This fiscal impact statement is produced in compliance with the South Carolina Code of Laws and House and Senate rules. The focus of the analysis is on governmental expenditure and revenue impacts and may not provide a comprehensive summary of the legislation.

Bill Number:	S. 0047 Introduced on January 14, 2025
Subject:	Childcare
Requestor:	Senate Finance
RFA Analyst(s):	Jolliff
Impact Date:	February 19, 2025

Fiscal Impact Summary

Section 1 of this bill amends the tax credit for employer provided childcare expenses in Section 12-6-3440 to increase the maximum expenses that can be claimed. Section 2 creates a new refundable tax credit for taxpayers employed full-time as a childcare director or childcare staff. The Department of Social Services (DSS) is to assist the Department of Revenue (DOR) in administering the new credit and determining qualifications and eligibility for the tax credit. The employee credit is repealed after December 31, 2030. The bill is effective for tax years beginning after 2024.

The bill will not impact expenditures for DOR as the agency will administer these credits with existing staff and resources. DSS expects they will require an additional 2.0 FTEs and resources to establish eligibility for the childcare employee tax credit and maintain a complete registry of individuals who meet the qualifications. Further, DSS will need to contract with its IT vendor for one-time upgrades to systems to manage the data collection and reporting. In total, the bill will increase DSS's expenses by approximately $433,000 in FY 2025-26 and $217,000 annually thereafter. The agency anticipates using Federal Funds for these expenses and will request an increase in Federal Funds authorization.

Limited data are available to estimate the potential revenue impact of the changes to the employer childcare tax credit in Section 1 of the bill. In order to estimate the potential impact of these changes, we analyzed a number of data sources and identified issues that may impact credit utilization. Importantly, expanding the credit to apply to withholdings tax may have a larger impact on current claims and overall utilization, because while many businesses may not have a significant state income tax liability, they may have considerably more withholdings tax. The impact on General Fund revenue may be up to $6,683,000 beginning in FY 2025-26. Additionally, the timing of the impact may vary as taxpayers may carry forward any unused amount for the next ten tax years. However, if more large employers choose to participate, the tax credit could reduce total revenue by up to $7,535,000 for each large employer, depending on the taxpayer's total tax liability.

The new childcare employee tax credit in Section 2 will reduce General Fund individual income taxes by at least $20,005,000 beginning in FY 2025-26. As the credit is refundable, taxpayers do not have to have a tax liability to claim the full amount of the credit. Please note, it is unclear how full-time will be interpreted and how many weeks an individual would be required to work full-time to qualify for the tax credit. Without any restrictions, there may be more qualifying individuals over time if the credit incentivizes individuals to work full-time for a short period, such as during summer or other periods, to qualify for the credit.

In total, the bill will reduce General Fund revenue by up to $26,668,000 beginning in FY 2025-26 as shown below.

Bill Section	**General Fund Revenue Impact**
Section 1: Employer Childcare Tax Credit	($6,683,000)
Section 2: Employee Childcare Tax Credit	($20,005,000)
Total	**($26,688,000)**

Explanation of Fiscal Impact

Introduced on January 14, 2025
State Expenditure
This bill amends the tax credit for employer provided childcare expenses in Section 12-6-3440 to increase the maximum expenses that can be claimed. The bill also creates a new tax credit for taxpayers employed full-time as a childcare director or childcare staff. DSS is to DOR in administering the new credit and determining qualifications and eligibility for the tax credit. The credit is repealed after December 31, 2030. The bill is effective for tax years beginning after 2024.

The bill will not impact expenditures for DOR as the agency will administer these credits with existing staff and resources. DSS anticipates needing additional staff and resources to determine qualifications and track eligibility for the tax credit. The agency anticipates needing 2.0 FTEs (Program Coordinator IIs) at an annual cost of approximately $204,000 for salaries and fringe, $13,000 for recurring operating expenses, and $2,000 for one-time furniture and equipment expenses for these employees. The agency also estimates that one-time costs for its IT contractor to upgrade systems to collect and track eligibility for the tax credit will cost approximately $214,000. In total, the bill will increase expenses by approximately $433,000 in FY 2025-26 and $217,000 annually thereafter. The agency anticipates using Federal Funds for these expenses and will request an increase in Federal Funds authorization.

