

Early Childhood Educator Credit

Tax Expenditure Evaluation • February 2025 • 2025-TE3



OFFICE OF THE STATE AUDITOR

C O L O R A D O

The Early Childhood Educator Income Tax Credit (Credit) allows qualified early childhood education professionals (Educators) who obtain an Early Childhood Professional Credential (ECPC) to claim a refundable income tax credit. Under statute, Educators must obtain an ECPC, work for a state-licensed child care provider for at least 6 months of the year, and have an adjusted gross income (AGI) of \$75,000 or less for single filers, or \$150,000 or less for joint filers. The credit is currently available for Tax Years 2022 through 2025—expiring January 1, 2026—and in Tax Year 2022, prior to inflation adjustments, Credit amounts ranged from \$750 to \$1,500, depending on the ECPC Level of the Educator.

The General Assembly established the Credit to incentivize Educators who work at state-licensed child care providers to obtain an ECPC, or to increase their ECPC Level, in order to increase quality of care. Additionally, the General Assembly intended for the Credit to provide tax relief for these Educators, citing its concern with low industry wages leading to turnover, lower quality care, and scarcity of care.

Overall, we found that the Credit is likely meeting its purposes because most of the eligible population has used the Credit, and it provides a financial benefit to Educators. This financial benefit appears to be an incentive for Educators to obtain or retain their ECPC or increase their ECPC Level, but recent growth in the Educator workforce and Educators who hold an ECPC may also be due to broader state efforts to strengthen the workforce in recent years.

- Department of Revenue data for Tax Year 2022, the most recent year available, shows that 11,400 tax returns claimed the Credit. This represents a majority of Educators that Department of Early Childhood data shows also held an active ECPC for the year.
- Educators reported that the Credit ranged from a small incentive to obtain or increase their ECPC Level to a very strong incentive, with about 10 percent reporting the Credit as the only reason they pursued or renewed their credential. About 29 percent reported it did not have an impact on their decision. However, many stakeholders reported that the financial benefit was important to maintaining their current ECPC and provided Educators with a sense of validation and recognition for their job.
- Because the Credit is refundable, it is available to people who qualify, regardless of their tax liability. The Credit provides an average of \$1,200 to Educators, which may help Educators pay down debt, increase savings, or cover costs for additional training and education.

Policy Considerations

If the Credit is renewed, the General Assembly may want to consider amending the AGI limitations to adjust annually with inflation so Educators with wages close to the maximum do not become ineligible for the Credit.

Tax Type:	Income tax	Year Enacted:	2022
Expenditure Type:	Credit	Repeal/Expiration date:	2025
Statutory Citation:	§ 39-22-547, C.R.S.	Revenue Impact (2022):	\$14.2 million

Purpose given in statute or enacting legislation? Yes



Early Childhood Educator Income Tax Credit

Background

The Early Childhood Educator Income Tax Credit (Credit) allows qualified early childhood education professionals (Educators) who obtain an Early Childhood Professional Credential (ECPC) to claim a refundable income tax credit.

To be eligible for the Credit, Educators must obtain an ECPC, work for an eligible child care provider (i.e., a state-licensed provider that meets state quality rating minimums) for at least 6 months of the year, and have an Adjusted Gross Income (AGI) of \$75,000 or less for single filers, or \$150,000 or less for joint filers. The annual Credit amount available is based on the level of ECPC the Educator obtains, and is adjusted each year based on inflation. In Tax Year 2024 the Credit amount ranged from \$852 to \$1,705.

According to statute, the General Assembly established the Credit to incentivize early childhood educators who work at state-licensed providers to obtain an ECPC, or to increase their ECPC level, in order to increase quality of care. Additionally, the General Assembly intended for the Credit to provide tax relief for these early childhood educators, citing its concern with low industry wages leading to turnover, lower quality care, and scarcity of care. [Section 39-22-547(1)(a) and (b), C.R.S.; House Bill 22-1010, Section 1 (Legislative Declaration)].

The legislative declaration for the enacting bill [House Bill 22-1010] cited the importance of investing in the early childhood educator workforce to provide quality education and care for children, and to enable parents to work. Educator workforce data from the Department of Early Childhood (CDEC) and University of Denver's Colorado Evaluation and Action Lab shows that, while the industry has suffered from recruitment, retention, and professional development barriers due to low wages and job demands for many years, the COVID-19 pandemic greatly increased these issues and resulted in several thousand professionals leaving the early childhood workforce, impacting quality of care and access to care across the state, especially in rural counties. Having early childhood education professionals with more education, experience, and skills can lead to better quality of care for children, which yields positive impacts on the children's health, safety, and development and provides stability for parents who need child care to maintain employment. Therefore, the General Assembly intended to create a financial incentive for Educators to increase

their skills and obtain a state-issued ECPC, or increase their ECPC Level (i.e., higher levels require more experience, education, and demonstrated skills), and to recruit and retain more Educators.

