

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

22/5

2007 SENATE FINANCE AND TAXATION

SB 2215

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2215

Senate Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: February 12, 2007

Recorder Job Number: # 3373 & # 3379

Committee Clerk Signature

Sharon Penrow

Minutes:

Sen. Urlacher called the committee to order and opened the hearing on SB 2215.

Sen. Fiebiger prime sponsor of the bill appeared in support with written testimony stating this bill enhances workforce development by increasing the affordability of child care for employees. (See attached)

Sen. Oehlke: the \$4,671.00 for 1 child, is that low?

Answer: I'm guessing is low.

Sen. Horne: On page 2, section 2, is that the section that allows for use of the short form? If it isn't the short form, that would eliminate about 98% of the people filing or thereabouts.

Barb Arnold-Tengesdal: ND Assoc. for the Education of Young Children appeared in support with written testimony. (See attached)

Caitlin McDonald: YMCA's of ND appeared in support with written testimony. (See attached).

Sen. Cook: regarding the fiscal note, Section 1 of the State income tax credit equal to a percentage of the federal dependant care credits without regard to if the tax payer actually claimed the federal credit.

Barb: my understanding was that it can only be taken if the person takes it from their federal credit.

Donnita Wald: Tax Dept. to answer Sen. Cook's question, yes as written does allow, you can claim credit with state if you don't claim federal.

Sen. Cook: If a significant number of tax payers are entitled to the federal credit but do not claim it on their federal return, the expected revenue loss due to the State credit would increase, so your saying this FN doesn't really reflect the way the bill was written?

Donnita: that's correct; the 2.3 million is based just on those who claimed the credit on their federal return. So it would probably increase but to what extent we don't know.

Sen. Triplett: is it a credit that can be claimed on the short form?

Donnita: yes it can.

No further testimony closed the hearing.

Discussion.

Sen. Cook: SB 2215 is going to need an amendment for me to support and that amendment would make it clear it only applies to those who actually take the federal credit. And I would move those amendments, seconded by Sen. Horne.

Sen. Triplett: asked for explanation regarding flex plan and how used. So they are getting tax free dollars up front so they still have the expense and still getting the affective benefit of the tax credit and by receiving it in advance. The idea would be that people who are now taking the flex plan are not required by their employers to do it; they are doing it as a matter of choice. Everybody would have equal access to it, it would be their choice if they take it or not.

Sen. Cook: I want to make clear that only those, this credit can only be taken by tax payers who take the federal credit.

Sen. Oehlke: they can't take both the flex comp benefit and the federal tax credit benefit.

Sen. Triplett: but under this amendment they are talking about they could still take the federal tax credit plus the State tax credit.

Sen. Tollefson: this may not affect the amendment but this fiscal note could be way off without the amendment.

Voice Vote: 7-0-0 Motion carries.

Sen. Triplett: made a Motion for **DO PASS** as Amended, seconded by Sen. Horne.

Roll Call Vote: 7-0-0 Sen. Oehlke will carry the bill.

FISCAL NOTE

Requested by Legislative Council

02/13/2007

Amendment to: SB 2215

1A. State fiscal effect: *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			(\$2,537,000)			
Expenditures						
Appropriations						

1B. County, city, and school district fiscal effect: *Identify the fiscal effect on the appropriate political subdivision.*

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. Bill and fiscal impact summary: *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

Engr. SB 2215 provides an income tax credit for dependent care expenses.

B. Fiscal impact sections: *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Section 1 creates a state income tax credit equal to a percentage of the federal dependent care credit. The amount of the state credit varies depending on the taxpayer's adjusted gross income.

3. State fiscal effect detail: *For information shown under state fiscal effect in 1A, please:*

A. Revenues: *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

Based on the amount of federal dependent care credit claimed, Engr. SB 2215 is estimated to reduce state general fund revenues by \$2.537 million in the 2007-09 biennium.

B. Expenditures: *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

C. Appropriations: *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Name:	Kathryn L. Strombeck	Agency:	Office of Tax Commissioner
Phone Number:	328-3402	Date Prepared:	02/14/2007

FISCAL NOTE

Requested by Legislative Council

01/16/2007

Bill/Resolution No.: SB 2215

1A. State fiscal effect: *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			(\$2,537,000)			
Expenditures						
Appropriations						

1B. County, city, and school district fiscal effect: *Identify the fiscal effect on the appropriate political subdivision.*

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. Bill and fiscal impact summary: *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

SB 2215 provides an income tax credit for dependent care expenses.