State Revenue
Section 1
Section 1 of the bill amends the tax credit for employer provided childcare expenses in Section 12-6-3440. The current credit is for 50 percent of the program capital expenses and is limited to $100,000. This bill increases the credit maximum from $100,000 to $1,000,000. Additionally, taxpayers may also claim a credit if they operate a childcare facility for their employees or make direct payments to independent childcare facilities for the benefit of their employees. The credit is for 50 percent of the operating cost or payments made up to $3,000 per child for each employee benefitting from the program. The bill increases the maximum per child credit to $12,000. Lastly, the bill also expands the credit so that it may be claimed against license or withholdings tax in addition to income, bank, or premium tax.

The table below shows the history of the individual income tax credits as reported in the Department of Revenue's Annual Report. Based on available data, the credit is rarely taken for corporate, bank, or insurance taxes currently.

Employer Childcare Tax Credit History

Fiscal Year	Number of Returns	Amount	Average Per Return
2016-17	46	$668,348	$14,529
2017-18	26	$74,537	$2,867
2018-19	32	$262,986	$8,218
2019-20	33	$122,409	$3,709
2020-21	21	$44,670	$2,127
2021-22	18	$23,590	$1,311
2022-23	19	$42,442	$2,234

Source: SC Department of Revenue Annual Reports

In order to estimate the potential impact of these changes, we analyzed a number of data sources and identified issues that may impact credit utilization. One resource to measure the potential credits is the federal Employer-Provided Childcare tax credit that is similar to the state credit. The federal credit allows taxpayers to claim a credit for qualified childcare facility, resource, and referral expenditures. The federal credit is 25 percent of the qualified childcare facility expenditures plus 10 percent of the qualified childcare resource and referral expenditures paid or incurred during the tax year. The federal credit is limited to $150,000 per taxpayer per tax year. Use of the federal credit is low currently. An analysis by the US Government Accountability Office found that employers noted expenses outweigh the credit and many employers are unaware of the credit.[1] Further, the SC Chamber of Commerce surveyed members and received responses from 19 businesses for a similar proposed change to this tax credit. The survey found that less than half of the employers were aware of the credit, and one-third were concerned about liability issues associated with providing childcare facilities.

Given these issues and uncertainties, it is unclear how the change to expand the credit limits will impact total credit utilization. When the state tax credit is combined with the federal tax credit, some employers will be eligible for a tax credit for up to 75 percent of expenses, which may incentivize greater use of the credit. Further, expanding the credit to apply to withholdings tax may also increase overall utilization, because while many businesses may not have a significant state income tax liability, they may have considerably more withholdings tax. Based on the number of establishments in the state reported by the Bureau of Labor Statistics for Q2 of 2024 and total withholdings for FY 2023-24, we estimate that the average withholding tax for businesses was approximately $35,900, but larger employers are likely to have substantially higher withholding tax and resources to implement and use this credit.

[1] US Government Accountability Office, *Employer Provided Child Care Credit: Estimated Claims and Factors Limiting Wider Use,* February 2022, https://www.gao.gov/assets/gao-22-105264.pdf

Based on estimates of the federal tax credit by the Internal Revenue Service, expenditures for expenses eligible for the federal credit nationwide totaled approximately $246,398,000 in tax year 2022. Multiplying this figure by 1.5 percent to account for the SC proportion of US businesses, approximately $3,696,000 of these expenditures would be attributable to SC. Multiplying this figure by the 50 percent credit factor for the state credit would result in total credits of approximately $1,848,000. However, these estimates only account for those entities currently using the existing credits.

