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M E M O R A N D U M

August 7, 2014

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SUBJECT: Child Care Contribution Income Tax Credit

Summary

This memorandum provides information related to the Child Care Contribution Credit, an income tax credit for any taxpayer that makes a monetary contribution to promote child care in Colorado. Specifically, it provides the legislative history of the credit and details concerning eligibility, qualifying organizations and contributions, and limitations on the credit. It also provides the historical number of tax filings claiming the credit and the amount of credit being utilized per year for tax years 2009 through 2013.

Legislative History

The Child Care Contribution Credit was first passed in 1998, and has been amended six times. Table 1 provides a detailed legislative history of the credit. Since 1998, legislation has increased the value of the credit, clarified the types of child care facilities that qualify for the credit, and imposed restrictions on when the credit can be claimed.

Table 1
Legislative History of the Child Care Contribution Credit

Year	Bill #	Session Law	Key Provisions
1998	SB 98-154	L. 1998, p. 1340	The entire section was added, creating the tax credit in an amount equal to 25% of the total value of the contribution. To be eligible, monetary or in-kind contributions must be made to eligible institutions.
2000	HB 00-1351	L. 2000, p. 678	Section (1.5) was added, raising the value of the credit to 50% of the total contribution, for contributions made after January 1, 2000.
2004	HB 04-1119	L. 2004, P. 84	Legislation changed the definition of child care to apply to care for children aged 12 and younger and made minor changes to the definition of eligible facilities.
2008	HB 08-1049	L. 2008, p. 2269	Section (6.5) was added, changing the definition of child care facility to include (but not be limited to) child care centers, child placement agencies, family child care homes, homeless youth shelters, residential child care facilities, and secure residential treatment centers. Section (6.7) was added, which inserted a trigger for disallowing the credit based on projections for general fund revenues and requiring the Department of Revenue to post on its website by January 1 whether or not the tax credit would be allowed for that particular year.
2011	HB 11-1014	L. 2011, p. 1080	Legislation repealed the limiting trigger for tax years 2013 to 2019; for tax year 2013, changes to the law allowed taxpayers to claim 50 percent of the credit allowed, and for tax year 2014, changes allowed taxpayers to claim up to 75% of any credit allowed.
2012	HB 12-1273	L. 2012, p. 1424	Legislation added approved facility schools affiliated with a hospital to the definition of eligible child care facilities.

Eligibility, Organizations and Contributions, Revenue Growth Trigger, and Limitations

Eligibility. Through the Child Care Contribution Credit, taxpayers, including individuals, corporations, and other business entities, that make a monetary contribution to promote child care in Colorado may qualify for an income tax credit of up to 50 percent of the total contribution.

For the purposes of the credit, "child care" means care provided to a child 12 years of age and younger. To claim the credit, the contribution must be supported by a signed statement from the donee organization specifying the amount of cash contribution and the eligible purpose for which the donation will be used. This documentation must be provided to the donor and made available to the Department of Revenue upon request.

Qualifying organizations and contributions. Qualifying contributions made March 9, 2004, or later include monetary contributions made to a qualifying child care organization, to the extent that the organization uses the donation for child care provided to children aged 12 years and younger; and monetary contributions made to a qualifying child care organization to the extent that the organization is a grandfathered organization and uses the donation for child care provided to children 18 years of age and younger.

Qualifying child care organizations include licensed child care centers, child placement agencies, family child care homes, foster care homes, youth shelters, residential child care facilities, secure residential treatment centers, and registered child care programs that provide services similar to a licensed child care center. Qualifying donee organizations must be licensed by the Colorado Department of Human Services or, if not licensed, registered with the Colorado Department of Revenue. A grandfathered child care program is considered a qualifying organization on or after March 9, 2004, if the organization received contributions prior to January 1, 2004, for which a child care contribution credit was allowed and claimed; the organization no longer qualifies for the credit under the new rules because some or all of the children cared for in the program are ages 13 through 18; and the organization has applied for and been approved as eligible by the Department of Revenue to accept donations that qualify for the credit.

In addition, a contribution to an intermediary organization fund that is dedicated 100 percent to qualified child care organizations qualifies for the credit. For example, when 100 percent of the contributions to a fund established by a charitable organization are passed to qualified child care organizations, donations to the charitable fund will qualify for the credit. In general, the charitable fund would be required to apply for a registration number to use when certifying donations for the tax credit.

