

FYI – For Your Information

Child Care Contribution Credit

GENERAL INFORMATION

For tax years beginning on or after January 1, 2000, any taxpayer that makes a monetary contribution to promote child care in Colorado may claim an income tax credit of 50 percent of the total contribution. In-kind contributions are no longer eligible for this credit.

For tax years beginning on or after January 1, 1999 but prior to January 1, 2000, the credit was available for both monetary or in-kind contributions. The credit was 25 percent of the value of the contribution, although in-kind contributions were reduced as explained later in this publication.

ELIGIBLE PURPOSES

Contributions to promote child care in Colorado qualify for this credit. This includes the following (only monetary donations qualify after January 1, 2000):

- Donating money, real estate or property for the establishment or operation of a child care facility or program in Colorado;
- Donating money to establish a grant or loan program for a parent or parents in Colorado requiring financial assistance for child care;
- Pooling moneys of several businesses and donating such moneys for the establishment of a child care facility in Colorado;
- Donating money for the training of child care providers in Colorado;
- Donating money, services or equipment for the establishment of an information dissemination program in Colorado to provide information and referral services to assist a parent or parents in obtaining child care.

Contributions will **not** qualify for this credit if any of the following apply:

- The contribution is made to a child care facility in which the taxpayer or a person related to the taxpayer has a financial interest.
- The contribution is made to a for-profit business (unless the contribution is directly used for the acquisition or improvement of facilities, equipment, or services, including the improvement of staff salaries, staff training, or the quality of child care)
- The contribution qualifies and is claimed as a credit for Contributions to Enterprise Zone Administrators under a pledge agreement made prior to July 1, 1997.
- The contribution is not directly related to promoting child care in Colorado.
- The contribution is made after December 31, 2004.
- The donor receives consideration from the donee organization in exchange for the contribution. If this is the case, there is a sale rather than a contribution. However, this will not restrict a company from contributing to a child care center and claiming a credit based on that donation if the employees of the company receive a benefit in the form of discounted child care. One of the prime goals of this tax credit is to encourage employers to contribute to child care for their employees, assuming that the employer has no financial interest in the child care facility.

LIMITATIONS

- The credit allowed shall not exceed \$100,000 per year.
- The credit allowed shall not exceed



Colorado Department of Revenue
Taxpayer Service Division
1375 Sherman St.
Denver, Colorado 80261

Sales Tax: (303) 232-2416
Withholding Tax: (303) 232-2416
Income Tax: (303) 232-2446
Severance Tax: (303) 232-2446
Fuel Tax: (303) 205-5967

the tax liability for the year. Any excess credits may be carried forward for up to five years.

- In-kind contributions shall not exceed 50 percent of the total credit claimed for any given tax year. (See In-kind section below for further details.)

IN-KIND CONTRIBUTIONS

The credit for in-kind contributions that was available in 1999 could not exceed 50 percent of the otherwise allowable credit. This means that the amount of the credit for in-kind contributions alone was 12 1/2 percent of the value of the contribution, up to a maximum credit of \$50,000.

For cash and in-kind contributions both made in the same year, the credit is the lowest of the three following amounts:

- 1) a basic limitation of 25 percent of the combined value of cash plus in-kind contributions; or
- 2) 100 percent of the cash portion of the contribution plus the smaller of
 - a) 12 ½ percent of the combined value of the cash and in-kind contribution **or**
 - b) \$50,000; or
- 3) \$100,000.

Examples of in-kind contributions would include employee labor, materials, computer equipment, gold or stock. The value of employee labor will be valued at what the labor is worth to the charity (what they normally pay to have that service performed) as opposed to what the volunteer would normally be paid at their regular occupation.

DEFINITIONS

Child Care

For the purpose of this credit, child care is defined as the act of caring for young children who are not in school and school-age children before and after school hours with the primary purpose of assuring the child's well-being and protection while the parents or guardians go to work, actively look for work, or attend school. Child care must be provided in a child care facility as defined below. Child care does not include programs whose primary function is sports participation, entertainment, or education, but the elements may be included in a child care program.

