

Committee for Economic Development of The Conference Board (CED)

Thinking Outside the Box – ECE Workforce Compensation

Using Refundable Tax Credits to Improve Professional Development, Wages, and State Quality Rating & Improvement Systems

BUILD 2023: Strengthening Systems, Improving Quality, Advancing Equity

November 13, 2023

REASONED SOLUTIONS
IN THE NATION'S INTEREST



CED's Longstanding Commitment to Early Education

- CED has a 50+ year history of commitment to advancing early childhood education
- CED Trustee business leaders have been at the forefront of the effort to promote early learning and development



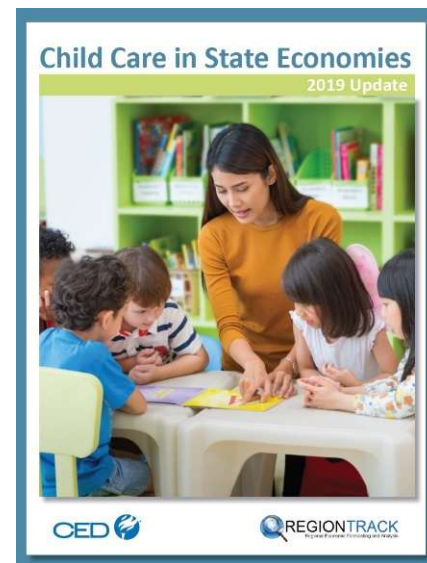
CED Business Leaders Connecting the Dots on ECE

Child Care plays an important role in the economy

- Helps parents earn, helps children learn
- **Economic Impact:** Industry revenue of about \$60 billion with more than \$100 billion including indirect (collateral impact)
- Child care is a business with more than \$24 billion in employee earnings generating about \$16 billion in spillover (jobs)
- Child care instability leads to lost productivity for workers
- 14.4 million children under 6 w/working parents (2022 ACS)

ECE Workforce Reality (U.S.)

- More than 1 million work in about 130,000 child care centers; another 1 million caregivers are home-based providers
- Two-thirds working in centers do not have a college degree
- Low wages-\$28,520/year; \$13.71 per hour (median) & high turnover
- Child care is a business. Operating revenue = private pay fees & state subsidies
- To hire & retain a more educated workforce- pay boost needs to accompany educational achievements (CDA, AA, BA, BA+)
- Tax credits are one way to boost wages



Overview: Presentation and Discussion Today

Through the lens of business leaders, policy analysts, and advocates spur discussion about:

- Using refundable tax credits to incent professional development & increase wages
- Organizing non-traditional partners to support wage strategies
- Lessons learned from enacted models and those that fell short
- Customizing tax credit wage strategies in your state 😊

STATE OF THE EARLY EDUCATION WORKFORCE

High Turnover



Average child care staff turnover

Low Wages



Median annual wage for child care staff, barely above the federal poverty level for a family of 3

Challenges:

- Staff Recruitment
- Staff Retention
- Morale

Ultimately: Impact on families and children

Why Tax Credits?

Salience Tax policy essentially defines American values and touches nearly every American. Taxes influence how citizens consume, work, save and invest.

Stability Tax credits typically remain in effect unless repealed. In some states a 2/3 majority vote is required to repeal a tax policy.

Efficiency Tax credits use an existing administrative infrastructure to administer funds (not a new program).

Equity and Flexibility Tax credits are available to all eligible taxpayers (individual or business) and many provider types. If well-crafted & linked to quality, could reinforce a range of systems, such as: QRIS, T.E.A.C.H. scholarships, CDA, etc.



Tax Credits vs Tax Deductions

- A tax credit is more valuable to a taxpayer than a tax deduction of the same amount.
- A **tax credit** reduces the taxes paid, dollar-for-dollar.
- A **tax deduction** lowers taxable income, and is worth more to a taxpayer in a higher tax bracket than to one in a lower tax bracket.



For Example:

A taxpayer in the 35% tax bracket:

- a \$100 tax deduction reduces taxes owed by \$35 (35% of the amount spent).
- But, a \$100 tax credit reduces taxes owed by \$100 (100% of the amount spent).



Tax Credits vs Tax Deductions

- A tax credit isn't worth anything to a taxpayer who owes no tax unless the credit is *refundable*.
- Many child care teachers make such low wages that they do not owe much in taxes, so a non-refundable credit is of little value to them.

For Example:



- A taxpayer who is eligible for a *tax credit* worth \$500 and who owes only \$100 in taxes can only claim \$100 of the credit.
- If the same tax credit were ***refundable***, the taxpayer could claim the full \$500. (*And, would receive a \$400 refund*).



