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To: Members of the Task Force on Structural Changes in Budget and Tax Policy
From: Barry Erwin/CABL

Some groups and perhaps other members of the task force are providing you with information about some of our current tax credits dealing with early childhood education and care. Basically, they deal with two sets of credits: 1) a series of School Readiness Tax Credits and, 2) a broader Child Care Tax Credit program.

While CABL is extremely open to eliminating as many credits, exemptions and deductions, as possible from the state income tax code in an effort to lower rates, I did want to call a couple of things to your attention regarding these particular credits.

1. The science is very clear on the importance of the first few years of a child's development on future cognitive functioning, behavior, and social and physical health. As single-parent and two-income families have become more and more the norm, that means that much of this early learning occurs in settings outside the home such as child care centers and early education programs.
2. At the same time, by almost any measure, the evidence suggests that the quality of child care as it relates to learning activities and structured experiences has been low in Louisiana compared to other states.
3. To address this clear inadequacy Louisiana has embarked on a number of significant policy initiatives to raise the quality of child care centers, improve the training and skills of child care workers and increase access to quality child care, particularly for low-income families.
4. Both of the credits mentioned above are pieces of that policy.
5. The cost of child care is extremely high. While a state average is difficult to come by, market surveys in Louisiana suggest that about \$5,650 per year, or about \$113 per week for 50 weeks, is somewhat in the mid-range.
6. The Child Care Tax Credit is intended to help address the cost factor of child care for low-income families by providing a subsidy based on income.
7. The School Readiness Tax Credits represent a policy initiative to help improve the quality of child care in the state using Louisiana's voluntary quality rating system. Under this system child care centers are awarded "stars" based on a variety of quality indicators. But to a large degree, cost is a function of quality. As quality increases so does the cost for the child care provider and for families and so cost and quality are inextricably connected.

8. The School Readiness Tax Credits seek to address this by offering a tax incentive for child care providers who serve low-income children to improve their quality rating. They offer a similar incentive for low-paid child care personnel to increase their education and training and get a higher credential. And they offer families a child care subsidy based on the quality rating of their child care provider. There are also provisions for businesses that support quality child care.

These credits in particular are clearly designed to induce behavior and there is significant data to suggest that it is indeed working. For instance, the number of 3-5 star child care centers in Louisiana has increased from 3% of those participating in the Accountability System in 2009 to about 37% today and the percentage of higher-credentialed child care workers is up dramatically over that same time period. These credits are helping achieve the desired policy outcome.

Another point worth noting is that the refundable portion of both of these credits serves as part of the federal match and maintenance of effort that Louisiana uses to draw down more than \$80 million in federal child care block grants. Because of that, these credits are an integral part of the state's much wider early education initiatives.

Given all of this, it is our concern that if we choose to eliminate these credits we are effectively eliminating a major piece of state policy that seeks to address a priority issue in Louisiana. Simply recreating this policy in another way outside the tax code, as some might suggest, is actually not very simple. Untangling the pieces of this policy and then trying to reassemble them in another bureaucracy would be difficult to accomplish and more expensive to administer than the simple and clean process now in place.

In closing, from CABL's perspective we have no problem with eliminating the vast majority of credits, exemptions, and deductions currently on the books as a means to reduce income tax rates to the lowest degree possible. Many of these are little more than "gifts" to taxpayers who would benefit in other ways through the lower rates.

But we are wary of recommending changes that go beyond straightforward tax policy to ones that would impact other major state policy initiatives. For instance, education deductions for things like private school tuition, school uniforms and home schooling expenses, while beneficial to taxpayers, are not a part of a major state policy initiative. We believe the various credits related to child care do meet that threshold.

For these and other reasons we would ask that you take a close look at these credits and consider retaining them for the future. If you have any questions or need any additional information please let me know and I will be happy to provide it.

Thanks for your consideration and your commitment to the work on this task force.