

**Child Care Tax Credit**

The Child Care Tax Credit helps offset the cost of child care for low- to moderate-income families with children under the age of 4.

<i>Agency</i>	<i>Start Date</i>	<i>Number Served per year</i>	<i>CEO Budget (City FY 08)</i>	<i>Total Budget (City FY 08)</i>
The Office of Management and Budget	August 1, 2007 (2007 tax year)	49,000	\$42,000,000	\$42,000,000

***Problem Statement***

A significant barrier faced by low-income parents trying to enter the workforce is the prohibitive cost of child care. The inability to pay for reliable, quality child care prevents some parents from maintaining stable employment. Children also miss out on enriching experiences that help develop school readiness skills.<sup>1</sup>

***Research and Evidence***

Child care expenses can represent a household's second or third greatest expense, and for low-income workers can cost more than their hourly salary. This problem is compounded by the fact that fewer options for childcare are available for the 0-3 age group, and the cost of care is often more expensive than for older children.<sup>2</sup>

Tax credits targeted to help the working poor have been shown to lead to an increase in employment. For example, it is estimated that 60% of the 8.7 percentage point increase in annual employment of single mothers between 1984 and 1996 is attributable to the Earned Income Tax Credit expansion.<sup>3</sup>

The federal government offers a *non-refundable* child care tax credit equal to 35% of child care costs up to \$3,000. Since the credit is non-refundable, families only receive up to the amount they've paid in taxes. New York State, in contrast, offers a *refundable* tax credit, equal to 110% of the amount a family is eligible for from the federal tax credit (whether or not they received it from the federal government). Because the New York State child care tax credit is refundable a very low-income individual who does not have an income tax liability can still receive money.

***Program Description***

Over the past year, New York City worked with the City Council and State Senate and Assembly to draft and pass a local child care tax credit, as recommended by the Mayor's Commission for Economic Opportunity. On August 1, 2007, Mayor Bloomberg and Governor Spitzer announced that the city's child care tax credit was signed into law. New York City is one of the first cities in the nation behind Washington, D.C. to create a local child care tax credit. CCTC offers a City tax credit of up to \$1,733 for qualifying families which is added to the already existing refundable New York State and non-refundable Federal Child and Dependent Care credits. The combination of all three credits will better provide low income households with the support they need to work while also providing learning opportunities for young children.

The initiative creates a refundable credit against the New York City personal income tax for child care expenses paid by families with gross household incomes up to \$30,000 per year.<sup>4</sup> For families with income under \$25,000, the credit is equal to 75% of the New York State Credit. For families with an income between \$25,000 and \$30,000, the credit declines by 3% of NYS credit for every \$200 in additional income. There is no credit for families with an income over \$30,000. Because the city tax credit is refundable, families that qualify but have no income tax liability will still receive a refund check. Qualified families can apply for the credit starting in 2008 for expenses incurred during calendar year 2007.

Education and outreach for the new tax credit is being led by the Department of Consumer Affairs and its Office of Financial Empowerment as part of its EITC campaign that works with a network of free and low cost tax filing services. The Department of Consumer Affairs is also working in partnership with the City's Department of Finance, Office of Management and Budget, the State Department of Taxation and Finance and the IRS to reach as many qualified individuals as possible. Additionally, the credit has been added to the ACCESS NYC benefits screening tool.

### ***Target Population***

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The Child Care Tax Credit serves low- to moderate-income families who have a child under four years of age, and who also earn less than an a gross annual income of \$30,000.

### ***Expected Outcomes***

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- Increased resources for low- to moderate-income working parents to increase the quality and stability of their childcare
  - More consistent participation and connection to the workforce within this population

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<sup>1</sup> CEO Report , 38-39.

<sup>2</sup> Testimony presented by Jennifer Jones Austin, Family Services Coordinator, Office of the Deputy Mayor for Health and Human Services, to the New York City Council State and Federal Legislation Committee, June 5, 2007.

<sup>3</sup> Duncan, Greg and P. Lindsay Chase-Lansdale, eds. *For Better and For Worse: Welfare Reform and the Well-Being of Children*. New York: Russell Sage, 2001.

<sup>4</sup> For families with children who turn four in a calendar year, the credit will be prorated for the fraction of the year that the children were under four years of age.