



# STRENGTHENING THE FOUNDATION

A GEORGIA BUDGET AND POLICY INSTITUTE SERIES

## Georgia's Lesser-Known Subsidized Child Care Program The State Child Care Tax Credit for Families

Georgians may not be aware that they are subsidizing child care for thousands of families making over \$200,000. Beginning in 2006, they have been doing just that. Georgia provides a state tax credit for child care expenses, regardless of income level, based on the federal child care tax credit. For tax year 2008, parents can take a credit equal to 30 percent of their federal child care tax credit, for a maximum state credit of \$315 for one child or \$630 for two children.<sup>1</sup>

In 2008, Georgia will spend about **\$20 million** in forgone revenue to subsidize child care expenses via the state child care tax credits for families earning over \$50,000.<sup>2</sup> At the same time, the state program charged with assisting low-income families with child care maintains a waitlist of over 11,000 families. For approximately \$20 million, Georgia could reduce the low-income subsidized child care waiting list by about 5,500 children and help Georgia's poorest families more fully participate in the workforce.

### **Recommendations**

**1. Stop subsidizing child care for families earning over \$50,000. Shift the \$20 million in subsidies for those families to the CAPS program and move 5,500 low-income children off the waitlist for child care assistance.**

**2. Enact a tax expenditure report to hold tax subsidies accountable.**

Child care costs can be a barrier to work, and a tax credit for families is a laudable policy solution. However, Georgia's child care tax credit is a poorly targeted investment since the credit provides assistance to all families regardless of need and does not provide the full credit for low-income families. The state credit is non-refundable; meaning, if a low-income family has a tax liability of \$200 and a child care tax credit of \$630, the child care credit will reduce the tax liability to zero but not provide the additional \$430 of credit as a refund.

Decisions about state tax credits like this one, which are forgone revenue for Georgia, highlight the critical need for policymakers to thoroughly examine Georgia's broad scope of government spending. This can only be accomplished when direct spending and tax credits (i.e. tax expenditures) are fully disclosed and reviewed simultaneously. In this example, policymakers need to weigh the child care budget and waitlist with the child care tax credit when determining the state's capacity for assisting families with such expenses. To facilitate this cost-benefit analysis, Georgia should require by law the inclusion of a tax expenditure report in the Governor's annual budget.

**Georgia's Child Care and Parent Services Program (CAPS)**, included in the Governor's annual budget, is primarily a federally funded program that provides subsidized child care to eligible low-income families.

- Georgia limits eligibility to 160% of the federal poverty level (approximately \$26,556 for a family of 3).
- Average number of children served per month dropped from about 68,000 in Fiscal Year 2006 to 55,000 in FY 2008.
- Georgia's waiting list has averaged approximately 20,000 families over the past 5 years.
- From FY 2006 to FY 2009, the CAPS budget decreased from \$264.3 million to \$226.7 million. For FY 2010 forward, the Georgia Department of Human Resources "sustainable CAPS budget" of \$207.5 million to \$217.5 million would serve a five-year low of about 50,800 to 53,500 children per month, while significantly increasing the waiting list.

<sup>1</sup> Author's calculation based on 2006 federal expense limitations of \$3000 per child and \$6000 for two children.

<sup>2</sup> Author's calculation based on applying 30% to the IRS 2006 statistics for Georgia.