

## State Child and Dependent Care Tax Provisions: Tax Year 2008

State	Basic Provision	Eligible Expenses	Refundable	Maximum: One Child/ Dependent	Maximum: Two or More Children/ Dependents
Arkansas	A <i>credit</i> of 20% of the "allowable" <sup>1</sup> federal CADC credit. <sup>2</sup> The reference to the federal credit for the nonrefundable portion of the Arkansas credit is to the federal credit "in effect on January 1, 2005," but the reference to the federal credit for the refundable portion is to the federal credit "in effect on January 1, 1993." <sup>3</sup>	Expenses eligible for the federal CADC credit.	Yes, but only for care for children under age 6 in an appropriate early childhood program. <sup>4</sup>	\$210	\$420
California	A <i>credit</i> of a specified percentage of the "allowable" <sup>5</sup> federal CADC credit as follows: <ul style="list-style-type: none"> <li>• 50% if federal AGI<sup>6</sup> is \$40,000 or less</li> <li>• 43% if federal AGI is \$40,001-\$70,000</li> <li>• 10% if federal AGI is \$70,001-\$100,000.</li> </ul> No credit is allowed if federal AGI is over \$100,000.	Expenses eligible for the federal CADC credit, except that the expenses must be incurred for care provided in California.	Yes	\$525	\$1,050
Colorado	A <i>credit</i> of a specified percentage of the federal CADC credit for "child care" expenses "claimed" as follows: <ul style="list-style-type: none"> <li>• 50% if federal AGI is \$25,000 or less</li> <li>• 30% if federal AGI is \$25,001-\$35,000</li> <li>• 10% if federal AGI is \$35,001-\$60,000.</li> </ul> No credit is allowed if federal AGI exceeds \$60,000. An alternative calculation of the credit applies if, in any tax year, the amount of revenue for the state fiscal year immediately preceding the tax year exceeded the limitation on state fiscal spending imposed by the state constitution and the voters did not authorize the state to retain and spend all of the excess state revenues for that fiscal year. In such tax years, the credit is 50% of the federal credit if federal AGI is \$60,000 or less, reduced by any state child credit claimed. A third calculation applies if the amount of revenue for the state fiscal year immediately preceding the tax year exceeded the limitation on state fiscal spending imposed by the state constitution by at least \$382.6 million <sup>7</sup> and the voters did not authorize the state to retain and spend all of the excess state revenue for that fiscal year but the total amount required to be refunded pursuant to the state constitution is less than the total amount of credits. In such tax years, the credit is 70% of the federal credit if federal AGI is \$64,000 or less, reduced by any state child credit claimed. No credit is allowed if federal AGI exceeds \$64,000. <sup>8</sup>	Child care expenses	Yes	\$525	\$1,050
Delaware	A <i>credit</i> of 50% of the "allowable" federal CADC credit.	Expenses eligible for the federal CADC credit.	No	\$525	\$1,050
District of Columbia	A <i>credit</i> of 32% of the "allowed" <sup>9</sup> federal CADC credit.	Expenses eligible for the federal CADC credit.	No	\$336	\$672
Georgia	A <i>credit</i> of 30% of the "claimed and allowed" federal CADC credit.	Expenses eligible for the federal CADC credit.	No	\$210	\$420
Hawaii	A <i>credit</i> of a specified percentage of eligible expenses as follows: <ul style="list-style-type: none"> <li>• 25% if Hawaii AGI is \$22,000 or less</li> <li>• 25%, reduced (but not below 15%) by one percentage point for every \$2,000 (or fraction thereof) by which AGI exceeds \$22,000 but is no more than \$40,000</li> <li>• 15% if Hawaii AGI exceeds \$40,000.</li> </ul>	Expenses eligible for the federal CADC credit, except that expenses are limited to \$2,400 for one child or dependent and \$4,800 for two or more children or dependents. <sup>10</sup>	Yes	\$600	\$1,200
Idaho	A <i>deduction</i> <sup>11</sup> of expenses eligible for the federal CADC credit.	Expenses eligible for the federal CADC credit.	No	\$234	\$468

State Child and Dependent Care Tax Provisions: Tax Year 2008--continued

State	Basic Provision	Eligible Expenses	Refundable	Maximum: One Child/ Dependent	Maximum: Two or More Children/ Dependents
Iowa	A <i>credit</i> of a specified percentage of the "provided" federal CADC credit as follows: <ul style="list-style-type: none"> <li>• 75% if Iowa net income is less than \$10,000.</li> <li>• 65% if Iowa net income is \$10,000-\$19,999</li> <li>• 55% if Iowa net income is \$20,000-\$24,999</li> <li>• 50% if Iowa net income is \$25,000-\$34,999</li> <li>• 40% if Iowa net income is \$35,000-\$39,999.</li> <li>• 30% if Iowa net income is \$40,000-\$44,999.</li> </ul> No credit is allowed if Iowa net income is \$45,000 or more. <sup>12</sup>	Expenses eligible for the federal CADC credit.	Yes	\$788	\$1,575
Kansas	A <i>credit</i> of 25% of the federal CADC credit "allowed." <sup>13</sup>	Expenses eligible for the federal CADC credit.	No	\$263	\$525
Kentucky	A <i>credit</i> of 20% of the "allowed" federal CADC credit.	Expenses eligible for the federal CADC credit.	No	\$210	\$420
Louisiana	A <i>credit</i> for child care of a specified percentage of the federal CADC credit for "child care expenses claimed" <sup>14</sup> by the tax filer as follows: <ul style="list-style-type: none"> <li>• 50% if federal AGI is \$25,000 or less</li> <li>• 30% if federal AGI is \$25,001-\$35,000</li> <li>• 10% if federal AGI is \$35,000 or more, but no more than \$25 if federal AGI is over \$60,000.</li> </ul>	Expenses eligible for the federal CADC credit. <sup>15</sup>	Yes, if federal AGI is \$25,000 or less. <sup>16</sup>	\$525	\$1,050
Louisiana	A "child care expense" <i>credit</i> of a specified percentage of the state child care credit <sup>17</sup> "claimed" <sup>18</sup> for expenses at a child care facility rated two stars or higher by the state quality rating system as follows: <sup>19</sup> <ul style="list-style-type: none"> <li>• 200% if expense is for a five-star facility</li> <li>• 150% if expense is for a four-star facility</li> <li>• 100% if expense is for a three-star facility</li> <li>• 50% if expense is for a two-star facility.</li> </ul>	Expenses eligible for the federal CADC credit, except that expenses are limited to care for a child age five and under.	Yes, if federal AGI is \$25,000 or less. <sup>20</sup>	\$1,050	\$2,100
Louisiana	A "household expense" <i>credit</i> for care for "dependents...physically or mentally incapable of [self-care]" equal to the applicable percentage of expenses allowable for the federal CADC credit.	Expenses eligible for the federal CADC credit. <sup>21</sup>	No <sup>22</sup>	\$1,050	\$2,100
Maine	A <i>credit</i> of 25% of the "allowable" federal CADC credit, increasing to 50% for "quality child care services." <sup>23</sup>	Expenses eligible for the federal CADC credit, except that only expenses for "quality child care services" are eligible for the higher credit amount.	Yes, up to \$500.	\$452	\$903
Maryland	A <i>deduction</i> <sup>24</sup> of expenses up to the dollar amount of expenses allowed under the federal CADC credit.	Expenses eligible for the federal CADC credit.	No	\$188	\$375
Maryland	A <i>credit</i> of a specified percentage of the federal CADC credit "properly claimed" as follows: <ul style="list-style-type: none"> <li>• 32.5% if federal AGI is \$41,000 or less</li> <li>• 29.25% if federal AGI is \$41,001-\$42,000</li> <li>• 26.0% if federal AGI is \$42,001-\$43,000</li> <li>• 22.75% if federal AGI is \$43,001-\$44,000</li> <li>• 19.5% if federal AGI is \$44,001-\$45,000</li> <li>• 16.25% if federal AGI is \$45,001-\$46,000</li> <li>• 13.0% if federal AGI is \$46,001-\$47,000</li> <li>• 9.75% if federal AGI is \$47,001-\$48,000</li> <li>• 6.50% if federal AGI is \$48,001-\$49,000</li> <li>• 3.25% if federal AGI is \$49,001-\$50,000.</li> </ul> No credit is allowed if federal AGI exceeds \$50,000.	Expenses eligible for the federal CADC credit.	No	\$341	\$683

Footnotes at end of table.

**State Child and Dependent Care Tax Provisions: Tax Year 2008--continued**

State	Basic Provision	Eligible Expenses	Refundable	Maximum: One Child/ Dependent	Maximum: Two or More Children/ Dependents
Massachusetts	A <i>deduction</i> <sup>25</sup> of eligible expenses. <sup>26</sup>	Expenses eligible for the federal CADC credit, except that expenses are limited to \$4,800 for one child or dependent and \$9,600 for two or more children or dependents.	No	\$254	\$509
Minnesota	A <i>credit</i> , for tax filers with income no greater than \$22,380, equal to the federal CADC credit for which the tax filer is "eligible," up to a maximum of \$720 for one child or dependent and a maximum of \$1,440 for two or more children or dependents. <sup>27</sup> For tax filers with income over \$22,380, the maximum credit is reduced by \$18 for every additional \$350 of income if one child or dependent, or \$36, if two or more children or dependents. No credit is allowed if income exceeds \$36,030. The income limitations are indexed for inflation.	Expenses eligible for the federal CADC credit.	Yes	\$720	\$1,440
Montana	A <i>deduction</i> <sup>28</sup> of eligible expenses for tax filers with Montana AGI under \$22,800, if one child, spouse or dependent, \$25,200 if two such individuals, and \$27,600 if three or more such individuals.	Expenses necessary for gainful employment for in-home and out-of-home care for: <ul style="list-style-type: none"> <li>• children under age 15</li> <li>• spouses physically or mentally incapable of self-care, and</li> <li>• dependents physically or mentally incapable of self-care.<sup>29</sup></li> </ul> Expenses are limited to \$2,400 for one child, spouse, or dependent, \$3,600 for two such individuals, and \$4,800 for three or more such individuals. For tax filers with AGI over \$18,000, eligible expenses are reduced by one half of the amount of income over \$18,000.	No	\$166	\$248 for two, \$331 for three or more
Nebraska	A <i>credit</i> of a specified percentage of the "allowed" <sup>30</sup> federal CADC credit as follows: <ul style="list-style-type: none"> <li>• 100% if federal AGI is \$22,000 or less</li> <li>• 90% if federal AGI is \$22,001-\$23,000</li> <li>• 80% if federal AGI is \$23,001-\$24,000</li> <li>• 70% if federal AGI is \$24,001-\$25,000</li> <li>• 60% if federal AGI is \$25,001-\$26,000</li> <li>• 50% if federal AGI is \$26,001-\$27,000</li> <li>• 40% if federal AGI is \$27,001-\$28,000</li> <li>• 30% if federal AGI is \$28,001-\$29,000</li> <li>• 25% if federal AGI is over \$29,000.</li> </ul>	Expenses eligible for the federal CADC credit.	Yes, for tax filers with federal AGI of \$29,000 or less	\$1,050	\$2,100
New Mexico	A <i>credit</i> of 40% of eligible child care expenses, reduced, for tax filers with federal tax liability, by the amount of the tax filer's federal CADC credit used to offset federal tax liability. <sup>31</sup> Total credit is limited to \$480 if one child, \$960 if two children, and \$1,200 if three or more children. No credit is allowed if New Mexico modified gross income is over \$27,248. <sup>32</sup>	Expenses incurred in New Mexico for gainful employment for in-home and out-of-home care paid to a caregiver in New Mexico for children under age 15, up to \$8 per day, per child.	Yes	\$480	\$960 for two, \$1,200 for three or more.

Footnotes at end of table.

**State Child and Dependent Care Tax Provisions: Tax Year 2008--continued**

State	Basic Provision	Eligible Expenses	Refundable	Maximum: One Child/ Dependent	Maximum: Two or More Children/ Dependents
New York	A <i>credit</i> of a specified percentage of the "allowable" <sup>33</sup> federal CADC credit as follows: <ul style="list-style-type: none"> <li>• 110% if NY AGI is \$25,000 or less</li> <li>• Between 109% and 100% if NY AGI is \$25,001-\$39,999<sup>34</sup></li> <li>• 100% if NY AGI is \$40,000-\$50,000</li> <li>• Between 99.5% and 20.5% if NY AGI is \$50,001- \$64,999<sup>35</sup></li> <li>• 20% if NY AGI is \$65,000 or more.</li> </ul>	Expenses eligible for the federal CADC credit.	Yes <sup>36</sup>	\$1,155	\$2,310
North Carolina	A <i>credit</i> of a specified percentage of eligible expenses, as follows: <ul style="list-style-type: none"> <li>• For children under age 7 and other qualifying dependents incapable of self-care: <ul style="list-style-type: none"> <li>- 13% if federal AGI is 0-\$25,000, depending on the filing status of the tax filer</li> <li>- 11.5% if federal AGI is \$12,501-\$40,000, depending on the filing status of the tax filer</li> <li>- 10% if federal AGI is \$20,000-\$40,000 and over, depending on the filing status of the tax filer.</li> </ul> </li> <li>• For children age 7 and over: <ul style="list-style-type: none"> <li>- 9% if federal AGI is 0-\$25,000, depending on the filing status of the tax filer</li> <li>- 8% if federal AGI is \$12,501-\$40,000, depending on the filing status of the tax filer</li> <li>- 7% if federal AGI is \$20,000-\$40,000 and over, depending on the filing status of the tax filer.</li> </ul> </li> </ul>	Expenses eligible for the federal CADC credit.	No	\$390	\$780
Ohio	A <i>credit</i> of a specified percentage of the federal credit for which the tax filer is "eligible," <sup>37</sup> as follows: <ul style="list-style-type: none"> <li>• 100% if Ohio AGI is less than \$20,000</li> <li>• 25% if Ohio AGI is \$20,000-\$39,999.</li> </ul> No credit is allowed if Ohio AGI is \$40,000 or more.	Expenses eligible for the federal CADC credit.	No	\$1,050	\$2,100
Oklahoma	A <i>credit</i> of 20% of the "allowed" federal "credit for child care expenses," except that if Oklahoma AGI is less than federal AGI, the Oklahoma credit is prorated based on the ratio that Oklahoma AGI bears to federal AGI. <sup>38</sup>	Expenses eligible for the federal CADC credit. <sup>39</sup>	No	\$210	\$420
Oregon	A <i>credit</i> equal to a specified percentage of expenses "allowable" <sup>40</sup> for the federal CADC credit as follows: <ul style="list-style-type: none"> <li>• 30% if federal taxable income<sup>41</sup> is \$5,000 or less</li> <li>• 15% if federal taxable income is \$5,001-\$10,000</li> <li>• 8% if federal taxable income is \$10,001-\$15,000</li> <li>• 6% if federal taxable income is \$15,001-\$25,000</li> <li>• 5% if federal taxable income is \$25,001-\$35,000</li> <li>• 4% if federal taxable income is \$35,001-\$45,000.</li> </ul> No credit is allowed if federal taxable income exceeds \$45,000. <sup>42</sup>	Expenses eligible for the federal CADC credit.	No <sup>43</sup>	\$900	\$1,800

Footnotes at end of table.

