Child Care Tax Credit Impact:
Examples demonstrating the need for state law change

Table 1 compares the benefits for an example family earning $50,000 per year versus a sample family earning $15,000 per year.

	Example Family	Federal Tax Credit	State Tax Credit	Total Savings
1. Comparison Case (example of a parent who *does* benefit from the current law)	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 10% of the federal tax credit claimed. $600 x 10% means a reduction in state taxes of **$60**	**$660**
2. Current Law (example of a parent who *falls through the cracks* of the current law)	Single mother with one child pays $4,000 per year to send the child to an afterschool program. **Mother earns $15,000 per year**	Mother could claim $3,000 x .35%, or $1,050, but she does not owe income tax because her income is too low, and this tax credit is not refundable. She gets **$0**	Mother can claim 50% of the federal credit claimed, and state law says the credit is refundable, but 50% of $0 = **$0**	**$0**
3. The Fix (same scenario as example 2 if the EOPRTF "Income Tax Credit for Child Care Expenses bill passed.)	Single mother with one child pays $4,000 per year to send the child to an afterschool program. **Mother earns $15,000 per year**	Same as above, unless Congress changes the federal tax credit to be refundable. She gets **$0**	PROPOSED CHANGE: The credit equals 25% of the total expenses of $4,000= $1000, except that the total credit is capped at $500 = **$500**	**$500**

Table 1

Under current law, a single mother earning $50,000 per year would see a tax benefit of $660 to partially defray the costs of child care, while another single mother in the same situation making only $15,000 per year would see a tax benefit of $0. This is because a single mother earning $15,000 per year does not owe income tax, and the Federal Tax Credit is not refundable. Under the proposed state law change, she would get $500.

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Attachment L