



Colorado
Legislative
Council
Staff

Room 029 State Capitol, Denver, CO 80203-1784
(303) 866-3521 FAX: 866-3855 TDD: 866-3472

MEMORANDUM

January 28, 2011

TO: Interested Persons

FROM: Ron Kirk, Economist, (303) 866-4785

SUBJECT: Effect of the General Fund Revenue Forecast on the Availability of Colorado's Child Care Contribution Credit

Six tax incentives are not available during years in which General Fund revenue is forecast to be insufficient to allow General Fund appropriations to grow by at least six percent. This memorandum provides information on one of these incentives, the child care contribution credit. When available, this credit is provided to taxpayers who make monetary donations to promote child care in Colorado.

Summary

Colorado's child care contribution credit is one of six tax incentives that are not available whenever General Fund revenue is forecast to be insufficient to allow General Fund appropriations to grow by at least six percent during the year. Based on the December 2010 revenue forecast, the credit will not be available in tax year 2011 and the forecast period that includes tax years 2012 and 2013. The forecast indicates that revenue will be insufficient by \$226.2 million in FY 2010-11 to allow General Fund appropriations to grow by six percent.

Taxpayers who could otherwise qualify for the credit in 2011 will be able to claim any accrued credits during the next tax year that revenue growth is anticipated to allow General Fund appropriations to grow by six percent over the prior year. State law requires the Colorado Department of Revenue to give notice on its website that the credit will not be available during years in which revenue growth is not sufficient to allow General Fund appropriations to grow by at least six percent.

Effect of the Revenue Forecast on the Child Care Contribution Credit

Colorado's child care contribution income tax credit is one of six tax incentives that are not available whenever General Fund revenue is forecast to be insufficient to allow appropriations to grow by at least six percent during the year. For the child care credit, this is determined by the December Legislative Council Staff (LCS) revenue forecast issued prior to the tax year. Based on the 2010 December forecast, an additional \$226.2 million in General Fund revenue is needed above the forecast amount to grow appropriations by six percent over the prior year. Thus, the credit will not be available during tax year 2011. Taxpayers who would otherwise qualify for the credit in 2011 will be able to claim any accrued credits during the next tax year that revenue growth is forecasted to allow appropriations to grow by six percent.

Although Colorado is on a path of slow and gradual recovery, revenue growth will not be sufficient to allow General Fund appropriations to grow at 6 percent during the forecast period. Revenue growth is not expected to be strong enough through FY 2012-13 to allow appropriations to grow by six percent.

State law requires the Colorado Department of Revenue to give notice on its website that the credit will not be available during years in which revenue growth is not sufficient to allow General Fund appropriations to grow by at least six percent. Notice can be found at:

<http://www.colorado.gov/cs/Satellite?blobcol=urldata&blobheader=application%2Fpdf&blobkey=id&blohtable=MungoBlobs&blobwhere=1251681544060&ssbinary=true>

Background on Colorado's Child Care Contribution Credit

Taxpayers who make monetary donations to promote child care in Colorado may claim a state income tax credit of up to 50 percent of the contribution.¹ The credit is limited to donations of \$200,000 per year, capping the annual credit at \$100,000 per taxpayer.

Credit availability. The credit was established in 1999 and is authorized by state statute through tax year 2019. However, as detailed above, credits can only be claimed in tax years 2011 through 2019 in years that the state has enough revenue to grow total state General Fund appropriations by six percent over the prior fiscal year's appropriations.²

Tax credits claimed prior to 2011. A taxpayer can only claim the child care contribution tax credit up to the taxpayer's tax liability (taxes owed). Any remaining unused credits may be carried forward for up to five years. The taxpayer must apply unused credits to the soonest tax year possible.

¹ Section 39-22-121 (1), C.R.S.

² Section 39-22-122 (6.7) (a), C.R.S.

For tax credits claimed in tax years through 2010, a taxpayer may carry forward any unused tax credits for up to five years *irregardless of whether the credit is available in 2011 or afterwards*. In other words, the carry-forward provision in state law that allows unused credits to be used over a five-year period is not affected by the six percent threshold.

Sunset for credit. Donations or monetary contributions used to promote child care in Colorado will not qualify for the state income tax credit if they are made after December 31, 2019. For donations made during the 2019 tax year, the five-year carry forward period applies to the five-year period after 2019 for purposes of unused credits. Thus, taxpayers who make donations in 2019 would be able to use tax credits through 2024.

Donation eligibility. Donations to promote child care in Colorado for children age 12 years and under qualify for the state income tax credit. Tax credits may be claimed if money is donated for the establishment or operation of a *licensed* child care facility or program such as a:

- child care center;
- child placement agency;
- family child care home;
- foster care home;
- homeless youth shelter;
- residential child care facility or secure residential treatment center; or
- registered child care program that provides similar services provided by a child care center.³

Child care organizations not licensed by the Department of Human Services must register with the Colorado Department of Revenue to receive donations that qualify for the tax credit. State income tax credits may also be claimed against money donated for a *registered*:

- grant or loan program for parents in Colorado requiring financial assistance for child care;
- training program for child care providers in Colorado;
- information dissemination program that assists parents with child care information and referral services; or
- grandfathered child care organization (these organizations may accept qualified donations for the care of children ages 13 thru 18.).

⁴ Section 39-22-121 (2) (a), C.R.S.