MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M

GREAT SEAL STATE OF NORTH DAKOTA

ROLL NUMBER

DESCRIPTION

2055

2005 SENATE FINANCE AND TAXATION

SB 2055

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2055

Senate Finance and Taxation Committee

❑ Conference Committee

Hearing Date January 11, 2005

Tape Number	Side A	Side B	Meter #
# 1	X		16.5 - 40.6
Committee Clerk Signature Sharon Renfrow			

Minutes: All committee members present.

SEN. URLACHER: Called the meeting or order and opened the hearing on SB 2055.

SEN. EVERY: prime sponsor of the bill appeared with written testimony stating this is a tax credit measure that will aid families with young children or audit dependents. It will give them a state income tax credit, depending on the family's income and its eligibility for a similar federal tax break.

SEN. WARDNER: wondered why they wouldn't take advantage of the credit.

SEN. EVERY: There are some other issues that the Tax Dept. Has brought to my attention and we have something that may need to be tweaked a little bit with regard to that.

BARB ARNOLD-TENGESDAL, Executive Director for Voices for North Dakota Children appeared in support of the bill with written testimony stating this is one of the first steps to crating a family friendly environment in our state. We believe it encourages young people to raise children and use the dollars that stay in their wallets to put it back in the community either paying for services such as higher quality child care, enrolling children in community activities or buying merchandise in local stores. She also handed out written testimony from Judy Milavetz who is the past-president of the ND assoc. For the Education of Young Children and who could not be present today.

SEN. WARDNER: question why Barb felt the fiscal note should be less because we haven't done anything like this at the state level, so it would all be new. Are you thinking if its available there will be more people that will take advantage of it at the Federal level?

ANSWER: Currently we do have available a dependent care tax credit in ND, it only includes those caring for disabled family members and those who are caring for elderly family members age 65 or older. I'm saying now, is that if you add the child care fees, I'm wondering if that fiscal note already takes into account those people.

VIVIAN SCHAFER: with the Children's Caucus and are in full support of this for all the reason specified by Barb.

SOPHIA PRESZLER: a Bismarck resident who appeared in opposition of the bill because our nation is 7 trillion dollars in debt and we are already taking care of the handicapped and elderly, how can we take on any more federal programs when we are so far in debt?

JOE BECKER with the Tax Dept. Appeared to give explanation regarding the fiscal note stating it reflects one thing and one thing only, we took the stats we have on those who are claiming the federal credit and factored in the AGI cutoffs into our filing population, so that number is only looking at those who are actually claiming the federal credit. In reference to the family care credit which has been brought up, that's a separate state tax credit that has no interaction with this. We don't know perhaps if you could qualify for both, but the fiscal note as we read the bill its only referencing the federal dependent care credit and those are the stats that we used.

SEN. WARDNER: asked if the other credit was on the short or long form. Answer being, its on both.

SEN. COOK: does this conflict with those already on the books and do we need it?

ANSWER: the family care credit has a number of income limitations on it that at this point, we have to take into consideration, also it only deals with health care expenses. It has limited use at this point and this particular credit is going to open it up to all who can claim the federal dependent care credit.

JOE BECKER; explained some concerns with language on page 1, line 11 - without regard to whether the tax payer claimed this federal income tax credit. We are not exactly sure what is being targeted here and trying to avoid a double tax bread at the federal level. The other situation is a family does qualify for this credit but because they are a federal tax liability is either 0 or very low they can't utilize the credit anyway, but then we are not sure if that fact situation then would in turn generate a zero tax for the state anyway.

SEN. WARDNER; requests clarification regarding if federal tax return doesn't qualify..

JOE BECKER: If you AGI hits that highest mark at the federal level, the worst that is going to happen is your credit rate will bottom at 20%, you can still get the credit. The lower your AGI is the higher the rate goes. $43,000 in federal credit gets cut off and that is not the case.

NO FURTHER QUESTIONS OR DISCUSSION, hearing was closed

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2055

Senate Finance and Taxation Committee

☐ Conference Committee

Hearing Date January 24, 2005

Tape Number	Side A	Side B	Meter #
# 2	X		16.7 - 44.9
Committee Clerk Signature Sharon Renfrow			

Minutes: All committee members present.

SEN. EVERY presented amendments to the committee and made a motion to **ADOPT THE AMENDMENT**, seconded by Sen. Bercier.

