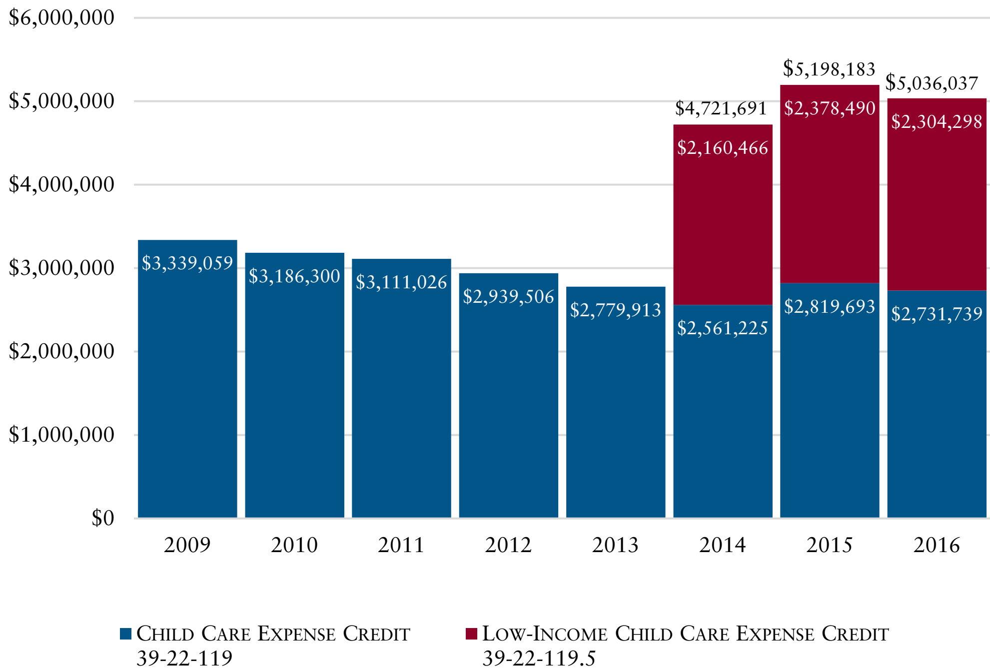
SOURCE: Office of the State Auditor analysis of state and federal child care credits.
[1]Credit amounts assume taxpayers are married filing jointly, take the standard deduction of $24,400, and incurred $3,000 in child care costs. Amounts shown reflect the amount available for either the Low Income Credit or Child Care Credit.

As shown, while the Low-Income Credit allows a range of taxpayers with lower incomes to qualify for a credit, there are still instances where the interaction between the Federal Credit and the state credits results in taxpayers receiving much smaller credit amounts. Specifically, taxpayers with low, but not zero, federal tax liability will receive less in state credits than taxpayers who have no federal tax liability or those with federal tax liabilities that meet or exceed the maximum Federal Credit available. This occurs because the Federal Credit, and the corresponding state Child Care Credit, which is calculated based on the Federal Credit amount, are limited by the extent to which taxpayers have federal tax liability. However, according to statute [Section 39-22-119.5(3)(a)(II), C.R.S.], taxpayers who qualify for any amount of Child Care Credit or that have taxable incomes over $25,000, cannot claim the Low-Income Credit. Based on our review, a similar pattern exists across all types of tax filers (i.e., married filing jointly, head of household, single), regardless of the amount of child care expenses claimed.

WHAT ARE THE ECONOMIC COSTS AND BENEFITS OF THE TAX EXPENDITURES?

Based on Department of Revenue data, we found that the Child Care Credit and Low-Income Credit, combined, reduced State revenue by about $5 million in Tax Year 2016. Of this amount, we estimate that about $2.7 million was due to the Child Care Credit and $2.3 million was due to the Low-Income Credit. EXHIBIT 1.8 provides the revenue impact from the credits for Tax Years 2009 through 2016.