**State Child and Dependent Care Tax Provisions: Tax Year 2008--continued**

State	Basic Provision	Eligible Expenses	Refundable	Maximum: One Child/ Dependent	Maximum: Two or More Children/ Dependents
Oregon	A "working family child care" credit <sup>44</sup> of a specified percentage of child care expenses, rounded to the nearest \$50, as follows: <ul style="list-style-type: none"> <li>• 40% of eligible expenses if federal AGI is 200% of federal poverty level or less;</li> <li>• 36% if federal AGI is 201%-210%</li> <li>• 32% if federal AGI is 211%-220%</li> <li>• 24% if federal AGI is 221%-230%</li> <li>• 16% if federal AGI is 231%-240%</li> <li>• 8% if federal AGI is 241%-250%.<sup>45</sup></li> </ul> No credit is allowed if federal or Oregon AGI is above 250% of federal poverty level, if investment income is \$2,950 <sup>46</sup> or more, or if Oregon earned income is less than \$7,550. <sup>47</sup> A credit of 25% of the federal CADC credit.	Expenses (without a dollar limitation) incurred for care provided to a child under age 13 or to an older child with a disability if the care allows a tax filer to be gainfully employed, seek employment, or attend school on a full-time or part-time basis. <sup>48</sup>	Yes	No dollar limit <sup>49</sup>	No dollar limit <sup>50</sup>
Rhode Island	A credit of 25% of the federal CADC credit.	Expenses eligible for the federal CADC credit.	No	\$263	\$525
South Carolina	A credit of 7% of eligible expenses.	Expenses eligible for the federal CADC credit, except that only expenses that are "directly attributable to items of South Carolina gross income" qualify for the credit. <sup>51</sup>	No	\$210	\$420
Vermont	A credit of 24% of the "allowed" federal CADC credit. <sup>52</sup>	Expenses eligible for the federal CADC credit.	No	\$252	\$504
Vermont	A "low-income CADC" credit of a specified percentage of the "allowed" federal CADC credit as follows: <ul style="list-style-type: none"> <li>• 50% if federal AGI is less than \$30,000, if single</li> <li>• 50% if federal AGI is less than \$40,000, if married.</li> </ul>	Expenses eligible for the federal CADC credit, except that the expenses must be for services provided in a Vermont "registered home or licensed facility certified by the agency of human services as meeting national accreditation or national credential standards endorsed by the agency."	Yes	\$525	\$1,050
Virginia	A deduction <sup>53</sup> of expenses equal to the amount of expenses on which the federal CADC credit is based.	Expenses eligible for the federal CADC credit.	No	\$173	\$345

<sup>1</sup> When a state credit is calculated as a percentage of the federal credit for Child and Dependent Care (CADC) expenses – as is the case in most states with CADC tax provisions – an issue arises regarding calculation of the state credit for tax filers who received only part or none of the federal credit because the federal credit exceeds their federal income tax liability and is not refundable. Is the state credit based on the amount of federal credit actually received, or is it based on the amount the tax filer could have received if the federal credit had not been limited by the tax filer's federal tax liability? A number of state statutes clearly provide that the state credit is based on the amount of the federal credit for which the tax filer is potentially eligible, without regard to the tax filer's federal tax liability, and one state makes clear that it is based only on the amount of the credit actually received. In the remaining states with credits based on a percentage of the federal CADC credit, the statutory provision is ambiguous, referring to a percentage of the "allowable," "allowed," "provided," "claimed," or "eligible" federal credit. In most instances, the forms and/or instructions clarify this ambiguity.

<sup>2</sup> The federal CADC credit allows tax filers to claim a portion of their employment-related expenses for in-home and out-of-home care for:

- children under age 13,
- spouses physically or mentally incapable of self-care, and
- dependents age 13 or older and physically or mentally incapable of self-care.

The portion of expenses allowed for the federal credit decreases as the tax filer's income increases, and the credit is not refundable. The Economic Growth and Tax Reduction and Reconciliation Act (EGTRRA) increased both the dollar limits on eligible expenses to \$3,000 for one child or dependent, and \$6,000 for two or more children or dependents, and the percentage of eligible expenses that may be claimed as a credit for tax filers with adjusted gross income up to \$43,000.

The maximum federal credit is \$1,050 for one child or dependent and \$2,100 for two or more children or dependents. These changes took effect in tax year 2003 but, unless extended, expire after tax year 2010.

<sup>3</sup> Thus the improvements in the federal CADC credit in EGTRRA automatically resulted in improvements in the nonrefundable, but not the refundable, portion of the Arkansas CADC credit. The date distinctions in the Arkansas statute are not reflected in the Arkansas tax forms or instructions for tax year 2008, however, which direct tax filers eligible for the refundable portion of the state credit to calculate that portion based on "the Federal Child Care Credit" claimed, reduced only by the portion of the filer's federal credit amount that is not attributable to child care expenses that qualify for the refundable portion of the state credit.

<sup>4</sup> An "appropriate early childhood program" is defined as a "developmentally appropriate program for young children . . . approved by the Department of Education as complying with regulatory guidelines" of the Department of Health and Human Services and the Department of Education.

<sup>5</sup> The California statute specifically says that the state credit is based on the amount of the federal credit allowable, "without taking into account whether there is a federal tax liability."

<sup>6</sup> AGI is adjusted gross income.

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<sup>7</sup> This figure is adjusted annually to reflect growth in Colorado personal income.

<sup>8</sup> In 2005, Colorado voters authorized the state by referendum to retain and spend all the excess state revenue for fiscal years 2005-2010. Accordingly, and assuming no changes in state or federal law in the interim, tax filers with AGI of \$60,000 or less are entitled to a maximum credit of \$525 for one child and \$1,050 for two or more children for tax years 2005 through 2010. Colorado's maximum credit amounts may, in some years, be as high as \$735 for one child and \$1,470 for two or more children for tax filers with AGI of \$64,000 or less.

<sup>9</sup> The District of Columbia statute specifically states that the D.C. credit is based on the amount of the federal credit allowed, "regardless of the amount of the credit actually used to offset federal tax liability."

<sup>10</sup> Hawaii's provision is independent of the federal credit but covers the same expenses as the federal credit, except for its dollar limitations, and for that reason its expenses are not set forth separately here.

<sup>11</sup> Idaho's top tax rate is 7.8%.

<sup>12</sup> Eligible tax filers with low net income of less than \$45,000 may claim either the CADC credit or a new, refundable "child development credit" that is not based on whether the filer has employment-related expenses. The child development credit is equal to 25% of the first \$1,000 of "early childhood development expenses" for children ages 3 through 5. "Early childhood development expenses" are expenses incurred for "services provided to a dependent by a preschool..., materials, and other activities," including books, instructional materials, lesson plans and activities. The amount of money that the state may spend on child development tax credits is limited to \$2,500,000 annually; tax filers intending to claim such a credit must do so in advance of filing a tax return, by application with supporting documentation, and their childhood development credit may be reduced on a pro rata basis if the limit on the total credits for that year would otherwise be exceeded.

<sup>13</sup> The Kansas statute specifically says that the state credit is based on the amount of the federal credit allowed "against [the] tax filer's federal income tax liability."

<sup>14</sup> The Louisiana statute expressly provides that the Louisiana child care credit for tax filers with federal AGI of \$25,000 or less is calculated based on the federal credit "before it is reduced by the amount of the individual's federal income tax." The Louisiana tax forms for 2008 instruct individuals with federal AGI above \$25,000 to use the amount of the federal credit after it has been reduced by federal tax liability in calculating the state credit.

<sup>15</sup> The Louisiana tax forms and instructions for tax year 2008 do not make clear whether the tax filer should use only the portion of the federal credit claimed for child care expenses, or a portion that may include adult dependent care expenses, to calculate the state credit.

<sup>16</sup> For tax filers with AGI over \$25,000, if the credit exceeds the income tax due, the unused amount of the credit may be carried forward as a credit against tax liability in subsequent years, for up to five years.

<sup>17</sup> An eligible tax filer may claim both the new state child care expense credit and the existing state child care credit.

<sup>18</sup> The Louisiana statute expressly provides that for families with federal AGI of \$25,000 or less the Louisiana child care credit is calculated based on the federal credit "before it is reduced by the amount of the individual's federal income tax." Hence the new child care expense credit for these families is calculated based on the unreduced federal credit as well. For families with federal AGI over \$25,000, both credits are calculated based on a reduced federal credit.

<sup>19</sup> The child care expense credit is one of four new refundable "school readiness" tax credits tied to the state's new voluntary child care quality rating system. In addition to the child care expense credit that individual families may claim, a second credit is available to the owners of child care facilities with at least a two-star quality rating; a third credit is available to businesses that support child care facilities with at least a two-star quality rating and/or resource and referral agencies; and a fourth credit is available to directors and staff employed at a child care facility participating in the quality rating system who have at least a "level-one qualification" as defined by the Department of Social Services.

<sup>20</sup> For taxpayers with AGI over \$25,000, if the credit exceeds the income tax due, the unused amount of the credit may be carried forward as a credit against tax liability in subsequent years, for up to five years.

<sup>21</sup> The Louisiana tax forms and instructions for tax year 2007 do not make clear whether the tax filer should use only the portion of the federal credit claimed for dependent care expenses, or a portion that may include child care expenses, to calculate the state credit.

<sup>22</sup> If the credit exceeds the income tax due, the unused amount of the credit may be carried forward as a credit against tax liability for the next succeeding tax year.

<sup>23</sup> "Quality child care services" are defined as services for care provided at a child care site that meets minimum licensing standards; is accredited by an independent, nationally recognized program approved by the Maine Department of Human Services, Office of Head Start and Child Care; utilizes recognized quality indicators for child care services approved by the Maine Department of Human Services, Office of Head Start and Child Care; and includes provisions for parent and client input, a review of the provider's policies and procedures, a review of the provider's program records, and an onsite program review.

<sup>24</sup> Maryland's top tax rate is 6.25%.

<sup>25</sup> Massachusetts has a 5.3% tax rate for all income levels. It also has an optional, voluntary 5.85% tax rate for all income levels. For tax filers who elect this option, the maximum value of the deduction is \$281 for one child or dependent and \$562 for two or more children or dependents.

<sup>26</sup> Eligible tax filers must choose between this deduction and a second deduction, which is not based on employment-related expenses, for families with one or more children under age 12, a dependent age 65 or older, or a disabled dependent.

<sup>27</sup> These maximum credit amounts prevent the lowest-income Minnesota tax filers from benefiting fully from the improvements to the federal credit in EGTRRA that took effect in tax year 2003 (but, unless extended, expire after tax year 2010).

<sup>28</sup> Montana's top tax rate is 6.9%.

<sup>29</sup> The Montana statute seems to make distinctions between expenses (and, arguably, expense limits) for in-home and out-of-home care for children under age 15 as compared to other dependents. However, the Montana tax form and instructions do not make these distinctions.

<sup>30</sup> The Nebraska statute specifically says that the state credit for tax filers with AGI over \$29,000 is based on the amount of the federal credit "allowed," but the refundable credit for tax filers with AGI of \$29,000 or less is based on the amount of the federal credit "allowable...whether or not the federal credit was limited by the federal tax liability."

<sup>31</sup> The New Mexico tax forms and instructions for tax year 2008 do not make clear whether the tax filer must offset against the state credit only the portion of the federal credit claimed for child care expenses, or a portion that may include adult dependent care expenses. In either case, because the required offset decreases the value of the New Mexico credit as the value of the federal credit increases, the improvements to the federal credit in EGTRRA that took effect in tax year 2003 (but, unless extended, expire after tax year 2010) decrease the value of the New Mexico credit.

<sup>32</sup> The New Mexico statute says that this amount is set at "not more than the annual income that would be derived from earnings at double the federal minimum wage."

<sup>33</sup> The New York statute specifically says that the state credit is based on the amount of the federal credit allowable, "without regard to whether the tax filer in fact claimed the [federal] credit."

<sup>34</sup> For tax filers with New York AGI between \$25,001 and \$39,999, the applicable percentage of the federal credit is 100% + 10%[((\$40,000-AGI)/\$15,000)]. This formula results in a scale that slides from 109% to 100%.

<sup>35</sup> For tax filers with New York AGI between \$50,001 and \$64,999, the applicable percentage of the federal credit is 20% + 80% [((\$65,000-AGI)/\$15,000)]. This formula results in a scale that slides from 99.5% to 20.5%.

<sup>36</sup> The New York credit is refundable for residents only. For part-year residents, a proportional formula allows them to receive part of the credit as a refund.

## State Child and Dependent Care Tax Provisions: Tax Year 2008--continued

<sup>37</sup> The Ohio statute specifically states that the state credit is based on the amount of the federal credit for which the tax filer is eligible, "without regard to any limitation imposed by [the federal credit's non-refundability provision]."

<sup>38</sup> An eligible tax filer must choose between this credit and a new credit for tax year 2008 of 5% of the federal child tax credit "allowed," "whichever amount is greater." Neither credit is available if federal AGI is over \$100,000 and both credits are prorated based on the ratio that Oklahoma AGI bears to federal AGI.

<sup>39</sup> It is unclear from the Oklahoma statute and forms for tax year 2007 whether care expenses other than for children are eligible for the credit.

<sup>40</sup> The Oregon statute specifically states that the state credit is based on an amount of employment-related expenses allowable under the federal credit, "notwithstanding the limitation imposed by [the federal credit's nonrefundability provision]."

<sup>41</sup> Federal taxable income is federal adjusted gross income less federal exemptions and deductions.

<sup>42</sup> Eligible tax filers may claim both this credit and the following "working family child care" credit.

<sup>43</sup> However, if the Oregon credit exceeds the income tax due, the unused amount of the credit may be carried forward as a credit against tax liability in subsequent years, for up to five years.

<sup>44</sup> The credit is repealed effective January 2, 2014.

<sup>45</sup> Depending on household size, the maximum AGI limits of 250% of poverty range from \$26,001 (one-person household) to \$89,001 (eight-person household) for tax year 2008.

