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Legal Background Briefings are prepared and updated periodically by the Legal Services Division of the Iowa Legislative Services Agency, a nonpartisan agency providing legislative drafting and research services to the committees and members of the Iowa General Assembly. The Briefings provide background information regarding a particular area of law. Although a briefing may identify issues for consideration by the General Assembly, nothing contained in a briefing should be interpreted as advocating a particular course of action. The reader is cautioned against using information contained in a briefing to draw conclusions as to the legality of a particular behavior or set of circumstances.

Prepared by:

John Pollak
Iowa Legislative Services Agency
State Capitol
Des Moines, Iowa 50319
515-281-3818
john.pollak@legis.state.ia.us

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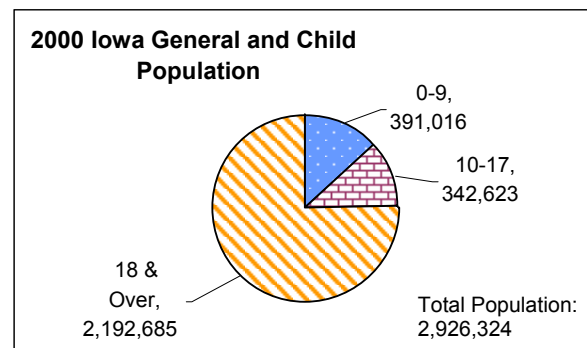
Child Care Costs

Overview

This background briefing provides information on the relative costs of child care, identifies the laws providing the major sources of public support available to assist families with child care costs, and indicates how to access the sources of support. References to the Iowa Code are to the 2003 Iowa Code and 2003 Iowa Code Supplement.

Among the states, Iowa has one of the highest proportions of children living with working parents,¹ indicating there is a strong degree of need for child care services in the state.

The 2000 census showed that of Iowa's general population of 2,926,324, approximately 25 percent are children.²



Child Care Costs

Child care costs are a significant expense for families. The statewide average annual cost for child care provided for an infant in a center is \$5,845 and in a home is \$4,950. Child care for a preschooler averages \$5,512 per year in a center and \$4,467 per year in a home. These average costs tend to be higher in urban areas and lower in rural areas.³

Iowa's State Child Care Assistance Program reimburses for actual care provided using half-day rates. The maximum annual state reimbursement for full-time care of a

preschooler provided in a child care center is \$5,460.⁴

Child care costs can consume a very significant percentage of income for families, particularly low-income families. Gross annual income for one earner, working full-time at the minimum wage of \$5.15 per hour, is \$10,712.⁵ The Iowa median income for a four-person family in 2001 was \$61,656.⁶ If a four-person family with median income has two parents working and two preschoolers, child care costs for the children in a center would average \$11,024 per year, or 17.8 percent of the median family income. Federal government regulations suggest an affordability test for child care costs of not more than 10 percent of family income.⁷

Overview of Public Support for Child Care

Both the federal and state governments assist families with child care costs. Publicly derived support for child care expenses is provided through a variety of means, ranging from tax credit measures to direct subsidies. This briefing addresses only the direct public financial assistance that is primarily provided for child care purposes. Other programs such as aid for K-12 education⁸ and the federally supported Head Start programs⁹ may help meet child care needs for families, but child care financial assistance is not the primary purpose of the programs. In addition, public funding is also committed for other child care-related costs, including child care resource and referral programs and the regulatory costs of child care.

The most significant sources of direct public support for child care in Iowa are the following:

1. The State Child Care Assistance Program (Iowa Code section 237A.13), utilizing both federal block grant and state funding.
2. Community Empowerment Early Childhood Grants, utilizing federal block grant funding (Iowa Code section 28.9(3) and annual appropriation).
3. Federal and state child and dependent care tax credits and deductions (Iowa Code

section 422.12C and various federal provisions).

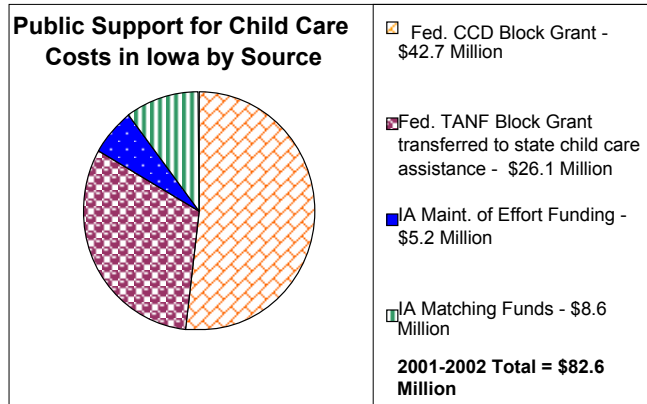
State Child Care Assistance Program

The federal Child Care and Development (CCD) Block Grant funding (codified in 42 U.S.C., chapter 105, subchapter 11-B) is combined with funding from the related federal Temporary Assistance for Needy Families (TANF) Block Grant (enacted in the Federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Pub. L. No. 104-193 [Congress is considering legislation to reauthorize this law.]) and state maintenance of effort and matching funds to provide the most significant source of public funding for child care expenses. The funding is used for subsidies, educational expenses, resource and referral services, and meeting specialized needs such as sick and evening care, child care for children placed in foster care, and protective child care for children removed from the home. State funding sources are used for the State Child Care Assistance Program, which includes resource and referral agency grants and protective child care.

