

SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based only on the provisions contained in the legislation as of the latest date listed below.)

Date: April 21, 1998 Revised: \_\_\_\_\_

Subject: Corporate Income Tax Credits/Child Care

	<u>Analyst</u>	<u>Staff Director</u>	<u>Reference</u>	<u>Action</u>
1.	<u>Fournier</u>	<u>Beggs</u>	<u>WME</u>	<u>Favorable/PCS</u>
2.	<u>Fournier</u>	<u>Smith</u>	<u>WM</u>	<u>Favorable/CS</u>
3.	_____	_____	<u>CM</u>	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____

**I. Summary:**

This legislation replaces the current *deduction* for “child care facility startup costs” provided in s. 220.12, F.S., with a *credit* for startup costs and operation costs of child care facilities, or with credit for payments made to a child care center on behalf of an employee. Businesses will receive a greater tax benefit under the credit provided under this bill than under the current tax benefit provided in s. 220.12, F.S.

Eligible companies or their parent corporation are allowed to take a credit against either their corporate income tax or insurance premium tax for the creation or operation of child care facilities including facilities providing daily care to children who are mildly ill or for payments made to a child care center on behalf of an employee. The credit is computed as 50 percent of the startup costs of the facility, not to exceed \$50,000 annually, \$50 per month for each child enrolled in the facility, or 50 percent of the payments made to a child care center on behalf of an employee, not to exceed \$50.

The Department of Revenue is responsible for administering the child care tax credit, and may not grant more than \$2 million in corporate and insurance premium tax credits in any one year.

**II. Present Situation:**

**Corporate Income Tax**

Chapter 220, F.S., provides for the taxation of corporations conducting business, deriving income, or existing within the state of Florida. The tax is levied at 5.5 percent of a corporation’s net income less a \$5,000 exemption. “Net income” is defined as that share of a corporation’s

adjusted federal income which is apportioned to Florida for any taxable year. Chapter 220, F.S., currently allows a deduction for child care facility startup in s. 220.12(1), F.S.

Section 220.12, F.S., delineates the formula for determining a taxpayer's net income for each taxable year. "Net income" is defined as a taxpayer's adjusted federal income, or if the taxpayer is a multi-state corporation or affiliated with other corporations either inside or outside the state, the part of that adjusted income that is apportioned to this state. Section 220.12, F.S., then allows for the following adjustments to the taxpayer's adjusted federal income to determine the taxpayer's taxable net income:

Nonbusiness income allocated to this state is added;  
Child care facility startup costs are subtracted; and  
\$5,000 exemption granted under the Florida Constitution is subtracted.

According to the 1998 *Florida Tax Handbook*, the fiscal impact on the state from the subtraction of child care facility startup costs from "net income" is insignificant.

### **Insurance Premium Tax**

Chapter 624, F.S., provides for the imposition of an insurance premium tax on insurers transacting insurance in this state. The tax is levied at 1.75 percent of gross premiums minus reinsurance and returned premiums.

### **Child Care Facilities**

Chapter 402, F.S., delineates licensing standards for child care facilities in Florida. Section 402.302(4), F.S., defines a "child care facility" as "any child care center or child care arrangement which provides child care for more than five children unrelated to the operator and which receives a payment, fee, or grant for any of the children receiving care, wherever operated, and whether or not operated for profit." In order to become a licensed child care facility, s. 402.305(1)(b), F.S., provides that such facilities must meet minimum standards with respect to the following issues:

1. The health, sanitation, safety, and adequate physical surroundings for all children in child care.
2. The health and nutrition of all children in child care.
3. The child development needs of all children in child care.

According to the Department of Health and Rehabilitative Services (HRS), as of June 30, 1996, there were 5,686 licensed child care centers, 4,002 licensed family day care homes, and 3,044 registered family day care homes. The department does not maintain records on how many of these are operated and used exclusively by the employees of a corporation or insurance company. There are no records available on the average cost to start up or operate a child care facility.

### III. Effect of Proposed Changes:

The committee substitute creates a child care tax credit for corporations or insurance companies that operate child care facilities on their premises for use by their employees.

Eligible companies are allowed to take a credit against either their corporate income tax or insurance premium tax for the establishment and operation of child care facilities or if the companies enter into agreements with a non-profit corporation to provide child care. Eligible companies are also allowed to take a credit against either their corporate income tax or insurance premium tax for payments made to a child care center on behalf of an employee. For company operated facilities, the credit is computed as 50 percent of the startup costs of the facility, not to exceed \$50,000 annually, and \$50 per month for each child enrolled in the facility. For payments to other facilities, the credit is 50 percent of the payment. An eligible company includes all general partnerships, limited partnerships, unincorporated businesses, and all other business entities which are owned or controlled by the parent corporation.

