In Brief: Tax credits are an important investment strategy across many industries today. In part, they are related to the composition of the industry and in part they are related to projecting behavior by those working in the industry.

Basic Design Constructs Impacting Cost Estimates

Determine who the individuals are that may be eligible for a refundable tax credit.

• Are they the number of staff and directors working in licensed child care programs?

• Are they the number of staff and directors working in licensed programs participating in a state quality rating system or state system where metrics are used to measure quality (and results are publicly reported)?

Most states currently operate (or pilot) quality rating systems of some type. However, in very few states are those rating systems mandatory. This means that in general, the licensing system and the quality rating system operate on parallel paths, with the number of programs participating in a state quality rating system often a tiny fraction of the programs that are licensed or appear on state regulatory lists.

Determine the criteria for receiving a tax credit. For example, how does an individual qualify for a credit?

• Is it child care center staff, center directors, and home-based child care program operators who work within quality-rated programs?

• Do such staff or home-based program operators have to be working in their child care program for a certain period of time in order to qualify for the credit (e.g., 6 months, 9 months, or 1 year) and/or for a certain number of hours of work per week (e.g., 25, 30, or 35 hours per week)? And, related, is tax credit eligibility tied to a person working in a specific program or in the early childhood field generally? For example, the credit is less costly when tied to an individual’s employment within a specific program rather than the field at-large.

• Is the credit available to those who are self-employed (such as family child care home-based providers) or those providers who are working in (a) a partnership, (b) a limited liability company, (c) a subchapter S corporation, or (d) an estate or trust? Definitions are important to ensure that the credit is available and accessed as intended.

Identify the certification areas or levels of education to be linked to the tax credit. (e.g., what is the early care and education (ECE) career pathway in your state and what does your state ECE registry or professional development list show with regard to the current competencies or level of education achieved by individuals in the ECE workforce)?

• Some states have a registry, which is mandatory, and some states have a registry that is voluntary. Some states may call it a registry and others may call it a list of some type. The goal is to understand what the current registry or list shows so that you can better understand the composition of the ECE workforce. (Note: Such a registry or list is used to verify the status of certifications and educational achievements once an individual files for the credit).

• Another way to estimate the composition of the workforce is through a workforce survey. Many states may have a workforce survey which can be used to estimate the percent of those with various credentials or levels of education (some states also collect wage information as part of their workforce survey).

• It’s possible that as part of the state’s needs analysis in states which received a Preschool Development Grant Birth through Five (PDG B-5) in 2019, some type of landscape analysis
of the workforce was conducted. Check to see if an analysis of the workforce composition was completed as part of the PDG B-5 process in your state.

Because a tax credit is available, not all eligible individuals will rush forward immediately to claim it.

In general, the reason to understand the composition of the workforce and their certifications or levels of education is to obtain a baseline estimate on those who might be eligible for a certain size credit (assuming credit size increases as credentials or levels of education rise). But, just because they are eligible does not mean that they will claim it. In general, a media or communications effort is needed to educate both the workforce and potential tax preparers about the availability and benefits of the credit. During the early years, it is more likely there will be a slower take-up rate (or use) as knowledge about the credit and understanding about how to successfully access and file for it increases.

For many, qualifying for the credit will require effort on behalf of the workforce (e.g., completing requirements related to a Child Development Associate (CDA) credential or coursework related to obtaining an Associate’s degree or Bachelor’s degree).

At a baseline level, this is a personal choice – whether to pursue a credential or higher education coursework. Some may decide to pursue professional development, and some may not. Most states already require a certain number of hours of annual training to comply with licensing requirements, so exceeding those minimum training requirements may not be of interest or affordable to everyone who works in a licensed program or a program that participates in a state quality rating system.

For those in the current workforce who want to add on hours to their day to pursue credentials or coursework, completion of certifications and higher education coursework takes time, personal commitment, and funds to pay tuition or costs related to such professional development. In addition, half or more of the current workforce may be raising their own children. This means not only would they need to juggle job and family, but also the additional challenges of higher education coursework on top of the current responsibilities they face.

For example, it is not unusual for someone who works full-time in a child care program and who also has family responsibilities to take one or two courses per semester, which means that it could take six years to complete an Associate’s degree. Therefore, achieving higher education goals does not happen immediately. And, without the educational achievements, there is no tax credit utilization assumed.

Examples from Louisiana

In 2008, 873 individuals in the Louisiana child care workforce (center staff and directors) claimed the school readiness tax credit out of a pool of 8,500. This means that initially about 10.2% of eligible workers claimed the credit.

In 2016, 4,044 individuals in the child care workforce in the state claimed the school readiness tax credit. This is nearly half at about 47% of the workforce. However, it is also important to understand that the Louisiana early childhood law changed in 2013 with advance notice that all lead teachers in publicly-funded classrooms (child care programs, Head Start and Early Head Start, and state pre-k) would be required to have an Early Childhood Ancillary Certificate as a minimum credential beginning in July 2019. With this new requirement, there was an extra incentive for those in the workforce to pursue and complete the Louisiana ECE certificate.