B. Fiscal impact sections: *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Section 1 creates a state income tax credit equal to a percentage of the federal dependent care credit, without regard to if the taxpayer actually claimed the federal credit. The amount of the state credit varies depending on the taxpayer's adjusted gross income.

3. State fiscal effect detail: *For information shown under state fiscal effect in 1A, please:*

A. Revenues: *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

Based on the amount of federal dependent care credit claimed, SB 2215 is estimated to reduce state general fund revenues by at least \$2.537 million in the 2007-09 biennium. This estimate only considers the share of taxpayers who claim the federal dependent care credit. If a significant number of taxpayers are entitled to the federal credit, but do not claim it on their federal return, the expected revenue loss due to the state credit would increase.

B. Expenditures: *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

C. Appropriations: *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Name:	Kathryn L. Strombeck	Agency:	Office of Tax Commissioner
Phone Number:	328-3402	Date Prepared:	02/10/2007

February 12, 2007

[Handwritten Signature]
2-12-07

PROPOSED AMENDMENTS TO SENATE BILL NO. 2215

Page 1, line 9, replace ", to which" with "that" and replace "was entitled" with "claimed"

Page 1, line 10, remove the underscored comma

Page 1, line 11, remove ", without regard to whether the"

Page 1, line 12, remove "taxpayer claimed that federal income tax credit"

Renumber accordingly

REPORT OF STANDING COMMITTEE

SB 2215: Finance and Taxation Committee (Sen. Urlacher, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO PASS (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2215 was placed on the Sixth order on the calendar.

Page 1, line 9, replace "to which" with "that" and replace "was entitled" with "claimed"

Page 1, line 10, remove the underscored comma

Page 1, line 11, remove ", without regard to whether the"

Page 1, line 12, remove "taxpayer claimed that federal income tax credit"

Renumber accordingly

2007 SENATE APPROPRIATIONS

SB 2215

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No.2215

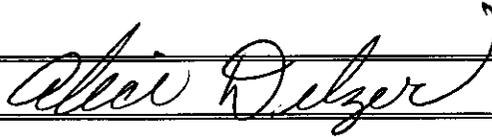
Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: 02-14-07

Recorder Job Number: 3484

Committee Clerk Signature



Minutes:

Chairman Holmberg opened the hearing on SB 2215 at 9:00 am on February 14, 2007.

Senator Fiebiger, District 4, Fargo presented written testimony (1) and gave oral testimony in support of SB 2215. He also submitted written testimony (2) from Barb Arnold-Tengesdal, ND Association of Young Children (NDAEYC) in support of the bill.

Questions were asked regarding the new fiscal note and the savings a family would see.

Linda Lembke, Director of the Child Care Resource and Referral program and President-Elect for ND from Fargo, ND presented written testimony (3) and gave oral testimony in support of SB 2215. She also presented a Demographic Summary Child Care Resource and Referral (4) for written testimony in support of SB 2215.

Senator Seymour asked what she thought was the best child care service in Fargo.

Senator Mathern asked what Montana and Minnesota have regarding the federal tax credit.

Senator Grindberg moved a DO PASS, Senator Mathern seconded. A roll call vote was taken resulting in 10 yeas, 4 nays, and 0 absent. The motion carried. Senator Oehlke from Finance and Tax will carry the bill.

The hearing on SB 2215 closed.

REPORT OF STANDING COMMITTEE (410)
February 14, 2007 12:18 p.m.

Module No: SR-31-3226
Carrier: Oehike
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2215, as engrossed: Appropriations Committee (Sen. Holmberg, Chairman)
recommends **DO PASS** (10 YEAS, 4 NAYS, 0 ABSENT AND NOT VOTING).
Engrossed SB 2215 was placed on the Eleventh order on the calendar.