Louisiana School Readiness Tax Credits

Inciting Professional Development, Boosting Income

	Louisiana School Readiness Tax Credits
	Tax Credit for Directors & Staff
2021 Cost (Refundable Tax Credit)	\$16.7 million
# of Recipients	5,926 teachers and 914 directors
Credit Levels	Teachers: 4 levels (CDA through graduate degree). While progressive related to levels of education, the credit rewards individuals earning their Early Childhood Ancillary Certificate (CDA) by enabling them to reach level 3 (with at least one year experience and level 4 (with 2 years of experience). Otherwise, an AA in ECE is required for Level 3 and a BA in ECE is required for Level 4).
	Directors: 4 levels (CDA plus 30 clock hours in in approved administrative training through a graduate degree in early childhood).
	Both teachers and directors: Must work at a child care center for at least 6 months for an average of 30 hours per week to qualify
	Family child care teachers will be eligible beginning with the 2023 tax year
Features	Child Care Teacher I \$1,894 Child Care Teacher II \$2,525 Child Care Teacher III \$3,157 Child Care Teacher IV \$3,787
	Director I \$1,894 Director II \$2,525 Director III \$3,157 Director IV \$3,787
	✓ The tax credit is refundable (directors and staff receive a check if the amount of the credit exceeds their tax liability)
	✓ The tax credit is adjusted annually for inflation. The above amounts reflect 2022.

The SRTC has 5 types of credits wrapped into a pkg.

Our focus today is just on the wage piece.

Glad to talk at the end (if time) about the other pieces.

Louisiana School Readiness Tax Credits - All Components					
	Child Care Expenses (for Families)	Providers	Business Support	Child Care Resource & Referral (CCR&R)	Teachers & Directors
2021 Cost (Refundable Tax Credit)	\$1.8 million	\$5.6 million	\$3.6 million	\$2.1 million	\$16.7 million
Total:	\$30 million				

Source: Louisiana Department of Revenue, [2021-2022 Annual Tax Collection Report](#) (March 2023), Combining Corporate and Individual Tax Returns



Louisiana SRTC Impact

They are maximizers. Help state CCDF match, encourage local investment and incent quality (and enable improvement) within child care assistance, not capped (SRTC \$ increased from about \$4M in 2009 to \$30M in 2021.)

They help drive improvement. Dramatic increase in number of child care staff who participate in professional development and who obtain credentials; increased number of centers participating in QRIS + rated at higher levels; increased number and proportion of lower-income children enrolled in higher-quality centers.

They are (almost) untouchable. In LA, established in law (2007) and supported by 4 different administrations on both sides of the aisle. Different story in Nebraska (touched/lapsed).

They build a practitioner constituency. ECE directors + teachers swarmed the room when tax credits were up for review by legislative committees. ECE trainers + TA providers routinely cite credits as incentives for participation.

Accountants and tax preparers are their best friends. Usage of credits occurred and increased when (1) visibility- campaign; (2) CPA help if needed

(NOTE: Not a magnet! – Need to work at it!)



Teacher-Director Credits: 2018 Improvements

- Louisiana created an early childhood ancillary certificate (CDA+) and required by 2019 – **all lead teachers in publicly funded centers to have it**
- Revised SRTC to encourage and reward attainment of ancillary certificate
 - More than doubled the value of credit (\$3,787 annually) for teachers with ancillary certificate who have continuously worked in a publicly-funded center for more than 2 years
 - Did not increase value of credit for more highly qualified teachers (In other words, credit is same for CDA+ and BA degrees)
 - Credits adjusted for inflation annually

For Directors:

- Site directors can earn credits based on site performance (CLASS), as well as their professional credentials
- No directors lose current credits, just option for moving up director levels for higher credit

State Policy Changes

- Enactment of Act 3 completely revised ECE accountability system
- SRTC needed to change... legally (no more QRIS) and to link to new approach (CLASS, provider profiles, minimum qualifications)
- Desire to address retention & center quality improvement led to increasing value of the ancillary certificate (CDA+) and linking credits to longevity in field & site performance.