EXHIBIT 1.8.
STATE REVENUE IMPACT OF THE CHILD CARE CREDIT AND THE LOW-INCOME CHILD CARE CREDIT
TAX YEARS 2009 THROUGH 2016[1]



SOURCE: Office of the State Auditor analysis of Department of Revenue data.
[1]Department of Revenue data for Tax Years 2014 and 2016 combined aggregate claimants for the credits and only data from Tax Year 2015 provided disaggregated data for each credit. We estimated the breakdown of data between the two credits for Tax Years 2014 and 2016 assuming the same proportion of taxpayers used the credits each year as took it in 2015.

As shown, the Low-Income Credit substantially increased the revenue impact of the State's credits for child care expenses, from about $2.8 million in Tax Year 2013 to $5 million in Tax Year 2016, an increase of 79 percent.

In addition, beginning in Tax Year 2019, the expansion of the Child Care Credit under House Bill 18-1208, will significantly increase its revenue impact. We estimate that if the changes associated with House Bill 18-1208 were in place for Tax Year 2016, the annual revenue impact of the Child Care Credit would have increased by about $4 million, or a 146 percent increase. Under this scenario, the combined total revenue impact of both credits would increase to about $9 million.

In addition to the revenue impact to the State, the Child Care Credit and Low-Income Credit, both of which are refundable, increase the after-tax income of families who claim the credits. Because the credits are provided once per year after taxpayers have already paid for child care and only cover a small portion of typical child care costs, it is unlikely that they resulted in a substantial increase in the amount of child care families purchased statewide. Instead, a 2014 report issued by the Pew Research Center, *After Decades of Decline, A Rise in Stay-at-Home Mothers,* indicates that for most families, the decision on how much to spend on childcare is driven by factors such as the income it allows a parent to earn through work compared to the cost of the care, preferences regarding whether to use a child care provider versus having a parent stay at home with the child, and the age of the child. According to stakeholders we contacted, the credits are more typically used for household necessities at the time they are received, such as buying clothes for their children, purchasing household supplies, or making a car payment.

WHAT IMPACT WOULD ELIMINATING THE TAX EXPENDITURES HAVE ON BENEFICIARIES?

Eliminating these credits would reduce the after-tax income of the current beneficiaries. Though the impact would vary based on the amount of credits families would otherwise receive, families with an annual income of $25,000 or less who qualify for the Low-Income Credit would see the most significant impact ($391 on average). Families who currently claim the Child Care Credit would see a smaller, yet still significant impact ($101 on average). As discussed, because the credits are paid once annually, they are more likely to contribute to families' ability to afford household necessities as opposed to increasing the amount of child care they purchase. Therefore, if the credits were not available, families would likely experience the impact as a reduction in their income available for household expenses. Further, because families that currently claim the Low-Income Credit likely receive the full value of the credit as a tax refund due to having no taxable income, this impact may be more significant, since many of these families would otherwise receive a substantial refund payment that could assist in paying for higher-cost expenses (e.g., a down payment on a car). In addition, because many of the families who benefit from the credits earn incomes less than the federal poverty line, which was $25,100 for a family of four in 2018, the reduction in after-tax income would have a substantial impact since these families likely have difficulty covering the cost of necessities even with the credits.

ARE THERE SIMILAR TAX EXPENDITURES IN OTHER STATES?

In Tax Year 2017, 24 other states and the District of Columbia provided a credit, deduction, or both for child care expenses. EXHIBIT 1.9 provides information on child care expense tax provisions in other states.

EXHIBIT 1.9.
OTHER STATES' CHILD CARE EXPENSES TAX PROVISIONS

TAX PROVISION CHARACTERISTIC	APPLICABLE STATES	AMOUNT (RANGE)[1]
Refundable Credit	HI, IA (2 credits), MN, NM, NY, OR, SC, VT	$250 to $24,000
Partially Refundable Credit	AR, LA, ME, NE	$420 to $2,100
Nonrefundable Credit	CA, DE, D.C., GA, KY, MD, OH, OK, RI, VT (Low-Income Credit), VA	$345 to $2,100
Income Limit to Claim Credit	CA, IA, MD, MN, NM, OH, OK, OR, VT	$30,160 to $100,000
States that Base their Credit on the Federal Credit	AR, CA, DE, D.C., GA, IA, KY, LA, ME, MD, MN, NE, NM, NY, OH, OK, RI, SC, VT	N/A
States with Credits Not Tied to Federal Credit[2]	HI, IA, OR	N/A
Deduction	ID, MD, MA, MT, VA	$192 to $562

