

Child Care Supply Tax Credit Explainer

Offices of United States Senators Mark R. Warner and Jim Justice

Bill Objective:

- The Problem: The nationwide child care shortage is in part due to child care facilities' inability to pay wages that are sufficient to attract and retain quality child care workers, especially without passing those costs onto parents and guardians.
- Solution: The Child Care Supply Tax Credit Act would help child care providers attract and retain care workers by providing a general business tax credit of up to seven percent of the provider's total paid wages to care workers during the taxable year. This would create much needed margin that providers can use to the benefit of their care workers.

What Entities Are Eligible to Take the Credit?

- The bill provides the credit to "eligible child care facilities."
- An "eligible child care facility" is one that:
 - Provides child care services for at least six children;
 - Receives a fee, payment, or grant for providing those services; and
 - Complies with all applicable laws and regulations of a state or unit of local government (in other words, is appropriately licensed).
- The bill includes a "direct pay" provision, which effectively renders nonprofit child care facilities eligible to receive the credit.

What Wages are Creditable Expenses?

- Wages for employees who directly provide child care are eligible. Wages for supervisors and facility directors—who do not provide care to children—are ineligible.

How Does a Taxpayer Calculate the Credit?

- Equation: (**Eligible wages** paid during taxable year) x **credit rate** (5% for urban; 7% for non-urban) = **credit amount**.
- Example:
 - Facts:
 - Annual Wages: A rural child care center employs 10 classroom workers and one director. The center pays each classroom worker \$25,000 and the director \$50,000. Total **eligible wages** are \$250,000 (10*\$25,000 classroom worker wage) because the director does not directly care for children; therefore, the \$50,000 in director wages are ineligible.
 - Calculation:
 - The center pays a total of \$250,000 in **eligible wages** (\$25,000*10 classroom workers) during the taxable year. The \$50,000 director salary is not included in eligible wages because the director does not directly care for children.
 - Multiply the eligible wages of \$250,000 by 7% (the **credit rate** for rural facilities) to reach a **credit amount** of \$17,500.