

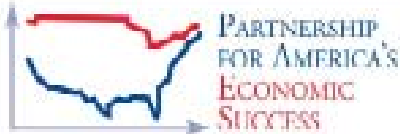
Tax Credits 101: a brief overview

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PARTNERSHIP
FOR AMERICA'S
ECONOMIC
SUCCESS

Using Tax Credits to Promote High Quality Early Care and Education Services

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This paper explores the feasibility of using a market intervention--tax credits, linked to quality and accountability measures like a QRIS--to help promote and finance higher quality early care and education services.

ECE is Essentially Market-Based

- Public agencies providing ECE represent a small fraction – probably less than 6% – of total services
- Includes over 300,000 regulated establishments (120,000 centers + 214,000 home-based businesses). Most are proprietary
- Consumers are primary funder (approx \$46 billion a year)
- A significant percentage (in some cases, all) public funds for ECE are portable certificates

A range of ECE providers offer services for a price; consumers choose among them and pay the price.

Why use the Tax System?

- *Salience* Tax policy essentially defines American values and touches nearly every American. Taxes influence how citizens consume, work, save and invest.
- *Stability* Tax credits and deductions are available to all eligible families and typically remain in effect unless they are repealed. In some states a 2/3 majority vote is required to repeal a tax policy.
- *Efficiency* Tax credits use an existing administrative infrastructure to administer funds.
- *Equity and Flexibility* Tax credits support parent choice and, if well-crafted & linked to quality, could function as a market-based strategy to reinforce a merit good.

Tax Credits Have Serious Limitations

Lessons from other fields suggest that to be effective, tax policy must be designed to augment and coordinate with – but not replace – existing direct subsidies.

Tax credits alone are not likely to produce the results we desire for children.

Tax Credits Have Serious Limitations

Cash Flow Tax credits often assume taxpayer spends money and then claims credit to reimburse expenses.

Refundability Tax credits won't help low-income families, (who owe little or no taxes) unless the credit is refundable

Outreach and Tax Assistance Tax credits that are linked to quality measures will require targeted outreach.

Infrastructure Tax credits linked to quality require an infrastructure to track compliance with standards.

Types of Tax Credits

QUESTION –

Should I talk about difference between credits and deductions here...or is someone going to do that later?

I can go either way...the group needs to tell me what's best...

Types of Tax Credits

- Consumer Tax Credits* - reduces tax liability of an individual who purchases (consumes) a particular product or service.
- Business Investment Tax Credits* - reduces tax liability of a sole proprietor or corporation to offset cost of investing in the business.
- Contribution and Community Investment Tax Credits* - reduces tax liability of an individual or business that makes contribution/investment in another business.
- Occupational Tax Credits* - reduce tax liability of businesses that employ particular individuals (e.g. former welfare recipients) or in particular areas (e.g. empowerment zones); OR reduces tax liability of taxpayer (employee) who works in a targeted industry.

My paper talks about lessons learned.

Should I go into that here?

Or just stop... and assume that lessons learned will come up in discussion?