In addition to encouraging Educators to obtain or increase their credentials, in order to promote quality child care, the legislative declaration also cited the importance of tax relief for Educators due to low wages in the industry, impacting primarily women and women of color, which makes it difficult for these groups to achieve economic stability—one of the most common reasons Educators leave the early childhood workforce. According to the legislative declaration, early childhood educators earn less than half the salary of kindergarten teachers, their counterparts in elementary education. According to a study from the University of California Berkeley (U.C. Berkeley) Center for the Study of Child Care Employment, the poverty rate for early childhood educators in Colorado in 2022 was about 13 percent, which is significantly higher than the State’s overall poverty rate of 5.8 percent. Therefore, the General Assembly declared that “supporting the early childhood workforce with a targeted tax credit can support stability in the industry and, in turn, support working families, child development, and economic growth.”

Only two other states have a similar income tax credit for early childhood educators. Both Louisiana and Nebraska offer tax credits to early childhood educators to expand and retain the workforce in their states and increase the quality of child care. Louisiana’s tax credit is part of a broader package of tax incentives for early childhood professionals, child care facilities, families, and businesses and has been available since 2008. Nebraska’s credit was enacted in 2024, and similar to Louisiana’s credit, is part of a broader tax incentive policy that also provides credits to child care centers that participate in the State’s quality rating and child care subsidy program.

Credential Administration

The Colorado Department of Early Childhood (Department) manages the ECPC. To apply for the ECPC, individuals use the Department’s Professional Development Information System (PDIS), a workforce registry and professional development tool available to anyone in the early childhood workforce, to receive training and apply for job-related credentials. For the ECPC, the PDIS awards points based on four components (formal education, experience, ongoing professional development, and demonstrated competencies) to award a final score. Individuals must achieve a minimum score to receive the ECPC and are assigned an ECPC Level based on their score. The ECPC is valid for 3 years, after which an Educator must reapply for the ECPC. However, an individual may increase their Level at any given time while their ECPC is valid by submitting additional documentation of training, education, or experience. There are six ECPC Levels, with Level 6 being the most advanced. Exhibit 1 shows the components, point levels, and final ECPC Level assigned based on the combination of these factors.

Technical Note:

Prior to 2022, the Department of Education with oversight from the Office of Early Childhood within the Department of Human Services managed the Early Childhood Professional Credential system. However, in July 2022, the Department of Early Childhood was established as a new department, and began managing the Early Childhood Educator Credential (ECPC) and Professional Development Information System (PDIS).

Exhibit 1

Early Childhood Professional Credential Components and Scoring Guide

Components	Component Description	Maximum Points
Formal Education	= Based on degree, area of study, ECE coursework, and Trainings of Special Recognition.	50
Ongoing Professional Development	= One point per clock hour for the training hours and/or CEUs earned in the last 3 years.	30
Experience	= One point for every year (1,820 hours) worked in the early childhood field.	20
Demonstrated Competencies	= Received qualifying score from an observation with an approved observation tool.	10

Credential Levels

Level 1	Level 2	Level 3	Level 4	Level 5	Level 6
10-20 points At least 2 components	21-35 points At least 2 components	36-50 points At least 3 components	51-60 points At least 3 components	61-70 points At least 3 components	71+ points At least 3 components

Source: Colorado Department of Early Childhood.

Credit Administration

The ECPC Levels determine the amount of the Credit that an individual is eligible to receive, with Educators at higher levels receiving larger credits. Exhibit 2 shows the Credit amounts for each ECPC Level for Tax Years 2022, 2023, and 2024. Amounts for Tax Year 2025 have not been calculated as of the date of this publication, and the Credit is currently set to expire January 1, 2026.

Exhibit 2

Credit Amounts by Early Childhood Professional Credential (ECPC) Level by Year

Credential Level	2022	2023	2024
Level 1	\$750	\$850	\$852
Level 2	\$1,000	\$1,080	\$1,136
Level 3, 4, 5, and 6	\$1,500	\$1,620	\$1,705

Source: Statute Section, 39-22-547(3)(a) and (b) C.R.S., and Department of Revenue information on credit amounts adjusted for inflation.

In addition to obtaining their ECPC, to receive the Credit, Educators must work for a Department-licensed early childhood education provider. Licensed providers include child care facilities, preschools, and in-home care (i.e., family care homes), with some exceptions. Special schools or classes for single skill-building or religious instruction; short-term care for less than 3 hours; and in-home family child care that serves four or fewer unrelated children, with no more than two of the children under the age of two, are all legally exempt from licensing; Educators employed in unlicensed child care settings are not eligible for the Credit.