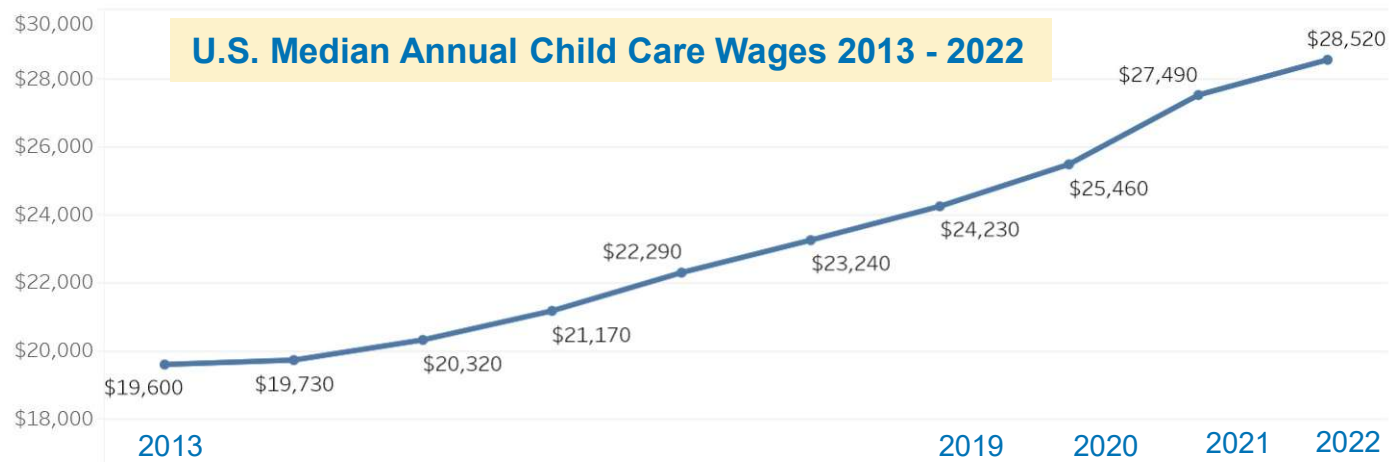


Re-thinking Compensation: Earned Tax Credits as Wage Supplements

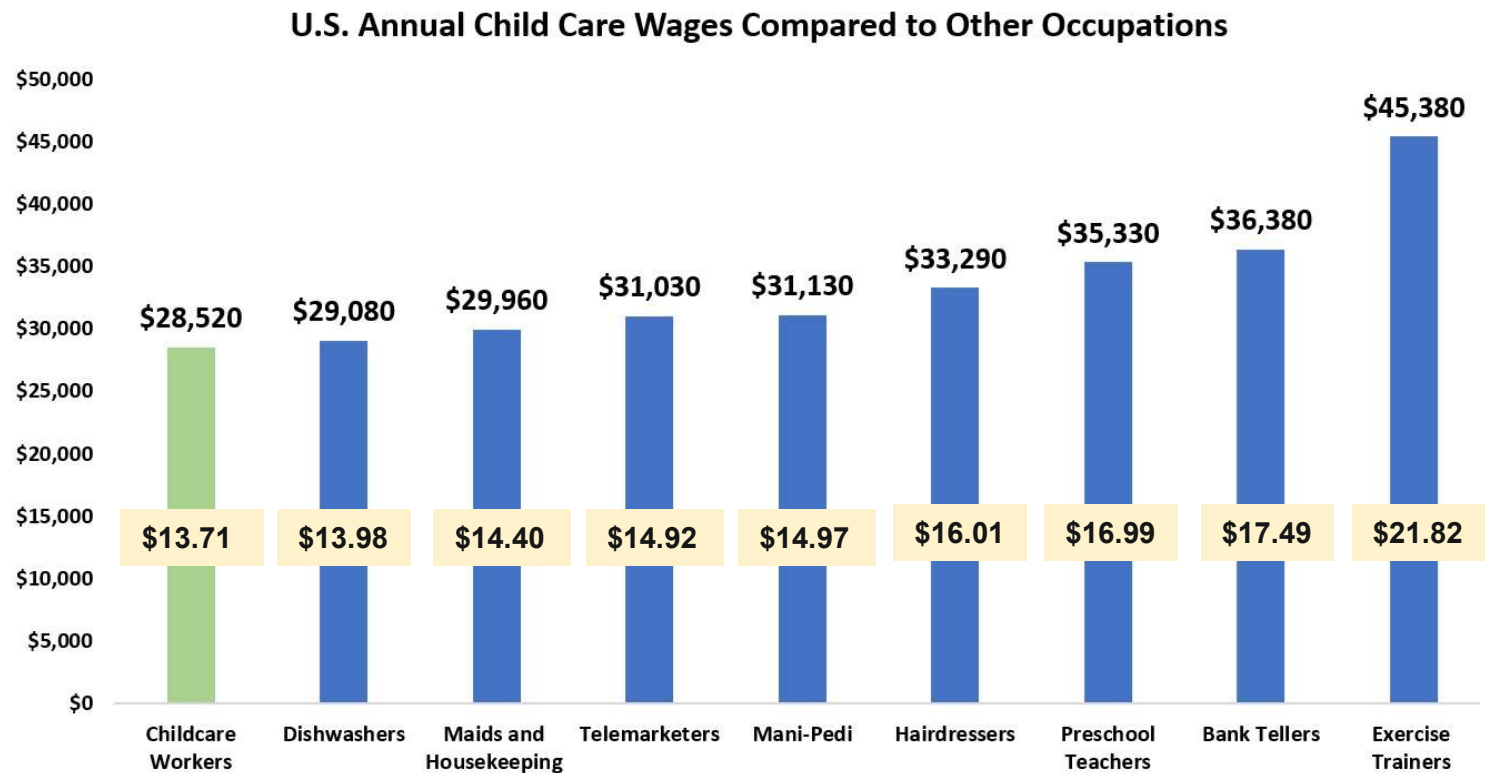
- **What we know:** child care wages are low. (median \$28,520/year, \$13.71 per hour)
- **Low to high:** median wages among states
 - **Mississippi:** \$20,450/ \$9.83 per hour
 - **MA:** \$38,070/ \$18.30 per hour
- **Child care is a business.** Operating revenues: private pay fees (families) & state subsidies (provider payment rates)