Alternatively, if we use the current credit claim maximum in recent years of $668,348 in FY 2016-17 and factor in the increase in the capital expenditure limit from $100,000 to $1,000,000, the maximum credit amount based on FY 2016-17 experience would increase to $6,683,000.

For information, DOR reports that the average withholdings tax for the largest ten companies in the state is in excess of $47,000,000 per company. To estimate the potential magnitude of the impact, we have also estimated the impact if a large company with 10,000 employees were to provide childcare payments for its employees. Using the average cost of childcare for different age groups (average of $6,498) and estimates for the number of employees with children in these age groups (2,319 employees), the cost of the program would be approximately $15,070,000 for each large employer who chooses to make payments to a licensed facility on behalf of their employees. The tax credit for 50 percent of these expenditures would total approximately $7,535,000 per large company.

Given the limited data available to estimate the amount employers may choose to expend and the potential for a significant increase in utilization with the expansion to withholding taxes, the impact on General Fund revenue may be up to $6,683,000 beginning in FY 2025-26. Taxpayers may carry forward any unused amount for the next ten tax years. However, if more large employers choose to participate, the tax credit could reduce total revenue by up to $7,535,000 for each large employer.

<u>Section 2</u>
Section 2 creates a new refundable tax credit for taxpayers employed full-time as a childcare director or childcare staff. DSS is to assist DOR in administering the new credit and determining qualifications and eligibility for the tax credit. The credit is effective beginning in tax year 2025 and will be repealed after December 31, 2030.

The amount of the tax credit is based on the taxpayer's qualifications. The bill provides a credit in the following amounts:

Tax Credit Amount

Childcare Director and Childcare Staff Qualification (pursuant to S. 47)	Proposed Tax Credit
Level 1	$1,500
Level 2	$2,000
Level 3	$2,500
Level 4	$3,000

In order to determine the impact, DSS provided data regarding the number of employees at each of the early care and education career ladder levels as developed by SC Endeavors for DSS.[2] The following is a listing of the qualifications for the levels:

[2] SCEndeavors.org, *Early Care and Education Career Ladder*, Retrieved February 3, 2025, https://scendeavors.org/media/repp24gj/sc-endeavors-career-ladder-1-23-digital.pdf

Early Care Education Career Ladder

Level	Qualifications
Level 1	- High school diploma or equivalent
Level 2	- SC Early Childhood Education Credential Level 1 – (3 ECE credit hours)
	- Degree out of field with no ECE credit hours
Level 3	- SC Early Childhood Education Credential Level 2 – (12 ECE credit hours)
	- Current/valid National Child Development Associate (CDA)
Level 4	- SC Early Childhood Education Credential Level 3 – (21 ECE credit hours)
	- Early Childhood Certificate/Diploma – (27 ECE credit hours)
Level 5	- Associate's degree in a related field with 18 ECE credit hours
	- Associate's degree in an unrelated field and 27 ECE credit hours
	- Bachelor's degree or higher out of field with 12 ECE credit hours
Level 6	- Montessori certification AMI/USA, AMS, or other MACTE accredited program
	- Associate's degree in early childhood education
	- Bachelor's degree in related field with 12 ECE credit hours
	- Bachelor's degree or higher out of field with 27 ECE credit hours
Level 7	- Bachelor's degree in a related field with 18 ECE credit hours
	- Master's or doctorate degree in a related field and 12 ECE credit hours
Level 8	- Bachelor's degree in early childhood
	- Master's or doctorate degree in a related field and 18 ECE credit hours
Level 9	- Master's degree in early childhood education
	- Doctoral degree in related field with 18 ECE credit hours
Level 10	- Doctoral degree in early childhood education

Source: SC Department of Social Services

The levels in the career ladder include levels 1-10 whereas the bill specifies a tax credit amount for levels 1-4. For this analysis, we have assumed that anyone over level 4 will also be eligible for the level 4 tax credit amount.

