

OKLAHOMA TAX COMMISSION

REVENUE IMPACT STATEMENT FIRST REGULAR SESSION, FIFTY-NINTH OKLAHOMA LEGISLATURE

DATE OF IMPACT STATEMENT: March 29, 2023

BILL NUMBER: HB 2451 **STATUS AND DATE OF BILL:** Engrossed 3/21/2023

AUTHORS: House Schreiber, Blancett, Ranson & Hefner Senate Montgomery

TAX TYPE (S): Income Tax **SUBJECT:** Credit

PROPOSAL: New Law

HB 2451 proposes to enact two new income tax credits related to child care. One credit is for qualified employer expenses and the other credit is for child care workers. Both credits are effective for tax years 2024 through 2028.

EFFECTIVE DATE: November 1, 2023

REVENUE IMPACT:

Insert dollar amount (plus or minus) of the expected change in state revenues due to this proposed legislation.

FY 24: None

FY 25: An unknown decrease in income tax collections

March 29, 2023

DATE

Rick Miller

DIVISION DIRECTOR

mk

3/29/2023

DATE

Huan Gong

HUAN GONG, ECONOMIST

3/31/2023

DATE

Joseph P Gappa

FOR THE COMMISSION

The revenue impact provided herein is an estimate of the potential impact on the collection or apportionment of tax revenues affected by the proposed legislation. It is not intended to be an estimate of the overall fiscal impact on the state budget if the proposed legislation is enacted.

HB 2451 proposes to enact two new income tax credits related to child care. One credit is for qualified employer expenses and the other credit is for child care workers. Both credits are effective for tax years 2024 through 2028.

Employer Credit for Child Care Expenditures

For tax years 2024 through 2028 employers¹ are eligible for a non-refundable income tax credit of 30% of:

- the amount expended for assistance provided by the employer to an employee for the employee's² direct expenses of child care³
- the amount expended by an employer for the cost of operating a child care facility⁴ primarily used by dependents of the employees of such employer, excluding any payments made by the parent or guardian of such dependent such as tuition or fees

The 30% credit is limited to \$30,000 claimed per employer in any taxable year.

Also, for tax years 2024 through 2028, employers are eligible for a non-refundable income tax credit of 50% of

- the amount expended by the employer to construct, either through new construction or rehabilitation of a structure, located not more than 2 miles from the site at which employees perform primary work duties unless working remotely, to provide child care services to the children of the employees; or
- the amount expended by the employer to establish, construct, acquire or develop a child care facility⁴ in conjunction with one or more other entities, whether for-profit business entities, nonprofit entities or other lawfully organized entities, to provide child care services

The 50% credit is limited to \$45,000 claimed per employer in any taxable year.

Unused credits may be carried over for 5 years.

In addition to the per employer limitations, this credit is subject to an annual cap of \$5 million per fiscal year. There is no guidance for the Tax Commission on how to administer the cap which is problematic. It is not known how many employers will expend (or are already expending) the required funds to generate the

¹ Employers include sole proprietor or lawfully recognized business entity engaged in lawful business activity

² Employees are defines as a person to whom wages or other compensation is paid by an employer.

³ Child care expense is defined as the cost of locating safe and dependable services for the care of a minor child of an employee.

⁴ Licensed child care facility is defined as a person or entity lawfully authorized to provide child care services within the state and which is enrolled in Oklahoma's Quality Rating and Improvement System (QRIS). It is unclear if the child care facility has to be licensed to qualify for the 30% credit.

proposed tax credit. Therefore, the expected revenue impact of this proposal is an unknown decrease in income tax collections for tax year 2024. No changes in withholding or estimated tax payments are anticipated; the full impact of this proposal would occur in FY 25 when the 2024 returns are filed.

Child Care Worker Credit

For tax years 2024 through 2028, qualified child⁵ care workers are eligible for a \$500 refundable income tax credit.

Qualified child care worker is defined as a person employed for at least 8 consecutive months during the calendar year corresponding to the income tax year for which the credit is claimed and who performs classroom services for a licensed child care facility and who is enrolled in Oklahoma's Professional Development Ladder (PDL) and have earned a minimum of 12 credit hours.

In addition to the per worker limitations, this credit is subject to an annual cap of \$7 million per fiscal year. There is no guidance for the Tax Commission on how to administer the cap which is problematic. It is not known how many child care workers⁶ will qualify for the proposed tax credit. Therefore, the expected revenue impact of this proposal is an unknown decrease in income tax collections for tax year 2024. No changes in withholding or estimated tax payments are anticipated; the full impact of this proposal would occur in FY 25 when the 2024 returns are filed.

⁵ Child is defined as a person less than 5 years of age. It is unclear if this credit is limited to children under 5 years of age

⁶ Bureau of Labor Statistics Data suggests that 5,820 workers in Oklahoma were classified as child care workers as of May 2021 [Occupational Employment and Wage Statistics \(bls.gov\)](https://www.bls.gov/publications/occupational)