<sup>46</sup> This amount is indexed for inflation.

<sup>47</sup> This amount also cannot exceed the amount an individual would earn if the individual worked 1,040 hours at the Oregon minimum wage, rounded to the next lower multiple of \$50. At the current Oregon minimum wage of \$7.95/hour, this amount would be \$8,268 or, rounded to the next lower multiple of \$50, \$8,250 for tax year 2008. The minimum wage for Oregon increases to \$8.40/hour for tax year 2009.

<sup>48</sup> A tax filer is not disqualified from claiming the credit only because the filer's spouse has a disability that prevents the spouse "from providing child care, being gainfully employed, seeking employment and attending school." The statute defines "disability" as "a physical or cognitive condition that results in a person requiring assistance with activities of daily living."

<sup>49</sup> With expenses at \$3,000, the limit in most states, the maximum benefit would be \$1,200.

<sup>50</sup> With expenses at \$6,000, the limit in most states, the maximum benefit would be \$2,400.

<sup>51</sup> The instructions to the South Carolina forms for tax year 2008 do not explain or reference this qualifying language but rather instruct the taxpayer to compute the credit by multiplying the expenses claimed for the federal CADC credit by .07.

<sup>52</sup> Eligible tax filers may claim either this credit or the following low-income CADC credit, but not both.

<sup>53</sup> Virginia's top tax rate is 5.75%.

Source: "Making Care Less Taxing: Improving State Child and Dependent Care Tax Provisions," National Women's Law Center, April 2006; "2009 Supplement to Making Care Less Taxing," National Women's Law Center, April 2009; and state individual income tax forms and instructions.

## State Child and Dependent Care Tax Provisions: Tax Year 2007

State	Basic Provision	Eligible Expenses	Refundable	Maximum: One Child/ Dependent	Maximum: Two or More Children/ Dependents
Arkansas	A <i>credit</i> of 20% of the "allowable" <sup>1</sup> federal CADC credit. <sup>2</sup> The reference to the federal credit for the nonrefundable portion of the Arkansas credit is to the federal credit "in effect on January 1, 2005," but the reference to the federal credit for the refundable portion is to the federal credit "in effect on January 1, 1993." <sup>3</sup>	Expenses eligible for the federal CADC credit.	Yes, but only for care for children under age 6 in an appropriate early childhood program. <sup>4</sup>	\$210	\$420
California	A <i>credit</i> of a specified percentage of the "allowable" <sup>5</sup> federal CADC credit as follows: <ul style="list-style-type: none"> <li>• 50% if federal AGI<sup>6</sup> is \$40,000 or less</li> <li>• 43% if federal AGI is \$40,001-\$70,000</li> <li>• 10% if federal AGI is \$70,001-\$100,000.</li> </ul> No credit is allowed if federal AGI is over \$100,000.	Expenses eligible for the federal CADC credit, except that the expenses must be incurred for care provided in California.	Yes	\$525	\$1,050
Colorado	A <i>credit</i> of a specified percentage of the federal CADC credit for "child care" expenses "claimed" as follows: <ul style="list-style-type: none"> <li>• 50% if federal AGI is \$25,000 or less</li> <li>• 30% if federal AGI is \$25,001-\$35,000</li> <li>• 10% if federal AGI is \$35,001-\$60,000.</li> </ul> No credit is allowed if federal AGI exceeds \$60,000. An alternative calculation of the credit applies if, in any tax year, the amount of revenue for the state fiscal year immediately preceding the tax year exceeded the limitation on state fiscal spending imposed by the state constitution and the voters did not authorize the state to retain and spend all of the excess state revenues for that fiscal year. In such tax years, the credit is 50% of the federal credit if federal AGI is \$60,000 or less, reduced by any state child credit claimed. A third calculation applies if the amount of revenue for the state fiscal year immediately preceding the tax year exceeded the limitation on state fiscal spending imposed by the state constitution by at least \$382.6 million <sup>7</sup> and the voters did not authorize the state to retain and spend all of the excess state revenue for that fiscal year but the total amount required to be refunded pursuant to the state constitution is less than the total amount of credits. In such tax years, the credit is 70% of the federal credit if federal AGI is \$64,000 or less, reduced by any state child credit claimed. No credit is allowed if federal AGI exceeds \$64,000. <sup>8</sup>	Child care expenses	Yes	\$525	\$1,050
Delaware	A <i>credit</i> of 50% of the "allowable" federal CADC credit.	Expenses eligible for the federal CADC credit.	No	\$525	\$1,050
District of Columbia	A <i>credit</i> of 32% of the "allowed" <sup>9</sup> federal CADC credit.	Expenses eligible for the federal CADC credit.	No	\$336	\$672
Georgia	A <i>credit</i> of 20% of the "claimed and allowed" federal CADC credit. <sup>10</sup>	Expenses eligible for the federal CADC credit.	No	\$210	\$420
Hawaii	A <i>credit</i> of a specified percentage of eligible expenses as follows: <ul style="list-style-type: none"> <li>• 25% if Hawaii AGI is \$22,000 or less</li> <li>• 25%, reduced (but not below 15%) by one percentage point for every \$2,000 (or fraction thereof) by which AGI exceeds \$22,000 but is no more than \$40,000</li> <li>• 15% if Hawaii AGI exceeds \$40,000.</li> </ul>	Expenses eligible for the federal CADC credit, except that expenses are limited to \$2,400 for one child or dependent and \$4,800 for two or more children or dependents. <sup>11</sup>	Yes	\$600	\$1,200
Idaho	A <i>deduction</i> <sup>12</sup> of expenses eligible for the federal CADC credit.	Expenses eligible for the federal CADC credit.	No	\$234	\$468

**State Child and Dependent Care Tax Provisions: Tax Year 2007--continued**

State	Basic Provision	Eligible Expenses	Refundable	Maximum: One Child/ Dependent	Maximum: Two or More Children/ Dependents
Iowa	A <i>credit</i> of a specified percentage of the "provided" federal CADC credit as follows: <ul style="list-style-type: none"> <li>• 75% if Iowa net income is less than \$10,000.</li> <li>• 65% if Iowa net income is \$10,000-\$19,999</li> <li>• 55% if Iowa net income is \$20,000-\$24,999</li> <li>• 50% if Iowa net income is \$25,000-\$34,999</li> <li>• 40% if Iowa net income is \$35,000-\$39,999.</li> <li>• 30% if Iowa net income is \$40,000-\$44,999.</li> </ul> No credit is allowed if Iowa net income is \$45,000 or more. <sup>13</sup>	Expenses eligible for the federal CADC credit.	Yes	\$788	\$1,575
Kansas	A <i>credit</i> of 25% of the federal CADC credit "allowed." <sup>14</sup>	Expenses eligible for the federal CADC credit.	No	\$263	\$525
Kentucky	A <i>credit</i> of 20% of the "allowed" federal CADC credit.	Expenses eligible for the federal CADC credit.	No	\$210	\$420
Louisiana	A <i>credit</i> for child care of a specified percentage of the federal CADC credit for "child care expenses claimed" <sup>15</sup> by the tax filer as follows: <ul style="list-style-type: none"> <li>• 50% if federal AGI is \$25,000 or less</li> <li>• 30% if federal AGI is \$25,001-\$35,000</li> <li>• 10% if federal AGI is \$35,000 or more, but no more than \$25 if federal AGI is over \$60,000.</li> </ul>	Expenses eligible for the federal CADC credit. <sup>16</sup>	Yes, if federal AGI is \$25,000 or less. <sup>17</sup>	\$525	\$1,050
Louisiana	A "household expense" <i>credit</i> for care for "dependents...physically or mentally incapable of [self-care]" equal to the applicable percentage of expenses allowable for the federal CADC credit.	Expenses eligible for the federal CADC credit. <sup>18</sup>	No <sup>19</sup>	\$1,050	\$2,100
Maine	A <i>credit</i> of 25% of the "allowable" federal CADC credit, increasing to 50% for "quality child care services." <sup>20</sup>	Expenses eligible for the federal CADC credit, except that only expenses for "quality child care services" are eligible for the higher credit amount.	Yes, up to \$500.	\$452	\$903
Maryland	A <i>deduction</i> <sup>21</sup> of expenses up to the dollar amount of expenses allowed under the federal CADC credit.	Expenses eligible for the federal CADC credit.	No	\$143	\$285
Maryland	A <i>credit</i> of a specified percentage of the federal CADC credit "properly claimed" as follows: <ul style="list-style-type: none"> <li>• 32.5% if federal AGI is \$41,000 or less</li> <li>• 29.25% if federal AGI is \$41,001-\$42,000</li> <li>• 26.0% if federal AGI is \$42,001-\$43,000</li> <li>• 22.75% if federal AGI is \$43,001-\$44,000</li> <li>• 19.5% if federal AGI is \$44,001-\$45,000</li> <li>• 16.25% if federal AGI is \$45,001-\$46,000</li> <li>• 13.0% if federal AGI is \$46,001-\$47,000</li> <li>• 9.75% if federal AGI is \$47,001-\$48,000</li> <li>• 6.50% if federal AGI is \$48,001-\$49,000</li> <li>• 3.25% if federal AGI is \$49,001-\$50,000.</li> </ul> No credit is allowed if federal AGI exceeds \$50,000.	Expenses eligible for the federal CADC credit.	No	\$341	\$683
Massachusetts	A <i>deduction</i> <sup>22</sup> of eligible expenses. <sup>23</sup>	Expenses eligible for the federal CADC credit, except that expenses are limited to \$4,800 for one child or dependent and \$9,600 for two or more children or dependents.	No	\$254	\$509

Footnotes at end of table.

**State Child and Dependent Care Tax Provisions: Tax Year 2007--continued**

State	Basic Provision	Eligible Expenses	Refundable	Maximum: One Child/ Dependent	Maximum: Two or More Children/ Dependents
Minnesota	A <i>credit</i> , for tax filers with income no greater than \$21,880, equal to the federal CADC credit for which the tax filer is "eligible," up to a maximum of \$720 for one child or dependent and a maximum of \$1,440 for two or more children or dependents. <sup>24</sup> For tax filers with income over \$21,880, the maximum credit is reduced by \$18 for every additional \$350 of income if one child or dependent, or \$36, if two or more children or dependents. No credit is allowed if income exceeds \$35,530. The income limitations are indexed for inflation.	Expenses eligible for the federal CADC credit.	Yes	\$720	\$1,440
Montana	A <i>deduction</i> <sup>25</sup> of eligible expenses for tax filers with Montana AGI under \$22,800, if one child, spouse or dependent, \$25,200 if two such individuals, and \$27,600 if three or more such individuals.	Expenses necessary for gainful employment for in-home and out-of-home care for: <ul style="list-style-type: none"> <li>• children under age 15</li> <li>• spouses physically or mentally incapable of self-care, and</li> <li>• dependents physically or mentally incapable of self-care.<sup>26</sup></li> </ul> Expenses are limited to \$2,400 for one child, spouse, or dependent, \$3,600 for two such individuals, and \$4,800 for three or more such individuals. For tax filers with AGI over \$18,000, eligible expenses are reduced by one half of the amount of income over \$18,000.	No	\$166	\$248 for two, \$331 for three or more
Nebraska	A <i>credit</i> of a specified percentage of the "allowed" <sup>27</sup> federal CADC credit as follows: <ul style="list-style-type: none"> <li>• 100% if federal AGI is \$22,000 or less</li> <li>• 90% if federal AGI is \$22,001-\$23,000</li> <li>• 80% if federal AGI is \$23,001-\$24,000</li> <li>• 70% if federal AGI is \$24,001-\$25,000</li> <li>• 60% if federal AGI is \$25,001-\$26,000</li> <li>• 50% if federal AGI is \$26,001-\$27,000</li> <li>• 40% if federal AGI is \$27,001-\$28,000</li> <li>• 30% if federal AGI is \$28,001-\$29,000</li> <li>• 25% if federal AGI is over \$29,000.</li> </ul>	Expenses eligible for the federal CADC credit.	Yes, for tax filers with federal AGI of \$29,000 or less	\$1,050	\$2,100
New Mexico	A <i>credit</i> of 40% of eligible child care expenses, reduced, for tax filers with federal tax liability, by the amount of the tax filer's federal CADC credit used to offset federal tax liability. <sup>28</sup> Total credit is limited to \$480 if one child, \$960 if two children, and \$1,200 if three or more children. No credit is allowed if New Mexico modified gross income is over \$21,424. <sup>29</sup>	Expenses incurred in New Mexico for gainful employment for in-home and out-of-home care paid to a caregiver in New Mexico for children under age 15, up to \$8 per day, per child.	Yes	\$480	\$960 for two, \$1,200 for three or more.
New York	A <i>credit</i> of a specified percentage of the "allowable" <sup>30</sup> federal CADC credit as follows: <ul style="list-style-type: none"> <li>• 110% if NY AGI is \$25,000 or less</li> <li>• Between 109% and 100% if NY AGI is \$25,001-\$39,999<sup>31</sup></li> <li>• 100% if NY AGI is \$40,000-\$50,000</li> <li>• Between 99.5% and 20.5% if NY AGI is \$50,001- \$64,999<sup>32</sup></li> <li>• 20% if NY AGI is \$65,000 or more.</li> </ul>	Expenses eligible for the federal CADC credit.	Yes <sup>33</sup>	\$1,155	\$2,310

Footnotes at end of table.