The Department annually provides the Department of Revenue (Revenue) with a list of all the individuals who have an ECPC and, therefore, are potentially eligible for the Credit. Individuals claim the Credit by completing the Early Childhood Educator Income Tax Credit form (Form DR 1703), which requires them to attest that they met each of the requirements to be eligible for the Credit.

Statute provides the following performance measures to evaluate whether this credit is meeting its purposes:

- The number of Credits claimed.
- A comparison of the number of ECPCs at various levels before and after the Credit became available.

In addition to the statutory performance measures, to evaluate whether the Credit is meeting its purposes we also measured the effectiveness of the Credit at incentivizing early childhood education professionals to obtain an ECPC, or to increase their credential level.

Evaluation Results

The Credit is likely meeting its purposes because eligible individuals are aware of and claiming the Credit, and it provides a benefit to Educators who obtain an ECPC or increase their ECPC Level. Some stakeholders also reported that the Credit is a valuable incentive that encourages Educators to obtain their ECPC or increase their ECPC Level. Overall, the number of Educators obtaining an ECPC has increased since the Credit became available; however, the State's broader efforts to stabilize and grow the early childhood education workforce coincide with the Credit, so the extent to which the incentive of the Credit has driven growth in ECPCs is not clear.

Uptake of the Credit is high among the eligible population. Based on Revenue data for Tax Year 2022, between 11,400 and 14,300 individuals claimed the Credit for a total benefit of about \$14.2 million and a corresponding revenue impact to the State. We could not determine precisely how many individuals claimed the Credit because joint filers claim the Credit using the same reporting line on their return, making it impossible to determine if the amount claimed on some

forms was for one or two individuals (e.g., two \$750 Credits or one \$1,500 Credit). However, the Credit usage appears to indicate a relatively high uptake of the Credit among eligible Educators. Although we lacked data necessary to determine the exact number of eligible individuals because we did not have the license number of the individuals' employers and could not validate employment, based on PDIS data for 2022, there were 24,800 Educators with an ECPC, of which 15,400 provided employment information in the PDIS that indicated they likely worked for a licensed provider and would be eligible for the Credit; assuming they worked for at least 6 months and did not exceed the Credit's income limitations. The remaining 9,400 Educators who held an ECPC were also potentially eligible for the Credit, but did not submit their employment information in the PDIS; employment information is not a requirement to obtain an ECPC. It is likely that some of these Educators did not work for a licensed provider and so were not eligible for the Credit. While data for Tax Year 2023 is not yet available, preliminary figures from Revenue suggest that the number of tax returns claiming the Credit has increased by about 2,000 tax returns from Tax Year 2022.

After speaking with the Department and surveying stakeholders, we found that awareness of the Credit is generally very high, as the Department, child care providers, and industry organizations were aware of and publicize the Credit. The Department includes information on the tax credit on its website and in its newsletter to people who have an account in the PDIS. Additionally, we surveyed individuals with a PDIS account about their knowledge of the Credit. Of the 87 respondents to our survey, 80 were aware of the Credit prior to our survey, and 58 had reported claiming the Credit. In addition to the high awareness of the Credit, its design as a refundable income tax credit allows all eligible taxpayers to claim the Credit regardless of their income tax liability.

In general, the Credit provides tax relief to qualified Educators, increasing their after-tax income by about \$1,200, on average. According to Revenue data for Tax Year 2022, about 11,400 returns claimed the Credit, for an average benefit per return of about \$1,245. According to a study from the Center for the Study of Child Care Employment (U.C. Berkeley), using data from the U.S. Census Bureau, as of 2022, the median hourly wage of a child care worker in Colorado was \$15.06; adjusted to an annual salary, the median annual wage was \$31,325. Therefore, the average Credit would have resulted in a tax benefit equivalent to a wage increase of about 4 percent, or about \$.60 per hour for a full-time child care worker. The actual benefit of the Credit varies based on the taxpayer's annual income, with the majority of taxpayers claiming the Credit as single filers with an AGI between \$20,000 and \$50,000; joint filers generally had an AGI between \$75,000 and \$150,000. These figures suggest that the average Credit amount claimed in 2022 could provide a monetary benefit of just under 1 percent up to 6 percent of annual income for the majority of taxpayers that claimed the Credit.

