July 17, 2017

The Honorable Orrin Hatch
Chairman
Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Hatch:

We are responding to your letter dated June 16, 2017, in which you seek advice and recommendations regarding the Finance Committee's efforts to reform our nation's tax code. We welcome the opportunity to respond and seek to do so specifically to the first of the four key issue areas you identified: "Providing much-needed tax relief to middle-class individuals and families through reforms to the individual income tax system."

We are writing to you as organizations and businesses that witness firsthand the challenge paying for quality child care presents to America's families. To address this challenge, we support tax reform that incentivizes investment in quality early childhood education programs and that expands access for low and middle-income families. Doing so will create new opportunities for children and working families while building an educational foundation to help to increase the growth prospects of the economy as a whole.

Below we list a number of recommendations we believe would work for children, families, and taxpayers alike, centering on three key policy objectives:

- Reach Low and Middle-Income Families;
- Focus on the Quality of Child Care; and
- Incentivize and Leverage Private Sector Resources.

We appreciate this opportunity to comment and look forward to working with the Committee to ensure that tax reform benefits all members of society, including disadvantaged children, their families, and the communities in which they live.

Consistent with History

Congress has historically used the tax code to provide resources to families, often to those of moderate means, to help cover the cost of raising children. The adoption and subsequent revision of the Earned Income Tax Credit (EITC) and the Child Tax Credit are two primary examples. Congress created the EITC in 1975 and has expanded it numerous times since, most recently in 2015. Meanwhile, Congress enacted the Child Tax Credit in 1997, increasing its size and making it partially refundable in subsequent years.

The tax code also provides specific help to families with child care and early childhood education costs. The Child and Dependent Care Tax Credit (CDCTC) provides much needed assistance to working parents with young children. The credit itself is small and non-refundable, however, and the overall commitment of the tax code to child care and early childhood education is dwarfed by other priorities, especially when the potential benefits are taken into account.

For example, the Federal government places a high value on access to higher education – and for good reason. We know that access to higher education results in better job opportunities and higher earnings and economic growth. As a result, the Federal government provided approximately $158 billion in the form of Pell grants, student loans, work study, and various tax benefits in the 2015-16 school year to assist families in paying for college. In recent years, Congress has increasingly looked to the tax code as a means of assisting families in financing higher education. Today, the Federal tax code offers families two credits, three deductions, and two tax preferred savings vehicles for higher education to help offset the cost of college.

We know access to high-quality, birth-to-age-five early childhood programs for low-income families can yield significant economic advantages too. For example, Nobel Laureate economist James Heckman found that participating in such programs resulted in a return on investment (ROI) of 13 percent per child, per year, through better outcomes in education, health, social behaviors, and employment.[1] Other research has found similar benefits.[2]

Yet the Federal government's investment in higher education is many times its investment in quality early childhood education. A new tax code built to drive economic growth should include components that will effectively incentivize and increase investment in early childhood education programs and expand access for low and middle-income families. Doing so will create new opportunities for children as well as working families and will be consistent with past efforts to use the tax code to drive beneficial outcomes for families, their children, and the economy as a whole.

Today's Workforce Needs

For most families today, child care is a necessity, not a luxury. In the last 50 years, women's labor force participation rate has increased 53 percent. Further, in 2012 mothers were the sole or primary breadwinner for 40 percent of households compared to 11 percent in 1960. Each week, approximately 11 million children under age 5 spend time in an early education and care setting and, on average, children with working moms spend about 36 hours a week in child care.

Quality child care plays a crucial role in helping parents both obtain and retain employment, enabling parents to earn a living while their children are in healthy and safe learning environments. Additionally, parents' higher employment levels contribute to the local, state, and Federal economy, spurring community growth and sustainability.

Lack of affordable, quality child care options costs American businesses money and talent. U.S. businesses lose $3 billion annually due to employee absenteeism resulting from child care issues. Further, 75 percent of moms and 50 percent of dads in the U.S. indicated they have had to pass up job opportunities, resign, or change jobs due to a lack quality child care.

Principles for Reform

1. Reach Low Income Families

To address rising costs and limited access for low and middle-income families, we encourage the Senate Finance Committee to consider expanding the Child and Dependent Care Tax Credit, as proposed in the Promoting Affordable Childcare for Everyone Act (S. 208) introduced by Senators Burr (R-N.C.) and King (D-ME). That legislation would:

- *Increase the expense cap significantly;*

- *Make the credit refundable for children ages 0-6, allowing low-income families with limited tax liability to benefit; and*
- *Index the expense thresholds to inflation.*

Currently, about 14.8 million children under age 6 have working parents.[3] For many of these parents, managing and paying for child care presents a significant and growing burden that impedes their ability to enter and remain in the workforce.

