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Forging Pathways from Poverty

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SUPPORT HB19-1013

Extend the Child Care Tax Credit for those earning under \$25,000/yr

Sponsors: Representatives Exum and Coleman and Senators Pettersen and Fields

Colorado's economy thrives when working families reach their full potential and contribute back to their communities. Without child care, most parents of young children cannot work. Low wage workers have difficulty affording the child care needed to take a job and stay in the workforce.

The Need for the Bill

Colorado law provides a permanent income tax credit for child care expenses to families with an income of \$60,000 and less. Because that tax credit is based on a percentage of the federal credit claimed – and working parents with low incomes earn too little to pay federal income taxes, families earning under \$25,000 generally do not qualify for the permanent credit. They do currently qualify for the low-income child care tax credit, **but it expires after tax year 2020**. Colorado disconnected the state tax credit from federal credit for those earning under \$25,000/year who do not qualify for the permanent credit, and created a maximum credit of 1/4 of child care expenses for working families up to a **maximum** of \$500 for a family with one child and \$1,000 for a family with two or more children. The average credit has been a little over \$150 per family.

This Tax Credit Helps Parents Work

To qualify for the credit, families need to meet the following criteria:

- Must be working
- Must earn less than \$25,000 a year, which is roughly \$12 an hour or less
- Must pay for child care while they work

Promotes Economic Growth and Reduces Poverty

Employment is critical to reducing poverty, but child care is critical to employment.

The child poverty rate in Colorado skyrocketed from 10 percent in 2000 to 18 percent in 2011. In 2016, the child poverty rate fell to 13%. For a family of three, the poverty level is \$20,780 a year. An extra \$500 or \$1000 in child care cost reimbursement through this tax credit can push many above the line and help them tap into their economic potential. The credit makes a significant impact on those far below the poverty line.

Child Care Tax Credit Impact:

Examples demonstrating the need to make the Child Care Tax Credit for those earning under \$25,000/yr permanent

Table 1 compares the benefits for a family earning \$50,000 per year versus a family earning \$16,000 per year for tax year 2019 and future years

Example Family	Federal Tax Credit	State Tax Credit*	Total Savings
1. Comparison Case 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 50% of the federal tax credit claimed. \$600 x 50% means a reduction in state taxes of \$300	\$900
2. HB17-1002 in effect (same scenario as example 1 under current law due to sunset after tax year 2020)	Single mother with one child pays \$4,000 per year to send the child to an afterschool program. Mother earns \$16,000 per year	Mother could claim \$3,000 x .30%, or \$900, but she does not owe income tax because her income is too low, and this tax credit is not refundable. She gets \$0	\$500
2. If HB17-1002 sunsets as written	Single mother with one child pays \$4,000 per year to send the child to an afterschool program. Mother earns \$16,000 per year	Same as above, unless Congress changes the federal tax credit to be refundable. She gets \$0	\$0

Table 1

Under current law, a single mother earning \$50,000 per year would see a tax benefit of \$900 to partially defray the costs of child care, while another single mother in the same situation making only \$16,000 per year currently sees a tax benefit of \$500. If this tax credit is not renewed, the family earning \$15,000/yr and paying for child care would lose any tax credit. This is because a single mother earning \$16,000 per year does not earn enough to owe income tax, and the Federal Tax Credit is not refundable.

Calculations by Chaer Robert,

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*Reflects changes made by HB18-1208