DONNITA WALD: Tax Dept., explained the amendment to the committee as to what it does. We took out the language and now you only get the credit if you in fact claimed it on your federal income tax returns. That reduces the fiscal note from the 2.295 million to 1,093,000 based on information we got from the Fed's on how many North Dakotan's have claimed that credit. The family care tax credit applies to those 65 or older and disabled individuals and minors who are developmentally disabled but the purpose of that bill is to prevent them from being placed in a long term care facility, to keep them at home.

VOICE VOTE: 6 - 0 - 0

DONNITA: commented on the Family Care Credit, in 2003 there were 19 tax payers that claimed it for a total of $16,700.00

SEN. COOK: asked what the largest dollar amount that this credit would be equal to? What is the maximum credit you can take with this bill? State credit.

DONNITA: The federal average for subsection 1 is 50% of the adjusted gross income is less than 25, the federal average was $322.00 per return. So that would be $162.00 for the State (50%). The 30% of the federal average is $379.00, $114.00 State (30%). For the 20%, the federal average was $435.00, $87.00 State (20%).

SEN. COOK: I think we are trying to relieve the burden that child care puts on families and I certainly understand that burden, but do we already have so many other things out there available that they are already getting their tax liability down to zero, except maybe some who probably, are helping the right ones?

SEN. EVERY: doesn't feel its a bad thing and feels its meaningful legislation.

SEN. WARDNER: I like the concept but it whittles away at the concept. We have to protect our revenues.

SEN. EVERY: with the amendments we just attached to it, is an identical bill to one I introduced last session and the reason we killed that bill was because we didn't the revenue.

SEN. COOK: I have 2 conflicting convictions here on this, again I'm going to back to 40% of the filers don't have $100. It cost money to provide all the services that a State is expected to provide.

SEN. EVERY: If 29 or 30% of the population in ND are aging population as we heard this morning, that that 40% is probably not too accurate to say that your all working families. I think the working families are the ones we want to help. It's not the aging population of that 40%, there's another 10% out there that aren't paying, so that's not an accurate number and the young families are the ones that we are consistently recruit and trying to keep.

SEN. BERCIER: I guess if these folk are making more than the $5.15, maybe their taxes would be up, the State is not moving their wages up. Right now we have a system that pushes them and keeps them in Welfare.

SEN. URLACHER: I like to help people, but it goes back to helping oneself. There are colleges that are building in child care and whether this will assist in covering them I don't know but when you consider the cost of child care. I do like to see people get the help they need.

SEN. WARDNER: I appreciate the concept, just doesn't know how much help this will do. And made a motion for **DO NOT PASS AS AMENDED** because of the fiscal note, seconded by Sen. Tollefson.

VOTE: 4-2-0 Sen. Cook will carry the bill.

FISCAL NOTE
Requested by Legislative Council
02/04/2005

Amendment to: SB 2055

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2003-2005 Biennium		2005-2007 Biennium		2007-2009 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			($275,000)			
Expenditures						
Appropriations						

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2003-2005 Biennium			2005-2007 Biennium			2007-2009 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2. **Narrative:** *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

Engrossed SB 2055 provides an income tax credit on the optional (long-form) filing method for dependent care expenses.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*
   A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

Engrossed SB 2055 creates a state individual income tax credit for dependent care equal to a percentage of the federal dependent care credit for those individuals with adjusted gross incomes under $60,000. This credit is available to taxpayers filing the optional (long form) method. If enacted, Engrossed SB 2055 is expected to reduce state general fund revenues by $275,000 during the 2005-07 biennium.

   B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

   C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

Name:	Kathryn L. Strombeck	**Agency:**	Office of Tax Commissioner
Phone Number:	328-3402	**Date Prepared:**	02/04/2005

FISCAL NOTE

Requested by Legislative Council
12/17/2004

Bill/Resolution No.: SB 2055

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2003-2005 Biennium		2005-2007 Biennium		2007-2009 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			($2,295,000)			
Expenditures						
Appropriations						

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2003-2005 Biennium			2005-2007 Biennium			2007-2009 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2. **Narrative:** *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

SB 2055 provides an income tax credit for dependent care expenses.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*
   A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

SB 2055 creates a state individual income tax credit for dependent care equal to a percentage of the federal dependent care credit for those individuals with adjusted gross incomes under $60,000. If enacted, SB 2055 is expected to reduce state general fund revenues by $2,295,000 during the 2005-07 biennium.

