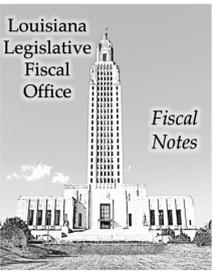


LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 592** HLS 21RS 547

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: May 1, 2021	11:33 AM	Author: HILFERTY
Dept./Agy.: Revenue		Analyst: Greg Albrecht
Subject: Tax Deduction For Early Childhood Care and Education		

TAX/INCOME TAX

OR DECREASE GF RV See Note

Page 1 of 1

Establishes an income tax deduction for certain early childhood care and education expenses

Proposed law provides a tax deduction for early childhood care and education expenses. Eligible children from birth to four years of age that are claimed as dependents for income tax purposes generate the deduction. The deduction is in lieu of an existing state child care expense credit and the child care expenses school readiness credit.

Applicable to amounts paid on or after January 1, 2022.

EXPENDITURES	2021-22	2022-23	2023-24	2024-25	2025-26	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	2021-22	2022-23	2023-24	2024-25	2025-26	5 -YEAR TOTAL
State Gen. Fd.	\$0	DECREASE	DECREASE	DECREASE	DECREASE	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0					\$0

EXPENDITURE EXPLANATION

The Department of Revenue indicates that the costs to modify and test tax systems to incorporate an additional adjustment to income (deduction in this case) is typically approximately \$26,000 of staff time.

REVENUE EXPLANATION

Some idea of the state's fiscal exposure to this deduction can be obtained by prorating the share of the state's population under five years of age (6.5% of 2019 Census estimates) to the number of dependency claims on resident income tax returns (1,275,289 on 2019 returns), resulting in 82,894 potentially eligible deduction claims. At \$5,000 per potential eligible, the total deduction from taxable income would be some \$414 million. Assuming dependents spread throughout filer income ranges, an effective state tax rate of 2.9% applied to the total deduction amount results in some \$12 million of state tax reduction exposure.

This exercise generates a maximum exposure, with true exposure less than this maximum for a number of reasons. Some taxpayers will not claim the deduction for lack of eligible expenses. Some taxpayers will have eligible expenses less than \$5,000. Some taxpayers will not have sufficient taxable income from which to deduct the entire amount of deduction they are entitled to; true for taxpayers with only one eligible child, and especially for taxpayers with more than one child (the deduction is available for each child). However, if these factors reduce the maximum deduction by as much as 50%, the state fiscal exposure is still some \$6 million per year.

Senate

Dual Referral Rules

House

13.5.1 >= \$100,000 Annual Fiscal Cost {S & H}

6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}

13.5.2 >= \$500,000 Annual Tax or Fee Change {S & H}

6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Christopher A. Keaton
Legislative Fiscal Officer