**State Child and Dependent Care Tax Provisions: Tax Year 2007--continued**

State	Basic Provision	Eligible Expenses	Refundable	Maximum: One Child/ Dependent	Maximum: Two or More Children/ Dependents
North Carolina	A <i>credit</i> of a specified percentage of eligible expenses, as follows: <ul style="list-style-type: none"> <li>• For children under age 7 and other qualifying dependents incapable of self-care: <ul style="list-style-type: none"> <li>· 13% if federal AGI is 0-\$25,000, depending on the filing status of the tax filer</li> <li>· 11.5% if federal AGI is \$12,501-\$40,000, depending on the filing status of the tax filer</li> <li>· 10% if federal AGI is \$20,000-\$40,000 and over, depending on the filing status of the tax filer.</li> </ul> </li> <li>• For children age 7 and over: <ul style="list-style-type: none"> <li>· 9% if federal AGI is 0-\$25,000, depending on the filing status of the tax filer</li> <li>· 8% if federal AGI is \$12,501-\$40,000, depending on the filing status of the tax filer</li> <li>· 7% if federal AGI is \$20,000-\$40,000 and over, depending on the filing status of the tax filer.</li> </ul> </li> </ul>	Expenses eligible for the federal CADC credit.	No	\$390	\$780
Ohio	A <i>credit</i> of a specified percentage of the federal credit for which the tax filer is "eligible," <sup>34</sup> as follows: <ul style="list-style-type: none"> <li>• 100% if Ohio AGI is less than \$20,000</li> <li>• 25% if Ohio AGI is \$20,000-\$39,999.</li> </ul> No credit is allowed if Ohio AGI is \$40,000 or more.	Expenses eligible for the federal CADC credit.	No	\$1,050	\$2,100
Oklahoma	A <i>credit</i> of 20% of the "allowed" federal "credit for child care expenses," except that if Oklahoma AGI is less than federal AGI, the Oklahoma credit is prorated based on the ratio that Oklahoma AGI bears to federal AGI.	Expenses eligible for the federal CADC credit. <sup>35</sup>	No	\$210	\$420
Oregon	A <i>credit</i> equal to a specified percentage of expenses "allowable" <sup>36</sup> for the federal CADC credit as follows: <ul style="list-style-type: none"> <li>• 30% if federal taxable income<sup>37</sup> is \$5,000 or less</li> <li>• 15% if federal taxable income is \$5,001-\$10,000</li> <li>• 8% if federal taxable income is \$10,001-\$15,000</li> <li>• 6% if federal taxable income is \$15,001-\$25,000</li> <li>• 5% if federal taxable income is \$25,001-\$35,000</li> <li>• 4% if federal taxable income is \$35,001-\$45,000.</li> </ul> No credit is allowed if federal taxable income exceeds \$45,000. <sup>38</sup>	Expenses eligible for the federal CADC credit.	No <sup>39</sup>	\$900	\$1,800
Oregon	A "working family child care" <i>credit</i> <sup>40</sup> of a specified percentage of child care expenses, rounded to the nearest \$50, as follows: <ul style="list-style-type: none"> <li>• 40% of eligible expenses if federal AGI is 200% of federal poverty level or less;</li> <li>• 36% if federal AGI is 201%-210%</li> <li>• 32% if federal AGI is 211%-220%</li> <li>• 24% if federal AGI is 221%-230%</li> <li>• 16% if federal AGI is 231%-240%</li> <li>• 8% if federal AGI is 241%-250%.<sup>41</sup></li> </ul> No credit is allowed if federal or Oregon AGI is above 250% of federal poverty level, if investment income is \$2,950 <sup>42</sup> or more, or if Oregon earned income is less than \$7,550. <sup>43</sup>	Expenses (without a dollar limitation) incurred for care provided to a child under age 13 or to an older child with a disability if the care allows a tax filer to be gainfully employed, seek employment, or attend school on a full-time or part-time basis. <sup>44</sup>	Yes	No dollar limit <sup>45</sup>	No dollar limit <sup>46</sup>
Rhode Island	A <i>credit</i> of 25% of the federal CADC credit.	Expenses eligible for the federal CADC credit.	No	\$263	\$525

Footnotes at end of table.

**State Child and Dependent Care Tax Provisions: Tax Year 2007--continued**

State	Basic Provision	Eligible Expenses	Refundable	Maximum: One Child/ Dependent	Maximum: Two or More Children/ Dependents
South Carolina	A <i>credit</i> of 7% of eligible expenses.	Expenses eligible for the federal CADC credit, except that only expenses that are "directly attributable to items of South Carolina gross income" qualify for the credit. <sup>47</sup>	No	\$210	\$420
Vermont	A <i>credit</i> of 24% of the "allowed" federal CADC credit. <sup>48</sup>	Expenses eligible for the federal CADC credit.	No	\$252	\$504
Vermont	A "low-income CADC" <i>credit</i> of a specified percentage of the "allowed" federal CADC credit as follows: • 50% if federal AGI is less than \$30,000, if single • 50% if federal AGI is less than \$40,000, if married.	Expenses eligible for the federal CADC credit, except that the expenses must be for services provided in a Vermont "registered home or licensed facility certified by the agency of human services as meeting national accreditation or national credential standards endorsed by the agency."	Yes	\$525	\$1,050
Virginia	A <i>deduction</i> <sup>49</sup> of expenses equal to the amount of expenses on which the federal CADC credit is based.	Expenses eligible for the federal CADC credit.	No	\$173	\$345

<sup>1</sup> When a state credit is calculated as a percentage of the federal credit for Child and Dependent Care (CADC) expenses – as is the case in most states with CADC tax provisions – an issue arises regarding calculation of the state credit for tax filers who received only part or none of the federal credit because the federal credit exceeds their federal income tax liability and is not refundable. Is the state credit based on the amount of federal credit actually received, or is it based on the amount the tax filer could have received if the federal credit had not been limited by the tax filer's federal tax liability? A number of state statutes clearly provide that the state credit is based on the amount of the federal credit for which the tax filer is potentially eligible, without regard to the tax filer's federal tax liability, and one state makes clear that it is based only on the amount of the credit actually received. In the remaining states with credits based on a percentage of the federal CADC credit, the statutory provision is ambiguous, referring to a percentage of the "allowable," "allowed," "provided," "claimed," or "eligible" federal credit. In most instances, the forms and/or instructions clarify this ambiguity.

<sup>2</sup> The federal CADC credit allows tax filers to claim a portion of their employment-related expenses for in-home and out-of-home care for:

- children under age 13,
- spouses physically or mentally incapable of self-care, and
- dependents age 13 or older and physically or mentally incapable of self-care.

The portion of expenses allowed for the federal credit decreases as the tax filer's income increases, and the credit is not refundable. The Economic Growth and Tax Reduction and Reconciliation Act (EGTRRA) increased both the dollar limits on eligible expenses to \$3,000 for one child or dependent, and \$6,000 for two or more children or dependents, and the percentage of eligible expenses that may be claimed as a credit for tax filers with adjusted gross income up to \$43,000. The maximum federal credit is \$1,050 for one child or dependent and \$2,100 for two or more children or dependents. These changes took effect in tax year 2003 but, unless extended, expire after tax year 2010.

<sup>3</sup> Thus the improvements in the federal CADC credit in EGTRRA automatically resulted in improvements in the nonrefundable, but not the refundable, portion of the Arkansas CADC credit. The date distinctions in the Arkansas statute are not reflected in the Arkansas tax forms or instructions for tax year 2007, however, which direct tax filers eligible for the refundable portion of the state credit to calculate that portion based on "the Federal Child Care Credit" claimed, reduced only by the portion of the filer's federal credit amount that is not attributable to child care expenses that qualify for the refundable portion of the state credit.

<sup>4</sup> An "appropriate early childhood program" is defined as a "developmentally appropriate program for young children . . . approved by the Department of Education as complying with regulatory guidelines" of the Department of Health and Human Services and the Department of Education.

<sup>5</sup> The California statute specifically says that the state credit is based on the amount of the federal credit allowable, "without taking into account whether there is a federal tax liability."

<sup>6</sup> AGI is adjusted gross income.

<sup>7</sup> This figure is adjusted annually to reflect growth in Colorado personal income.

<sup>8</sup> In 2005, Colorado voters authorized the state by referendum to retain and spend all the excess state revenue for fiscal years 2005-2010. Accordingly, and assuming no changes in state or federal law in the interim, tax filers with AGI of \$60,000 or less are entitled to a maximum credit of \$525 for one child and \$1,050 for two or more children for tax years 2005 through 2010. Colorado's maximum credit amounts may, in some years, be as high as \$735 for one child and \$1,470 for two or more children for tax filers with AGI of \$64,000 or less.

<sup>9</sup> The District of Columbia statute specifically states that the D.C. credit is based on the amount of the federal credit allowed, "regardless of the amount of the credit actually used to offset federal tax liability."

<sup>10</sup> The Georgia statute provides that the state credit will rise to 30% of the federal credit in 2008 and thereafter.

<sup>11</sup> Hawaii's provision is independent of the federal credit but covers the same expenses as the federal credit, except for its dollar limitations, and for that reason its expenses are not set forth separately here.

<sup>12</sup> Idaho's top tax rate is 7.8%.

<sup>13</sup> Eligible tax filers with low net income of less than \$45,000 may claim either the CADC credit or a new, refundable "child development credit" that is not based on whether the filer has employment-related expenses. The child development credit is equal to 25% of the first \$1,000 of "early childhood development expenses" for children ages 3 through 5. "Early childhood development expenses" are expenses incurred for "services provided to a dependent by a preschool . . . , materials, and other activities," including books, instructional materials, lesson plans and activities. The amount of money that the state may spend on child development tax credits is limited to \$2,500,000 annually; tax filers intending to claim such a credit must do so in advance of filing a tax return, by application with supporting documentation, and their childhood development credit may be reduced on a pro rata basis if the limit on the total credits for that year would otherwise be exceeded.

## State Child and Dependent Care Tax Provisions: Tax Year 2007--continued

- <sup>14</sup> The Kansas statute specifically says that the state credit is based on the amount of the federal credit allowed "against [the] tax filer's federal income tax liability."
- <sup>15</sup> The Louisiana statute expressly provides that the Louisiana child care credit for tax filers with federal AGI of \$25,000 or less is calculated based on the federal credit "before it is reduced by the amount of the individual's federal income tax." The Louisiana tax forms for 2007 instruct individuals with federal AGI above \$25,000 to use the amount of the federal credit after it has been reduced by federal tax liability in calculating the state credit.
- <sup>16</sup> The Louisiana tax forms and instructions for tax year 2007 do not make clear whether the tax filer should use only the portion of the federal credit claimed for child care expenses, or a portion that may include adult dependent care expenses, to calculate the state credit.
- <sup>17</sup> For tax filers with AGI over \$25,000, if the credit exceeds the income tax due, the unused amount of the credit may be carried forward as a credit against tax liability in subsequent years, for up to five years.
- <sup>18</sup> The Louisiana tax forms and instructions for tax year 2007 do not make clear whether the tax filer should use only the portion of the federal credit claimed for dependent care expenses, or a portion that may include child care expenses, to calculate the state credit.
- <sup>19</sup> If the credit exceeds the income tax due, the unused amount of the credit may be carried forward as a credit against tax liability for the next succeeding tax year.
- <sup>20</sup> "Quality child care services" are defined as services for care provided at a child care site that meets minimum licensing standards; is accredited by an independent, nationally recognized program approved by the Maine Department of Human Services, Office of Head Start and Child Care; utilizes recognized quality indicators for child care services approved by the Maine Department of Human Services, Office of Head Start and Child Care; and includes provisions for parent and client input, a review of the provider's policies and procedures, a review of the provider's program records, and an onsite program review.
- <sup>21</sup> Maryland's top tax rate is 4.75%.
- <sup>22</sup> Massachusetts has a 5.3% tax rate for all income levels. It also has an optional, voluntary 5.85% tax rate for all income levels. For tax filers who elect this option, the maximum value of the deduction is \$281 for one child or dependent and \$562 for two or more children or dependents.
- <sup>23</sup> Eligible tax filers must choose between this deduction and a second deduction, which is not based on employment-related expenses, for families with one or more children under age 12, a dependent age 65 or older, or a disabled dependent.
- <sup>24</sup> These maximum credit amounts prevent the lowest-income Minnesota tax filers from benefiting fully from the improvements to the federal credit in EGTRRA that took effect in tax year 2003 (but, unless extended, expire after tax year 2010).
- <sup>25</sup> Montana's top tax rate is 6.9%.
- <sup>26</sup> The Montana statute seems to make distinctions between expenses (and, arguably, expense limits) for in-home and out-of-home care for children under age 15 as compared to other dependents. However, the Montana tax form and instructions do not make these distinctions.
- <sup>27</sup> The Nebraska statute specifically says that the state credit for tax filers with AGI over \$29,000 is based on the amount of the federal credit "allowed," but the refundable credit for tax filers with AGI of \$29,000 or less is based on the amount of the federal credit "allowable...whether or not the federal credit was limited by the federal tax liability."
- <sup>28</sup> The New Mexico tax forms and instructions for tax year 2007 do not make clear whether the tax filer must offset against the state credit only the portion of the federal credit claimed for child care expenses, or a portion that may include adult dependent care expenses. In either case, because the required offset decreases the value of the New Mexico credit as the value of the federal credit increases, the improvements to the federal credit in EGTRRA that took effect in tax year 2003 (but, unless extended, expire after tax year 2010) decrease the value of the New Mexico credit.
- <sup>29</sup> The New Mexico statute says that this amount is set at "not more than the annual income that would be derived from earnings at double the federal minimum wage."
- <sup>30</sup> The New York statute specifically says that the state credit is based on the amount of the federal credit allowable, "without regard to whether the tax filer in fact claimed the [federal] credit."
- <sup>31</sup> For tax filers with New York AGI between \$25,001 and \$39,999, the applicable percentage of the federal credit is  $100\% + 10\%[(\$40,000 - \text{AGI})/\$15,000]$ . This formula results in a scale that slides from 109% to 100%.
- <sup>32</sup> For tax filers with New York AGI between \$50,001 and \$64,999, the applicable percentage of the federal credit is  $20\% + 80\%[(\$65,000 - \text{AGI})/\$15,000]$ . This formula results in a scale that slides from 99.5% to 20.5%.
- <sup>33</sup> The New York credit is refundable for residents only. For part-year residents, a proportional formula allows them to receive part of the credit as a refund.
- <sup>34</sup> The Ohio statute specifically states that the state credit is based on the amount of the federal credit for which the tax filer is eligible, "without regard to any limitation imposed by [the federal credit's non-refundability provision]."
- <sup>35</sup> It is unclear from the Oklahoma statute and forms for tax year 2007 whether care expenses other than for children are eligible for the credit.
- <sup>36</sup> The Oregon statute specifically states that the state credit is based on an amount of employment-related expenses allowable under the federal credit, "notwithstanding the limitation imposed by [the federal credit's nonrefundability provision]."
- <sup>37</sup> Federal taxable income is federal adjusted gross income less federal exemptions and deductions.
- <sup>38</sup> Eligible tax filers may claim both this credit and the following "working family child care" credit.
- <sup>39</sup> However, if the Oregon credit exceeds the income tax due, the unused amount of the credit may be carried forward as a credit against tax liability in subsequent years, for up to five years.
- <sup>40</sup> The credit is repealed effective January 2, 2014.
- <sup>41</sup> Depending on household size, the maximum AGI limits of 250% of poverty range from \$25,550 (one-person household) to \$86,450 (eight-person household) for tax year 2007.
- <sup>42</sup> This amount is indexed for inflation.
- <sup>43</sup> This amount also cannot exceed the amount an individual would earn if the individual worked 1,040 hours at the Oregon minimum wage, rounded to the next lower multiple of \$50. At the current Oregon minimum wage of \$7.80/hour, this amount would be \$8,112 or, rounded to the next lower multiple of \$50, \$8,100 for tax year 2007. The minimum wage for Oregon increases to \$7.95/hour for tax year 2008.
- <sup>44</sup> A tax filer is not disqualified from claiming the credit only because the filer's spouse has a disability that prevents the spouse "from providing child care, being gainfully employed, seeking employment and attending school." The statute defines "disability" as "a physical or cognitive condition that results in a person requiring assistance with activities of daily living."
- <sup>45</sup> With expenses at \$3,000, the limit in most states, the maximum benefit would be \$1,200.
- <sup>46</sup> With expenses at \$6,000, the limit in most states, the maximum benefit would be \$2,400.
- <sup>47</sup> The instructions to the South Carolina forms for tax year 2007 do not explain or reference this qualifying language but rather instruct the taxpayer to compute the credit by multiplying the expenses claimed for the federal CADC credit by .07.
- <sup>48</sup> Eligible tax filers may claim either this credit or the following low-income CADC credit, but not both.
- <sup>49</sup> Virginia's top tax rate is 5.75%.