SOURCE: Office of the State Auditor analysis of other state statutes and National Women's Law Center publications.
[1] The low end of the range is based on one child and the high end of the range is based on two or more children.
[2] 18 states and the District of Columbia tie their credits to the Federal Credit.

ARE THERE TAX EXPENDITURES OR PROGRAMS WITH A SIMILAR PURPOSE IN OTHER STATES?

COLORADO CHILD CARE ASSISTANCE PROGRAM (CCCAP)—The Department of Human Services administers the CCCAP program, which provides child care assistance to families with incomes of up to 165 percent of the federal poverty level and are employed, looking for work, or enrolled in an education program. Under CCCAP, counties receive an allocation of state funding and are responsible for establishing eligibility standards based on state guidelines and prioritizing which families receive financial assistance. In Fiscal Year 2016-17 CCAP was appropriated about $91 million to provide financial assistance to families to reduce the cost of childcare. 30,328 children and 18,883 families receive financial assistance from CCCAP. We estimate that the program pays, on average, $3,001 annually per child. CCCAP recipients are also eligible for the Child Care Credit and Low Income Credit; however, CCCAP recipients can only claim credits based on their out-of-pocket child care expenses not covered by CCCAP.

COLORADO PRESCHOOL PROGRAM (CPP)—The CPP is administered by the Department of Education and provides funding for eligible children to attend half or full-day preschool or full-day kindergarten located in public schools, child care centers, community preschools, or Head Start programs. According to information published by the Department of Education, in Fiscal Year 2016 - 17, it spent about $108 million on CPP, which served about 27,000 students statewide and paid, on average, $3,800 annually per child. Families who receive assistance through the program remain eligible to claim the Child Care Credit and Low-Income Credit, though their credits are calculated based only on their out-of-pocket child care costs.

FEDERAL CHILD AND DEPENDENT CARE TAX CREDIT (FEDERAL CREDIT)—As discussed, to qualify for the state Child Care Credit, families must also claim the Federal Credit, which is the basis for calculating the Child Care Credit amount. The Federal Credit provides an annual maximum child care credit of $1,050 for one child, or $2,100 for two or more children. According to Internal Revenue Service data, about 105,000 taxpayers in Colorado claimed the Federal Credit in Tax Year 2015 and received a total of $56 million in Federal Credits, or about $533 per taxpayer.

WHAT DATA CONSTRAINTS IMPACTED OUR ABILITY TO EVALUATE THE TAX EXPENDITURES?

The Department of Revenue was unable to provide individual taxpayer data related to the Child Care Credit or the Low-Income Credit. Specifically, according to the Department of Revenue, although taxpayers report detailed information, including credit amounts claimed, qualified expenses, and information on child care providers on Forms DR 0104 and DR0347, GenTax does not capture the data in a format that is extractable without significant additional resources. With more changes to GenTax to extract additional data, including individual taxpayers' demographic information (i.e., income levels, address, number of children and marital status); credit amount; qualified childcare expenses; and child care provider names and addresses, we could potentially perform additional analyses of the credits including:

- The extent to which credit amounts claimed by taxpayers offset their qualified child care expenses.

- The number of taxpayers who received refunds.

- The number of taxpayers claiming the credits who are single parents or married couples.

- The number of recipients based on geographic and/or demographic distribution.

- The number of taxpayers who consistently claim the credits, are new claimants, or have discontinued use of the credits.

However, according to the Department of Revenue, this type of change would require additional resources to complete the necessary programming in GenTax (see the Tax Expenditures Overview Section of the Office of the State Auditor's *September 2018 Tax Expenditures Compilation Report* for additional details on the limitations of Department of Revenue data and the potential costs of addressing the limitations).