Additionally, in 2024, the Department contracted with a research organization to conduct focus groups with Educators who had claimed the Credit. The results from the focus groups showed that the Credit provided some financial relief for Educators, allowing focus group participants to pay off

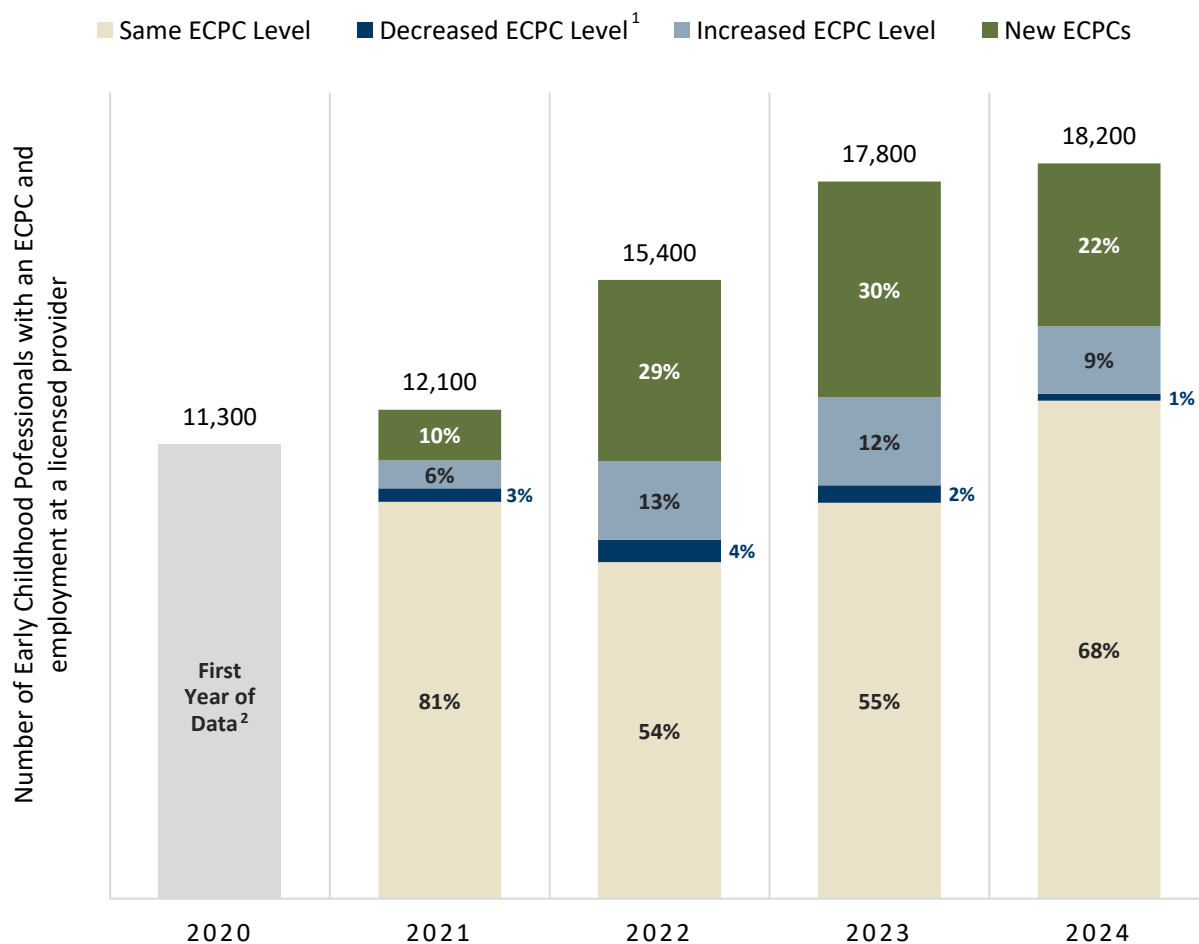
personal debt, increase their savings, afford basic needs like groceries, and pay for additional education. The study concluded that the Credit provides Educators with a sense of validation and recognition, having both a professional and emotional impact that can support overall job satisfaction.

Overall, the Credit provides some financial relief to Educators; however, it is not sufficient on its own to resolve low wages in the field that contribute to high turnover rates. For example, according to the Center for the Study of Child Care Employment (U.C. Berkeley) study, in Colorado a child care worker making the median wage of \$31,325, with no dependents, would fall short of a livable wage by about \$3 an hour. This gap between the median wage and livable wage increases to nearly \$23 an hour for an individual with a dependent. While the Credit provides a benefit, Educators still lack economic stability and opportunity due to low wages, which may continue to impact retention, especially for individuals who are in entry level positions and have the lowest wages and generally the lowest Credit amount.