2007 HOUSE FINANCE AND TAXATION

SB 2215

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2215

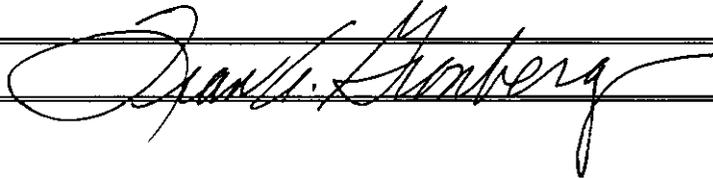
House Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: 2-28-07

Recorder Job Number: 4097

Committee Clerk Signature



Minutes:

Chairman Belter opened the hearing on SB 2215.

Senator Tom Fiebiger, Dist 45: (testimony attached)

Chairman Belter: Under the federal rules does this credit only apply to people who are using child care facilities? Or people where one parent stays home with the family, there would be no credit?

Senator Fiebiger: Yes, that is correct the way the bill is written.

Chairman Belter: And this is only dealing with children. It has nothing to do with adult care.

Senator Fiebiger: That's correct.

Rep Grande: This is only for licensed day care facilities, it wouldn't be if grandma was to help out and babysit or the neighbors, or small day care that 's not licensed?

Senator Fiebiger: That's a good question. I think it's whoever's eligible under the federal credit.

Rep Pinkerton: (can't hear the question)

Rep Weiler: On page 1, line 18, - why you chose to stop giving a credit to people who have income over \$60,000, given the fact that the top 10% of tax payers in the US pay 90% of all taxes.

Senator Fiebiger: The idea was to draw a line where it would be able to help those where child care would have the largest impact. It was an arbitrary number.

Rep Weiler: Page 1, line 7, dependent care credit - is that term used in the federal law?

Senator Fiebiger: I don't know the exact answer, but I think that's accurate.

Rep Kelsh: I want to go on record in support of this bill.

Chairman Belter: This only does give credit to someone who is using day care.

Rep Kelsh: Yes.

Rep Froseth: This would have to be claimed on the state long form then, is that correct?

(couldn't hear answer)

Barb Arnold-Tengesdal, ND Association for the Education of Young Children:

(attachments # 2 and #3)

Rep Headland: When talking about the federal tax for dependent care, are there income limitations?

Tengesdal: I believe there are.

Rep Owens: There used to be, in reference to this stay at home, that if you stayed at home with your child and you were a full time student, that you could estimate your salary and it was based on the lowest of the two salaries of the working couple. Not the total. Do they still have that?

Tengesdal: I don't believe that 's available, but I do know that the tax dept can respond to that. I know that a year ago full time students working for degrees were eliminated in ND. They aren't even allowed to get childcare assistance even though they are low income.

Caitlin McDonald, YMCA's: (attachment #4)

Opposition

Rod Backman, representing himself: I don't know if I'm neutral or in opposition. I can't disagree with anything that's been said so far. I feel that it discriminates against those who have made the choice to have one spouse stay home and take care of the children. They're already given up the benefit of a second salary. I would encourage you that rather looking at a child dependent care tax credit, to consider on the tax return a per child tax credit that simply applies to the cost of caring for your children. You have costs whether they are in a day care or at home. One of the key factors on that would be that the fiscal note would be much higher. About 5-6 years ago, when I was at OMB, a \$70 tax credit was about a \$9M cost per year. The other point is that the Kiplinger tax letter that just came out indicates that they identified several bills that are coming into congress and they identified those that they thought had a liktely chance of succeeding, and one of them was to double the federal tax credit for child care. Because this fiscal note is tied to a percentage of the federal credit, should the feds double the credit. It would double your fiscal note.

Rep Weiler: You mentioned a \$70 per child tax credit would be a \$9M fiscal note. Would that for every child ages 1-8k?

Backman: That was based on the same figues the feds use. I think it's to like age 16 or younger, you would get \$1000.

Rep Pinkerton: Is this to be a refundable tax credit?

Backman: No, at the time we were looking at it, it was the same criteria as the federal and was not refundable. The fiscal note was obviously an estimate.

Opposition or Neutral

Donnita Wald, Attorney with the Tax Dept: At the federal level, a qualifying child who lived with the person for the year and the child must be under 13.

Page 4

House Finance and Tax Committee

Bill/Resolution No. SB 2215

Hearing Date: 2-28-07

Rep Headland: Are there income limitations?

Wald: What the child care credit does is max out the qualifying expenses. \$3000 for one child, \$6000 for two or more children. At an AGI of 15000 you get the maximum credit of 35%. For every 2000 AGI you have over that 15000, the percentage of your credit decreases by 1 point down to 20%. That's the lowest.