   B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

   C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

Name:	Kathryn L. Strombeck	**Agency:**	Office of Tax Commissioner
Phone Number:	328-3402	**Date Prepared:**	01/10/2005

Prepared by the Office of
State Tax Commissioner
January 18, 2005

PROPOSED AMENDMENTS TO SENATE BILL 2055

Page 1, line 11, replace ", without regard to whether the taxpayer claimed this federal income tax" with a period

Line 1, page 12, remove "credit."

Page 1, line 23, after the period insert: "The credit under this section is not available to taxpayers claiming a credit under section 57-38-01.20."

Renumber accordingly

Date: 1-24-05
Roll Call Vote #: 1

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. *SB 2055*

Senate **Finance and Taxation** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number ______

Action Taken adopt Amendment

Motion Made By Every Seconded By Bercier

Senators	Yes	No	Senators	Yes	No
Sen. Urlacher	✓		Sen. Bercier	✓	
Sen. Wardner	✓		Sen. Every	✓	
Sen. Cook	✓				
Sen. Tollefson	✓				
Voice Vote					

Total (Yes) 6 No 0

Absent 0

Floor Assignment ______

If the vote is on an amendment, briefly indicate intent:

Date: 1-24-05
Roll Call Vote #: 2

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. *SB 2055*

Senate **Finance and Taxation** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken Do not Pass as amended

Motion Made By Wardner Seconded By Tollefson

Senators	Yes	No	Senators	Yes	No
Sen. Urlacher	✓		Sen. Bercier		✓
Sen. Wardner	✓		Sen. Every		✓
~~Sen. Cook~~	✓				
Sen. Tollefson	✓				

Total (Yes) 4 No 2

Absent 0

Floor Assignment Cook

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2055: Finance and Taxation Committee (Sen. Urlacher, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO NOT PASS** (4 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING). SB 2055 was placed on the Sixth order on the calendar.

Page 1, line 11, remove ", without regard to whether the taxpayer claimed this federal income tax"

Page 1, line 12, remove the first "credit"

Page 1, line 23, after the period insert "The credit under this section is not available to taxpayers claiming a credit under section 57-38-01.20."

Renumber accordingly

2005 TESTIMONY

SB 2055

SB 2055 CHILD AND DEPENDENT CARE TAX CREDIT

Senate Finance and Tax Committee

Tuesday, January 11, 2005

SB 2055 is a tax credit measure that will aid families with young children or adult dependents. It will give them a state income tax credit, depending on the family's income, and its eligibility for a similar federal tax break.

The state tax credit would be extended to families with an adjusted gross income of $60,000 or less.

Many states already have their own Child Care and Dependent Care Credit. If North Dakota were to adopt this legislation we will be able to benefit from this credit, and file this type of claim both in our state and federal taxes.

Just over half the states (27) offer a child and dependent care tax credit. Though they may differ in important respects, state credits do reduce the state income tax burden of working families.

Most states' tax credits are structured as a percentage of the federal child and dependent care credit or as a percentage of the care expenses eligible for the federal credit. The federal credit is nonrefundable and available to families at all income levels with employment-related expenses for children under the age of 13. In 2003, families with two or more children could claim up to $6,000 in annual child care expenses, and families with one child could claim up to $3,000. The credit equals 20 to 35 percent of the amount claimed, depending on family income, so for example, the maximum credit is $2,100 for families with two or more children.

The federal credit equals 35 percent of up to $3,000 of qualifying expenses for one child ($6,000 of qualifying expenses for two or more children). The maximum federal credit is $1,050 for one child and $2,100 for two or more children. The federal credit begins to phase down when income exceeds $15,000, with the credit percentage decreasing as income increases. Claimants with incomes over $43,000 qualify for the minimum federal credit equal to 20 percent of qualifying expenses, or up to $600 for one child and $1,200 for two or more children, depending on actual child care costs. For example, a claimant with $50,000 of income and $1,000 of expenses will qualify for a credit of $200 (20 percent of $1,000).

To receive this credit you must work and earn enough to be taxed on that income and pay for the care of a dependent: a child under 13 years old, a spouse with a disability, or a parent who needs care while you are at work.

When that fails, those families should not be dismissed, but their needs can be, and would be, better addressed at the local or state level.