There has been an overall increase in Educators who have obtained ECPCs, and the Credit appears to be an incentive for most Educators. However, broader state efforts to increase the size and quality of the early childhood workforce are also likely driving the increase. We found that between Tax Year 2021, the year before the Credit became available, and Tax Year 2024, the number of Educators who worked for a licensed provider and obtained an ECPC increased by about 50 percent. Additionally, there was an increase in the number of Educators who increased their ECPC Level from the previous year. Specifically, about 6 percent of Educators with ECPCs working for licensed providers increased their ECPC Level in 2021, compared to 13 percent in 2022 and 12 percent in 2023. Exhibit 3 shows the annual number of Educators who both held an ECPC and submitted employment information in the PDIS, and whether they earned their ECPC or maintained, decreased, or increased their ECPC Level.

Exhibit 3

Overall Increase in Educators with ECPC, January 2020 through October 2024, and Change in Educators Increasing ECPC Level Versus New ECPCs



Source: Office of the State Auditor analysis of Colorado Department of Early Childhood PDIS data for all Educators with an approved ECPC between January 2020 and October 2024, and who reported employment data.

¹ ECPC's are valid for 3 years, at which point an Educator must reapply for the ECPC. Based on PDIS scoring factors an Educator's re-certification could result in a decreased ECPC Level.

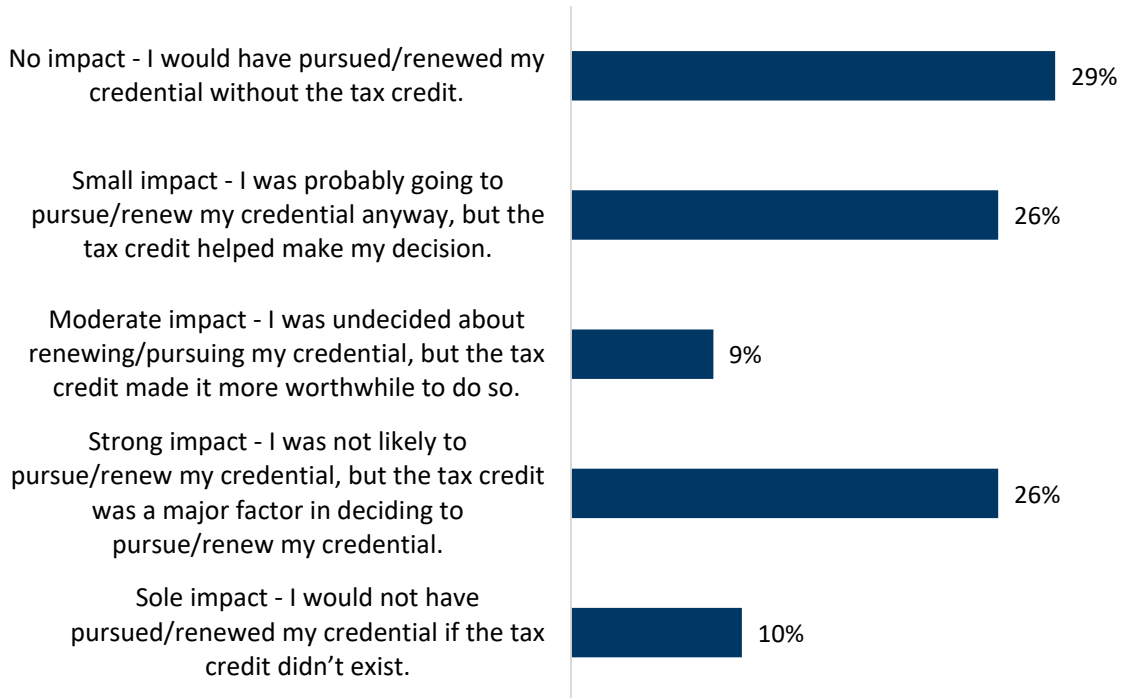
² The 2020 data serves as a baseline year to measure changes in Educators' ECPC Levels and new ECPCs in the following years; therefore, a total count is provided but there are no changes to measure.

To determine whether the Credit acted as an incentive for Educators to obtain an ECPC or increase their ECPC Level, we surveyed Educators and received responses from 87 individuals, 58 of whom claimed the Credit. While the Credit at least partially incentivized most individuals who claimed it, about 29 percent reported that they would have pursued or renewed their ECPC without the Credit. Additionally, some of these respondents stated that their job required an ECPC, but the Credit was beneficial and acted as compensation to keep their credential current. Exhibit 4 shows the breakdown of responses to our survey question regarding the extent to which the Credit incentivized individuals' decisions to pursue or renew their ECPC.

Exhibit 4

Survey Response Results

Survey Question: “To what extent did the credit incentivize you to pursue or renew your Early Childhood Education Professional Credential?”