## State Child and Dependent Care Tax Provisions: Tax Year 2006

State	Basic Provision	Eligible Expenses	Refundable	Maximum: One Child/ Dependent	Maximum: Two or More Children/ Dependents
Arkansas	A <i>credit</i> of 20% of the "allowable" <sup>1</sup> federal CADC credit. <sup>2</sup> The reference to the federal credit for the nonrefundable portion of the Arkansas credit is to the federal credit "in effect on January 1, 2005," but the reference to the federal credit for the refundable portion is to the federal credit "in effect on January 1, 1993." <sup>3</sup>	Expenses eligible for the federal CADC credit.	Yes, but only for care for children under age 6 in an appropriate early childhood program. <sup>4</sup>	\$210	\$420
California	A <i>credit</i> of a specified percentage of the "allowable" <sup>5</sup> federal CADC credit as follows: <ul style="list-style-type: none"> <li>• 50% if federal AGI<sup>6</sup> is \$40,000 or less</li> <li>• 43% if federal AGI is \$40,001-\$70,000</li> <li>• 10% if federal AGI is \$70,001-\$100,000.</li> </ul> No credit is allowed if federal AGI is over \$100,000.	Expenses eligible for the federal CADC credit, except that the expenses must be incurred for care provided in California.	Yes	\$525	\$1,050
Colorado	A <i>credit</i> of a specified percentage of the federal CADC credit for "child care" expenses "claimed" as follows: <ul style="list-style-type: none"> <li>• 50% if federal AGI is \$25,000 or less</li> <li>• 30% if federal AGI is \$25,001-\$35,000</li> <li>• 10% if federal AGI is \$35,001-\$60,000.</li> </ul> No credit is allowed if federal AGI exceeds \$60,000. An alternative calculation of the credit applies if, in any tax year, the amount of revenue for the state fiscal year immediately preceding the tax year exceeded the limitation on state fiscal spending imposed by the state constitution and the voters did not authorize the state to retain and spend all of the excess state revenues for that fiscal year. In such tax years, the credit is 50% of the federal credit if federal AGI is \$60,000 or less, reduced by any state child credit claimed. A third calculation applies if the amount of revenue for the state fiscal year immediately preceding the tax year exceeded the limitation on state fiscal spending imposed by the state constitution by at least \$382.6 million <sup>7</sup> and the voters did not authorize the state to retain and spend all of the excess state revenue for that fiscal year but the total amount required to be refunded pursuant to the state constitution is less than the total amount of credits. In such tax years, the credit is 70% of the federal credit if federal AGI is \$64,000 or less, reduced by any state child credit claimed. No credit is allowed if federal AGI exceeds \$64,000. <sup>8</sup>	Child care expenses	Yes	\$525	\$1,050
Delaware	A <i>credit</i> of 50% of the "allowable" federal CADC credit.	Expenses eligible for the federal CADC credit.	No	\$525	\$1,050
District of Columbia	A <i>credit</i> of 32% of the "allowed" <sup>9</sup> federal CADC credit.	Expenses eligible for the federal CADC credit.	No	\$336	\$672
Georgia	A <i>credit</i> of 10% of the "claimed and allowed" federal CADC credit. <sup>10</sup>	Expenses eligible for the federal CADC credit.	No	\$105	\$210
Hawaii	A <i>credit</i> of a specified percentage of eligible expenses as follows: <ul style="list-style-type: none"> <li>• 25% if Hawaii AGI is \$22,000 or less</li> <li>• 25%, reduced (but not below 15%) by one percentage point for every \$2,000 (or fraction thereof) by which AGI exceeds \$22,000 but is no more than \$40,000</li> <li>• 15% if Hawaii AGI exceeds \$40,000.</li> </ul>	Expenses eligible for the federal CADC credit, except that expenses are limited to \$2,400 for one child or dependent and \$4,800 for two or more children or dependents. <sup>11</sup>	Yes	\$600	\$1,200
Idaho	A <i>deduction</i> <sup>12</sup> of expenses eligible for the federal CADC credit.	Expenses eligible for the federal CADC credit.	No	\$234	\$468

**State Child and Dependent Care Tax Provisions: Tax Year 2006--continued**

State	Basic Provision	Eligible Expenses	Refundable	Maximum: One Child/ Dependent	Maximum: Two or More Children/ Dependents
Iowa	A <i>credit</i> of a specified percentage of the "provided" federal CADC credit as follows: <ul style="list-style-type: none"> <li>• 75% if Iowa net income is less than \$10,000.</li> <li>• 65% if Iowa net income is \$10,000-\$19,999</li> <li>• 55% if Iowa net income is \$20,000-\$24,999</li> <li>• 50% if Iowa net income is \$25,000-\$34,999</li> <li>• 40% if Iowa net income is \$35,000-\$39,999.</li> <li>• 30% if Iowa net income is \$40,000-\$44,999.</li> </ul> No credit is allowed if Iowa net income is \$45,000 or more. <sup>13</sup>	Expenses eligible for the federal CADC credit.	Yes	\$788	\$1,575
Kansas	A <i>credit</i> of 25% of the federal CADC credit "allowed." <sup>14</sup>	Expenses eligible for the federal CADC credit.	No	\$263	\$525
Kentucky	A <i>credit</i> of 20% of the "allowed" federal CADC credit.	Expenses eligible for the federal CADC credit.	No	\$210	\$420
Louisiana	A <i>credit</i> for child care of a specified percentage of the federal CADC credit for "child care expenses claimed" <sup>15</sup> by the tax filer as follows: <ul style="list-style-type: none"> <li>• 25% if federal AGI is \$25,000 or less<sup>16</sup></li> <li>• 30% if federal AGI is \$25,001-\$35,000</li> <li>• 10% if federal AGI is \$35,001-\$60,000, but no more than \$25 if federal AGI is over \$60,000.</li> </ul>	Expenses eligible for the federal CADC credit. <sup>17</sup>	Yes, if federal AGI is \$25,000 or less. <sup>18</sup>	\$525	\$1,050
Louisiana	A "household expense" <i>credit</i> for care for "dependents...physically or mentally incapable of [self-care]" equal to the applicable percentage of expenses allowable for the federal CADC credit.	Expenses eligible for the federal CADC credit. <sup>19</sup>	No <sup>20</sup>	\$1,050	\$2,100
Maine	A <i>credit</i> of 25% of the "allowable" federal CADC credit, increasing to 50% for "quality child care services." <sup>21</sup>	Expenses eligible for the federal CADC credit, except that only expenses for "quality child care services" are eligible for the higher credit amount.	Yes, up to \$500.	\$452	\$903
Maryland	A <i>deduction</i> <sup>22</sup> of expenses up to the dollar amount of expenses allowed under the federal CADC credit.	Expenses eligible for the federal CADC credit.	No	\$143	\$285
Maryland	A <i>credit</i> of a specified percentage of the federal CADC credit "properly claimed" as follows: <ul style="list-style-type: none"> <li>• 32.5% if federal AGI is \$41,000 or less</li> <li>• 29.25% if federal AGI is \$41,001-\$42,000</li> <li>• 26.0% if federal AGI is \$42,001-\$43,000</li> <li>• 22.75% if federal AGI is \$43,001-\$44,000</li> <li>• 19.5% if federal AGI is \$44,001-\$45,000</li> <li>• 16.25% if federal AGI is \$45,001-\$46,000</li> <li>• 13.0% if federal AGI is \$46,001-\$47,000</li> <li>• 9.75% if federal AGI is \$47,001-\$48,000</li> <li>• 6.50% if federal AGI is \$48,001-\$49,000</li> <li>• 3.25% if federal AGI is \$49,001-\$50,000.</li> </ul> No credit is allowed if federal AGI exceeds \$50,000.	Expenses eligible for the federal CADC credit.	No	\$341	\$683
Massachusetts	A <i>deduction</i> <sup>23</sup> of eligible expenses. <sup>24</sup>	Expenses eligible for the federal CADC credit, except that expenses are limited to \$4,800 for one child or dependent and \$9,600 for two or more children or dependents.	No	\$254	\$509

Footnotes at end of table.

**State Child and Dependent Care Tax Provisions: Tax Year 2006--continued**

State	Basic Provision	Eligible Expenses	Refundable	Maximum: One Child/ Dependent	Maximum: Two or More Children/ Dependents
Minnesota	A <i>credit</i> , for tax filers with income no greater than \$21,060, equal to the federal CADC credit for which the tax filer is "eligible," up to a maximum of \$720 for one child or dependent and a maximum of \$1,440 for two or more children or dependents. <sup>26</sup> For tax filers with income over \$21,060, the maximum credit is reduced by \$18 for every additional \$350 of income if one child or dependent, or \$36, if two or more children or dependents. No credit is allowed if income exceeds \$34,710. The income limitations are indexed for inflation.	Expenses eligible for the federal CADC credit.	Yes	\$720	\$1,440
Montana	A <i>deduction</i> <sup>26</sup> of eligible expenses for tax filers with Montana AGI under \$22,800, if one child, spouse or dependent, \$25,200 if two such individuals, and \$27,600 if three or more such individuals.	Expenses necessary for gainful employment for in-home and out-of-home care for: <ul style="list-style-type: none"> <li>• children under age 15</li> <li>• spouses physically or mentally incapable of self-care, and</li> <li>• dependents physically or mentally incapable of self-care.<sup>27</sup></li> </ul> Expenses are limited to \$2,400 for one child, spouse, or dependent, \$3,600 for two such individuals, and \$4,800 for three or more such individuals. For tax filers with AGI over \$18,000, eligible expenses are reduced by one half of the amount of income over \$18,000.	No	\$166	\$248 for two, \$331 for three or more
Nebraska	A <i>credit</i> of a specified percentage of the "allowed" <sup>28</sup> federal CADC credit as follows: <ul style="list-style-type: none"> <li>• 100% if federal AGI is \$22,000 or less</li> <li>• 90% if federal AGI is \$22,001-\$23,000</li> <li>• 80% if federal AGI is \$23,001-\$24,000</li> <li>• 70% if federal AGI is \$24,001-\$25,000</li> <li>• 60% if federal AGI is \$25,001-\$26,000</li> <li>• 50% if federal AGI is \$26,001-\$27,000</li> <li>• 40% if federal AGI is \$27,001-\$28,000</li> <li>• 30% if federal AGI is \$28,001-\$29,000</li> <li>• 25% if federal AGI is over \$29,000.</li> </ul>	Expenses eligible for the federal CADC credit.	Yes, for tax filers with federal AGI of \$29,000 or less	\$1,050	\$2,100
New Mexico	A <i>credit</i> of 40% of eligible child care expenses, reduced, for tax filers with federal tax liability, by the amount of the tax filer's federal CADC credit used to offset federal tax liability. <sup>29</sup> Total credit is limited to \$480 if one child, \$960 if two children, and \$1,200 if three or more children. No credit is allowed if New Mexico modified gross income is over \$21,424. <sup>30</sup>	Expenses incurred in New Mexico for gainful employment for in-home and out-of-home care paid to a caregiver in New Mexico for children under age 15, up to \$8 per day, per child.	Yes	\$480	\$960 for two, \$1,200 for three or more.
New York	A <i>credit</i> of a specified percentage of the "allowable" <sup>31</sup> federal CADC credit as follows: <ul style="list-style-type: none"> <li>• 110% if NY AGI is \$25,000 or less</li> <li>• Between 109% and 100% if NY AGI is \$25,001-\$39,999<sup>32</sup></li> <li>• 100% if NY AGI is \$40,000-\$50,000</li> <li>• Between 99.5% and 20.5% if NY AGI is \$50,001- \$64,999<sup>33</sup></li> <li>• 20% if NY AGI is \$65,000 or more.</li> </ul>	Expenses eligible for the federal CADC credit.	Yes <sup>34</sup>	\$1,155	\$2,310

Footnotes at end of table.