Religious providers make this care available, not for financial gain or business reasons, but because parents - in particular the working poor - need and desire this assistance from their religious communities. In short, churches offer this assistance as part of their religious mission to serve those in need - to provide supervised care at a manageable cost so that children will not be left in unsupervised situations.

Churches could use their limited resources for many other worthwhile purposes, but they provide this needed assistance because of their deep concern for the well-being of children and families and the integral part it plays in the religious mission of the Church.

There is no doubt that some young families struggle to afford child care. In North Dakota, there are many children whose parents are members of the "working poor." Surely it is difficult for those families to pay for child care. Their needs should be addressed, to every extent possible, as should the needs of *all* families: through relieving the tax burden.

This legislation will provide dependent care credit to any taxpayer whose adjusted gross income is sixty thousand dollars or less, based on a percentage of the federal dependent care credit without regard to whether the taxpayer claimed this federal income tax credit.

The applicable percentage of the federal credit to be allowed as a credit under this bill is:

50%, if the taxpayers AGI are less than $25,000

30%, if the taxpayers AGI is $25,000 or more but less than $35,000, and

20%, if the taxpayers AGI is $35,000 or more but not more than $60,000.

A tax credit would help all parents, those using parental care and those using day care. For some parents, that would mean more money for a different day care provider, for other parents, probably the majority of parents that would mean working less and spending more time with their children. We must remember that parents, not politicians, are best equipped to make decisions about child care arrangements—decisions that require keeping the unique needs of each child in mind. If government could do one thing to help all children have the best possible child care, it would be to restore that parental choice by cutting taxes.

Mr. Chairman and members of the committee, I would ask for your favorable consideration on SB 2055. Thank you.

Citizens for Tax Justice 1311 L Street, NW, Washington, DC 20005 202-626-3780

THURSDAY, JUNE 12, 2003, 1 PAGE CONTACT: Bob McIntyre

House GOP Child Credit Bill Gives Far More to the Well Off Than to Moderate-Income Families

Over the next four years, the child credit bill passed on June 12 by House Republicans gives 2.4 times as much in total tax cuts to families with children under 17 with family incomes above $104,000 than it offers to families making less than $28,000. Fewer than one in seven families with children under 17 makes more than $104,000 this year, while almost one in three makes less than $28,000.

An analysis of the House GOP bill by the Institute on Taxation and Economic Policy finds that over the next four years:

- Families with children under 17 and incomes of $28,000 or less would get an average of $421 in tax savings — only $105 a year.
- In contrast, families with children under 17 and incomes of $104,000 or more this year would get an average of $2,245 in tax savings — $561 per year.
- Families making less than $28,000, who are 30.3 percent of all families with children under 17, would get 11.9 percent of the tax cuts under the bill over four years.
- Families making more than $104,000, who are 13.7 percent of all families with children under 17, would get 28.7 percent of the bill's tax cuts over four years.

Effects of the House GOP 2003 Child Credit Plan in 2003-06
on families with children under 17

Income Group	Millions of families w/ kids < 17 in 2003	% of these families	Effects in 2003 & 2004, per year			Effects in 2005 & 2006, per year			Four year totals	
			% with tax cut	Ave tax cut (all)	% of total tax cut	% with tax cut	Ave tax cut (all)	% of total tax cut	Ave tax cut (all)	% of total tax cut
Less than $16,000	5.7	14.3%	26%	$ –30	3.8%	6%	$ –9	0.3%	$ –79	1.0%
$16,000 – 28,000	6.4	16.1%	52%	–148	20.7%	62%	–215	8.2%	–725	10.9%
$28,000 – 45,000	7.1	17.7%	19%	–122	18.9%	90%	–448	19.0%	–1,139	19.0%
$45,000 – 73,000	9.7	24.0%	3%	–33	6.9%	99%	–556	31.9%	–1,177	26.6%
$73,000 – 104,000	5.5	13.8%	1%	–5	0.5%	98%	–522	17.2%	–1,052	13.7%
$104,000 – 145,000	2.7	6.6%	61%	–377	21.8%	96%	–1,111	17.5%	–2,976	18.4%
$145,000 – 337,000	2.3	5.6%	51%	–555	27.3%	38%	–425	5.7%	–1,961	10.3%
$337,000 or more	0.6	1.5%	—	—	—	—	—	—	—	—
ALL	40.2	100.0%	23%	$ –115	100.0%	73%	$ –418	100.0%	$ –1,066	100.0%
ADDENDUM										
Less than $28,000	12.2	30.3%	40%	$ –93	24.5%	36%	$ –118	8.5%	$ –421	11.9%
$104,000 or more	5.5	13.7%	51%	–411	49.1%	62%	–712	23.3%	–2,245	28.7%