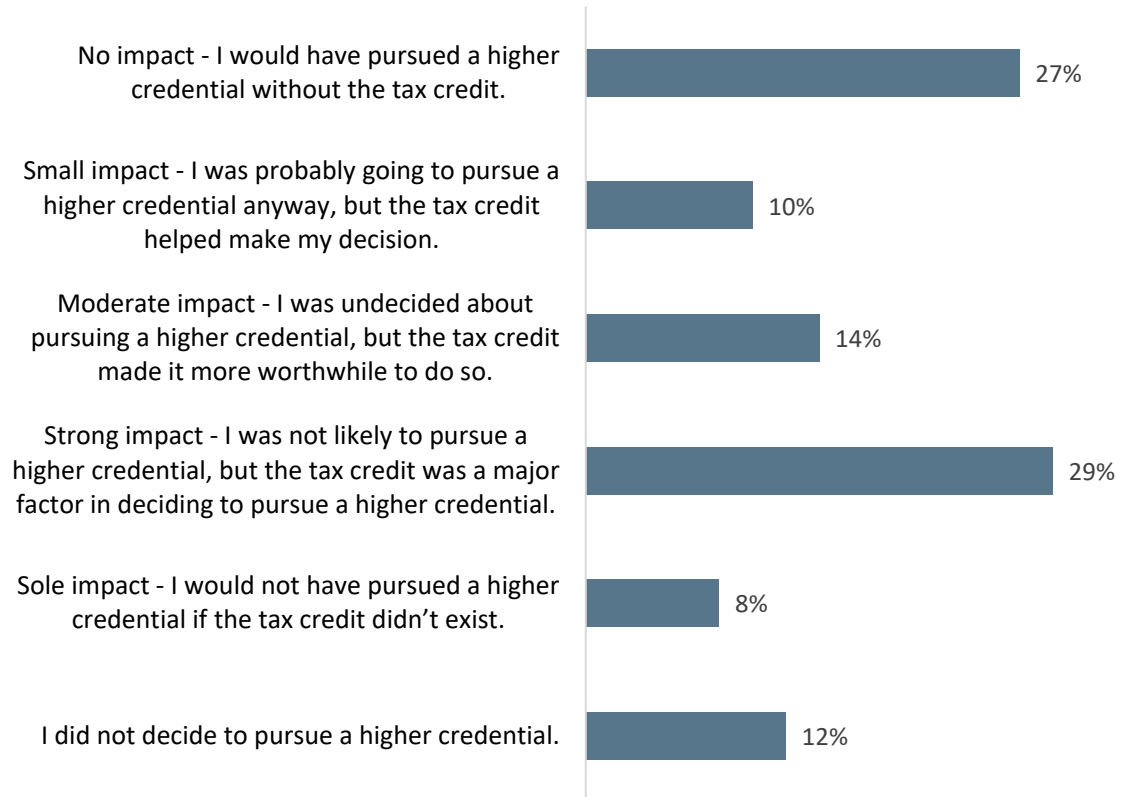
Source: Office of the State Auditor survey of early childhood education professionals, Fall 2024. There were 58 total survey respondents who reported claiming the Early Childhood Educator Tax Credit.

Additionally, for eligible individuals who were not at the highest ECPC Level (Level 6) and claimed the Credit, the Credit appeared to be a strong incentive for many of them to increase their credential level, with 29 percent stating that the Credit had a strong impact on their decision to pursue a higher credential level and another 8 percent saying the Credit was the sole reason they pursued a higher credential level. However, 27 percent reported that they would have pursued a higher credential level regardless of the Credit. Exhibit 5 provides a breakdown of responses to our survey question regarding the Credit's impact on individuals' decisions to pursue a higher ECPC Level.

Exhibit 5

Survey Response Results

Survey Question: “If the amount of the tax credit influenced you to pursue a higher credential level, how strongly would you say the additional tax credit amount influenced your decision?”



Source: Office of the State Auditor survey of early childhood education professionals, Fall 2024. There were 49 total survey respondents who reported claiming the Early Childhood Educator Tax Credit and would be able to increase their credential level (i.e., were not at a Level 6).

In addition to our survey, the Department’s recent focus group study reported that the Credit was a valuable tool to motivate Educators to apply for an ECPC or increase their credential level, especially since increasing skillsets do not always result in an increase in wages.