**State Child and Dependent Care Tax Provisions: Tax Year 2006--continued**

State	Basic Provision	Eligible Expenses	Refundable	Maximum: One Child/ Dependent	Maximum: Two or More Children/ Dependents
North Carolina	<p>A <i>credit</i> of a specified percentage of eligible expenses, as follows:</p> <ul style="list-style-type: none"> <li>• For children under age 7 and other qualifying dependents incapable of self-care: <ul style="list-style-type: none"> <li>· 13% if federal AGI is 0-\$25,000, depending on the filing status of the tax filer</li> <li>· 11.5% if federal AGI is \$12,501-\$40,000, depending on the filing status of the tax filer</li> <li>· 10% if federal AGI is \$20,000-\$40,000 and over, depending on the filing status of the tax filer.</li> </ul> </li> <li>• For children age 7 and over: <ul style="list-style-type: none"> <li>· 9% if federal AGI is 0-\$25,000, depending on the filing status of the tax filer</li> <li>· 8% if federal AGI is \$12,501-\$40,000, depending on the filing status of the tax filer</li> <li>· 7% if federal AGI is \$20,000-\$40,000 and over, depending on the filing status of the tax filer.</li> </ul> </li> </ul>	Expenses eligible for the federal CADC credit.	No	\$312	\$624
Ohio	<p>A <i>credit</i> of a specified percentage of the federal credit for which the tax filer is "eligible,"<sup>35</sup> as follows:</p> <ul style="list-style-type: none"> <li>• 100% if Ohio AGI is less than \$20,000</li> <li>• 25% if Ohio AGI is \$20,000-\$39,999.</li> </ul> <p>No credit is allowed if Ohio AGI is \$40,000 or more.</p>	Expenses eligible for the federal CADC credit.	No	\$1,050	\$2,100
Oklahoma	<p>A <i>credit</i> of 20% of the "allowed" federal "credit for child care expenses," except that if Oklahoma AGI is less than federal AGI, the Oklahoma credit is prorated based on the ratio that Oklahoma AGI bears to federal AGI.</p>	Expenses eligible for the federal CADC credit. <sup>36</sup>	No	\$210	\$420
Oregon	<p>A <i>credit</i> equal to a specified percentage of expenses "allowable"<sup>37</sup> for the federal CADC credit as follows:</p> <ul style="list-style-type: none"> <li>• 30% if federal taxable income<sup>38</sup> is \$5,000 or less</li> <li>• 15% if federal taxable income is \$5,001-\$10,000</li> <li>• 8% if federal taxable income is \$10,001-\$15,000</li> <li>• 6% if federal taxable income is \$15,001-\$25,000</li> <li>• 5% if federal taxable income is \$25,001-\$35,000</li> <li>• 4% if federal taxable income is \$35,001-\$45,000.</li> </ul> <p>No credit is allowed if federal taxable income exceeds \$45,000.<sup>39</sup></p>	Expenses eligible for the federal CADC credit.	No <sup>40</sup>	\$900	\$1,800
Oregon	<p>A "working family child care" <i>credit</i> of a specified percentage of child care expenses, rounded to the nearest \$50, as follows:</p> <ul style="list-style-type: none"> <li>• 40% of eligible expenses if federal AGI is 200% of federal poverty level or less;</li> <li>• 36% if federal AGI is 201%-210%</li> <li>• 32% if federal AGI is 211%-220%</li> <li>• 24% if federal AGI is 221%-230%</li> <li>• 16% if federal AGI is 231%-240%</li> <li>• 8% if federal AGI is 241%-250%.<sup>41</sup></li> </ul> <p>No credit is allowed if federal or Oregon AGI is above 250% of federal poverty level, if investment income is more than \$2,800 or if Oregon earned income is less than \$7,100.<sup>42</sup></p>	Expenses (without a dollar limitation) incurred for care provided to a child under age 13 or to an older disabled child if the care allows a tax filer to be gainfully employed, seek employment, or attend school on a full-time or part-time basis.	Yes	No dollar limit <sup>43</sup>	No dollar limit <sup>44</sup>

Footnotes at end of table.

**State Child and Dependent Care Tax Provisions: Tax Year 2006--continued**

State	Basic Provision	Eligible Expenses	Refundable	Maximum: One Child/ Dependent	Maximum: Two or More Children/ Dependents
Rhode Island	A <i>credit</i> of 25% of the federal CADC credit.	Expenses eligible for the federal CADC credit.	No	\$263	\$525
South Carolina	A <i>credit</i> of 7% of eligible expenses.	Expenses eligible for the federal CADC credit, except that only expenses that are "directly attributable to items of South Carolina gross income" qualify for the credit. <sup>45</sup>	No	\$210	\$420
Vermont	A <i>credit</i> of 24% of the "allowed" federal CADC credit. <sup>46</sup>	Expenses eligible for the federal CADC credit.	No	\$252	\$504
Vermont	A "low-income CADC" <i>credit</i> of a specified percentage of the "allowed" federal CADC credit as follows: • 50% if federal AGI is less than \$30,000, if single • 50% if federal AGI is less than \$40,000, if married.	Expenses eligible for the federal CADC credit, except that the expenses must be for services provided in a Vermont "registered home or licensed facility certified by the agency of human services as meeting national accreditation or national credential standards endorsed by the agency."	Yes	\$525	\$1,050
Virginia	A <i>deduction</i> <sup>47</sup> of expenses equal to the amount of expenses on which the federal CADC credit is based.	Expenses eligible for the federal CADC credit.	No	\$173	\$345

<sup>1</sup> When a state credit is calculated as a percentage of the federal credit for Child and Dependent Care (CADC) expenses – as is the case in most states with CADC tax provisions – an issue arises regarding calculation of the state credit for tax filers who received only part or none of the federal credit because the federal credit exceeds their federal income tax liability and is not refundable. Is the state credit based on the amount of federal credit actually received, or is it based on the amount the tax filer could have received if the federal credit had not been limited by the tax filer's federal tax liability? A number of state statutes clearly provide that the state credit is based on the amount of the federal credit for which the tax filer is potentially eligible, without regard to the tax filer's federal tax liability, and one state makes clear that it is based only on the amount of the credit actually received. In the remaining states with credits based on a percentage of the federal CADC credit, the statutory provision is ambiguous, referring to a percentage of the "allowable," "allowed," "provided," "claimed," or "eligible" federal credit. In most instances, the forms and/or instructions clarify this ambiguity.

<sup>2</sup> The federal CADC credit allows tax filers to claim a portion of their employment-related expenses for in-home and out-of-home care for:

- children under age 13,
- spouses physically or mentally incapable of self-care, and
- dependents age 13 or older and physically or mentally incapable of self-care.

The portion of expenses allowed for the federal credit decreases as the tax filer's income increases, and the credit is not refundable. The Economic Growth and Tax Reduction and Reconciliation Act (EGTRRA) increased both the dollar limits on eligible expenses to \$3,000 for one child or dependent, and \$6,000 for two or more children or dependents, and the percentage of eligible expenses that may be claimed as a credit for tax filers with adjusted gross income up to \$43,000. The maximum federal credit is \$1,050 for one child or dependent and \$2,100 for two or more children or dependents. These changes took effect in tax year 2003 but, unless extended, expire after tax year 2010.

<sup>3</sup> Thus the improvements in the federal CADC credit in EGTRRA automatically resulted in improvements in the nonrefundable, but not the refundable, portion of the Arkansas CADC credit. The date distinctions in the Arkansas statute are not reflected in the Arkansas tax forms or instructions for tax year 2006, however, which direct tax filers eligible for the refundable portion of the state credit to calculate that portion based on "the Federal Child Care Credit" claimed, reduced only by the portion of the filer's federal credit amount that is not attributable to child care expenses that qualify for the refundable portion of the state credit.

<sup>4</sup> An "appropriate early childhood program" is defined as a "developmentally appropriate program for young children . . . approved by the Department of Education as complying with regulatory guidelines" of the Department of Health and Human Services and the Department of Education.

<sup>5</sup> The California statute specifically says that the state credit is based on the amount of the federal credit allowable, "without taking into account whether there is a federal tax liability."

<sup>6</sup> AGI is adjusted gross income.

<sup>7</sup> This figure is adjusted annually to reflect growth in Colorado personal income.

<sup>8</sup> In 2005, Colorado voters authorized the state by referendum to retain and spend all the excess state revenue for fiscal years 2005-2010. Accordingly, and assuming no changes in state or federal law in the interim, tax filers with AGI of \$60,000 or less are entitled to a maximum credit of \$525 for one child and \$1,050 for two or more children for tax years 2005 through 2010. Colorado's maximum credit amounts may, in some years, be as high as \$735 for one child and \$1,470 for two or more children for tax filers with AGI of \$64,000 or less.

<sup>9</sup> The District of Columbia statute specifically states that the D.C. credit is based on the amount of the federal credit allowed, "regardless of the amount of the credit actually used to offset federal tax liability."

<sup>10</sup> The Georgia statute provides that the state credit will rise to 20% of the federal credit in 2007, and 30% of the federal credit in 2008 and thereafter.

<sup>11</sup> Hawaii's provision is independent of the federal credit but covers the same expenses as the federal credit, except for its dollar limitations, and for that reason its expenses are not set forth separately here.

<sup>12</sup> Idaho's top tax rate is 7.8%.

## State Child and Dependent Care Tax Provisions: Tax Year 2006--continued

<sup>13</sup> Eligible tax filers with Iowa net income of less than \$45,000 may claim either the CADC credit or a new, refundable "child development credit" that is not based on whether the filer has employment-related expenses. The child development credit is equal to 25% of the first \$1,000 of "early childhood development expenses" for children ages 3 through 5. "Early childhood development expenses" are expenses incurred for "services provided to a dependent by a preschool..., materials, and other activities," including books, instructional materials, lesson plans and activities. The amount of money that the state may spend on child development tax credits is limited to \$2,500,000 annually; tax filers intending to claim such a credit must do so in advance of filing a tax return, by application with supporting documentation, and their childhood development credit may be reduced on a pro rata basis if the limit on the total credits for that year would otherwise be exceeded.

<sup>14</sup> The Kansas statute specifically says that the state credit is based on the amount of the federal credit allowed "against [the] tax filer's federal income tax liability."

<sup>15</sup> The Louisiana statute expressly provides that the Louisiana child care credit for tax filers with federal AGI of \$25,000 or less is calculated based on the federal credit "before it is reduced by the amount of the individual's federal income tax." The Louisiana tax forms for 2006 instruct individuals with federal AGI above \$25,000 to use the amount of the federal credit after it has been reduced by federal tax liability in calculating the state credit.

<sup>16</sup> The credit amount reverts to 50% of the federal credit beginning in tax year 2007.

<sup>17</sup> The Louisiana tax forms and instructions for tax year 2006 do not make clear whether the tax filer should use only the portion of the federal credit claimed for child care expenses, or a portion that may include adult dependent care expenses, to calculate the state credit.

<sup>18</sup> For tax filers with AGI over \$25,000, if the credit exceeds the income tax due, the unused amount of the credit may be carried forward as a credit against tax liability in subsequent years, for up to five years.

<sup>19</sup> The Louisiana tax forms and instructions for tax year 2006 do not make clear whether the tax filer should use only the portion of the federal credit claimed for dependent care expenses, or a portion that may include child care expenses, to calculate the state credit.

<sup>20</sup> If the credit exceeds the income tax due, the unused amount of the credit may be carried forward as a credit against tax liability for the next succeeding tax year.

<sup>21</sup> "Quality child care services" are defined as services for care provided at a child care site that meets minimum licensing standards; is accredited by an independent, nationally recognized program approved by the Maine Department of Human Services, Office of Head Start and Child Care; utilizes recognized quality indicators for child care services approved by the Maine Department of Human Services, Office of Head Start and Child Care; and includes provisions for parent and client input, a review of the provider's policies and procedures, a review of the provider's program records, and an onsite program review.

<sup>22</sup> Maryland's top tax rate is 4.75%.

<sup>23</sup> Massachusetts has a 5.3% tax rate for all income levels. It also has an optional, voluntary 5.85% tax rate for all income levels. For tax filers who elect this option, the maximum value of the deduction is \$281 for one child or dependent and \$562 for two or more children or dependents.

<sup>24</sup> Eligible tax filers must choose between this deduction and a second deduction, which is not based on employment-related expenses, for families with one or more children under age 12, a dependent age 65 or older, or a disabled dependent.

<sup>25</sup> These maximum credit amounts prevent the lowest-income Minnesota tax filers from benefiting fully from the improvements to the federal credit in EGTRRA that took effect in tax year 2003 (but, unless extended, expire after tax year 2010).

<sup>26</sup> Montana's top tax rate is 6.9%.

<sup>27</sup> The Montana statute seems to make distinctions between expenses (and, arguably, expense limits) for in-home and out-of-home care for children under age 15 as compared to other dependents. However, the Montana tax form and instructions do not make these distinctions.

<sup>28</sup> The Nebraska statute specifically says that the state credit for tax filers with AGI over \$29,000 is based on the amount of the federal credit "allowed," but the refundable credit for tax filers with AGI of \$29,000 or less is based on the amount of the federal credit "allowable...whether or not the federal credit was limited by the federal tax liability."

<sup>29</sup> The New Mexico tax forms and instructions for tax year 2006 do not make clear whether the tax filer must offset against the state credit only the portion of the federal credit claimed for child care expenses, or a portion that may include adult dependent care expenses. In either case, because the required offset decreases the value of the New Mexico credit as the value of the federal credit increases, the improvements to the federal credit in EGTRRA that took effect in tax year 2003 (but, unless extended, expire after tax year 2010) decrease the value of the New Mexico credit.

<sup>30</sup> The New Mexico statute says that this amount is set at "not more than the annual income that would be derived from earnings at double the federal minimum wage."

<sup>31</sup> The New York statute specifically says that the state credit is based on the amount of the federal credit allowable, "without regard to whether the tax filer in fact claimed the [federal] credit."

<sup>32</sup> For tax filers with New York AGI between \$25,001 and \$39,999, the applicable percentage of the federal credit is  $100\% + 10\%[(\$40,000 - \text{AGI})/\$15,000]$ . This formula results in a scale that slides from 109% to 100%.

<sup>33</sup> For tax filers with New York AGI between \$50,001 and \$64,999, the applicable percentage of the federal credit is  $20\% + 80\%[(\$65,000 - \text{AGI})/\$15,000]$ . This formula results in a scale that slides from 99.5% to 20.5%.

<sup>34</sup> The New York credit is refundable for residents only. For part-year residents, a proportional formula allows them to receive part of the credit as a refund.

<sup>35</sup> The Ohio statute specifically states that the state credit is based on the amount of the federal credit for which the tax filer is eligible, "without regard to any limitation imposed by [the federal credit's non-refundability provision]."

<sup>36</sup> It is unclear from the Oklahoma statute and forms for tax year 2006 whether care expenses other than for children are eligible for the credit.

<sup>37</sup> The Oregon statute specifically states that the state credit is based on an amount of employment-related expenses allowable under the federal credit, "notwithstanding the limitation imposed by [the federal credit's nonrefundability provision]."

<sup>38</sup> Federal taxable income is federal adjusted gross income less federal exemptions and deductions.

<sup>39</sup> Eligible tax filers may claim both this credit and the following "working family child care" credit.

<sup>40</sup> However, if the Oregon credit exceeds the income tax due, the unused amount of the credit may be carried forward as a credit against tax liability in subsequent years, for up to five years.

<sup>41</sup> Depending on household size, the maximum AGI limits of 250% of poverty range from \$24,500 (one-person household) to \$84,000 (eight-person household) for tax year 2006.

<sup>42</sup> This amount is indexed for inflation. The earned income test also cannot exceed the amount an individual would earn if the individual worked 1,040 hours at the Oregon minimum wage. At the 2006 Oregon minimum wage of \$7.50/hour, this amount would be \$7,800.

<sup>43</sup> With expenses at \$3,000, the limit in most states, the maximum benefit would be \$1,200.

<sup>44</sup> With expenses at \$6,000, the limit in most states, the maximum benefit would be \$2,400.

<sup>45</sup> The instructions to the South Carolina forms for tax year 2006 do not explain or reference this qualifying language but rather instruct the taxpayer to compute the credit by multiplying the expenses claimed for the federal CADC credit by .07.

<sup>46</sup> Eligible tax filers may claim either this credit or the following low-income CADC credit, but not both.