The Department of Revenue is responsible for administering the child care tax credit, and may not grant more than \$2 million in corporate and insurance premium tax credits in any 1 year.

To be eligible for the child care facility tax credit, the child care facility must be licensed pursuant to s. 402.305, F.S., or be a facility providing daily care to children who are mildly ill, and available to all the employees of the corporation.

The committee substitute also removes “child care facility startup costs” from the formula contained in s. 220.12, F.S., to determine a taxpayer’s taxable net income.

The net effect of this committee substitute is to replace the current *deduction* for “child care facility startup costs” with a *credit* for startup costs and operation costs for child care facilities, and to expand eligible expenses to include payments made to a child care center on behalf of an employee. Businesses will receive a greater tax benefit under the credit provided under this bill than under the current tax benefit provided in s. 220.12, F.S. At \$50 per month per child the \$2 million appropriations in the bill could accommodate up to 3,333 children.

**Section 1** amends s. 220.02(10), F.S., relating to the application of credits against corporate income tax liability. The child care tax credit created in section 4 shall be applied after all other applicable corporate tax credits have been applied. Technical corrections are made.

**Section 2** amends s. 220.03(1), F.S., relating to definitions for use in part I, ch. 212, F.S. “Child care facility startup cost” is expanded to include expenditures for substantial renovation and reductions of debt. Such costs also include any that are expended on facilities providing daily care to children who are mildly ill. “Operation of a child care facility” is defined.

**Section 3** amends s. 220.12, F.S., relating to the formula for determining a taxpayer's net income for purposes of state corporate income tax liability. Child care facility startup costs are removed from the formula.

**Section 4** creates s. 220.19, F.S., relating to a child care tax credit against corporate income tax. The Department of Revenue may grant a tax credit for costs related to the startup and operation of child care facilities. Eligible companies are also allowed to take a credit against either their corporate income tax or insurance premium tax for 50 percent of the payments made to a child care center on behalf of an employee. The amount of tax credit any one corporation may receive is limited to \$50,000 annually for child care costs. The total amount of tax credits the department may grant, under this section and section 5 of the bill, is limited to \$2 million annually. Eligibility and application requirements are set forth, including the requirement that the payments for which a corporation claims credit shall be comparable to payments charged for other children. This section shall expire on June 30, 2008. The "meaning of corporation" is provided and includes all general partnerships, limited partnerships, unincorporated businesses, and all other business entities which are owned or controlled by the parent corporation.

**Section 5** creates s. 624.5107, F.S., relating to a child care tax credit against insurance premium tax. The Department of Revenue may grant a tax credit for costs related to the startup and operation of child care facilities. The amount of tax credit any one corporation may receive is limited to \$50,000 annually for child care costs. The total amount of tax credits the department may grant, under this section and section 4 of the committee substitute, is limited to \$2 million annually. Eligibility and application requirements are set forth. This section shall expire on June 30, 2008.

**Section 6** provides that this act shall become effective on December 31, 1998.

#### **IV. Constitutional Issues:**

##### **A. Municipality/County Mandates Restrictions:**

None.

##### **B. Public Records/Open Meetings Issues:**

None.

##### **C. Trust Funds Restrictions:**

None.

**V. Economic Impact and Fiscal Note:****A. Tax/Fee Issues:**

Issue/Fund	General		Trust		Local		Total	
	1st Year	Recurring	1st Year	Recurring	1st Year	Recurring	1st Year	Recurring
Child Care Credits	(\$2.0)	(\$2.0)	\$0	\$0	\$0	\$0	(\$2.0)	(\$2.0)
Repeal of Deduction for Child Care Facility Startup Costs	*	*	\$0	\$0	\$0	\$0	*	*

\* Insignificant

\*\* Indeterminate

**B. Private Sector Impact:**

This committee substitute deletes the current law corporate income tax adjustment for child care startup costs and provides a credit against corporate income tax or insurance premium tax for an expanded definition of child care startup costs and operation of a child care facility.

**C. Government Sector Impact:**

The Department of Revenue is charged with administering this tax credit. It may adopt all necessary rules, and must process all applications for the tax credit.

**VI. Technical Deficiencies:**

None.

**VII. Related Issues:**

None.

**VIII. Amendments:**

None.