While the incentive provided by the Credit may have driven the increase in the number of Educators with ECPCs working for licensed providers to some extent, there are several other workforce and retention programs targeted at increasing and stabilizing the early childhood education workforce that may have also contributed to the increase. First, in recent years the Department has invested staffing and resources to improve its PDIS, promote the ECPC, and process applications faster. Since 2022, when the Department became responsible for the ECPC, the overall number of applications approved has increased significantly. In 2021, the Department of Education

(Education) approved about 1,500 ECPCs, and since 2022, when the Department became responsible for the credentialing process, the number of applications processed has grown from almost 9,000 in 2022 to almost 13,000 in 2024. These increases are reflective of both an increase in overall applications and the Department's application approval process improvement efforts, which has reduced approval time from a maximum of 2 months, down to 2 weeks. Second, it is possible that at least part of the increase in overall ECPCs may be attributed to already qualified Educators completing the application process. Data on whether an ECPC represents an Educator obtaining new skills, thereby increasing quality of care, versus obtaining a formal credential for skills and education they already possess is not available. Therefore, we could not conclude on the Credit's direct impact on improving the quality of child care in the state.

In addition to efforts to increase awareness of the ECPC and to process applications, the State has invested in multiple programs to address recruitment, retention, and training in the early childhood workforce. Using federal and state COVID-19 stimulus funds and block grants (e.g., American Rescue Plan Act, Coronavirus Response and Relief Supplemental Appropriations, State and Local Fiscal Recovery Funds, Child Care and Development Fund), the General Assembly appropriated almost \$750 million to address recovery and strengthen Colorado's early childhood sector. The Department has administered this funding since 2022 while convening multiple working groups to identify and implement strategies to strengthen the workforce, including:

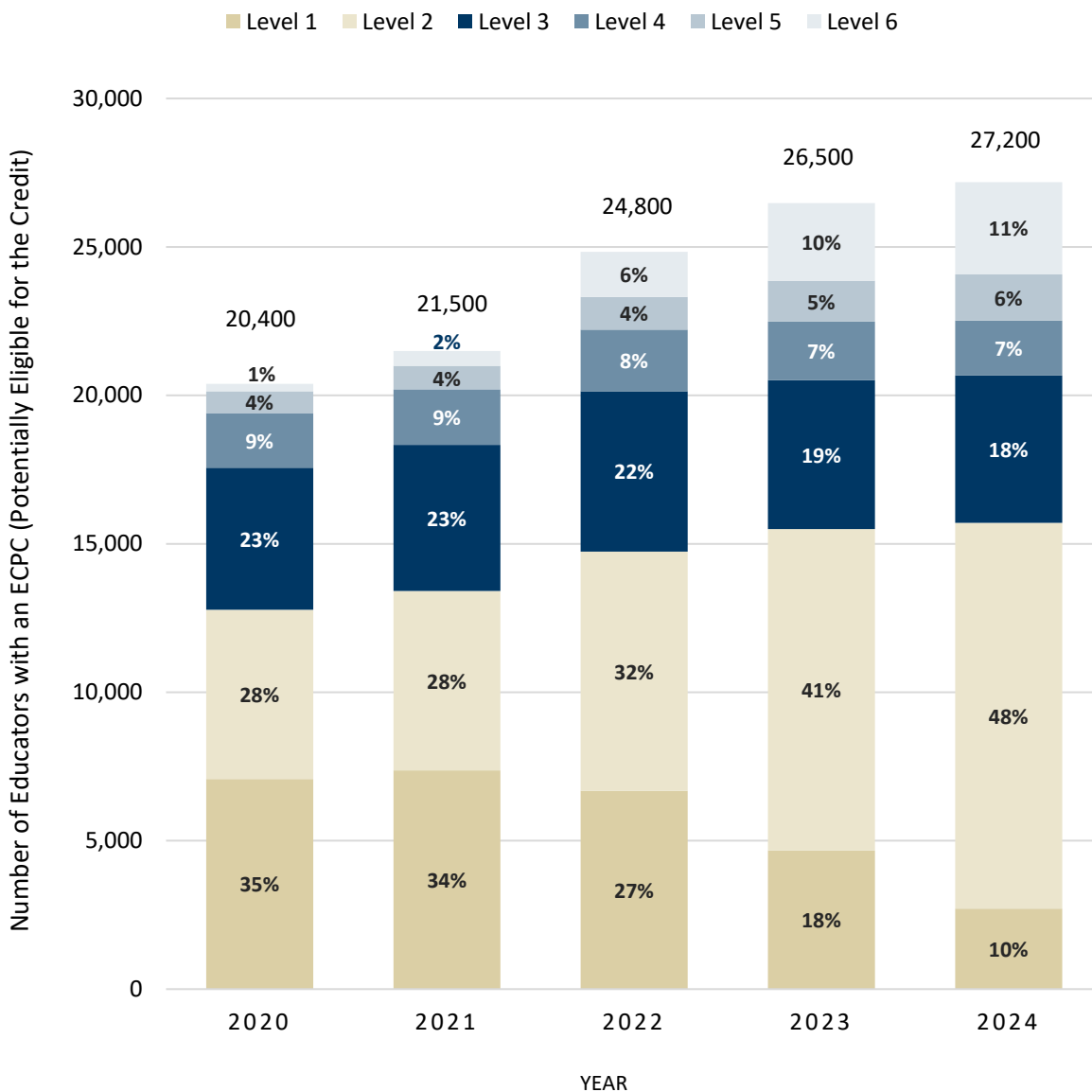
- Providing workforce stabilization grants to child care programs to invest in training programs, benefits, bonuses, and other support programs for their employees;
- Creating an apprenticeship program;
- Providing peer mentorship training;
- Providing financial support to the Child Development Associate Support Specialist program, an alternative to traditional higher education requirements in the workforce;
- Providing free training through the PDIS;
- Providing business training to center directors and family child care home providers to support business practices;
- Funding scholarships for higher education and providing loan forgiveness;
- Subsidizing access to substitute teachers to support time for educators to access professional development; and
- Piloting a program for wage increases for early childhood teachers and assistant teachers.

