SENATOR ANNA CABALLERO
TWELFTH SENATE DISTRICT

SENATE BILL 26: Working Families Child Care Tax Credit

SUMMARY

SB 26 would make the state Child and Dependent Care Expenses Credit refundable, so that low- and moderate-income working families can benefit from the credit and receive a tax refund for their child care expenses.

BACKGROUND

The California Child and Dependent Care Expenses Credit allows tax payers with income below $100,000 to reduce their tax liability by a certain percentage of their eligible child care expenses. The credit can be claimed by families who pay for child or dependent care in order to work or look for work.

Under existing federal tax law, tax payers can receive a credit equal to a percentage of child care expenses, with expenses capped at $3,000 for one dependent under the age of 13 or $6,000 for two or more dependents. This tax credit can also be claimed for a dependent that is unable to physically or mentally care for themselves. The credit is nonrefundable, meaning it can only reduce the amount of federal tax liability and a family will not receive a refund if they owe zero taxes.

Under current state tax law, the state credit equals a percentage of the corresponding federal credit. The state credit is similar to the federal credit in most aspects: nonrefundable, expenses are capped, and the credit declines as the filer's income increases.

In 2011, the state made the credit nonrefundable due to budget shortfalls. The nonrefundable credit only provides benefits to families that owe state income tax, which means low- and moderate-income families are excluded from the current credit even though they face rising child care expenses. According to the Legislative Analyst's Office, families with income below $50,000 receive virtually no benefit from the current credit.

PROBLEM

The cost of child care in California is considerably expensive. For many families, the cost of child care is the second most significant expense, exceeded only by housing costs. In fact, a family dedicates an average of 20% of their income towards child care (California Budget & Policy Center). According to recent data, the average annual cost of care in a child care center for an infant is $16,452 and $10,609 for in-home care. The average annual cost of care for a preschooler is $11,202 and $9,984 respectively. From the most urban to the most rural county, child care costs are in the thousands and continue to soar. The cost of child care is now starting to exceed college tuition.

The state funds child care slots for the neediest children, however, only 1 in 7 eligible children are enrolled in these programs. This means a significant number of low-income families must pay for child care out of their pockets or forego labor force participation because they cannot afford the costs. On the other hand, middle-income families who don't qualify for state programs also struggle with expensive out-of-pocket child care costs.

Families are struggling to make ends meet. California faces a crisis in child poverty with nearly a quarter of young children living in poverty. Most of these young children live in households with working parents, yet their basic economic security is at risk. California must do more to help working families meet the economic challenges of raising a family and improve access to quality child care.

SOLUTION

Restore the refundability of the California Child and Dependent Care Expenses Credit. Making the credit refundable will allow low- and moderate-income families who do not owe state income taxes, but who do pay other taxes like sales and property tax, to benefit from a tax refund to offset some of their child care expenses.

Research shows that refundable tax credits provide significant benefits to people struggling to make ends meet. It is of particular importance to move children out of poverty while they are young. Lifting families' income when a child is young not only improves a child's immediate well-being, but is associated with better health, more schooling, more hours worked, and higher earnings in adulthood. A refundable credit would help low-income families by putting money back in their pockets for the things they need, like food, housing or medical care.

STATUS

Introduced

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