Policy Brief SCHOOL READINESS

Child Care Tax Credits

2017

In Nevada, over 63% of children ages 0-5 live in families where all available parents are in the workforce. These working parents face the challenge of finding quality childcare they can afford. Currently, the average annual cost of child care in licensed centers in Nevada ranges from $10,324 for an infant to $8,791 for preschoolers (age 3-5). These high costs cause a significant financial burden to working families, especially those in poverty. Today, a family with an infant and preschooler making $4,041.67 a month (200% of poverty) would have to spend 39% of their income on center-based care for their children.[1] The high cost of child care is due to it being a market driven service: providers offer services for a price; consumers choose among those services and pay the price.[2]

- The average child care center generates 87% of its revenue from parent tuition, while the average institution of higher education generates only 35% from tuition and fees.[3]

This causes lower-income families to use the cheaper and often times lower quality care that they can afford.

To help reduce this financial burden, Nevada provides child care subsidies to families with children up to age 13 living in poverty up to 75% of Nevada's median income. Unfortunately, Nevada currently serves only 1.9% of these eligible low-income families – the lowest percentage in the nation – due to a lack of statewide investment. This has caused many parents to leave the workforce or enroll their children in cheaper and often lower quality care.

Cost Comparisons

- **$61,081**: Median Family Income (with children under the age of 18)
- **$10,324.**: Annual average cost for infant center care in Nevada
- **$8,792**: Annual average cost for preschool center care in Nevada
- **$6,943**: Average annual cost of UNLV/UNR tuition for an in-state undergraduate student

Another opportunity to increase investments in early learning programs outside of additional state investments is through tax credits. According to the Partnership for America's Economic Success, "Allocating funds via the tax system affords the opportunity to use an already existing infrastructure to administer resources. Indeed, the Internal Revenue Service (IRS) is uniquely qualified to administer a universal, income-related, market-based benefit such as ECE financial incentives." There are many benefits to using tax credits as an early childhood education financing strategy. Tax credits are: part of a familiar system, non-stigmatizing, relatively stable and controversial, and conductive to the use of nontraditional ECE funding streams.[4]

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[1] According to the 2015 Federal Poverty Guidelines, http://ccf.georgetown.edu/wp-content/uploads/2015/01/2015-Federal-Poverty-Guidelines.pdf

[2] Partnership for America's Success: Using Tax Credits to Promote High Quality Early Care and Education Services

[3] Mitchell, Stoney & Dichter: Can We Used Tax Strategies to Help Finance Early Care and Education?

[4] Susan Blank and Louise Stoney: Tax Credits for Early Care and Education: Funding Strategy for a new economy.

There are four types of tax credits that could be used to support early learning:[5]

1. Consumer Tax Credits – a direct reduction in the tax liability of an individual who purchases (consumes) a particular product or service. Consumer tax credits can function as market-based strategy to reinforce a merit good.
2. Business Investment Tax Credits – a direct reduction in the tax liability of a sole proprietor or corporation to offset cost of investing in the business.
3. Contribution and Community Investment Tax Credits – reduces the tax liability of an individual or business that makes a contribution to, or investment in, another business. These tax credits are typically used to raise revenue for non-profit entities and/or businesses that produce a merit good.
4. Job Development/Occupational Tax Credits - accrued to employees who work in a targeted industry who are eligible for special tax breaks.

Recommendations:

It is our recommendation that Nevada creates child care tax credits for businesses that either provide or give support to their employees around early learning resources or donate to an established early childhood development fund.[6] These early childhood tax credits should be:[7]

- System Building – the strategy should be integrated with the Nevada's Quality Rating and Improvement System and child care subsidies and advance the state's larger ECE system building approach.
- Accessible to Taxpayers – the tax credit should be easy to use, and it should be refundable – or if not, the taxpayer should be able to apply some or all of it to taxes owed in the future tax years.
- Financially Rewarding – the percentage of the tax credit, the state's aggregated allocation for the credit, and the amount of eligible expenses should be significant enough to promote participation.
- Trackable – the tax credit should produce measurable results that are collected and promoted year after year.

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[5] Partnership for America's Success: Using Tax Credits to Promote High Quality Early Care and Education Services
[6] Without a state-income tax, providing tax credits to parents and/or employees would be a difficult option.
[7] Susan Blank and Louise Stoney: Tax Credits for Early Care and Education: Funding Strategy for a new economy