The proposal would make the following changes to current law: (1) In 2003 and 2004, the refundability percentage for the child credit would rise to 15% (from 10%); it is already scheduled to be 15% in 2005 through 2010. (2) Starting in 2003, the phase-out of the credit would begin at $150,000 of income (rather than at $110,000). (3) Starting in 2005, the child credit would rise to $1,000 per child (from $700 in 2005-08 and $800 in 2009). Note: Percentages with tax cuts and average tax cuts are for families with children under 17 only. (The other 93 million taxpayers are not affected by the bill.)

Source: Institute on Taxation and Economic Policy Tax Model, June 12, 2003.

VOICES FOR NORTH DAKOTA'S CHILDREN

twenty-five years for children

NDAEYC

1976-2001

CENTER FOR EARLY CHILDHOOD LEADERSHIP & ADVOCACY

To: Herb Urlacher,, Chairman, and members of Senate Finance and Taxation Committee

From: Barb Arnold-Tengesdal, Executive Director, Voices for North Dakota's Children

Date: January 11, 2005

Re: Testimony in support of SB 2055

Voices for North Dakota's Children is a collaborative advocacy effort of early childhood education professional organizations. It is made up of the North Dakota Head Start Association, North Dakota Association for the Education of Young Children, Child Care Resource & Referral Network, Children's Caucus.

We urge your support of SB 2055.

Currently, North Dakota provides under Century Code 57-38-01.20 a tax credit for expenses when caring for "certain" family members. This provides a credit for individuals to take who care for persons 65 years or older, or determined to be disabled by the social security administration. Qualified expenses can include payments by the taxpayer for home health agency services, companionship services, personal care attendance services, adult day care and several other types of services. The federal dependent care tax credit also includes care for children under the age of 13. Care of our youngest North Dakotan's is not included in the state credit.

The average cost of fulltime child care in North Dakota can range from $3500 to $6000 per child, more than the cost of tuition at a state university. Parents are burdened with the expense of rearing children while staying employed with little or no financial support. To aid families in their efforts to stay employed and build North Dakota's economy, a proposed tax credit for child care expenses incurred by individuals while working is outlined in SB 2055.

With over 76% of North Dakota mothers of young children in the labor force (Kid Count 2003), the reality is the majority of women are currently working outside the home. We must begin to see there is not a conflict between helping working families meet their child care needs and supporting "stay-at-home" parents. Many parents (women in particular) move in and out of the labor force at different points in the children's lives. Working parents and stay-at-home parents are not two separate groups in conflict with one another. Many women who work outside the home do not have any other choice. Helping working families pay for their child care expenses does not <u>favor</u> working families over those with a parent at home. A family with child care expenses that are partially offset by a tax credit

410 E. Thayer Avenue, Suite 2 ♦ Bismarck, ND 58501 ♦ Phone: 701-224-1445 ♦ Toll Free: 1-866-204-3322 ♦ Fax: 701-255-0848

will still have ***less*** disposable income than a family at the same income level that has no child care expenses.

Regarding the fiscal note created by the Tax department, it appears to be based on the number of North Dakotan's who claimed the federal credit-which includes elderly and disabled dependents along with child dependents. If this is true, what must be reduced in this fiscal note is the number of taxpayers who are already taking the state credit currently available for elderly or disabled dependents. It is not clear if this is fiscal note indicates new revenue loss due to added child care related expenses or a summary of all revenue that would be lost for all dependent care related expenses. It is also important to note, this bill addresses a percentage of a taxpayers federal DCTC (Dependent Care Tax Credit) not the federal CTC (Child Tax Credit) or the EITC (Earned Income Tax Credit).

We believe passing SB 2055 is one of the first steps to creating a family friendly environment in our state. We believe it encourages young people to raise children and use the dollars that stay in their wallets to put it back in the community either paying for services such as higher quality child care, enrolling children in community activities or buying merchandise in local stores.

Grow North Dakota.... Invest in Early Learning.
Child care keeps families working!

