



Not All Tax Credits Are Created Equal

The Success of the Louisiana School Readiness Tax Credits

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In 2007, the Louisiana Legislature enacted a set of innovative tax incentives known as the School Readiness Tax Credits (SRTC) that remain in effect today. Now, as the state faces a budget crisis, eliminating various tax credits may be one strategy legislators use to balance the budget and increase tax revenue in future years. While some tax credits may not survive because they have not had the intended economic impacts or because they have too high a price tag, the SRTC package must be preserved.

The Investment: The SRTC Package

Family Credit

Provides a tax credit to low-income working parents who purchase early care and education (ECE) services at a center with at least a two-star quality rating on the state's five-star Quality Start scale. The amount of the credit increases with a greater number of stars but decreases with the parents' income.

Provider Credit

Provides a tax credit to ECE providers that have at least a two-star quality rating. The total credit received by the program is based on the number of

low-income children served and the number of stars the provider has earned.

Teacher & Director Credit

Provides a tax credit to ECE teachers and directors who have attained higher training and education and are employed in ECE centers participating in the state's Quality Start rating system.

Business Credit

Provides a tax credit to businesses that support quality ECE or make donations to child care resource and referral agencies that provide training and technical assistance to ECE centers and parents of young children.

The Returns

The SRTCs stimulate the state's ECE sector, which is an extensive network of 10,400 providers that create jobs and earnings in their local economies in addition to providing vital child care to more than 203,000 children.² These small businesses employ 21,817 local workers, many without higher education, who in turn spend their earnings at retailers in their communities, resulting in an

School Readiness Tax Credit Costs ¹

| Fiscal Year | Family Credit | ECE Provider Credit | ECE Teacher & Director Credit | Business Child Care Support Credit | Total |
|-------------|---------------|---------------------|-------------------------------|------------------------------------|--------------|
| 2014 | \$2,216,363 | \$3,959,567 | \$5,721,082 | \$923,256 | \$12,820,268 |
| 2013 | \$2,120,539 | \$4,619,012 | \$6,816,865 | \$892,720 | \$14,449,136 |
| 2012 | \$1,649,510 | \$3,961,235 | \$5,396,623 | \$523,291 | \$11,530,659 |

economic multiplier effect.³ A 2015 economic analysis found that every dollar spent in the Louisiana ECE sector returns \$1.78 to the economy. The same analysis found that for every job created in ECE, 1.3 jobs are created in the larger economy.⁴ In total, the Louisiana ECE sector generates \$830 million in direct and indirect economic activity annually.⁵

The SRTCs also help low-income parents afford quality care for their children, which helps those families achieve self-sufficiency. There is a connection between the ability of parents to afford child care and participation in the work force. Researchers at the University of Kentucky's Center for Poverty Research found that a 10 percent increase in the cost of ECE reduces employment of single mothers by 3 to 4 percent and that of married women by 5 to 6 percent.⁶ In 2014, 47 percent of Louisiana children were living in a single-parent family, and women headed most of those families.⁷ Single mothers are more likely to participate in the labor force than married mothers and therefore are most in need of assistance with the cost of ECE. In fact, 70 percent of single mothers in Louisiana were employed in 2014 but had a median income of just \$20,644.^{8,9} The average annual cost of quality child care is \$113 per week or \$5,650 per year.¹⁰ By returning a portion of ECE costs to low-income working parents, the SRTC parent credit provides a modest but critical economic boost to those families.¹¹

Finally, the SRTCs increase low-income children's access to high-quality ECE programs, which are linked to improved short- and long-term academic outcomes. Only 48 percent of children from low-income families are school-ready at age 5 compared to 75 percent of children from families with moderate and high income.¹² While many factors influence whether a child is prepared to enter kindergarten, attending quality ECE programs has been shown to significantly improve school readiness rates.¹³ What's more, research shows that children who are adequately prepared for kindergarten also are more successful in grade school, are less likely to drop out of high school, and earn more as adults.¹⁴

Based on their impressive returns on investment, the nationally recognized SRTCs have proved to be worth the modest cost to the state each year. Although Louisiana faces a significant budget shortfall in the upcoming fiscal year, state lawmakers must continue to seek ways to further strengthen the ECE industry and empower parents to remain in the work force.

ENDNOTES

- 1 Louisiana Department of Education. Response to House Concurrent Resolution 174 of the 2015 Regular Session. Available at: <http://ednexthorizon.org/wp-content/uploads/2016/01/Early-Childhood-Funding-Report-Jan-2016.pdf>
- 2 Committee for Economic Development. 2015. *Child Care in State Economies*, p. 13, p. 33.
- 3 *Ibid.*, p. 33
- 4 *Ibid.*, p. 42
- 5 Committee for Economic Development. 2015. *Child Care in State Economies: Key Findings for Louisiana*. Available at: https://www.ced.org/State_Fact_Sheets_Talkers/LA%20-%20FACT%20SHEET.pdf
- 6 Ziliak, James, Charles Hokayem, and Bradley Hardy. 2008. *Child Care Subsidies and the Economic Well-Being of Recipient Families: A Survey and Implications for Kentucky*. University of Kentucky Center for Poverty Research.
- 7 Kids Count Data Center. 2014. *Children in Single-Parent Families: Louisiana*. Annie E. Casey Foundation.
- 8 American Community Survey. 2014 One-Year Estimates. Presence of Own Children Under 18 Years by Family Type by Employment Status: Louisiana. U.S. Census Bureau; and American Community Survey. 2014 One-Year Estimates. Median Family Income in the Past 12 Months by Family Type and Presence of Own Children Under 18 Years. U.S. Census Bureau.
- 9 U.S. census income data include all earned income and other cash income such as child support, workers' compensation, or public assistance.
- 10 Care Solutions, Inc. 2015. Louisiana Child Care Market Rate Survey 2014. Appendix IV.
- 11 The federal Child and Dependent Care Tax Credit (CDCTC) also provides a nonrefundable tax credit equal to 20 to 35 percent of child care costs to households with incomes of \$43,000 or less annually. Louisiana also provides a state child and dependent care tax credit that ranges from 10 to 50 percent of the amount a household receives from the federal CDCTC, with a maximum of \$1,050 for one child and \$2,100 for two children. The SRTC tax credit amount for parents is based on the amount the families receive through the state CDCTC and the quality level of the ECE provider the child attends.
- 12 Isaacs, Julia. 2012. *Starting School at a Disadvantage: The School Readiness of Poor Children*. The Brookings Institution. p. 2. Available at: http://www.brookings.edu/~media/research/files/papers/2012/3/19%20school%20disadvantage%20isaacs/0319_school_disadvantage_isaacs.pdf
- 13 *Ibid.*, p. 13
- 14 Duncan, G.J., Dowsett, C.J., Claessens, A., Magnuson, K., Huston, A.C., Klebanov, P., Pagani, L.S., Feinstein, L., Engel, M., Brooks-Gunn, J., Sexton, H., & Duckworth, K. 2007. School readiness and later achievement. *Developmental Psychology*, 43(6), 1428-1446.