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## FISCAL IMPACT REPORT



SPONSOR: Marquart DATE TYPED: 02/03/02 HB 304

SHORT TITLE: Daycare Services Gross Receipts Deduction SB \_\_\_\_\_

ANALYST: Neel

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY02	FY03			
	(\$1,299.0)	(\$1,417.0)	Recurring	General Fund
	(\$956.0)	(\$1,043.0)	Recurring	Local Funds

(Parenthesis ( ) Indicate Revenue Decreases) – In thousands

### SOURCES OF INFORMATION

LFC files  
Taxation and Revenue Department (TRD)

### SUMMARY

#### Synopsis of Bill

House Bill 304 enacts a new section of the Gross Receipts and Compensating Tax Act to allow a gross receipts tax deduction for receipts received from Children Youth and Family Department pursuant to contracts for providing child daycare services.

### FISCAL IMPLICATIONS

TRD notes the following assumptions regarding the fiscal impact:

- CYFD reported paying \$68 million in daycare subsidies in FY 2000, primarily from the federal child daycare block grant;
- 1997 Economic Census reports that 58% of total payments for child daycare services were to for-profit daycare providers, 42% to non-profit providers; and
- This estimate assumes modest growth to \$70 million.

Effective Date – July 1, 2002

**OTHER SUBSTANTIVE ISSUES**

TRD notes the following substantive issues:

Under this bill, amounts reimbursed by CYFD are deductible, but co-payments made by parents are not. Most parents participating in the childcare subsidy program are required to pay some fraction of the cost of their child's care. The percentage of costs payable by the family increases with family income, but total reimbursement to the provider (state share + family share) is the same regardless of family income. Providing a gross receipts tax deduction for the state's share but not the family's share of childcare costs makes providing care to some subsidized families more profitable than providing care to others.

Savings from tax deductions, exemptions and credits are not necessarily passed-on to the consumer. If the intent is to lower the tax burden on low-income parents, a direct subsidy would be a more efficient and reliable mechanism.

SN/ar