Child Care Wages Have Increased But Are Still Low...

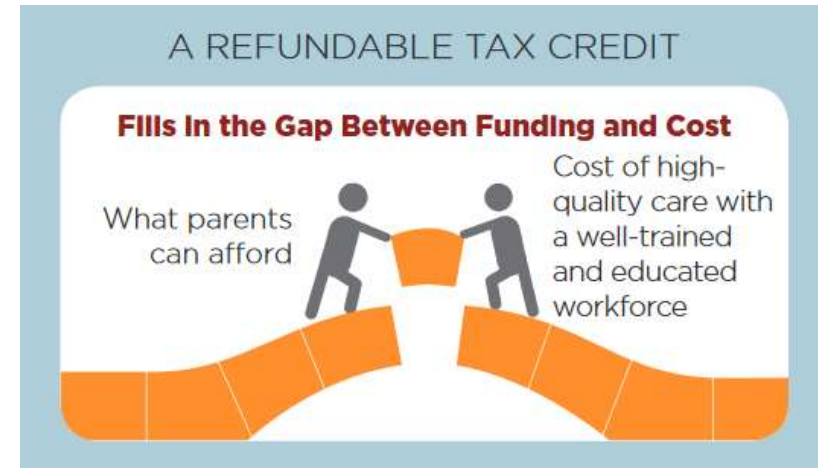


Since 2019, median child care annual wages have increased by \$4,290 (17.7%)



Customizing Tax Credits/Embedding in State Systems

- **ECE Registry:** Most states have a registry of some type (voluntary or mandatory).
- **Career Pathways:** Most states have some type of career pathway (certifications, higher levels of education, etc.).
- **State QRIS.** Most states have some type of QRIS (whether it's stars, levels, points, some type of hybrid – and many include increasing levels of certification or education for the workforce).
- **Scholarships:** Many states offer some type of scholarship assistance to access PD/Education. (e.g., T.E.A.C.H or another tuition support strategy for higher ed)



Tax credits don't require a new program; they can link to what states have.



FLAG: Don't Undermine the Tax Credit with Bureaucracy! ☹️

A tale of 2 states... Charles Dickens' world...

Louisiana

- On or before January 31 of each year, child care workers in the PD registry are mailed a tax form from the LA Dept. of Education.
- The form includes the level of training & education achieved.
- This form is then submitted (or information from it transferred) on LA tax forms.

Bottom line:

In Louisiana, the administrative process has been set up for efficiency.

- Workers receive a form by January 31 (just like a W-2 or 1099).
- They then can use that information to file their taxes.

Outcome: Growing Utilization of the tax credit!

Nebraska

- Individual workers must submit an attestation form outlining their qualifications through the NE Early Childhood Professional Records System (NECPRS) **by February 1.**
- The attestation form is reviewed by the NE Dept. of Education, and if approved, the individual must submit the printed form from the Dept of Ed to the NE Dept. of Revenue by **March 1.**

Bottom Line:

In Nebraska, the process is cumbersome. The onus is on the worker. There are multiple dates to miss a step, preventing otherwise qualified individuals from using the credit.

Outcome: Low utilization.

Policy challenge: \$5 million cap.



Reminder: Refundable Tax Credit Basic Concepts



[Lois Jordan, LA Center Director Testimony \(.52 0 3:17\)](#)

Louisiana Example

Median Wage: \$19,080

Level 4 = \$3,787
refundable tax credit
(total income: \$22,867).