Iowa consolidates these federal and state funding streams to make the public support available to low-income and special needs families for child care in a single program: the State Child Care Assistance Program. The program served an average of 13,389 children per month in state fiscal year 2002-2003.¹⁰

The breakdown of federal and state funding to support child care in federal fiscal year 2001-2002 is as follows:¹¹

- Federal CCD Block Grant: \$42.7 million
- Federal TANF Block Grant transferred to child care: \$26.1 million
- Iowa Maintenance of Effort Funding: \$5.2 million
- Iowa General Fund for State Child Care Assistance: \$4.8 million
- Iowa General Fund for Protective Child Care: \$3.8 million



Iowa Community Empowerment Early Childhood Grants

This funding is distributed in the form of grants to community empowerment boards throughout the state. Grants are used to enhance the quality and capacity of child care in a community through one or more of the following:

- Regular child care and provider recruitment
- Child care for mildly ill children
- Second and third shift child care
- Provider training
- Support for registration and licensure

For state fiscal year 2001-2002, the amount appropriated for early childhood grants from the federal TANF Block Grant was \$6.3 million.¹²

Tax Preferences for Child Care

The following credits and deductions are provided:

- Federal child care credit claimed in Iowa for 2001: \$30.9 million¹³
- Iowa child and dependent care credit in calendar year 2000: \$7 million¹⁴
- Iowa business tax deduction for employee fringe benefits for child care in calendar year 2000: \$1.1 million¹⁵

How to Access the Support

A. State Child Care Assistance Program.¹⁶

To obtain assistance from the program, a parent or guardian must apply to the local office of the Department of Human Services. A parent must meet income eligibility requirements, which generally means an income below 140 percent of the poverty level according to federal poverty guidelines, although a higher income level is authorized for families with a special needs child. A family participating in the Family Investment Program (FIP) is automatically eligible for assistance for child care relating to participation in FIP employment, education, and training activities. Families not participating in FIP must meet the income eligibility requirements and have a child care need relating to employment, seeking employment, education, or training, or have a medical condition. A sliding scale is utilized to determine the amount of assistance based upon family income.¹⁷

B. Federal Income Tax Credit for Child and Dependent Care Expenses.¹⁸

Although this credit applies to dependent care as well as child care expenses, this briefing only addresses the child care aspects of the credit. The amount of the credit varies depending upon family income and cannot exceed the amount of the tax otherwise due. A credit reduces the amount of tax due. The credit declines as income rises.

Child care costs are considered a work-related expense. Effective with tax year 2003, the limit on the amount of work-related expense that can be used to calculate the federal credit is increased to \$3,000 for one child and to \$6,000 for two or more children.¹⁹ After income adjustments, the maximum credit for a very low-income family (based upon an annual adjusted gross income of \$10,000 or less) for one child is \$1,050 and \$2,100 for two or more children and for higher-income families (adjusted gross income over \$28,000) for one child is \$480 and \$960 for two or more children. The

taxpayer must file form 1040 or 1040A, meet requirements for filing status, and meet other requirements, including age of child, parent work status, and relationship with the child care provider.

C. Iowa Income Tax Credit. As with the federal approach, the credit is claimed on an individual taxpayer's income tax form. Unlike the federal credit, the Iowa child and dependent care credit is refundable. This means the taxpayer may claim the credit even though the amount of the credit exceeds the amount of tax due. The Iowa credit is a percentage of the federal credit, beginning at 75 percent of the amount of the federal credit for families with a net annual income of less than \$10,000, with graduated reductions in the percentage as family income rises.²⁰ The Iowa credit is completely phased out for those with a net family income of \$40,000 or more.²¹ Unless changed, the maximum credit for a family with a net annual income of less than \$10,000 in tax year 2003 and two or more children who received care would be \$1,575. For higher-income families with a net annual income of \$35,000-\$35,999 and two or more children who received care, the maximum credit would be \$384.

ENDNOTES

¹ Iowa Child Care and Early Education Network, Child Care Data, <http://users.dwx.com/icceen/child.htm>, states that Iowa is second in the country in the number of working parents up to the age of five and first in the country in the number of working parents with school-age children. The U.S. Department of Health and Human Services, Administration for Children and Families, indicates that in Iowa, 71.4 percent of children under age 6 live with working parents and 79.4 percent of children ages 6-17 live with working parents, <http://www.nccic.org/statepro/iowa.html>.

² U.S. Census Bureau, "Demographic Profiles: Census 2000," quoted in U.S. Department of Health and Human Services, Administration for Children and Families, <http://www.nccic.org/statepro/iowa.html>.

³ Iowa Child Care and Early Education Network, Iowa Child Care Facts, <http://www.iowachildnetwork.org/child.htm>.

