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The Honorable Letitia James  
Public Advocate of the City of New York  
1 Centre Street, 15<sup>th</sup> Floor  
New York, New York 10007

*Tish*  
Dear Public Advocate James,

In response to a request from the Office of the Public Advocate for analysis of a possible expansion of income eligibility for the New York City child care credit, the Independent Budget Office has estimated the cost to the city of a proposed, alternative credit and the number of households that would likely benefit from it.

Since 2007 New York City residents have been able to take a credit against their city personal income tax (PIT) liabilities for qualified child care expenses for one or two children under age 4. The credit amount is equal to a percentage, varying with income, of the federal child and dependent credit allowed against federal income tax liability for child care expenses. The federal credit itself equals a certain percentage, also varying with income, of up to \$3,000 of qualified child care expenses per dependent. A similar credit is also provided by New York State against state income tax liability for qualifying income tax filers.

The city child care credit is available to far fewer city residents than either the federal or state credit in large part because under current law only filers with annual incomes of \$30,000 or less are eligible to claim the city credit. Filers with incomes of \$25,000 or less receive a city credit equal to 75 percent of the federal credit, with the percentage phasing out to 0 percent as income rises to \$30,000. In contrast, the state and federal credits have no income eligibility limits, though the value of those credits also varies with income. Filers with incomes over \$43,000 receive the smallest federal credit—20 percent of expenses—while filers with incomes above \$65,000 received the smallest state credit—20 percent of the federal credit.

Using an annual sample of New York personal income tax returns (2012 liability year) made available to government researchers by the state's Department of Taxation and Finance, IBO has compared the fiscal cost of the current New York City child care credit with the cost of a proposed alternative that more than doubles the income level at which city residents may claim the credit, from \$30,000 to \$65,000. The maximum percentage of the federal credit that filers

could claim would remain 75 percent in the alternative, but it would be received by filers with incomes up to \$43,000, compared with \$25,000 under current law. At higher incomes, the percentage would gradually phase out to 0 percent for filers whose incomes exceed \$65,000. The value of the federal credit falls from 35 percent of allowable expenses to 20 percent as incomes rise from \$15,000 to \$43,000, and this alternative would maintain the city credit at 75 percent of the federal credit to avoid further deterioration in the value of the city credit.

IBO's estimates are presented in the table below. In 2012, about 23,100 city resident tax filers with incomes up to \$30,000 claimed the city child care credit against the city income tax for expenses relating to the care of 28,700 children ages 3 or less. The total value of credits claimed—\$10.9 million—is the city's fiscal cost in terms of reduced income tax revenue. Making the credit available to filers with incomes up to \$65,000 would make an additional 25,600 filers eligible for the city credit, bringing the total number of credit takers to 48,700. The number of children with qualified child care expenses would also more than double, from 28,700 to 63,200. The alternative would increase the fiscal cost of the credit from \$10.9 million to \$22.4 million.

The average city child care credit under the proposed alternative would be slightly lower than the current credit. This is because the alternative would extend the credit to filers with higher incomes and lower federal credits. The federal credit falls from 35 percent of qualified child care expenses to 20 percent of expenses as incomes rise from \$15,000 to \$43,000, and in turn the dollar value of the city credit falls as incomes increase even if the applicable percentage remains 75 percent of the city credit.

	<b>Current</b>	<b>Alternative</b>	<b>Change</b>
Number of Filers (Recipients)	23,100	48,700	25,600
Number of Children Covered	28,700	63,200	34,500
Total Value of Credits (Fiscal Cost)	\$10.9 million	\$22.4 million	\$11.5 million
Average Credit Per Filer	\$472	\$460	(\$12)

SOURCE: IBO, based on 2012 PIT Sample File, Office of Tax Policy Analysis, New York State Department of Taxation and Finance

While these estimates have been made using 2012 data they are not likely to differ substantially from more current values because the income thresholds of the federal and city credits are not indexed for inflation. Though employment growth since 2012 by itself is likely to increase the number of credit-takers over time, income growth is likely offset much of this increase. Some filers receiving the credit in 2012 would no longer qualify if their income grew to exceed the allowable limit, while others may receive less of a credit if an increase in their income reduces the value of the federal credit itself.

Finally, it should be noted that the current city credit also differs considerably from its state and federal counterparts in the ages of children whose child care expenses are eligible for a credit. The city's credit can be claimed only for child care expenses for up to two children under the age of 4, and the alternative IBO modeled retained this age limit. In contrast, the state and federal credits can be claimed for child care expenses for children up to age 12. Since children under 4 account for only about a third of all children whose expenses were claimed by New York City

filers taking the state child care credit, increasing the age limit for children whose expenses qualify for the city credit would significantly increase both the number of filers eligible for the credit and the cost to the city.

Please let me know if you have any questions—I can be reached at (212) 442-0225 or [RonnieL@ibo.nyc.ny.us](mailto:RonnieL@ibo.nyc.ny.us).

With regards,

A handwritten signature in blue ink, appearing to read "Ronnie", with a stylized flourish at the end.

Ronnie Lowenstein