North Dakota Association for the Education of Young Children

twenty-five years for children

NDAEYC

1976-2001

To: **Herb Urlacher, Chairman, and Members of Senate Finance and Taxation Committee**
From: **Judy Milavetz, Past President, North Dakota Association for the Education of Young Children**
Date: **January 11th, 2005**
RE: **Testimony in support of SB 2055**

The North Dakota Association for the Education of Young Children strongly supports SB 2226, the working family tax credit. The bill offers individuals a state income tax deduction for employment-related child care expenses as a percentage of their federal Child and Dependent Care (CADC) tax liability. As North Dakota struggles with bolstering its economy and stemming out-migration, this bill represents a new avenue for giving young families needed support while strengthening North Dakota's business and economic climate.

SB 2055 enhances workforce development by increasing the affordability of child care for employees. Over half the states have similar child and dependent care tax provisions, including our neighbors Minnesota and Montana, making it a factor in attracting young families to the labor force. A local study indicated that for over one third of parents surveyed, lack of affordable child care had discouraged them from working or taking a job in the community. *(Child Care Arrangements in Grand Forks, 2000.)* Employees' ability to access effective child care arrangements further profits the labor force by lowering absenteeism and other workplace disruptions while increasing productivity. *(CO Commission on Child Care Financing, 1995)*

SB 2055 offers the greatest advantages to families with the lowest incomes, often those who have no option to remain at home with their young children because of TANF regulations. The costs of obtaining child care can be prohibitively expensive, consuming over 20% of household income. *(US Bureau of the Census, 2002)* Making quality child care affordable to these families has been shown to increase their rates of job retention. *(National Conference of State Legislatures, 2000)* In addition to improving the success of parents in the workforce, the children of the working poor make striking intellectual gains when in higher quality child care settings, better preparing them for K-12 education. *(Children of the Cost, Quality, & Outcomes Study Go to School, 2000)*

Lastly, all taxpayers of the state stand to profit from SB 2055, not just those who have employment-related child care expenses. When working families are able to afford care that protects children's well-being and promotes learning, significant fiscal advantages are realized. *(Child Care Bureau, USDHHS, 1999)* Studies document future savings of over five dollars for every dollar invested by lowering the rates of special education, school drop-outs, unemployment, social welfare, and crime. *(Significant Benefits, High/Scope Press, 1993)*

We value your expertise as legislators in creating public policies that are responsible to our entire citizenship. As you wrestle with tough decisions on allocation of resources, please consider the value of SB 2055 in making an investment in North Dakota's young families and the workforce they uphold. The economic, educational, and social benefits will extend far into the future.

North Dakota
Office of State Tax Commissioner
Rick Clayburgh, Tax Commissioner

Memo

To: Senate Finance and Taxation Committee

From: Joseph Becker, Auditor III/Research Specialist
Individual Income Tax Section
Phone: 701.328.3451
E-mail: jjbecker@state.nd.us

Date: January 12, 2005

Re: Senator Cook's question on SB 2055 (Dependent care credit)

During the hearing on Senate Bill 2055, which would provide for a dependent care tax credit for individuals, Senator Cook asked whether a taxpayer could qualify for both the tax credit under Senate Bill 2055 and the family member care tax credit already allowed by law.

It is possible for a taxpayer to qualify for both credits. However, I hasten to add that it is a narrow one at best.

To qualify for the federal dependent care credit (on which the state credit will be based), the expenses must be for household services and/or the care of a qualifying family member to enable the taxpayer to work (or seek work). To qualify for the family member care credit, the expenses are generally health care related and must be necessary to avoid the placement of a qualifying family member in a long-term care facility. It is possible, though, that the expense of a babysitter or daycare center could satisfy both of these purposes.

Under the federal dependent care credit, a qualifying family member must be (1) a dependent child under 13 years old, (2) a disabled spouse, or (3) other dependent who is disabled. Under the family member care, a qualifying family member must be (1) at least 65 years old or (2) disabled. While the federal credit is allowed for a spouse or dependent who is disabled, the majority of qualifying family members will be dependent children under age 13 who are not disabled (and thus will not be eligible for the family member care credit).

Under the family member care credit, there are income thresholds for both the taxpayer and the family member that are not applicable under the federal dependent care credit. These thresholds have greatly limited the use of the family member care credit, as evidenced by the statistics on the actual usage of the credit. For example, for the 2003 tax year, only 19 taxpayers claimed the credit. Of the 19 taxpayers, by the way, only a couple also qualified for the federal dependent care credit.