⁴ State of Iowa Child Care and Development Fund for Federal Fiscal Year 2004-2005, Attachment 3.2.1, <http://www.dhs.state.ia.us/Publications/0305-CCDFPlanDRAFT.doc>.

⁵ Iowa Workforce Development, <http://www.iowaworkforce.org/labor/minwage.pdf>.

⁶ U.S. Census Bureau, Median Income for 4-Person Families, by State, <http://www.census.gov/hhes/income/4person.html>.

⁷ State of Iowa Child Care and Development Fund for Federal Fiscal Year 2004-2005, Section 3.5.5, bullet six, <http://www.dhs.state.ia.us/Publications/0305-CCDFPlanDRAFT.doc>.

⁸ State aid to K-12 education in 2002-2003 was \$1.936 billion and the statewide average annual expenditure per pupil was \$5,959 in FY 2000-2001. 2002 Condition of Education Report, Iowa Department of Education, tables 160 and 162, 2002, <http://www.state.ia.us/educate/fis/pre/coer/doc/fin02.pdf>.

⁹ Iowa's allocation for the Head Start Program in Federal Fiscal Year 2002 was \$49,494,840. "Fiscal Year 2002 Head Start Program State Allocations and Enrollment" in Head Start Program Fact Sheet, U.S. Department of Health and Human Services, Administration for Children and Families, Head Start Bureau, <http://www.acf.hhs.gov/programs/hsb/research/2003.htm>.

¹⁰ "Child Care Assistance — Regulation — Quality Efforts," Iowa Department of Human Services Briefing Paper, distributed to the General Assembly's Joint Appropriations Subcommittee on Health and Human Services, February 2003.

¹¹ "Child Care and Development Fund Report of State Plans FY 2002-2003," Table 1.3 — Estimated Funding for Child Care Services, Federal Child Care and Development Fund (CCDF), Temporary Assistance to Needy Families (TANF), and State Monies, FFY 2002, U.S. Department of Health and Human Services, Administration for Children and Families, National Child Care Information Center, <http://nccic.org/pubs/stateplan/charts-tables/table1-3.html>. Note: All figures rounded to nearest \$100,000.

According to Lisa Burk, Legislative Analyst, Fiscal Services Division, Legislative Services Agency, the state FY 2003-2004 budgeted spending for child care from state and federal funding sources is \$78,976,917 (e-mail to John Pollak, January 2004).

¹² Iowa Community Empowerment 2002 Annual Report, Iowa Community Empowerment Overview, p. ii, <http://www.empowerment.state.ia.us/AnnualReport/2002/IaCommEmoverview2002.pdf>.

¹³ U.S. Internal Revenue Service, "Individual Income and Tax Data for Tax Year 2001, by State and Size of Adjusted Gross Income," expanded unpublished version, <http://www.irs.gov/pub/irs-soi/01in16ia.xls>.

¹⁴ Iowa Code § 422.12C. Iowa Department of Revenue and Finance, "Iowa Tax Expenditures 2000: Phase One Report — Corporate Income, Individual Income, Sales Tax, and Use Tax," July 2001, p. 9, <http://www.state.ia.us/tax/taxlaw/taxexp01.pdf>.

Note: Credit amount includes both child and dependent care credits.

¹⁵ Iowa Department of Revenue and Finance, "Iowa Tax Expenditures 2000: Phase One Report — Corporate Income, Individual Income, Sales Tax, and Use Tax," July 2001, p. 11, <http://www.state.ia.us/tax/taxlaw/taxexp01.pdf>.

¹⁶ 2003 Iowa Code Supplement § 237A.13 and 441 IAC 170.

¹⁷ "Child Care Assistance," Iowa Department of Human Services, Division of Financial, Health, and Work Supports, accessed October 2003, <http://www.dhs.state.ia.us/FinancialHealthandWorkSupports/childcareassistance.asp>.

¹⁸ Department of the Treasury Internal Revenue Service, "Publication 503: Child and Dependent Care Expenses for Use in Preparing 2002 Returns" and "Publication 553: Highlights of 2002 Tax Changes (Rev. February 2003)." According to a publication by U.S. Department of Health and Human Services, Administration for Children and Families, National Child Care Information Service, "Financing Child Care in the United States: An Illustrative Catalog of Current Strategies," <http://nccic.org/pubs/financing-cc/child014.html>, a low-income family with one child cannot get a credit because the family is not subject to taxation until annual income exceeds \$10,700.

¹⁹ "Publication 503 — For Use in Preparing 2002 Returns: Child and Dependent Care Expenses," Important Changes for 2003, Department of the Treasury, Internal Revenue Service, p. 1, www.irs.gov.

²⁰ Line 65: Child and Dependent Care Credit, Iowa 2002 Expanded 1040 Instructions, Iowa Department of Revenue and Finance, 2002, <http://www.state.ia.us/tax/1040%20Expanded/Line/02Line65.html>.

²¹ Iowa Income Tax FAQs, Item #12, "Who can claim the child and dependent care credit?," Iowa Department of Revenue and Finance, <http://www.state.ia.us/tax/educate/faqinc.html#12>.

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