Child Care Aware of America estimates that the average annual cost of center-based infant care in the United States is $10,476. For 4 year-olds, the average annual cost is $8,469. Child care is even more expensive in urban settings. Infant care in the District of Columbia is the nation's highest at $22,658 per year. In comparison, the average annual cost of tuition at a public university is $9,420.[4]

While home-based care is less expensive, it is still a significant cost burden, especially for families of limited means. Home-based care averages $7,669 a year for infants and $6,967 a year for 4-year olds.

Despite these significant and rising costs, the tax preferences to support child care and early childhood education have been frozen in place for over fifteen years. Since 2001, the Child and Dependent Care Tax Credit has capped allowable childcare expenses at $3,000 for one child and $6,000 for two children.

The actual workings of the credit make it less valuable than those caps might suggest. Families are able to claim only a fraction of that expense cap – between 20 and 35 percent of qualified expenses depending on their income. As a result, the maximum annual tax credit for a family with one child is $1,050 while a family with two children receives a $2,100 credit.

This benefit is further reduced by the fact that the credit is not refundable. Because low-income families do not always have offsetting tax liabilities, they often are unable to realize the benefit of the full credit. As a result, the average tax credit actually taken for families with income between $10,000 and $20,000 is only $161 per year, or less than two percent the national average for annual child care costs.[5] Compared to the actual costs of accessing child care, the Child and Dependent Care Tax Credit is badly in need of updating to reflect today's reality.

2. Focus on the Quality of Child Care

To increase the quality of child care services available to families, we recommend the Senate Finance Committee:

- *Offer a tax credit to child care center directors and teachers for completing certification training; and*
- *Expand the current definition for the Educator Expense Deduction to include early childhood education teachers, so that they can also receive benefits for their out-of-pocket expenses for classroom supplies.*

Research shows that access to high quality care matters to the healthy development of all children, but for low-income children it is particularly important. With that group, the level of quality in child care can be determinative of whether the child's development is positively or negatively affected.[6]

Thus access to high-quality care is a key component to ensuring the cost-effectiveness of early childhood education, but high-quality care depends on the quality of the workforce. Today's child care workforce earns hourly wages of about $9.77 (with a median annual wage of $20,320).[7] Not surprisingly, these low wages make it hard to attract and retain high quality staff who have more education and training.

Increasing quality through the tax code is not an easy task, but we have evidence that it can be done. Louisiana has an entire package of tax credits designed to promote school readiness, including a credit rewarding child care directors and staff when they invest in increased education and training.

Under Louisiana's program, child care directors and staff are eligible for a refundable credit if they work at least six months at a licensed program participating in the state's quality rating system. The program is wholly voluntary and the credit is awarded if individuals complete certain certifications or levels of education (such as an Associate's Degree).

Louisiana is not unique. Nebraska and South Carolina have recently enacted similar incentives for quality, while quality rating systems are operating in 42 states and the District of Columbia, with another seven states in the planning process.[8] Voluntary state registries are operating in 44 states.[9]

A similarly designed program at the Federal level, targeting both center and home-based staff, and based on voluntary systems the various states already have in place, would promote increased education and training for teachers in a setting where providing adequate compensation is a challenge. An ECE workforce investment credit could help close the gap between what parents can pay and what it costs to attract and retain a higher quality workforce.

3. Incentivize & Leverage Private Sector Resources

Viewed as an industry, child care programs can be an economic driver in communities throughout the United States. A 2015 study by the Committee for Economic Development found that the child care industry has an annual economic impact ranging between a high of $11.4 billion in California to a low of $97.9 million in Wyoming, with an average economic contribution of $1.6 billion per state.[10] New centers for children not only create jobs for early childhood education teachers – they also open up expanded opportunities for parents to go back to work. There is a multiplier effect when these centers are successful.

Increasing access to early learning programs, however, cannot and should not be done by the government alone. Private sector resources are needed. Below are three specific areas in which the tax code can be used to increase private sector investment in childcare services:

<u>Credit for Employer-Provided Childcare Facilities</u>:

To increase employer assistance in improving family access to child care services, we recommend the Senate Finance Committee:

- *Increase the current employer-funded child care credit (for use onsite or offsite) to assist families with access to quality child care;*
- *Increase the credit for resource and referral services to assist families in finding child care; and*
- *Enable employers to pool resources to make the credit more attractive to expand child care choices for families among quality settings.*

The existing tax credit designed to incentivize employer-sponsored child care simply is insufficient and needs to be increased. Under current law, employers can claim a credit for qualified expenses related to child care and resource and referral services for employees. The credit is 25 percent of qualified child care facility expenditures, plus 10 percent of qualified resource and referral expenditures paid or incurred during the year, limited to $150,000 per year.

