

FISCAL NOTE TO  
ASSEMBLY, No. 766  
**STATE OF NEW JERSEY**

DATED: JUNE 30, 1997

Assembly Bill No. 766 of 1996 provides qualified taxpayers two alternative credits against their State gross income tax liability for child care and dependent care expenses. Both credits are similar to the federal child and dependent care credit, and the value of the State credits contained in this bill are tied directly to the value of the federal credit. The first State credit, provided to taxpayers for household and dependent care service expenses, is equal to 25 percent of the maximum allowable federal credit. The second credit, provided to taxpayers for child care expenses paid to a child care center accredited by the National Academy of Early Childhood Programs (NAECP), is equal to 50 percent of the maximum allowable federal credit. Because the NAECP accredits only *child* care centers, the 50 percent credit is not available to taxpayers who care for adult dependents. New Jersey taxpayers who are eligible to claim the federal credit are also eligible to claim a State credit, and an eligible taxpayer may claim one of the two State credits, but not both.

Under federal statute, taxpayers who have a dependent aged 13 years or less or who care for a dependent/spouse who is physically or mentally incapable of caring for himself/herself qualify to receive the federal child and dependent care credit. Taxpayers who meet these criteria may receive a federal credit equal to 20-30 percent (depending on income) of up to \$2,400 (for one eligible child/dependent) or 20-30 percent of up to \$4,800 (for more than one eligible child/dependent) for household services and child and domestic care expenses. Therefore, taxpayers with one eligible child/dependent receive a federal credit of between \$480 and \$720 and taxpayers with more than one eligible child/dependent receive a federal credit of between \$960 and \$1,440.

The new *State* child and dependent care credits contained in this legislation permit eligible New Jerseyans to take a credit against their New Jersey gross income tax liability equal to *either* 25 or 50 percent of their federal credit. A taxpayer may not take both credits. Therefore, using the individual ranges of the federal credit listed above, the 25 percent State credit will provide an additional individual New Jersey credit of between \$120 and \$180 to taxpayers with one eligible child/dependent. Taxpayers with more than one eligible child/dependent will receive a State credit of between \$240 and \$360. The 50 percent State credit will provide an additional individual New Jersey credit of between \$240 and \$360 to taxpayers with one eligible

child enrolled at an NAECP accredited center. Taxpayers with more than one eligible child enrolled at an NAECP accredited center will receive a State credit of between \$480 and \$720.

The Division of Taxation estimates that the cost of the 25 percent credit contained legislation will reduce annual gross income tax revenues deposited in the Property Tax Relief Fund by \$27 million in fiscal years 1997 and 1998. The division calculated this revenue loss using the total value of all federal child and dependent care credits, estimating the portion that can be allocated to New Jersey and calculating 25 percent of that value.

The division estimates, further, that the cost of the 50 percent credit will add roughly 3 percent to the cost of the 25 percent credit because approximately 3 percent of all New Jersey child care centers are accredited by the National Academy of Early Childhood Programs. As a result, the cost of this higher credit will reduce annual gross income tax revenues deposited in the Property Tax Relief Fund by about \$800,000 annually.

According to the division's analysis, this bill will reduce gross income tax revenues by approximately \$28 million. The Office of Legislative Services (OLS) does not disagree with this analysis. It is possible that if the number of children enrolled at NAECP accredited child care centers in New Jersey grows substantially in future years, that this estimate will be too low because a higher number of taxpayers will be eligible for the 50 percent credit. However, such an increase is unlikely because the NAECP resources for accreditation of additional child care centers is limited and each accreditation expires after three years. Therefore, at present, re-accreditation is continual and the addition of new accredited child care centers is a slow process. As a result, the OLS agrees with the general magnitude of the fiscal estimate provided by the division.

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