These investments, paired with the Credit, may help drive industry recruitment and retention. A University of Virginia study in 2020 found that providing cash grants to teachers significantly

reduced employment turnover in early childhood centers. In our survey to Educators, of the 87 responses, about 34 percent reported that they received some sort of financial assistance (e.g., partial tuition waivers, grants, scholarships) to pursue higher education or additional training aside from the Credit. The Department reports that since losing nearly 7 percent of professionals in the early childhood workforce during the COVID-19 pandemic, the workforce has begun to grow, reaching approximately 27,200 professionals who hold an ECPC, as of October 2024. Exhibit 6 shows the change in the number of Educators holding an ECPC, by Level, from January 2020 through October 2024. Overall, the number of Educators with an ECPC has increased by about 33 percent over the last 5 years, and a larger proportion of Educators with an ECPC have a Level 2, Level 5, or 6 than in 2020.

Exhibit 6

Summary of All Educators with an ECPC Between January 2020 and October 2024



Source: Office of the State Auditor analysis of Colorado Department of Early Childhood PDIS data for all Educators with a verified ECPC between January 2020 and October 2024.

Additionally, the General Assembly established the Qualified Care Worker Tax Credit in House Bill 24-1312, which will be available for Tax Years 2025 through 2028. This credit provides a benefit up to \$1,200 per taxpayer to child care workers who work at least 720 hours during the tax year and are registered in the PDIS; child care workers are eligible whether they work for a licensed provider or in an informal care setting such as family, friend, or neighbor child care. Although the credit's impact is not reflected in the data available for our current review, it could support efforts to increase recruitment and retention of early childhood educators in future years. However, this new credit does not provide an incentive for early childhood educators to obtain or increase their ECPC Level like the Early Childhood Educator Credit. Therefore, if the Early Childhood Educator Credit is not renewed, the number of Educators with an ECPC, or a higher Level ECPC may not be sustained. Additionally, the AGI limitation on the Care Worker Credit for joint filers is \$100,000, lower than the \$150,000 for the Early Childhood Educator Credit. Therefore, some joint filers who are currently eligible for the Early Childhood Educator Credit will not be eligible for the Care Worker Credit. The Care Worker Credit is also available to other direct care workers in long-term care settings, such as individuals employed in nursing facilities or home-based care.

Policy Considerations

If the General Assembly chooses to renew the Credit, it could consider amending the AGI cap to adjust with inflation. Currently, the maximum AGI limit to be eligible for the Credit is set at \$75,000 for single filers or \$150,000 for joint filers. While this is generally higher than the wages of most Educators, there are some instances when Educators' AGI, especially those who are married filing jointly, may exceed these AGI limits and the Educators may, therefore, become ineligible for the Credit. While data on the population of Educators who would be eligible but exceed the AGI limit is not available, 13 of the 87 taxpayers (15 percent) who responded to our survey noted that they could not claim the Credit because they were ineligible due to income limitations, and several noted that their joint filing status and partner's income made them ineligible for the Credit. When we spoke with stakeholders about these limitations, many recognized that funding for the Credit is limited, and therefore it should be prioritized towards Educators who are paid lower wages to address the economic stability of those most in need. However, the recent years of inflation and cost-of-living increases in Colorado may mean that some Educators may become ineligible for the Credit as their income increases and exceeds the AGI limitations, even though their wages relative to costs have remained the same. Therefore, the General Assembly may want to assess whether the current AGI limit continues to reflect the population that should be eligible for the Credit, and consider adjusting AGI limits for inflation if it decides to renew the Credit.

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