



House
Legislative
Analysis
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DEDUCTION FOR CHILD CARE

House Bill 4180 (Substitute H-3) First Analysis (2-27-97)

Sponsor: Rep. Deborah Cherry
Committee: Tax Policy

THE APPARENT PROBLEM:

Legislation has been proposed, as part of package of bills to help working families, that would allow families to reduce their income taxes based on child care costs. The proposal would allow a person to deduct up to \$5,000 per child in qualified child care expenses from adjusted gross income, thus lowering taxable income. Supporters of this deduction say it addresses the needs of families who need two paychecks to afford a decent lifestyle (as well as single parents) and must seek care for their children so they can go to work. Such a tax benefit is aimed at helping families afford safe, high quality child care for their young children.

THE CONTENT OF THE BILL:

The bill would amend the Income Tax Act to permit a deduction of up to \$5,000 per child for "employment-related qualified child care expenses," beginning with the 1997 tax year, for a taxpayer with household income of \$100,000 or less. (The deduction would be permitted to the extent that child care expenses had not been deducted in determining adjusted gross income.)

Under the bill, "employment-related qualified child care expenses" would mean those expenses that are incurred to enable a taxpayer to be gainfully employed, and paid for the care of a taxpayer's dependent to an individual who is not related to the taxpayer and who provides child care in the taxpayer's home, or to a child care center, day care center, family day care home, or group home that is licensed or registered under Public Act 116 of 1973, which regulates child care organizations.

MCL 206.30

FISCAL IMPLICATIONS:

The House Fiscal Agency has estimated the annual revenue reduction from the bill at about \$16.5 million. (2-26-97)

ARGUMENTS:

For:

This bill helps lower to middle income families who need to seek care for their young children while they work. Many families depend upon two incomes to make ends meet, and require affordable, high quality child care that meets their children's needs. This bill would help those families find that care. Supporters say that Michigan families pay on average \$4,800 annually out of the family budget for child care. This deduction will provide up to \$220 per child in lower income taxes for struggling working families.

Against:

It is not clear why a two-income family should receive special treatment of this kind over a couple that decides to live within a lower income with one of them staying home to provide child care. Doesn't this discriminate against couples who have decided to care for their own children full-time? This deduction might make sense for a single parent or for a two-income, low earning couple, but why provide it to others? Also, it only provides the deduction for certain limited kinds of care. If tax relief is to be provided to families with young children, a better approach would be to provide an additional dependency exemption, so that all such families could be treated equally.

Against:

A great many tax reduction proposals are afloat. It would make sense to look at them comprehensively rather than piecemeal. It would also make sense to coordinate the review of tax reduction proposals with budget deliberations, so that the full impact of revenue reductions could be understood, including the impact on school funding.

Response:

Supporters of this and other related proposals say that the tax cuts can be paid for out of anticipated revenue growth for the 1998 fiscal year. Further, they say that there have been numerous tax cuts in recent years, many of which have not benefitted the people targeted by the tax cut provided by this bill and others in the

package, aimed at low and middle income working families.

POSITIONS:

A representative of the Michigan Association for the Education of Young Children testified in support of the bill. (2-26-97)

A representative of the Michigan 4C Association testified in support of the bill. (2-26-97)

A representative of the Michigan Education Association indicated opposition to the bill. (2-26-97)

A representative of the Department of Treasury testified that the administration opposes bills proposing tax reductions until the 1998 fiscal year budget is completed. (2-26-97)

A spokesperson for the Michigan Family Forum indicated opposition to the bill. (2-26-97)

Analyst: C. Couch

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.