DSS provided the number of full-time employees at each of the ten levels. Individuals in the process of becoming qualified are estimated at the weighted average credit level. However, registration is not mandatory, and there may be individuals who qualify but not registered currently. Further, the bill does not define full-time, and therefore, the numbers DSS provided include both at least 30-hour per week employees and at least 40-hour per week employees. We have included both categories in this analysis. Additionally, it is unclear how many weeks an individual would be required to work full-time to qualify for the tax credit, which may impact the number of taxpayers claiming the credit.

Number of Registered Childcare Workers by Career Ladder Level

Career Ladder Level	30 hours	40 hours	Total
Level 1	619	2,576	3,195
Level 2	298	1,557	1,855
Level 3	52	234	286
Level 4	54	244	298
Level 5	21	73	94
Level 6	117	652	769
Level 7	38	172	210
Level 8	43	241	284
Level 9	9	55	64
Level 10	0	1	1
Conditionally Qualified*	5	43	48
Total	1,256	5,848	7,104

*Conditionally qualified individuals are in process of becoming qualified
Note: Figures may not add totals due to rounding
Source: SC Department of Social Services

As noted above, childcare workers are not required to register with DSS under the career ladders currently, and there may be individuals who will qualify who are not included in these totals. According to Quarterly Census of Employment and Wage data published by the US Bureau of Labor Statistics for the first two quarters of 2024, approximately 11,048 people are employed in the childcare services industry (NAICS Code 6244 “Child day care services”) either full-time or part-time. These figures are based on all employees in a business establishment that is categorized in the industry and does not distinguish between type of work or number of hours. As such, this may overstate the number of qualifying individuals. Based on the estimated 11,048 potential childcare services employees and subtracting 7,104 registered full-time and 1,230 part-time workers, there are approximately 2,714 individuals who are not registered. To determine the potential tax credits, we have included the estimated 2,714 unregistered individuals and assumed that they will follow a similar distribution to the currently registered employees.

Estimated Childcare Employee Tax Credits

Career Ladder Level	Total Registered	Estimated Unregistered	Estimated Total Taxpayers	Proposed Tax Credit	Estimated Total Tax Credits
Level 1	3,195	1,221	4,416	$1,500	$6,624,000
Level 2	1,855	709	2,564	$2,000	$5,128,000
Level 3	286	109	395	$2,500	$987,500
Level 4	298	114	412	$3,000	$1,236,000
Level 5	94	36	130	$3,000	$390,000
Level 6	769	294	1,063	$3,000	$3,189,000
Level 7	210	80	290	$3,000	$870,000
Level 8	284	108	392	$3,000	$1,176,000
Level 9	64	24	88	$3,000	$264,000
Level 10	1	0	1	$3,000	$3,000
Conditionally Qualified*	48	19	67	$2,048	$137,205
Grand Total	7,104	2,714	9,818		**$20,005,000**

Based upon these data and assumptions, the bill will reduce General Fund individual income taxes by at least $20,005,000 beginning in FY 2025-26. As the credit is refundable, taxpayers do not have to have a tax liability to claim the full amount of the credit. Please note, as the bill does not define full-time, it is unclear how many weeks and hours an individual would be required to qualify for the tax credit. The bill also does not specify if individuals must provide direct care to children or if others such as office staff in a childcare center would qualify. Without any restrictions, there may be more qualifying individuals over time if the credit incentivizes individuals to work a "full-time" week for a short period, such as during summer or other periods, or other situations to qualify for the credit.

<u>Summary</u>
In total, the bill may reduce General Fund revenue by approximately $26,668,000 beginning in FY 2025-26.

Bill Section	**General Fund Revenue Impact**
Section 1: Employer Childcare Tax Credit	($6,683,000)
Section 2: Employee Childcare Tax Credit	($20,005,000)
Total	**($26,688,000)**

Local Expenditure
N/A

Local Revenue
N/A

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