Child Care Facility

A child care facility is a facility, by whatever name it is called, that is maintained for the whole or part of a day for the care of five or more children who are 18 years of age or younger who are not related to the owner, operator, or manager. The facility may be operated with or without compensation for such care and with or without stated educational purposes. The term includes, but is not limited to, facilities commonly known as day care centers, school-age child care centers, before and after school programs, nursery schools, kindergartens, preschools, day camps, summer camps, and centers for developmentally disabled children. Child care facility also includes those facilities for children under the age of six years with stated educational purposes operated in conjunction with a public, private or parochial college or private, or parochial school. The term shall **not** apply to any kindergarten maintained in connection with a public, private, or parochial elementary school system of at least six grades [§26-6-102 (1.5) C.R.S.]

A child care facility also includes a facility for child care in a place of residence of a family or person for the purpose of providing less than 24-hour care for children under the age of 18 years who are not related to the head of such home. [§26-6-102(4) C.R.S.]

Related person

Related taxpayer means a person connected with another by blood or marriage. Related taxpayer also means a corporation, partnership, limited liability company, trust or association controlled by the taxpayer; an individual, corporation, limited liability company, partnership, trust or association under the control of the taxpayer; or a corporation, limited liability company, partnership, trust or association controlled by an individual, corporation, limited liability company, partnership, trust or association under the control of the taxpayer.

Documentation

Any contribution must be supported by a signed statement by the child care center or donee organization, and furnished to

the donor, that states the amount of a cash contribution. In the case of an in-kind contribution, the statement must include a listing of the items contributed and the value of each item. The statement must also state the eligible purpose for which the contribution will be used. This statement must be made available to the Department of Revenue upon request.

In the case of a contribution that is made to an intermediary organization, the statement must state the portion of the contribution that is being applied to purposes other than the promotion of child care. It will be the responsibility of the donee organization to prove that the percentage of the contribution reported as utilized for purposes directly related to promoting child care is accurate and no portion has been expended on unrelated overhead expenses of the organization. Example: A donation of \$1,000 is made to an intermediary organization. Only 70 percent of the donation is expended on qualifying purposes while the other 30 percent is expended on unrelated overhead expenses of the organization. The statement must clearly state that only \$700 of the contribution is eligible for calculating the 25 percent credit. On the other hand, if the other 30 percent of the contribution is expended exclusively on overhead expenses that are directly linked to the promotion of child care, the entire \$1,000 contribution would be eligible for calculating the 25 percent credit.

COMMON QUESTIONS

Do other types of child care, such as health care for children or providing sports opportunities for children, qualify for the child care contribution credit?

No. The credit is only available for promoting child care as defined earlier in this publication.

If we accept a contribution to a project that will include a child care facility among other things, how do we determine the amount of the contribution that qualifies for the credit?

The portion of the total cost of the project directly allocated to the child care facility must be identified. Contributions made specifically for paying the actual expenses

of the child care facility will qualify for the credit. However, a separate fund cannot be arbitrarily set up to accept donations for the child care facility while funds from other sources (such as federal or state funds or donations from a charitable organization) are used to pay other expenses that would not qualify for the credit. All contributions made to the child care facility must be separately accounted for and not intermingled with other funds for the project.

FURTHER INFORMATION

For more information on related topics, consult the following DOR publications:

- FYI General 1 “Department of Revenue Publications”;
- FYI General 8 “The FYI Program – Index and General Information”;
- FYI Income 7 “Investment Credits for Licensed Child Care Centers, Family Care Homes and Employers Providing Licensed Child Care Facilities”;
- FYI Income 23 “Tax Credit for Contributions to Enterprise Zone Administrators, Programs, Projects or Organizations”;
- FYI Income 33 “Colorado Child Care/Child Tax Credit.”

Single FYIs are free from the Taxpayer Service Division. They may be obtained at any statewide Taxpayer Service Center; or by writing to the Colorado Department of Revenue, 1375 Sherman St., Denver, CO 80261; or by calling the DOR Forms Hotline at (303) 232-2414. Please use the FYI number (General 1, Sales 9, etc.) when ordering FYI publications. FYIs and commonly used forms are available on the Web at www.revenue.state.co.us

For a complete set of FYIs (approximately 140, on sales, income, excise and withholding taxes), you may purchase **The Complete Book of FYIs** at low cost from the State Forms Center, Division of Correctional Industries, 4200 Garfield St., Denver, CO 80216. An order form is contained in FYI General 1, or call the State Forms Center, (303) 321-4164, for ordering information.