WHAT POLICY CONSIDERATIONS DID THE EVALUATION IDENTIFY?

THE GENERAL ASSEMBLY COULD CONSIDER DECOUPLING THE FEDERAL CREDIT FROM THE CHILD CARE CREDIT TO INCREASE THE STABILITY OF THE CREDIT AND AVOID THE POTENTIAL FOR DISPARITIES IN THE BENEFIT AVAILABLE TO ELIGIBLE TAXPAYERS. Currently, because the Child Care Credit is calculated based on the Federal Credit amount, changes to federal tax law and regulations can change the amount of Child Care Credit available to taxpayers, which may reduce its stability and effectiveness. Based on the current Federal Credit, the amount of Child Care Credit taxpayers receive changes whenever any of the following occur: (1) a change to the Federal Credit itself, (2) a change to the federal standard deduction or exemption amounts, or (3) a change to the federal tax rate or brackets. For example, the 2017 Federal Tax Cuts and Jobs Act substantially increased the standard deduction, eliminated the exemption for dependents, and changed tax rates across income levels, beginning in Tax Year 2018. Because the Federal Credit is limited to the amount of taxpayers' federal tax liability, these changes had an impact on the amount of the Federal Credit and subsequently, the amount of Child Care Credit taxpayers can claim. For example, including the changes from House Bill 18-1208, a married taxpayer filing a joint return, with one child and an adjusted gross income of $30,000 and child care expenses of $3,000 would have been able to claim a Child Care Credit of $258 for Tax Year 2019 without the changes to federal law, but will be able to claim a $280 credit in 2019 due to the changes. On the other hand, a taxpayer filing as a head of household, with one child, and an adjusted gross income of $20,000 and child care expenses of $3,000 will receive an $83 credit instead of a $128 credit without the change.

Additionally, directly tying the Child Care Credit to the Federal Credit can create unintended disparities in the amount of credits taxpayers receive. Because the Federal Credit is capped at taxpayers' federal tax liability, which can be substantially less than what taxpayers would otherwise be able to claim based on their actual child care expenses, taxpayers with low federal tax liability may also receive less in Child Care Credits. In addition to the potential for disparities across income levels, there are also potential disparities based on taxpayers' filing status (i.e., married filing jointly, single, head of household). EXHIBIT 1.10 compares the amount of the Child Care Credit or Low-Income Credit available for taxpayers based on their filing status as married filing jointly or head of household, which is a filing status typically used by single parents.

EXHIBIT 1.10.
TAX YEAR 2019 CREDIT AMOUNTS BY ADJUSTED GROSS INCOME AND TAX FILING STATUS FOR HYPOTHETICAL TAXPAYERS WITH $3,000 IN CHILD CARE EXPENSES FOR ONE CHILD

Adjusted Gross Income	Married Filing Jointly Credit Amount	Head of Household Credit Amount	Difference
$5,000	$500[1]	$500[1]	$0
$10,000	$500[1]	$500[1]	$0
$15,000	$500[1]	$500[1]	$0
$20,000	$500[1]	$83	$417
$25,000	$30	$333	$303
$30,000	$280	$405	$125
$35,000	$375	$375	$0
$40,000	$330	$330	$0
$45,000-$60,000	$300	$300	$0

SOURCE: Office of the State Auditor review of Federal Credit, Child Care Credit, and Low Income Credit.
[1]Taxpayers receive the Low-Income Credit because they have insufficient federal tax liability to claim the Child Care Credit.

Although the General Assembly could address these issues by amending statutes to base the calculation of the Child Care Credit on child care expenses incurred, regardless of the Federal Credit available, this would potentially increase the burden on taxpayers filing for the credit, since they would have to perform a separate calculation in order to claim the Child Care Credit. In addition, decoupling the Child Care Credit from the Federal Credit could increase the revenue impact to the State, though we lacked sufficient data to quantify this potential impact. This change would also make the Low-Income Credit unnecessary since taxpayers would be able to take the Child Care Credit regardless of their federal tax liability.