<sup>47</sup> Virginia's top tax rate is 5.75%.

**State Child and Dependent Care Tax Provisions: Tax Year 2005**

State	Basic Provision	Eligible Expenses	Refundable	Maximum: One Child/ Dependent	Maximum: Two or More Children/ Dependents
Arkansas	A <i>credit</i> of 20% of the "allowable" <sup>1</sup> federal CADC credit. <sup>2</sup> The reference to the federal credit for the nonrefundable portion of the Arkansas credit is to the federal credit "in effect on January 1, 2005," but the reference to the federal credit for the refundable portion is to the federal credit "in effect on January 1, 1993." <sup>3</sup>	Expenses eligible for the federal CADC credit.	Yes, but only for care for children under age 6 in an appropriate early childhood program. <sup>4</sup>	\$210	\$420
California	A <i>credit</i> of a specified percentage of the "allowable" <sup>5</sup> federal CADC credit as follows: <ul style="list-style-type: none"> <li>• 50% if federal AGI<sup>6</sup> is \$40,000 or less</li> <li>• 43% if federal AGI is \$40,001-\$70,000</li> <li>• 10% if federal AGI is \$70,001-\$100,000.</li> </ul> No credit is allowed if federal AGI is over \$100,000.	Expenses eligible for the federal CADC credit, except that the expenses must be incurred for care provided in California.	Yes	\$525	\$1,050
Colorado	A <i>credit</i> of a specified percentage of the federal CADC credit for "child care" expenses "claimed" as follows: <ul style="list-style-type: none"> <li>• 50% if federal AGI is \$25,000 or less</li> <li>• 30% if federal AGI is \$25,001-\$35,000</li> <li>• 10% if federal AGI is \$35,001-\$60,000.</li> </ul> No credit is allowed if federal AGI exceeds \$60,000. An alternative calculation of the credit applies if, in any tax year, the amount of revenue for the state fiscal year immediately preceding the tax year exceeded the limitation on state fiscal spending imposed by the state constitution and the voters did not authorize the state to retain and spend all of the excess state revenues for that fiscal year. In such tax years, the credit is 50% of the federal credit if federal AGI is \$60,000 or less, reduced by any state child credit claimed. A third calculation applies if the amount of revenue for the state fiscal year immediately preceding the tax year exceeded the limitation on state fiscal spending imposed by the state constitution by at least \$360.3 million <sup>7</sup> and the voters did not authorize the state to retain and spend all of the excess state revenue for that fiscal year but the total amount required to be refunded pursuant to the state constitution is less than the total amount of credits. In such tax years, the credit is 70% of the federal credit if federal AGI is \$64,000 or less, reduced by any state child credit claimed. No credit is allowed if federal AGI exceeds \$64,000. <sup>8</sup>	Child care expenses	Yes	\$525	\$1,050
Delaware	A <i>credit</i> of 50% of the "allowable" federal CADC credit.	Expenses eligible for the federal CADC credit.	No	\$525	\$1,050
District of Columbia	A <i>credit</i> of 32% of the "allowed" <sup>9</sup> federal CADC credit.	Expenses eligible for the federal CADC credit.	No	\$336	\$672
Hawaii	A <i>credit</i> of a specified percentage of eligible expenses as follows: <ul style="list-style-type: none"> <li>• 25% if Hawaii AGI is \$22,000 or less</li> <li>• 25%, reduced (but not below 15%) by one percentage point for every \$2,000 (or fraction thereof) by which AGI exceeds \$22,000 but is no more than \$40,000</li> <li>• 15% if Hawaii AGI exceeds \$40,000.</li> </ul>	Expenses eligible for the federal CADC credit, except that expenses are limited to \$2,400 for one child or dependent and \$4,800 for two or more children or dependents. <sup>10</sup>	Yes	\$600	\$1,200
Idaho	A <i>deduction</i> <sup>11</sup> of expenses eligible for the federal CADC credit.	Expenses eligible for the federal CADC credit.	No	\$234	\$468

Footnotes at end of table.

**State Child and Dependent Care Tax Provisions: Tax Year 2005--continued**

State	Basic Provision	Eligible Expenses	Refundable	Maximum: One Child/ Dependent	Maximum: Two or More Children/ Dependents
Iowa	A <i>credit</i> of a specified percentage of the "provided" federal CADC credit as follows: <ul style="list-style-type: none"> <li>• 75% if Iowa net income is less than \$10,000.</li> <li>• 65% if Iowa net income is \$10,000-\$19,999</li> <li>• 55% if Iowa net income is \$20,000-\$24,999</li> <li>• 50% if Iowa net income is \$25,000-\$34,999</li> <li>• 40% if Iowa net income is \$35,000-\$39,999.</li> </ul> No credit is allowed if Iowa net income is \$40,000 or more. <sup>12</sup>	Expenses eligible for the federal CADC credit.	Yes	\$788	\$1,575
Kansas	A <i>credit</i> of 25% of the federal CADC credit "allowed" <sup>13</sup> .	Expenses eligible for the federal CADC credit.	No	\$263	\$525
Kentucky	A <i>credit</i> of 20% of the "allowed" federal CADC credit.	Expenses eligible for the federal CADC credit.	No	\$210	\$420
Louisiana	A <i>credit</i> for child care of a specified percentage of the federal CADC credit for "child care expenses claimed" <sup>14</sup> by the tax filer as follows: <ul style="list-style-type: none"> <li>• 50% if federal AGI is \$25,000 or less<sup>15</sup></li> <li>• 30% if federal AGI is \$25,001-\$35,000</li> <li>• 10% if federal AGI is \$35,001-\$60,000, but no more than \$25 if federal AGI is over \$60,000.</li> </ul>	Expenses eligible for the federal CADC credit. <sup>16</sup>	Yes, if federal AGI is \$25,000 or less. <sup>17</sup>	\$525	\$1,050
Louisiana	A "household expense" <i>credit</i> for care for "dependents...physically or mentally incapable of [self-care]" equal to the applicable percentage of expenses allowable for the federal CADC credit.	Expenses eligible for the federal CADC credit. <sup>18</sup>	No <sup>19</sup>	\$1,050	\$2,100
Maine	A <i>credit</i> of 21.5% <sup>20</sup> of the "allowable" federal CADC credit, increasing to 43% <sup>21</sup> for "quality child care services." <sup>22</sup>	Expenses eligible for the federal CADC credit, except that only expenses for "quality child care services" are eligible for the higher credit amount.	Yes, up to \$500.	\$452	\$903
Maryland	A <i>deduction</i> <sup>23</sup> of expenses up to the dollar amount of expenses allowed under the federal CADC credit.	Expenses eligible for the federal CADC credit.	No	\$143	\$285
Maryland	A <i>credit</i> of a specified percentage of the federal CADC credit "properly claimed" as follows: <ul style="list-style-type: none"> <li>• 32.5% if federal AGI is \$41,000 or less</li> <li>• 29.25% if federal AGI is \$41,001-\$42,000</li> <li>• 26.0% if federal AGI is \$42,001-\$43,000</li> <li>• 22.75% if federal AGI is \$43,001-\$44,000</li> <li>• 19.5% if federal AGI is \$44,001-\$45,000</li> <li>• 16.25% if federal AGI is \$45,001-\$46,000</li> <li>• 13.0% if federal AGI is \$46,001-\$47,000</li> <li>• 9.75% if federal AGI is \$47,001-\$48,000</li> <li>• 6.50% if federal AGI is \$48,001-\$49,000</li> <li>• 3.25% if federal AGI is \$49,001-\$50,000.</li> </ul> No credit is allowed if federal AGI exceeds \$50,000.	Expenses eligible for the federal CADC credit.	No	\$341	\$683
Massachusetts	A <i>deduction</i> <sup>24</sup> of eligible expenses. <sup>25</sup>	Expenses eligible for the federal CADC credit, except that expenses are limited to \$4,800 for one child or dependent and \$9,600 for two or more children or dependents.	No	\$254	\$509

Footnotes at end of table.

**State Child and Dependent Care Tax Provisions: Tax Year 2005--continued**

State	Basic Provision	Eligible Expenses	Refundable	Maximum: One Child/ Dependent	Maximum: Two or More Children/ Dependents
Minnesota	A <i>credit</i> , for tax filers with income no greater than \$20,420, equal to the federal CADC credit for which the tax filer is "eligible," up to a maximum of \$720 for one child or dependent and a maximum of \$1,440 for two or more children or dependents. <sup>26</sup> For tax filers with income over \$20,420, the maximum credit is reduced by \$18 for every additional \$350 of income if one child or dependent, or \$36, if two or more children or dependents. No credit is allowed if income exceeds \$34,070. The income limitations are indexed for inflation.	Expenses eligible for the federal CADC credit.	Yes	\$720	\$1,440
Montana	A <i>deduction</i> <sup>27</sup> of eligible expenses for tax filers with Montana AGI under \$22,800, if one child, spouse or dependent, \$25,200 if two such individuals, and \$27,600 if three or more such individuals.	Expenses necessary for gainful employment for in-home and out-of-home care for: <ul style="list-style-type: none"> <li>• children under age 15</li> <li>• spouses physically or mentally incapable of self-care, and</li> <li>• dependents physically or mentally incapable of self-care.<sup>28</sup></li> </ul> Expenses are limited to \$2,400 for one child, spouse, or dependent, \$3,600 for two such individuals, and \$4,800 for three or more such individuals. For tax filers with AGI over \$18,000, eligible expenses are reduced by one half of the amount of income over \$18,000.	No	\$144	\$180 for two, \$144 for three or more
Nebraska	A <i>credit</i> of a specified percentage of the "allowed" <sup>29</sup> federal CADC credit as follows: <ul style="list-style-type: none"> <li>• 100% if federal AGI is \$22,000 or less</li> <li>• 90% if federal AGI is \$22,001-\$23,000</li> <li>• 80% if federal AGI is \$23,001-\$24,000</li> <li>• 70% if federal AGI is \$24,001-\$25,000</li> <li>• 60% if federal AGI is \$25,001-\$26,000</li> <li>• 50% if federal AGI is \$26,001-\$27,000</li> <li>• 40% if federal AGI is \$27,001-\$28,000</li> <li>• 30% if federal AGI is \$28,001-\$29,000</li> <li>• 25% if federal AGI is over \$29,000.</li> </ul>	Expenses eligible for the federal CADC credit.	Yes, for tax filers with federal AGI of \$29,000 or less	\$1,050	\$2,100
New Mexico	A <i>credit</i> of 40% of eligible child care expenses, reduced, for tax filers with federal tax liability, by the amount of the tax filer's federal CADC credit used to offset federal tax liability. <sup>30</sup> Total credit is limited to \$480 if one child, \$960 if two children, and \$1,200 if three or more children. No credit is allowed if New Mexico modified gross income is over \$21,424. <sup>31</sup>	Expenses incurred in New Mexico for gainful employment for in-home and out-of-home care paid to a caregiver in New Mexico for children under age 15, up to \$8 per day, per child.	Yes	\$480	\$960 for two, \$1,200 for three or more.
New York	A <i>credit</i> of a specified percentage of the "allowable" <sup>32</sup> federal CADC credit as follows: <ul style="list-style-type: none"> <li>• 110% if NY AGI is \$25,000 or less</li> <li>• Between 109% and 100% if NY AGI is \$25,001-\$39,999<sup>33</sup></li> <li>• 100% if NY AGI is \$40,000-\$50,000</li> <li>• Between 99.5% and 20.5% if NY AGI is \$50,001- \$64,999<sup>34</sup></li> <li>• 20% if NY AGI is \$65,000 or more.</li> </ul>	Expenses eligible for the federal CADC credit.	Yes <sup>35</sup>	\$1,155	\$2,310

Footnotes at end of table.

**State Child and Dependent Care Tax Provisions: Tax Year 2005--continued**

State	Basic Provision	Eligible Expenses	Refundable	Maximum: One Child/ Dependent	Maximum: Two or More Children/ Dependents
North Carolina	<p>A <i>credit</i> of a specified percentage of eligible expenses, as follows:</p> <ul style="list-style-type: none"> <li>• For children under age 7 and other qualifying dependents incapable of self-care: <ul style="list-style-type: none"> <li>· 13% if federal AGI is 0-\$25,000, depending on the filing status of the tax filer</li> <li>· 11.5% if federal AGI is \$12,501-\$40,000, depending on the filing status of the tax filer</li> <li>· 10% if federal AGI is \$20,000-\$40,000 and over, depending on the filing status of the tax filer.</li> </ul> </li> <li>• For children age 7 and over: <ul style="list-style-type: none"> <li>· 9% if federal AGI is 0-\$25,000, depending on the filing status of the tax filer</li> <li>· 8% if federal AGI is \$12,501-\$40,000, depending on the filing status of the tax filer</li> <li>· 7% if federal AGI is \$20,000-\$40,000 and over, depending on the filing status of the tax filer.</li> </ul> </li> </ul>	Expenses eligible for the federal CADC credit, except that expenses are limited to \$2,400 for one child or dependent and \$4,800 for two or more children or dependents. <sup>36</sup>	No	\$312	\$624
Ohio	<p>A <i>credit</i> of a specified percentage of the federal credit for which the tax filer is "eligible,"<sup>37</sup> as follows:</p> <ul style="list-style-type: none"> <li>• 100% if Ohio AGI is less than \$20,000</li> <li>• 25% if Ohio AGI is \$20,000-\$39,999.</li> </ul> <p>No credit is allowed if Ohio AGI is \$40,000 or more.</p>	Expenses eligible for the federal CADC credit.	No	\$1,050	\$2,100
Oklahoma	<p>A <i>credit</i> of 20% of the "allowed" federal "credit for child care expenses," except that if Oklahoma AGI is less than federal AGI, the Oklahoma credit is prorated based on the ratio that Oklahoma AGI bears to federal AGI.</p>	Expenses eligible for the federal CADC credit. <sup>38</sup>	No	\$210	\$420
Oregon	<p>A <i>credit</i> equal to a specified percentage of expenses "allowable"<sup>39</sup> for the federal CADC credit as follows:</p> <ul style="list-style-type: none"> <li>• 30% if federal taxable income<sup>40</sup> is \$5,000 or less</li> <li>• 15% if federal taxable income is \$5,001-\$10,000</li> <li>• 8% if federal taxable income is \$10,001-\$15,000</li> <li>• 6% if federal taxable income is \$15,001-\$25,000</li> <li>• 5% if federal taxable income is \$25,001-\$35,000</li> <li>• 4% if federal taxable income is \$35,001-\$45,000.</li> </ul> <p>No credit is allowed if federal taxable income exceeds \$45,000.<sup>41</sup></p>	Expenses eligible for the federal CADC credit.	No <sup>42</sup>	\$900	\$1,800
Oregon	<p>A "working family child care" <i>credit</i> of a specified percentage of child care expenses, rounded to the nearest \$50, as follows:</p> <ul style="list-style-type: none"> <li>• 40% of eligible expenses if federal AGI is 200% of federal poverty level or less;</li> <li>• 36% if federal AGI is 201%-210%</li> <li>• 32% if federal AGI is 211%-220%</li> <li>• 24% if federal AGI is 221%-230%</li> <li>• 16% if federal AGI is 231%-240%</li> <li>• 8% if federal AGI is 241%-250%.<sup>43</sup></li> </ul> <p>No credit is allowed if federal or Oregon AGI is above 250% of federal poverty level, if investment income is more than \$2,700 or if Oregon earned income is less than \$6,900.<sup>44</sup></p>	Expenses (without a dollar limitation) incurred for care provided to a child under age 13 or to an older disabled child if the care allows a tax filer to be gainfully employed, seek employment, or attend school on a full-time or part-time basis.	Yes	No dollar limit <sup>45</sup>	No dollar limit <sup>46</sup>

Footnotes at end of table.

