



CHILD CARE CONTRIBUTION INCOME TAX CREDIT

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This issue brief is an overview of the child care contribution income tax credit, highlighting changes that were made during the 2011 session. Individual and corporate income taxpayers may claim an income tax credit equal to 50 percent of certain monetary contributions made to promote child care in Colorado. The credit is non-refundable and can be carried forward for up to 5 years. The credit is capped at \$100,000 per year. The credit is delayed in 2011 and 2012. In 2013 and 2014, taxpayers may claim 50 and 75 percent of the credit, respectively, with the rest carried forward.

What contributions qualify for the credit?

Donations to promote child care for children 12 years old and younger in Colorado qualify for the credit. This includes donations for the establishment or operation of a licensed child care facility such as a:

- child care center;
- child placement agency;
- family child care home;
- foster care home;
- homeless youth shelter;
- residential child care facility or secure residential treatment center; or
- registered child care program that provides similar services as a child care center.

In addition, the credit can be claimed for donations to a registered:

- grant or loan program for parents in Colorado requiring financial assistance for child care;
- training program for child care providers in Colorado;
- information dissemination program that assists parents with child care information and referral services; or
- grandfathered child care organizations (these organizations may accept qualified donations for the care of children ages 13 thru 18).

Calculation of the credit. The child care contribution credit is equal to 50 percent of any monetary contributions made to support child care facilities. Only monetary contributions qualify, so donations of land or other assets are not eligible for the credit. The credit is not refundable, meaning that it cannot reduce tax liability below \$0, but it can be carried forward. The credit is capped at \$100,000 per year and can be carried forward for 5 years. Example 1 shows how the credit for a single donation of \$1,500 in year 1 is carried forward through 2 tax years.

Example 1

Carry Forward of Child Care Contribution Credit

Year	Tax Liability	Credit Amount	Net Tax	Carry Forward
Year 1	\$500	\$750	\$0	\$250
Year 2	\$600	\$250	\$350	\$0

In the example, a taxpayer has a \$500 tax liability before the application of a \$750 tax credit. The child care contribution credit reduces the net tax liability to \$0 in the first year and \$250 of the credit is carried forward to the next year. In the second year, the taxpayer has a \$600 tax liability and a \$250 tax credit carried over from the first year. This reduces the net tax liability to \$350 in the second year and the taxpayer is able to use the entire amount of the credit over two years.

Calculation of the credit in 2011 - 2014. In 2011 and 2012 the child care contribution credit can only be claimed if available revenue is sufficient to allow General Fund appropriations to grow by 6.0 percent. This trigger was not met for the 2011 or 2012 tax years. Taxpayers will be able to claim the credit for investments made during 2011 and 2012, but the credit is delayed. Because the credit is delayed, the benefit is carried forward, reducing tax liability in future years.

The trigger mechanism was eliminated in the 2011 session. Starting in 2013, the credit will be available regardless of growth in General Fund appropriations, but a portion of the credit is required to be carried forward.

For tax year 2013, one half of any credits claimed must be carried forward to 2014. In 2014, one quarter must be carried forward to 2015. The required carry forward in 2013 and 2014 was the result of legislation passed during

the 2011 session. Example 2 shows how the credit is calculated in 2013 and 2014.

Example 2

Portion of Credit Required to be Carried Forward

Year	Credit	Percent of Credit Allowed	Credit Claimed	Carry Forward
2012	\$1,000	0%	\$0	\$1,000
2013	\$1,000	50%	\$500	\$500
2014	\$500	75%	\$375	\$125
2015	\$125	100%	\$125	\$0

If a taxpayer made a single qualifying child care contribution of \$2,000 in 2012, the \$1,000 credit would be carried forward to 2013 because it is delayed in 2012. In 2013, the taxpayer may claim 50 percent of the credit amount, or \$500. In 2014, 75 percent of the credit may be claimed, \$375 in the example. In 2015, the entire amount of the credit can be claimed. The taxpayer is able to claim the entire \$1,000 credit from a single child care contribution, even though HB11-1014 changed the amounts that a taxpayer could claim in 2013 and 2014.

In tax years 2015 through 2019, there are no restrictions on how much of the credit must be carried forward.