

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Mullin Analyst: Rachel Coco Bill Number: AB 1282

Related Bills: See Legislative History Telephone: 845-4328 Introduced Date: January 4, 2006

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Employer Child Care Program Credit/Employer Child Care Contribution Credit/Extend Repeal Date to 2012

SUMMARY

This bill would extend the availability of the Employer Child Care Program Credit and the Employer Child Care Contribution Credit for five taxable years.

PURPOSE OF THE BILL

According to the author's staff, extending the repeal date of the tax credits will encourage employers to continue investing in on-site child care facilities, which are a major factor in employee productivity, morale, and attendance.

EFFECTIVE/OPERATIVE DATE

As a tax levy this bill would be effective immediately upon enactment and operative for taxable years beginning on or after January 1, 2007, and before January 1, 2012.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Federal law allows tax credits equal to 25% of qualified expenses for employee child care and 10% of qualified expenses for child care resource and referral services. The maximum total credit that may be claimed by a taxpayer cannot exceed \$150,000 per taxable year.

Qualified child care expenses include costs paid or incurred (1) to acquire, construct, rehabilitate, or expand property that is to be used as part of the taxpayer's qualified child care facility, (2) for the operation of the taxpayer's qualified child care facility, including the costs of training and certain compensation for employees of the child care facility, and scholarship programs; or (3) under a contract with a qualified child care facility to provide child care services to employees of the taxpayer.

Board Position:

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Department Director

Date

Will C. Bush

12/30/05

Qualified child care resource and referral expenses are amounts paid or incurred under a contract to provide child care resource and referral services to the employees of the taxpayer.

Existing state law allows employers a tax credit known as the Employer Child Care Program Credit. This credit equals 30% of the costs paid or incurred for (1) establishing a child care program or constructing a child care facility in California to be used by employees' children, and (2) contributing to child care information and referral services. Building owners are allowed a credit equal to 30%, not to exceed \$50,000, of their costs to establish a child care program or facility to be used by their tenants' employees' children. Any unused credit may be carried over until exhausted. Carried-over credits may be added to any credit for succeeding years, but are still limited to \$50,000 that may be claimed in any taxable year.

Existing state law allows employers a tax credit known as the Employer Child Care Contribution Credit. The credit is equal to 30% of the cost paid or incurred for contributions to a qualified care plan made on behalf of any dependent under the age of 12 of the taxpayer's California employees, but only to the extent contributions are made directly to child care programs or providers. The amount of the credit cannot exceed \$360 in any year for each qualified dependent and any unused credit may be carried forward until exhausted.

Both the Employer Child Care Program Credit and the Employer Child Care Contribution Credit are not available for taxable years beginning on or after January 1, 2007, and will be repealed on December 1, 2007.

THIS BILL

This bill would extend the availability of the Employer Child Care Program Credit and the Employer Child Care Contribution Credit to taxable years beginning on or after January 1, 2007 and before January 1, 2012. The bill also revises the repeal date for both credits to December 1, 2012.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not significantly impact the department.

LEGISLATIVE HISTORY

AB 866 (Stats. 2001, Ch. 650) extended the availability of the Employer Child Care Program Credit and the Employer Child Care Contribution Credit to taxable years beginning before January 1, 2007, and revised the repeal dates to December 1, 2007.

SB 722 (Stats. 1988, Ch. 1239) enacted the Employer Child Care Program Credit and the Employer Child Care Contribution Credit.

OTHER STATES' INFORMATION

A review of *Massachusetts*, *Michigan*, *Minnesota*, and *New York* tax laws found no comparable tax credits or deductions. These states were reviewed because of the similarities between California income tax laws and their tax laws.

Illinois allows corporations to take either a Dependent Care Assistance Program Credit for employers that provide an on-site facility for dependent care assistance or an Employee Child Care Credit for employers that provide an on-site child care facility for employees. Employers may only take one of these credits, which are limited to 5% of the expenses incurred from providing these services to employees.

Florida allows a Child Care Credit for corporations to apply against corporation income tax or insurance premium tax, but not both. There are three basic requirements for this credit:

- (1) A credit for no more than 50% of the start up costs for a child care facility,
- (2) A credit of \$50 per month for each child enrolled in a child care facility operated on behalf of its employees, and
- (3) A credit of 50% for direct payments made by a corporation to a child care facility.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue losses:

AB 1282 (APTBA)			
Assumes Enacted Before June 30, 2006			
Taxable Years Beginning After December 31, 2006			
\$(Millions)			
Fiscal Year	2006-07	2007-08	2008-09
	a/	-\$4	-\$4

a/ Minor loss of under \$500K

This analysis does not consider the possible changes in employment, personal income or gross state product that could result from this bill.

Revenue Discussion

A review of eight years of data on the usage of these credits indicates the annual impact is roughly \$4 million.

LEGISLATIVE STAFF CONTACT

Rachel Coco
Franchise Tax Board
845-4328
rachel.coco@ftb.ca.gov

Brian Putler
Franchise Tax Board
845-6333
brian.putler@ftb.ca.gov