**State Child and Dependent Care Tax Provisions: Tax Year 2005--continued**

State	Basic Provision	Eligible Expenses	Refundable	Maximum: One Child/ Dependent	Maximum: Two or More Children/ Dependents
Rhode Island	A <i>credit</i> of 25% of the federal CADC credit.	Expenses eligible for the federal CADC credit.	No	\$263	\$525
South Carolina	A <i>credit</i> of 7% of eligible expenses.	Expenses eligible for the federal CADC credit, except that only expenses that are "directly attributable to items of South Carolina gross income" qualify for the credit. <sup>47</sup>	No	\$210	\$420
Vermont	A <i>credit</i> of 24% of the "allowed" federal CADC credit. <sup>48</sup>	Expenses eligible for the federal CADC credit.	No	\$252	\$504
Vermont	A "low-income CADC" <i>credit</i> of a specified percentage of the "allowed" federal CADC credit as follows: • 50% if federal AGI is less than \$30,000, if single • 50% if federal AGI is less than \$40,000, if married.	Expenses eligible for the federal CADC credit, except that the expenses must be for services provided in a Vermont "registered home or licensed facility certified by the agency of human services as meeting national accreditation or national credential standards endorsed by the agency."	Yes	\$525	\$1,050
Virginia	A <i>deduction</i> <sup>49</sup> of expenses equal to the amount of expenses on which the federal CADC credit is based.	Expenses eligible for the federal CADC credit.	No	\$173	\$345

<sup>1</sup> When a state credit is calculated as a percentage of the federal credit for Child and Dependent Care (CADC) expenses – as is the case in most states with CADC tax provisions – an issue arises regarding calculation of the state credit for tax filers who received only part or none of the federal credit because the federal credit exceeds their federal income tax liability and is not refundable. Is the state credit based on the amount of federal credit actually received, or is it based on the amount the tax filer could have received if the federal credit had not been limited by the tax filer's federal tax liability? A number of state statutes clearly provide that the state credit is based on the amount of the federal credit for which the tax filer is potentially eligible, without regard to the tax filer's federal tax liability, and one state makes clear that it is based only on the amount of the credit actually received. In the remaining states with credits based on a percentage of the federal CADC credit, the statutory provision is ambiguous, referring to a percentage of the "allowable," "allowed," "provided," "claimed," or "eligible" federal credit. In most instances, the forms and/or instructions clarify this ambiguity.

<sup>2</sup> The federal CADC credit allows tax filers to claim a portion of their employment-related expenses for in-home and out-of-home care for:

- children under age 13,
- spouses physically or mentally incapable of self-care, and
- dependents age 13 or older and physically or mentally incapable of self-care.

The portion of expenses allowed for the federal credit decreases as the tax filer's income increases, and the credit is not refundable. The Economic Growth and Tax Reduction and Reconciliation Act (EGTRRA) increased both the dollar limits on eligible expenses to \$3,000 for one child or dependent, and \$6,000 for two or more children or dependents, and the percentage of eligible expenses that may be claimed as a credit for tax filers with adjusted gross income up to \$43,000. The maximum federal credit is \$1,050 for one child or dependent and \$2,100 for two or more children or dependents. These changes took effect in tax year 2003 but, unless extended, expire after tax year 2010.

<sup>3</sup> Thus the improvements in the federal CADC credit in EGTRRA automatically resulted in improvements in the nonrefundable, but not the refundable, portion of the Arkansas CADC credit. The date distinctions in the Arkansas statute are not reflected in the Arkansas tax forms or instructions for tax year 2005, however, which direct tax filers eligible for the refundable portion of the state credit to calculate that portion based on "the Federal Child Care Credit" claimed, reduced only by the portion of the filer's federal credit amount that is not attributable to child care expenses that qualify for the refundable portion of the state credit.

<sup>4</sup> An "appropriate early childhood program" is defined as a "developmentally appropriate program for young children . . . approved by the Department of Education as complying with regulatory guidelines" of the Department of Health and Human Services and the Department of Education.

<sup>5</sup> The California statute specifically says that the state credit is based on the amount of the federal credit allowable, "without taking into account whether there is a federal tax liability."

<sup>6</sup> AGI is adjusted gross income.

<sup>7</sup> This figure is adjusted annually to reflect growth in Colorado personal income.

<sup>8</sup> In 2005, Colorado voters authorized the state by referendum to retain and spend all the excess state revenue for fiscal years 2005-2010. Accordingly, and assuming no changes in state or federal law in the interim, tax filers with AGI of \$60,000 or less are entitled to a maximum credit of \$525 for one child and \$1,050 for two or more children for tax years 2005 through 2010. Colorado's maximum credit amounts may, in some years, be as high as \$735 for one child and \$1,470 for two or more children for tax filers with AGI of \$64,000 or less.

<sup>9</sup> The District of Columbia statute specifically states that the D.C. credit is based on the amount of the federal credit allowed, "regardless of the amount of the credit actually used to offset federal tax liability."

<sup>10</sup> Hawaii's provision is independent of the federal credit but covers the same expenses as the federal credit, except for its dollar limitations, and for that reason its expenses are not set forth separately here.

<sup>11</sup> Idaho's top tax rate is 7.8%.

## State Child and Dependent Care Tax Provisions: Tax Year 2005--continued

- <sup>12</sup> Beginning in tax year 2006, tax filers with Iowa net income of \$40,000-44,999 are eligible for a credit of 30% of the federal credit, and no credit is allowed if Iowa net income is \$45,000 or more. In addition, beginning in tax year 2006, eligible tax filers with Iowa net income of less than \$45,000 may claim either the CADC credit or a new, refundable "child development credit" that is not based on whether the filer has employment-related expenses. The child development credit is equal to 25% of the first \$1,000 of "early childhood development expenses" for children ages 3 through 5. "Early childhood development expenses" are expenses incurred for "services provided to a dependent by a preschool..., materials, and other activities," including books, instructional materials, lesson plans and activities. The amount of money that the state may spend on child development tax credits is limited to \$2,500,000 annually; tax filers intending to claim such a credit must do so in advance of filing a tax return, by application with supporting documentation, and their childhood development credit may be reduced on a pro rata basis if the limit on the total credits for that year would otherwise be exceeded.
- <sup>13</sup> The Kansas statute specifically says that the state credit is based on the amount of the federal credit allowed "against [the] tax filer's federal income tax liability."
- <sup>14</sup> The Louisiana statute expressly provides that, beginning in tax year 2006, the Louisiana child care credit for tax filers with federal AGI of \$25,000 or less is calculated based on the federal credit "before it is reduced by the amount of the individual's federal income tax." For tax year 2005, the Louisiana tax forms instruct individuals at all income levels to use the amount of the federal credit after it has been reduced by federal tax liability in calculating the state credit.
- <sup>15</sup> The credit amount is 25% of the federal credit for tax year 2006 but reverts to 50% of the federal credit beginning in tax year 2007.
- <sup>16</sup> The Louisiana tax forms and instructions for tax year 2005 do not make clear whether the tax filer should use only the portion of the federal credit claimed for child care expenses, or a portion that may include adult dependent care expenses, to calculate the state credit.
- <sup>17</sup> For tax filers with AGI over \$25,000, if the credit exceeds the income tax due, the unused amount of the credit may be carried forward as a credit against tax liability in subsequent years, for up to five years.
- <sup>18</sup> The Louisiana tax forms and instructions for tax year 2005 do not make clear whether the tax filer should use only the portion of the federal credit claimed for dependent care expenses, or a portion that may include child care expenses, to calculate the state credit.
- <sup>19</sup> If the credit exceeds the income tax due, the unused amount of the credit may be carried forward as a credit against tax liability for the next succeeding tax year.
- <sup>20</sup> After tax year 2005 this percentage is 25%.
- <sup>21</sup> After tax year 2005 this percentage is 50%.
- <sup>22</sup> "Quality child care services" are defined as services for care provided at a child care site that meets minimum licensing standards; is accredited by an independent, nationally recognized program approved by the Maine Department of Human Services, Office of Head Start and Child Care; utilizes recognized quality indicators for child care services approved by the Maine Department of Human Services, Office of Head Start and Child Care; and includes provisions for parent and client input, a review of the provider's policies and procedures, a review of the provider's program records, and an onsite program review.
- <sup>23</sup> Maryland's top tax rate is 4.75%.
- <sup>24</sup> Massachusetts has a 5.3% tax rate for all income levels. It also has an optional, voluntary 5.85% tax rate for all income levels. For tax filers who elect this option, the maximum value of the deduction is \$281 for one child or dependent and \$562 for two or more children or dependents.
- <sup>25</sup> Eligible tax filers must choose between this deduction and a second deduction, which is not based on employment-related expenses, for families with one or more children under age 12, a dependent age 65 or older, or a disabled dependent.
- <sup>26</sup> These maximum credit amounts prevent the lowest-income Minnesota tax filers from benefiting fully from the improvements to the federal credit in EGTRRA that took effect in tax year 2003 (but, unless extended, expire after tax year 2010).
- <sup>27</sup> Montana's top tax rate for tax filers with Montana AGI of \$18,000 – the highest AGI level at which a tax filer may claim the full Montana deduction – is 6% for tax filers with one child or dependent, 5% for tax filers with two children or dependents, and 3% for tax filers with three or more children or dependents.
- <sup>28</sup> The Montana statute seems to make distinctions between expenses (and, arguably, expense limits) for in-home and out-of-home care for children under age 15 as compared to other dependents. However, the Montana tax form and instructions do not make these distinctions.
- <sup>29</sup> The Nebraska statute specifically says that the state credit for tax filers with AGI over \$29,000 is based on the amount of the federal credit "allowed," but the refundable credit for tax filers with AGI of \$29,000 or less is based on the amount of the federal credit "allowable...whether or not the federal credit was limited by the federal tax liability."
- <sup>30</sup> The New Mexico tax forms and instructions for tax year 2005 do not make clear whether the tax filer must offset against the state credit only the portion of the federal credit claimed for child care expenses, or a portion that may include adult dependent care expenses. In either case, because the required offset decreases the value of the New Mexico credit as the value of the federal credit increases, the improvements to the federal credit in EGTRRA that took effect in tax year 2003 (but, unless extended, expire after tax year 2010) decrease the value of the New Mexico credit.
- <sup>31</sup> The New Mexico statute says that this amount is set at "not more than the annual income that would be derived from earnings at double the federal minimum wage."
- <sup>32</sup> The New York statute specifically says that the state credit is based on the amount of the federal credit allowable, "without regard to whether the tax filer in fact claimed the [federal] credit."
- <sup>33</sup> For tax filers with New York AGI between \$25,001 and \$39,999, the applicable percentage of the federal credit is  $100\% + 10\%[(\$40,000-AGI)/\$15,000]$ . This formula results in a scale that slides from 109% to 100%.
- <sup>34</sup> For tax filers with New York AGI between \$50,001 and \$64,999, the applicable percentage of the federal credit is  $20\% + 80\%[(\$65,000-AGI)/\$15,000]$ . This formula results in a scale that slides from 99.5% to 20.5%.
- <sup>35</sup> The New York credit is refundable for residents only. For part-year residents, a proportional formula allows them to receive part of the credit as a refund.
- <sup>36</sup> These expense limitations prevent North Carolina tax filers from taking advantage of the improvements to the federal credit in EGTRRA that took effect in tax year 2003 (but, unless extended, expire after tax year 2010).
- <sup>37</sup> The Ohio statute specifically states that the state credit is based on the amount of the federal credit for which the tax filer is eligible, "without regard to any limitation imposed by [the federal credit's non-refundability provision]."
- <sup>38</sup> It is unclear from the Oklahoma statute and forms for tax year 2005 whether care expenses other than for children are eligible for the credit.
- <sup>39</sup> The Oregon statute specifically states that the state credit is based on an amount of employment-related expenses allowable under the federal credit, "notwithstanding the limitation imposed by [the federal credit's nonrefundability provision]."
- <sup>40</sup> Federal taxable income is federal adjusted gross income less federal exemptions and deductions.
- <sup>41</sup> Eligible tax filers may claim both this credit and the following "working family child care" credit.
- <sup>42</sup> However, if the Oregon credit exceeds the income tax due, the unused amount of the credit may be carried forward as a credit against tax liability in subsequent years, for up to five years.
- <sup>43</sup> Depending on household size, the maximum AGI limits of 250% of poverty range from \$23,900 (one-person household) to \$81,000 (eight-person household) for tax year 2005.

**State Child and Dependent Care Tax Provisions: Tax Year 2005--continued**

<sup>44</sup> This amount is indexed for inflation. The earned income test also cannot exceed the amount an individual would earn if the individual worked 1,040 hours at the Oregon minimum wage. At the current Oregon minimum wage of \$7.50/hour, this amount would be \$7,800.

<sup>45</sup> With expenses at \$3,000, the limit in most states, the maximum benefit would be \$1,200.

<sup>46</sup> With expenses at \$6,000, the limit in most states, the maximum benefit would be \$2,400.

<sup>47</sup> The instructions to the South Carolina forms for tax year 2005 do not explain or reference this qualifying language but rather instruct the taxpayer to compute the credit by multiplying the expenses claimed for the federal CADC credit by .07.

<sup>48</sup> Eligible tax filers may claim either this credit or the following low-income CADC credit, but not both.

<sup>49</sup> Virginia's top tax rate is 5.75%.

Source: "Making Care Less Taxing: Improving State Child and Dependent Care Tax Provisions," National Women's Law Center, April 2006.