NOTE: As provided in LFC policy, this report is intended for use by the standing finance committees of the legislature. The Legislative Finance Committee does not assume responsibility for the accuracy of the information in this report when used in any other situation.

Only the most recent FIR version, excluding attachments, is available on the Intranet. Previously issued FIRs and attachments may be obtained from the LFC office in Suite 101 of the State Capitol Building North.

F I S C A L   I M P A C T   R E P O R T

SPONSOR: Ingle | DATE TYPED: 02/26/01 | HB

SHORT TITLE: Child Care Quality Investment Tax Credit Act | SB 586

ANALYST: Dotson

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY01	**FY02**			
	$ (400.0)	$ (1,700.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates/Conflicts with/Companion to/Relates to Relates to HB 10, SB 97 and SB 701.

SOURCES OF INFORMATION

Children Youth and Families Department and the Taxation and Revenue Department.

SUMMARY

Synopsis of Bill

HB 586 provides tax credits to licensed child care providers which are nationally accredited for providing care to subsidized children, thus promoting the availability of quality child care for all children in NM. Additionally this bill will provide tax credit to child care centers for staff education and/or for reducing infant ratios to 4:1 or less.

According to the Taxation and Revenue Department, credits must be applied for, after approval, the credits may be applied prospectively to withholding, gross receipts or compensating tax liability, in the same fashion that manufacturers apply for, and claim, the allowed amount of manufacturers investment credit. The Children Youth and Families Department is directed to certify eligibility and provide documentation to the Taxation and Revenue Department

Significant Issues

The lag time in developing the credit and receiving the credit would be a disincentive to pursue the program. According to the Taxation and Revenue Department, daycare centers must first increase employment to achieve the required ratio of less than four to one. Then, they must sustain this level of wages and ratio for twelve months, then apply for the credit. The Department may take a month or two to approve the prospective credit and then, and only then, will the daycare center be able to claim the credit. For education and training expenses, again the daycare center must pay the expenses, have them certified by the Children Youth and Families Department, transmit the certification to the Taxation and Revenue Department, which will approve the credit, and then, and only, then will the daycare center be able to claim prospectively the credit.

According to Children Youth and Families Department, at the present time, there are fewer than 70 child care centers in NM that are accredited to meet the definition of the bill. The accreditation process can be lengthy and is an expense for the child care provider. It is unknown what the ratio of children under 24 months to child care worker is in those facilities or whether they offer any training or educational benefits to employees. At present, those facilities serve approximately 5,000 children. Of that total, it is unknown how many are subsidized by the Children Youth and Families Department.

FISCAL IMPLICATIONS

The most plausible impact would be $(400.0) in year one and $(1,700.0) in subsequent years to the General Fund.

According to the Taxation and Revenue Department, a portion of this credit is likely to be non-recurring. A daycare center that hires more workers to bring its under 2-year-old children to worker ratio under four to one gets the credit only once. The first fiscal year impact is substantially less than the full-year impact. Even in the case of accredited daycare centers, the only short term cost is from those that currently have subsidized children. However, the typical facility may only have at most 5 subsidized children and qualify for only about ¼ of the maximum $10K credit. These amounts of credit are insufficient in all cases to stimulate much additional employment (80% for one year is sufficient, but the timing of the credit is so delayed as to be of little incentive to either additional hiring or training). The only cost of this credit may be 20% of the amount Children Youth and Families Department pays accredited child care facilities. In this eventuality, however, the state is "buying the base" with no improvement in quality child care. The $100K figure shown above is this base amount.

According to the Children Youth and Families Department, if all 70 accredited child care facilities qualified for the maximum credit of $30,000, the General Fund impact would be approximately <$123,500> or $1,765 per facility, assuming an average Gross Receipts Tax of 6.25%.

ADMINISTRATIVE IMPLICATIONS

According to the Taxation and Revenue Department, if a substantial portion of the current 683 child care centers in the state qualify for and claim these credits, the approvals and claim applications must be automated. The new TRIMS CRS system is scheduled for implementation June, 2001. At this time, the cost of modifications has not been determined.

According to the Children Youth and Families Department, this bill requires written verification related to expenditures and subsidy payments being claimed. This requirement would create a significant administrative resource issue and verification of expenditures requiring an audit of providers also create an administrative resource issue

CONFLICT/DUPLICATION/COMPANIONSHIP/RELATIONSHIP

According to the Taxation and Revenue Department, HB10 and SB97 proposes a gross receipts tax deduction, applicable to for-profit daycare centers (approximately $2.5M); SB 701 proposes a gross receipts tax deduction for licensed home-daycare facilities that provide lunches under the child nutrition program (substantially less money).

TECHNICAL ISSUES

According to the Taxation and Revenue Department, to prevent deliberate abuse of the incentive to reduce child to worker ratio, that portion of the credit should only be allowed once in a five-year period. Daycare centers are permitted under the bill to claim a credit based on an average ratio for the whole year of less than four to one, but then on Jan. 1 lay off the additional workers needed to sustain the four to one ratio. The next year, they can hire extra workers and again claim the credit. This alternate year strategy could be continued indefinitely.

OTHER SUBSTANTIVE ISSUES

According to the Taxation and Revenue Department, if the problem is low wages in the industry, raising the day care payments by the Children Youth and Families Department is a lot more efficient way of subsidizing the industry. Perverting the tax system to disguise the subsidy is not only more costly, but encourages additional social engineering via the tax code.

PD/prr