Contributions to promote child care in Colorado include the following:

- donating money for the establishment or operation of a child care facility or program in Colorado;
- donating money to establish a grant or loan program for a parent or parents in Colorado who require financial assistance for child care;
- donating money for the training of child care providers in Colorado; and
- donating money for the establishment of an information dissemination program in Colorado to provide information and referral services to assist parents in obtaining child care.

Revenue growth trigger. Established by House Bill 08-1049, the revenue growth trigger prevented the credit from being available during tax years 2011 and 2012 until its repeal by House Bill 11-1014 for tax years 2013 and beyond. While it was effective, the trigger allowed the credit only during years in which General Fund revenue was forecast to be sufficient to allow operating appropriations out of the General Fund to increase by at least 6 percent, beginning with tax year 2011. The trigger was based on the Legislative Council Staff forecast released in December immediately before the tax year when the credit would have become available. For example, the December 2010 forecast did not show sufficient General Fund revenue for operating appropriations out of the General Fund to increase by at least 6 percent between FY 2009-10 and FY 2010-11, so the credit was not available in tax year 2011.

Limitations. House Bill 08-1049 deferred the ability to claim credits earned in 2011 and 2012 to the first year the credit would eventually become available. As a result of the trigger's repeal, 2013 was the year these credits became eligible to be claimed, along with any new credits earned during tax year 2013. In addition to repealing the trigger, House Bill 11-1014 also changed the way a contributor may claim these and newly earned credits during tax years 2013 and 2014. In particular:

- in tax year 2013, no more than half of any amount eligible to be claimed in 2013 may be claimed in 2013, subject to sufficient tax liability. This includes all credits earned in

tax years 2011, 2012, and 2013 and all amounts carried forward from credits earned prior to tax year 2011.
- in tax year 2014, no more than 75 percent of any amount eligible to be claimed in 2014 may be claimed in 2014, subject to sufficient tax liability.
- in tax year 2015, all credits may be claimed in full, subject to sufficient tax liability.

The amount of credit generated in any one tax year cannot exceed $100,000, excluding any amount that was claimed and carried forward from prior years. If the amount of credit generated in one tax year exceeds the taxpayer's tax liability, the excess credits may be carried forward for up to 5 years. The credit is not allowed to be claimed in any tax year beginning on or after January 1, 2020.

In-kind contributions, such as materials, labor, and other non-monetary items, do not qualify for the credit. In addition, monetary contributions do not qualify for the credit, if:

- the contribution is made to a child care facility in which the donor, or a person related to the donor, has a financial interest;
- the contribution is made to a for-profit business, unless the contribution is directly used to acquire or improve facilities, equipment, or services;
- the contribution is not directly related to promoting child care in Colorado;
- the contribution is made after December 31, 2019; or
- the donor receives consideration from the recipient organization in exchange for the contribution.

A qualifying organization may accept donations that are used in part for qualified child care, but are also used in part for non-qualified purposes. For instance, a donation may be made to a community center construction project, for which a child care center is part of the overall project. In these cases, the organization receiving the donation must allocate the portion of the contribution that qualifies for the credit on behalf of the donor in a reasonable manner based on the facts of the situation. If the contribution is accepted by the organization solely for use in a qualified manner, despite the presence of non-qualified programs within the organization, the full contribution will qualify for the credit.

Number of Filings and Amount of Credit Utilized Per Year

The Child Care Contribution Credit first became available in the 1999 tax year; however, due to system limitations, data on the number of claims and the amount of credit utilized are only available for tax years 2009 through tax year 2013. These data are shown in Table 2. Please note that the 2013 tax year data are not complete due to extension filers and corporations with non-calendar-year fiscal years who have not filed yet. Complete data for 2013 will not be available until January 2015.

Table 2. Child Care Contribution Credit
Individual and Corporate Filings for Tax Years 2009 - 2013

Tax Year*	Number of Individual Filings	Amount of Individual Credits Claimed	Number of Corporate Filings	Amount of Corporate Credits Claimed
2009	14,316	$17,569,202	n/a	n/a
2010	16,220	22,067,911	40	$288,883
2011	1,663	3,454,959	46	380,581
2012	783	2,093,155	20	52,284
2013	11,720	6,316,961	17	5,268
Total	**44,702**	**$51,502,188**	**123**	**$727,016**

**Tax year means January 1 - December 31 for individual income tax filers.*