DOAA
Georgia Department
of Audits & Accounts

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State Auditor

February 12, 2025

Honorable Chuck Hufstetler
Chairman, Senate Finance
121-C State Capitol
Atlanta, GA 30334

SUBJECT: Fiscal Note
Senate Bill 89 (LC 50 1009)

Dear Chairman Hufstetler:

The bill modifies or creates three child-related tax credits. It would expand the qualified child and dependent care expense credit from the current 30 percent to a higher 40% of the federal credit and creates a new $250 tax credit for each child under seven years old. Finally, it modifies the existing employer provided or sponsored childcare tax credit in a number of ways, including increasing the net cost credit rate to 90%, lowering to 75% the percentage of enrolled children who must be those of employees, and allowing the credit utilized in a year to be up to 75 of the employer's tax liability. The bill would be effective for tax years beginning on or after January 1, 2025.

Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would decrease revenue as shown in **Table 1**. FRC noted that the changes to the employer childcare credit are based on current participating rates by employers and that the changes in the bill may increase utilization of the credit. However, it could find no data to reliably estimate a change in the investment in childcare by providers. The appendix provides details of the analysis.

Table 1. Estimated State Revenue Effects of SB 89 LC 50 1009

($ *millions*)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Child & Dependent Care Credit	-	($14.0)	($14.2)	($14.4)	($14.7)	($14.9)
Qualified Child Credit	-	($162.8)	($164.1)	($165.5)	($166.9)	($167.6)
Employer Childcare Credits	($0.9)	($2.6)	($4.4)	($5.6)	($5.9)	($6.1)
Total	($0.9)	($179.5)	($182.8)	($185.6)	($187.4)	($188.6)

Impact on State Expenditures

The Department of Revenue (DOR) would be able to implement the provisions of the bill with existing resources. Changes to information systems would require 12 weeks of staff, equating to approximately $146,000.

Respectfully,

Greg S. Griffin
State Auditor

Richard Dunn, Director
Office of Planning and Budget

GSG/RD/mt

Analysis by the Fiscal Research Center

Section 1

The first section of the bill proposes to amend O.C.G.A. § 48-7-29.1, the existing qualified child and dependent care expense credit, by increasing the match of the federal credit under IRC Section 21 from 30 percent to 40 percent beginning on or after January 1, 2025.

To estimate the revenue effects of this provision, the projected tax expenditure baselines from the Georgia Tax Expenditure Report for tax year (TY) 2025 are extended through TY 2030 based on pre-pandemic trend growth. This baseline expected utilization is grossed up to reflect the higher match of the federal credit. Baseline tax expenditures and pro forma projections with the proposed modifications are provided in Table 2. For the fiscal impact estimates in Table 1, the credits are assumed to impact revenues in the following fiscal year, upon filing of returns. Thus, for example, TY 2025 credits would reduce revenues in FY 2026.

Table 2. Baseline and Proforma Tax Expenditures and Net Revenue Impact of Section 1

($ *millions*)	TY 2025	TY 2026	TY 2027	TY 2028	TY 2029	TY 2030
Baseline	($42.0)	($42.7)	($43.3)	($44.0)	($44.7)	($45.3)
Pro Forma	($56.0)	($56.9)	($57.8)	($58.7)	($59.5)	($60.4)
Net Change in Utilized Credits	($14.0)	($14.2)	($14.4)	($14.7)	($14.9)	($15.1)

Section 2

The second section of the bill proposes to amend O.C.G.A. § 48-7-29.27 by adding a new tax credit for each qualified child in Georgia under seven years old. Each qualified child cannot earn credit for multiple taxpayers. Definitions are established for which adults can claim credits based on their qualified children, typically parents or legal guardians. Full-time resident taxpayers can claim a credit of $250 per qualified child. Part-time or non-resident taxpayers can claim a credit that is prorated based on their non-resident ratio, reported on their tax return. In no event can a credit amount exceed a taxpayer's tax liability, and any unused credit amounts cannot be carried forward to future returns.

The estimated revenue impacts of the qualified child tax credit are based on the following data and assumptions:

- The American Community Survey (ACS) for 2022 from the U.S. Census was used to estimate the proportions of dependents that are likely to be under seven years old. Based on these data, 33.4 percent of those under age 18 in Georgia are under age seven. ACS data were also used to estimate the distribution of eligible (under age seven) children within households reporting one or more dependents. Table 3 details this distribution of households by size and estimated number of qualified children. Due to limited survey responses in the ACS, households with more than six children are assumed to have three children under seven, on average.
- DOR tax return administrative data were used to simulate the fiscal impact of the proposed credits. The number of credit-qualifying children was imputed to TY 2022 returns with dependents based on the proportions in Table 3, resulting in a final sample of 740,000 Georgia returns with an estimated 914,000 dependents under age seven.
- The sample was also constructed to have similar income characteristics to that of parents with young children. The proposed credits, based on each household's estimated number of qualified children, were then compared to their 2024 net tax liability. This predicted $236.2 million in credits generated and, given the nonrefundability of the credit and inability to carry credits forward, $167.4 million effectively utilized. Based in this simulation, the estimates assume that 70.9 percent of aggregate generated credits will be effectively utilized.

