



**State of Arkansas
Department of Finance and Administration
Fiscal Impact Statement**

Bill: HB1019

Bill Subtitle: TO CREATE THE AFFORDABLE CHILDCARE ACT OF 2025; TO CREATE AN INCOME TAX CREDIT FOR EMPLOYERS WHO ASSIST EMPLOYEES WITH CHILDCARE COSTS; AND TO REPLACE THE EXISTING INCOME TAX CREDIT FOR EMPLOYER-OPERATED CHILDCARE FACILITIES.

Sponsors:

Rep. Collins

Basic Change:

HB1019 creates the "Affordable Childcare Act of 2025" to provide a refundable income tax credit to a business that pays for or provides childcare for the dependent children of its employees. To qualify for the credit, the childcare must be provided by a facility that is licensed under the Childcare Facility Licensing Act. The credit amount is:

- 30% of the amount spent by a business for the purchase of childcare services to care for the dependent children of its employees or to provide the service of locating childcare services for those dependents (not to exceed \$30,000 per tax year);
- In the year in which a facility providing childcare services for the dependent children of its employees is established, 50% of the amount spent by a business to establish and operate the facility (not to exceed \$45,000 per tax year);
- 30% of the amount spent by the business to operate a childcare facility for the dependents of its employees, less any revenues received from the operation of the facility, in the tax years following the tax year the facility is established (not to exceed \$30,000 per tax year); and
- 50% of the total amount spent by a business as payments to an organization providing access to available childcare services for the business' employees (not to exceed \$45,000 per tax year).

The bill repeals the current income tax credit for employer-provided childcare. Under current law, an employer who provides childcare for its employees is eligible for an income tax credit equal to 3.9% of the annual salary of the employees who provide the childcare services, or a \$5,000 income tax credit for the first tax year the business provides its employees with a childcare facility.

The bill is effective for tax years beginning on or after January 1, 2025.

Fiscal Impact:

FY2026 - \$14.7M General Revenue Reduction

[Fiscal impact was determined by using IRS data from Forms 2441 and 8882 for 2021. The federal amount reported as expenditures for child and dependent care benefits was \$5.2 billion. Applying a federal – Arkansas multiplier of 0.71% based on population and income factors results in \$36.6M in related expenditures for Arkansas. Total credit to be claimed in Arkansas is estimated to be \$14.7M.]

Taxpayer Impact:

A business that pays for or provides childcare services for the dependent children of their employees would be eligible to receive a refundable income tax credit.



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Resources Required:

Computer programs, tax forms, and instructions will need to be updated. The cost estimate of the Arkansas Integrated Revenue System (AIRS) to program a new income tax credit is \$24,000. Annual maintenance will cost an additional \$4,000. Four additional auditor positions would be needed to verify credits and audit returns for possible fraud at a total additional cost of \$320,000 per year.

Time Required:

Adequate time is provided for implementation.

Procedural Changes:

Department employees will require training and the tax community will need to be educated.

Other Comments:

Internal Revenue Code (IRC) § 45F authorizes an employer-provided child tax credit. The expenses related to the calculation of the credit are not allowed as a deductible business expense. In addition, IRC §129 allows for an exclusion from gross income amounts paid by the employer for dependent care assistance.

The eligibility requirements of the bill do not distinguish between Arkansas and out-of-state businesses and their apportionment of Arkansas-sourced activity. Out-of-state businesses with minimal tax liability in Arkansas may be able to take full advantage of the refundable credit, regardless of where the childcare assistance occurred and the apportioned income tax liability.

Legal Analysis:

None.