



# FACT SHEET: August 19, 2010

## Options for a State Child Care Tax Credit in Mississippi

### Key Takeaway:

Quality child care is necessary to improve educational outcomes for young children and to support families' participation in the workforce.

Tax credits are one way to improve access to child care, but in order to be cost effective and help those who need it most, they must be carefully designed and must work in concert with other measures.

### State Child Care Tax Credits:

There are 28 states, including the District of Columbia, that have a child and dependent care tax credit. Most are tied to the federal credit and applied on the filer's state taxes as a percentage of the federal credit.

Thirteen of the state credits care refundable – which means that if the credit amount exceeds the taxes owed, the taxpayer would get the difference as a tax refund.

The federal child and dependent care tax credit is calculated as a percentage of child and dependent care expenses claimed – up to \$3,000 for one child and \$6,000 for two children. The percentage of credit depends on the filer's income so that the credit is provided on a sliding scale.

If a credit is not refundable, it excludes many lower income families that do not have a tax liability equal to the credit amount. The federal child and dependent care tax credit is not refundable.

### Child Care Credits in Regional States

State	Credit	Refundable	Tied to Quality
Alabama	No credit	N/A	N/A
Arkansas	20% of the federal credit in effect as of 2005 (for the non-refundable portion) or 1993 (for the refundable portion)	Only for children under 6 years old in care that meets some minimum quality standards	Must have a certain level of accreditation; if not family is only eligible for 10% credit
Georgia	30% of the federal credit	No	No
Louisiana	10-50% of federal credit based on AGI with an additional credit for quality child care	Yes, for filers with AGI under \$25,000	Partially tied to Quality Rating System
Mississippi	No credit	N/A	N/A
Tennessee	No credit	N/A	N/A

Source: National Women's Law Center, "Making Care Less Taxing," April 2006 and April 2010 Supplement

### Child Care Tax Credits and Quality:

The federal credit provides some minimum quality standards by only allowing expenses paid to a dependent care center if the center meets applicable state and local laws. Only four states go further in tying their tax credit to quality – Arkansas, Louisiana, Maine, and Vermont. Of those states, only Louisiana ties their tax credit to their Quality Rating System.

Louisiana provides a traditional child and dependent care tax credit applied generally as a percentage of the federal credit and is not tied to quality. In addition to that credit, Louisiana provides a "School Readiness" credit which provides a greater percentage of the credit for families that send children to a higher rated child care center, based on the Quality Rating System.

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## Louisiana School Readiness Tax Credits:

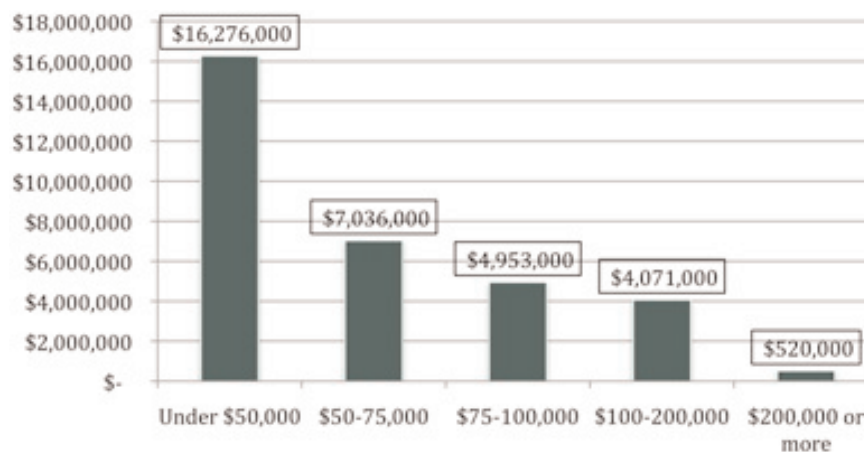
Louisiana's traditional credit is between 10% and 50% of the federal credit depending on AGI. Filers with an AGI of over \$60,000 are eligible for a maximum credit of only \$25. The School Readiness credit is calculated as a percentage of the traditional state credit and is between 200% and 50% of the credit depending on the star rating of the child care provider on the Quality Rating Scale.

Both the traditional credit and the School Readiness Credit are refundable if the filer's AGI is under \$25,000. Louisiana also provides a School Readiness Credit for owners, directors, and staff of child care providers that meet certain quality standards as well as for businesses that support quality child care facilities. The estimated cost of Louisiana's traditional credit is \$12.4 million from 2006-2011, the School Readiness credit for families is estimated to have cost \$983,000 during the same time period (the credit did not go into effect until 2008).

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## A State Tax Credit for Mississippi ?

Mississippi does not provide a tax credit for child care expenses. However, 60,000 filers in Mississippi claimed the federal child and dependent care tax credit for 2007 for a total amount of \$32.9 million in credits. About half of the federal tax credit goes to filers with adjusted gross income of under \$50,000.



Source: US Internal Revenue Service data

If Mississippi enacted a state credit tied simply to the federal credit without additional income targeting or quality restrictions, a refundable 25% credit could cost approximately \$8 million per year based on current participation levels.

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## More Data Needed on Access :

While a state child care credit can be designed to provide greater assistance to those who need the assistance most – as is the case with Louisiana's credit, access to quality child care must also be evaluated to determine the effectiveness of a potential credit to help lower income families afford quality child care.

Affordability may be one of the biggest obstacles to accessing quality child care, but other obstacles must also be addressed. To determine access levels to quality care, and by extension quality related tax credits, additional analysis on the location of quality centers relative to low- and moderate-income communities is needed.

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## Issues to Consider:

In order to be effective in supporting lower income families to provide quality child care for their children, a credit would need to:

- Be refundable – and be based on the total federal credit calculated before the non-refundable portion is determined.
  - Should provide a greater amount of credit for lower income families, and phase out at a certain income level.
  - Should be a part of a number of measures designed to improve access to affordable, quality child care.
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