- The Governor's Office of Planning and Budget's (OPB) population projections by age group, specifically those for the 0–4 and 5–9 age groups, were used to estimate growth in credits generated for TY 2025–30. Finally, 70.9 percent of aggregate credits generated are assumed to be effectively utilized in TY 2025. As tax liabilities grow with inflation, this share is estimated to increase to 71.9 percent by TY 2030.

Table 3. Estimated Number of Qualifying Children by Household Size

Shares	Zero	One	Two	Three	Four	Five	Six
One Dependent	68.6%	31.4%					
Two Dependents	53.4%	25.5%	21.0%				
Three Dependents	37.5%	32.3%	20.5%	9.7%			
Four Dependents	27.5%	30.5%	25.3%	13.2%	3.6%		
Five Dependents	17.0%	23.2%	32.6%	20.4%	5.6%	1.2%	
Six Dependents	15.7%	18.9%	39.0%	15.3%	8.0%	2.3%	0.8%

For the fiscal impact estimates in Table 1, the credits are assumed to impact revenues in the following fiscal year, upon filing of returns. Thus, for example, TY 2025 credits would reduce revenues in FY 2026.

Table 4. Population 0-6, Generated and Utilized Qualified Child Credits

($ *millions*)	TY 2025	TY 2026	TY 2027	TY 2028	TY 2029	TY 2030
Population Under 7	918,934	923,498	929,030	933,765	935,380	937,869
Credits Generated	$229.7	$230.9	$232.3	$233.4	$233.8	$234.5
Credits Utilized	$162.8	$164.1	$165.5	$166.9	$167.6	$168.5

Section 3

Section three of the bill expands the employer sponsored childcare credit (ESC) in O.C.G.A. § 48-7-40.6 in multiple ways. Under current law, employers that provide or sponsor childcare for employees earn a credit equal to 75 percent of the net cost of providing or sponsoring childcare, after deducting any amounts paid by the employees. This operates to generate greater credits to the employer based on their share of the overall cost of care. Under current law, 95 percent of the children enrolled in the childcare program must be children of employees of the firm earning the credit. Finally, credits taken against tax liability in a given year cannot exceed 50 percent of the employer's income tax liability before any credits.

Under the proposed bill, the 75 percent of net cost credit rate would be increased to 90 percent, and the requirement that 90 percent of enrolled children be those of employees would be reduced to 75 percent. Finally, credits utilized in a given tax year would be limited to 75 percent of the employers tax liability, rather than the 50 percent under current law.

The estimated revenue impacts of the qualified child tax credit are based on the following data and assumptions:

- DOR data on generation and utilization of the current employer provided or sponsored childcare credit were used to project the current baseline usage of the credit.

- The pro forma estimates assume a 20 percent increase in the generation of credits as participating employers can claim credit based on 90 percent of net costs, rather than 75.

- Taxpayers can carry forward any unused credits for up to five years. Baseline estimates for utilization are based on their historic carryforward and utilization pattern.

- Due to the increase in the credit utilization cap from 50 to 75 percent of tax liability for the year, the pro forma estimates assume that credits will be utilized on an accelerated schedule because of the higher utilization limit. For the same reason, existing carryforward balances are assumed to experience accelerated utilization as well.

- Due to the historic and projected usage of carryforwards for this credit, the initial increase in generated credits from this bill in TY 2025 is expected to take until TY 2030 to fully impact utilization in TY 2030.
- Best Place for Working Parents, a national network of business leaders focused on family-friendly workplaces, reports annually about workplace policies that benefit working families. They report a high interest by employed parents in having workplace-provided childcare, and survey results indicate that many would consider changing jobs to access such care. The changes in this bill may elicit a behavioral response by employers that increases the provision of qualifying childcare programs for employees, which would tend to increase the amounts of credits earned and utilized. Unfortunately, the potential for such a behavioral response cannot be estimated due to a lack of suitable data.

Table 5 details the current law baseline of utilized credits along with proforma estimates under the bill. For the FY 2025–30 fiscal impact estimates in Table 1, tax years are converted into fiscal years assuming a 50-50 fiscal split.

Table 5. Baseline and Proforma Tax Expenditures and Net Revenue Impact of Section 3

($ *millions*)	**TY 2025**	**TY 2026**	**TY 2027**	**TY 2028**	**TY 2029**	**TY 2030**
Baseline	$13.0	$13.3	$13.8	$14.2	$14.7	$15.1
Pro Forma	$14.7	$16.8	$19.1	$20.1	$20.5	$21.4
Net Change in Utilized Credits	($1.7)	($3.5)	($5.4)	($5.9)	($5.9)	($6.3)