

FISCAL NOTE TO  
ASSEMBLY, No. 206  
**STATE OF NEW JERSEY**

DATED: NOVEMBER 27, 1996

Assembly Bill No. 206 of 1996 provides a tax credit against the Corporation Business Tax (CBT) for taxpayers who operate or maintain a licensed child care center for their employees' children. This bill also provides a credit for taxpayers who pay for all or part of the cost of child care services for their employees' children from an outside provider. The child care credit contained in this bill is equal to 50 percent of child care contributions made by the taxpayer. For capital expenditures the tax credit is limited to 50 percent of the annual depreciation. To qualify for this credit, child care services may not be discriminatory in favor of stockholders, officers or highly compensated individuals or be operated at a profit.

The Division of Taxation is unable to make a firm estimate of the fiscal impact of this legislation, but it calculates that the bill will result in a revenue loss of between \$6 million and \$10 million annually. The division bases this estimate upon anecdotal evidence which suggests that few corporations have taken advantage of similar child care credits in other States. The division cites the California child care credit provisions under which only 15 corporations in that state claimed the credit for tax year 1991, as reported by *State Tax Notes*. The division also cites an unnamed 1993 survey, reported in the *Philadelphia Inquirer*, in which nationally 7 percent of businesses with greater than 1,000 employees subsidize child care.

The division uses this 1993 survey to calculate that 1 percent of New Jersey employees work for corporations in the State with 1,000 or more employees. It then estimates that these employees would have between 6,000 and 10,000 pre-school children who would require child care. The division estimates that the cost of providing child care for one year to be approximately \$4,000 per child, and the division assumes that employers who support their employees' child care pay for half this cost. The overall cost of this bill is created by multiplying the estimated number of children requiring child care by \$1,000. This figure represents 50 percent of the employer's cost, as prescribed by this bill.

The Office of Legislative Services (OLS) does not endorse all assumptions used by the division to arrive at its estimate and, as a result, believes that its estimate is too high. The OLS does, however, concur that the number of corporations who will qualify for the credit will be relatively small, but asserts that the division's estimate overstates the number of children in New Jersey whose child care is

supported by their parent's employer.

According to a March 1996 report prepared by the Division of Youth and Family Services (DYFS), there are 149 licensed employer-sponsored or employer-supported child care centers operating in the State of New Jersey. Of those 149 employer-sponsored/supported child care centers, only 47 are operated/supported by private businesses who are probable corporation business taxpayers in the State. Furthermore, several of these corporations operate or support more than one day care center, leaving only 37 separate corporations that may be eligible for the credit contained in this bill. The remainder are operated by hospitals, colleges, government agencies or public schools and would not be eligible for the credit because they are not corporation business taxpayers.

According to the DYFS report, the pupil capacity of the child care facilities supported by the 37 corporations discussed above is roughly 4,300. However, this figure is high because many of the child care facilities contained in this report also provide care for other children but receive no remuneration from the employer of these children's parents. The figures in the DYFS report merely report the "capacity" of each child care center which is supported, in whole or in part, by a New Jersey employer. As a result, it is not possible to discern the exact number of children whose child care is supported by their parents' employers. Despite this problem, if the division's \$4,000 per child annual cost is multiplied by the capacity of employer-sponsored/supported child care centers in the State, the cost of this bill will be roughly \$4,300,000, substantially below the minimum estimate calculated by the division.

This OLS estimate is based upon the total capacity of child care centers *currently* supported by probable corporation business taxpayers in the New Jersey. The estimate represents the cost of this bill if no additional corporation business taxpayers begin to provide child care support for their employees. The bill may, however, act as an incentive and could encourage an increase among businesses that provide this benefit to their employees. If so, then the cost of this bill would be somewhat higher, depending on the level of growth. However, to reach the division's minimum estimate would require growth of roughly 28 percent of children who benefit from employer-operated/supported child care.

The OLS estimate, as well as the division's estimate, assumes that corporations who qualify to take this credit will have sufficient CBT liability from which this child care credit may be taken. If corporations do not have sufficient liability to offset the credit, the cost of this bill would be reduced. Additionally, the overall cost of this bill will increase over time as inflation increases the cost of child care and the natural demographic growth increases the number of children who require care.

Finally, neither the division nor the OLS estimate includes a cost

for capital expenditures associated with providing child care to employees. The legislation permits corporations who make capital expenditures to provide child care to deduct 50 percent of the annual depreciation. No data reflecting corporate capital expenditures for child care are available. As a result, the total cost of this bill may be somewhat higher due to the unknown value of corporate-sponsored child care capital expenditures.

This fiscal note has been prepared pursuant to P.L.1980, c.67.