

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1158

Bill Subtitle: TO CREATE THE EARLY CHILDHOOD EDUCATION WORKFORCE QUALITY INCENTIVE ACT; AND TO CREATE INCOME TAX CREDITS FOR CERTAIN EARLY CHILDHOOD EDUCATION WORKERS AND FOR ELIGIBLE BUSINESS CHILDCARE EXPENSES.

Basic Change :

Sponsor: Rep. J. Mayberry

HB1158 creates the "Early Childhood Education Workforce Quality Incentive Act" to be codified at §§ 26-51-517 and -518 and creates two refundable income tax credits: (1) an income tax credit for certain early childhood education workers; and (2) an income tax credit for eligible business childcare expenses.

Tax Credit for Early Childhood Education Workers --- HB1158 creates a refundable individual income tax credit for qualifying early childhood education workers. To qualify for the credit, the individual must:

- Be employed as an early childhood education program director, teacher, or instructional staff;
- Be employed in an early childhood education program that meets the requirements of the Better Beginnings quality rating system of the Department of Human Services (DHS); and
- Earn less than the state's minimum salary for kindergarten through grade twelve public school teachers.

The amount of the income tax credit ranges from \$1,800 to \$3,000 based on the individual's credentials, as certified by the Arkansas Professional Development Registry of DHS.

Tax Credit for Eligible Business Childcare Expenses --- HB1158 creates a refundable income tax credit for eligible business childcare expenses. Eligible business childcare expenses include:

- Expenses to construct, renovate, expand, or make major repairs to an eligible childcare facility;
- Expenses for the purchase of equipment for an eligible childcare facility;
- Expenses to maintain and operate an eligible childcare facility;
- Payments made to an eligible childcare facility for childcare services to support employees; and
- Expenses for the purchase of childcare slots at eligible childcare facilities provided or reserved for children of employees.

The amount of the income tax credit ranges from 5% to 25% of the first \$50,000 of eligible business childcare expenses, depending on the level of the quality rating that the eligible childcare facility receives that year from the Division of Child Care and Early Childhood Education of DHS.

The tax credits will be effective for tax years beginning on or after January 1, 2023.

Revenue Impact :

FY2024 - \$5.9M General Revenue Reduction

[The revenue impact for the early childhood workforce quality incentive credit is based on information

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from DHS. That information included 567 taxpayers would be eligible for the \$1,800 tax credit, 253 taxpayers eligible for the \$2,400 credit, and 946 eligible for the \$3,000 credit. Assuming all taxpayers eligible for the \$1,800 and the \$2,400 credit and 25% of taxpayers eligible for the \$3,000 credit make less than \$36,000 a year, the impact would be approximately \$2.34 million per year.

For the business childcare expenses credit, according to the DHS website, there are currently no level 4, 5, or 6 childcare facilities. There are 515 level 2 facilities. If all facilities qualify for the credit, the revenue impact would be \$1,287,500. There are 687 level 3 facilities. If all facilities qualify for the credit, the revenue impact would be \$3,435,000. The total revenue impact would be \$4,722,500. This impact assumes that the program would result in half of the allowable credit related to this part of the program being claimed each year or \$2,361,250. Estimating that 500 companies would pay an average of \$25,000 per year, mostly to fund childcare slots at accredited facilities for employees rather than running their own facility, which would result in \$1.25 million in credits per year. Therefore, it is estimated that the proposed addition of this credit for employers would result in revenue reductions of \$3.6 million per year beginning in FY2024.

The combined reduction in general revenue for both credits would be approximately \$5.9 million.]

Taxpayer Impact :

An eligible individual or business will be eligible to receive a refundable tax credit. Records must be maintained for six years to support the credit claimed.

Resources Required :

Computer programs, tax forms, and instructions would require update. Arkansas Integrated Revenue System (AIRS) programming costs estimates to program a new income tax credit is estimated at \$16,000.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Income Tax Rules would need to be updated and instructions published. Computer programs, tax forms, instructions, and training manuals will need to be updated. Department employees will need to be educated as well as the tax community.

Other Comments :

None.

Legal Analysis :

HB1158 may benefit from an amendment clarifying whether a business may claim both the business

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expense tax credit under HB1158 and the existing tax credit for employer-provided childcare under §§ 26-51-507 and -508.