

# Child Care Expenses Income Tax Credits



OFFICE OF THE STATE AUDITOR

Tax Expenditure Evaluation • December 2023 • 2023-TE19

C O L O R A D O

The Child Care Expenses Credits allow taxpayers to claim a refundable income tax credit for their expenses incurred for child care for children under age 13. Taxpayers must have an Adjusted Gross Income (AGI) of \$60,000 or less and must incur the child care expenses to allow the taxpayer to work or look for work. The credits, and qualifying expenses, are based on the federal Child and Dependent Care Expenses Credit (federal credit) that taxpayers can claim on their federal income tax return.

There are two state credits that are available to make child care more affordable for working families:

- The Child Care Expenses Credit for taxpayers that have an Adjusted Gross Income (AGI) of \$60,000 or less, for both joint and single filers, and claim the federal Child and Dependent Care Credit on their federal income taxes or,
- The Low-Income Child Care Expenses Credit for taxpayers that have an AGI of \$25,000 or less, for both joint and single filers, and are eligible for the federal credit, but do not have sufficient federal tax liability to claim the federal credit.

**Overall, we found that both credits are likely underutilized and the Low-Income Child Care Expenses Credit does not ensure that all individuals without a federal tax liability can claim a credit for their child care expenses. Additionally, the credit amounts are likely too small to help taxpayers afford child care to allow them to work or look for work given the current costs of child care. Specifically, we found:**

- Only about 14 percent (19,200 returns) of potentially eligible Colorado households claimed the Child Care Expenses credits in Tax Year 2020.
- Changes to federal tax laws, such as increases to the standard deduction amounts, have reduced the number of taxpayers who claim the credits and caused some taxpayers with child care expenses to become ineligible for the credits.
- Credit amounts, averaging less than \$300, offset some child care expenses, but are likely too small to make child care more affordable in order for parents to work or look for work.
- AGI limits and allowable expense amounts have not been adjusted for inflation, eroding the relative financial benefit of the credits.

## Policy Considerations

- The General Assembly could consider decoupling the state Child Care Expenses Credits from the federal credit.
- The General Assembly could consider adjusting the income limits for the state credits to account for inflation and changes to the standard deduction amount.
- The General Assembly could consider adding the Child Care Expenses Credits to the state requirements that employers notify employees of the availability of certain tax credits [Section 39-22-604(6)(c), C.R.S.].

	Child Care Expenses Credit	Low-Income Child Care Expenses Credit
Tax Type:	<b>Income</b>	<b>Income</b>
Expenditure Type:	<b>Credit</b>	<b>Credit</b>
Statutory Citation:	<b>39-22-119, C.R.S.</b>	<b>39-22-119.5, C.R.S.</b>
Year Enacted:	<b>1996</b>	<b>2014</b>
Repeal/Expiration Date:	<b>None</b>	<b>December 31, 2028</b>
Revenue Impact:	<b>\$5.1 million (2020)</b>	
<b>Purpose given in statute or enacting legislation? Yes</b>		