Qualified expenditures are related to acquiring, constructing, rehabilitating, or expanding child care programs and operating expenses (either provided directly or contracted to assist employees within the community).[11]

While these are important benefits that help to encourage the establishment and operation of work-based child care centers, the overall cost of the credit suggests it is less than effective at stimulating new facilities. The Joint Tax Committee estimates the credit costs the Federal treasury less than $50 million per year.[12]

Providing tax incentives to increase employees' access to affordable child care is a critical component of ensuring accessible, affordable child care.

<u>Expand Definition of Qualified Institutions</u>:

To expand the availability of private sector tuition assistance to families seeking quality child care services, we recommend the Senate Finance Committee:

- *Add high-quality pre-school programs to the list of institutions eligible to receive tax free scholarships to make them eligible for tax free scholarships, tuition reduction and assistance for early childhood learning programs.*

Under current law, virtually all scholarships and tuition assistance programs are tax free, as long as the assistance is used for attendance at a qualified institution, generally defined as a primary, secondary, post-secondary or vocational institution. This definition excludes, however, pre-school and other ECE facilities.

Providing tax exempt scholarships to families with child care needs is another means of using the tax code to leverage private sector resources. This will help incentivize more scholarship opportunities for early learning and promote community philanthropy.

<u>Increasing Dependent Care Assistance Program (DCAP) Limits:</u>

To expand the availability of pre-tax earnings that can be applied to quality child care services, we recommend the Senate Finance Committee:

- *Increase DCAP limits to $10,500 and index those limits to inflation to ensure that these plans effectively cover costs for families;*
- *Provide tax credits for startup costs, similar to incentives for small business pension plans, to incentivize businesses to establish DCAP benefits; and*
- *Provide additional credits for employers who match employee contributions to encourage businesses to provide more generous benefits.*

The DCAP is an employer-sponsored program that provides reimbursements for up to $2,500 annually ($5,000 for married couples) to employees who pay for dependent care. Employees are allowed to deduct these dependent care expenses from their paycheck on a pre-tax basis.

The current limits have failed to keep up with the rising costs of child care, however, and need to be increased. Additionally, access to DCAPs has remained relatively unchanged over the last five years, with low-wage employees generally and those workers in service industries particularly showing significantly lower access. The Bureau of Labor Statistics[13] estimated that while six in ten professional and managerial workers have access to DCAP plans, only one in five service industry workers have access to similar plans. For low-wage workers, the number drops to just one in six.

Conclusion

The undersigned organizations hope you can see the incredible impact these amendments to the code would have on individuals, and especially on children in this country. We look forward to working with you as you take on this worthwhile effort of reforming the code and would be happy to respond to any questions or concerns you might have or provide additional information or research as you see fit.

Thank you,

Bright Horizons Family Solutions
Childcare Network
Children's Discovery Center
Early Care and Education Consortium
First Five Years Fund
The Goddard School
KinderCare Education
Learning Care Group
New Horizon Academy
Primrose Schools
Save the Children Action Network
Teaching Strategies
Teachstone

Cc. Members of the United States Senate Committee on Finance

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[1] HCEO Working Paper Series, "The Life-cycle Benefits of an Influential Early Childhood Program." James J. Heckman, Jorge Luis Garcia, Duncan Ermini Leaf, Maria Jose Prados (December, 2016).
[2] RAND Corporation, "Early Childhood Interventions – Proven Results, Future Promise." (2005).
[3] U.S. Census Bureau. 2015 American Community Survey 1 Year Estimates. Table B23008, Age of Own Children Under 18 Years in Families and Subfamilies by Living Arrangements by Employment Status of Parents.
[4] College Board, Average Cost of Undergraduate Charges, 2016-2017. https://trends.collegeboard.org/college-pricing/figures-tables/average-published-undergraduate-charges-sector-2016-17
[5] The Joint Committee on Taxation, Estimates of Federal Tax Expenditures for Fiscal Years 2015-2019, JCX-141R-15, Dec. 2015.
[6] U.S. Department of Health and Human Services, National Institutes of Health, National Institute of Child Health and Human Development, The NICHD Study of Early Child Care and Youth Development. 2006.
[7] U.S. Bureau of Labor Statistics, Occupational Employment and Wages, Child Care Workers, May 2015.
[8] BUILD Initiative, http://qrisnetwork.org/qris-state-contacts-map
[9] http://www.registryalliance.org/
[10] Committee for Economic Development, *Child Care in State Economies*, 2015. https://www.ced.org/childcareimpact
[11] U.S. Department of the Treasury, Internal Revenue Service, Form 8882, Credit for Employer-Provided Child Care Facilities and Services. https://www.irs.gov/pub/irs-pdf/f8882.pdf
[12] The Joint Committee on Taxation, Estimates Of Federal Tax Expenditures For Fiscal Years 2016-2020, JCX-3-17, January 2017. https://www.jct.gov/publications.html?func=startdown&id=4971
[13] Bureau of Labor Statistics, National Compensation Survey, 2014