✓ an increase of
19.8% if earning
\$19,080

Tie the credit to higher
certifications & levels of
education in a
MEANINGFUL amount



Lessons Learned: What to Watch Out for...

Generally...

- ECE advocates not generally well-versed in tax strategies. More comfortable with appropriations. EDUCATE!
- Involve non-traditional partners (e.g., the business community) – child care is a business afterall. 😊
- 28 states tie subsidy receipt to QRIS. A few states have a rated license (mandatory QRIS for all). Be prepared for organized opposition to tax credit tie to QRIS. Organize supporters to show up & speak!
- Reframe: talk about economic impact! Child care helps drive state and local economies. (e.g., \$100 billion impact in U.S.) For your state data: <https://www.ced.org/childcareimpact>

Wonk stuff...

- Start early!!! Educate!
- Educate state policymakers **AND** those who write the fiscal estimates. Fiscal estimates can make or break a bill!
- Set credits at meaningful amounts (and adjust annually for inflation)
- Make sure you've got the tech terms correct: S Corps, LLC, sole proprietors (home-based providers), etc.
- Avoid a cap on the amount of the credit if possible
- **WE CAN HELP YOU!**



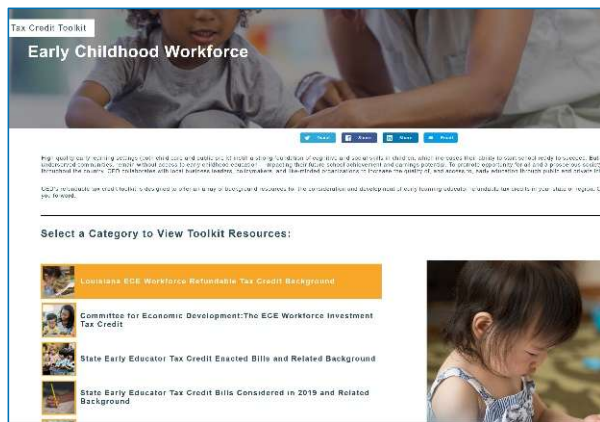
Why think about tax credit strategies?



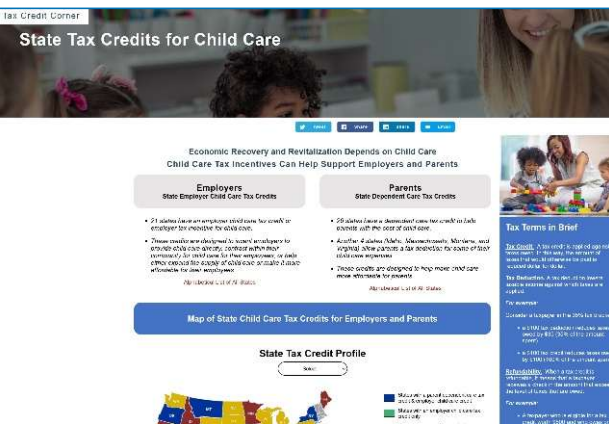
Tax Credits

- Earned, linked to PD
- Supplement wages
- Can be tied to current ECE systems
- Accountability built in
- Don't require parents to pay more
- Not a magic wand, but a strategy to link talent development with higher wages
- Can count toward TANF or CCDF MOE

For more information, see: <https://www.ced.org/policyissues/education-issues>



Early Childhood Workforce Tax Credit Toolkit



Tax Credit Corner: State Child Care Tax Credits for Employers & Parents



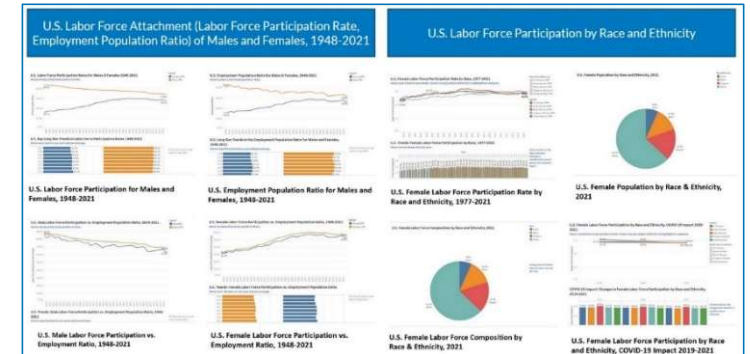
The Workforce Investment Tax Credit



Economic Impact: Child Care in State Economies



The Economic Role of Paid Child Care in the U.S. – A Report Series



35 interactive data visualizations, Part 1 & 2 (State data!)

Questions?

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