Rep Headland: But then your income after that is unlimited. You're still going to get the 20%.

Wald: Yes.

Rep Pinkerton: (can't hear the question)

Wald: That's correct.

Chairman Belter closed the hearing.

2007 HOUSE STANDING COMMITTEE MINUTES

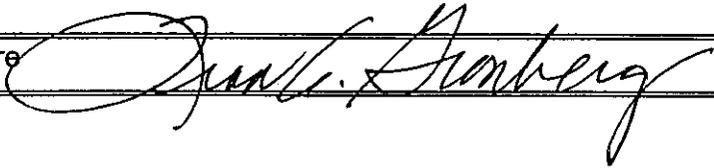
Bill/Resolution No. SB 2215

House Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: 3-6-07

Recorder Job Number: 4409

Committee Clerk Signature 

Minutes:

Chairman Belter reconvened the committee and asked them what they wanted to do with SB 2215.

Rep Brandenburg made a Do Not Pass motion on SB 2215

Rep Drovdal seconded the motion

(yes) 9 (no) 5 (absent) 0

Carrier: Rep Froseth

Date: 3/6/07
Roll Call Vote #: 2215

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO.

House Finance & Tax Committee

Check here for Conference Committee

Legislative Council Amendment
Number

Action Taken Do Not Pass

Motion Made By Brandenburg Seconded By Drovdal

Representatives	Yes	No	Representatives	Yes	No
Chairman Belter	✓		Rep. Froelich		✓
Vice Chairman Drovdal	✓		Rep. Kelsh		✓
Rep. Brandenburg	✓		Rep. Pinkerton		✓
Rep. Froseth	✓		Rep. Schmidt		✓
Rep. Grande	✓		Rep. Vig		✓
Rep. Headland	✓				
Rep. Owens	✓				
Rep. Weiler	✓				
Rep. Wrangham	✓				

Total (Yes) 9 No 5

Absent 0

Floor Assignment Rep. Froseth

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE (410)
March 6, 2007 12:25 p.m.

Module No: HR-42-4523
Carrier: Froseth
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2215, as engrossed: Finance and Taxation Committee (Rep. Belter, Chairman)
recommends **DO NOT PASS** (9 YEAS, 5 NAYS, 0 ABSENT AND NOT VOTING).
Engrossed SB 2215 was placed on the Fourteenth order on the calendar.

2007 TESTIMONY

SB 2215

Senate Bill 2215

Mr. Chairman, members of the Senate Finance and Taxation Committee, my name is Tom Fiebiger, Senator, District 45, Fargo. I am pleased to appear here today in support of Senate Bill 2215.

This bill enhances workforce development by increasing the affordability of child care for employees. Over half the states have similar child and dependent care tax provisions, including Minnesota and Montana. This makes our neighbor states attractive to young families in the labor force.

Lack of affordable child care has discouraged parents from working or taking a job in the community, according to a local study. (Child Care Arrangements in Grand Forks, 2000.) The labor force profits when employees are able access effective child care arrangements by lowering absenteeism and other workplace disruptions while increasing productivity. (CO Commission on Child Care Financing, 1995.)

Fees for one year of child care for one child in North Dakota range from \$4671.00 to \$6703.00 as compared to tuition fees for one year of college at the University of North Dakota at \$4774.00. (North Dakota Child Care Resource and Referral Agencies, April 2006.) The need for child care is relatively high in North Dakota.

In 2000, 46,413 North Dakota children under six years of age lived with one or both of their parents. In two parent homes, 71% of children under six had two employed parents. An even larger percentage (78%) of children in single parent families had a parent who worked. The vast majority of children of all ages in this state have employed parents. (North Dakota KIDS COUNT! Economic Impact of Child Care in North Dakota, NDSU, 2004.)

This is something tangible we can do to help create a family friendly environment in North Dakota. Working parents trying to raise a family in our state would receive a much needed state income tax credit to help offset this cost. As our population ages and young families struggle to afford daycare, we need to ask who will be working in this state in the future. It also means giving our young parents choices of more money for a different day care provider or, importantly, perhaps being able to work less and have more time with their children.

Mr. Chairman, to help North Dakota families, I respectfully request this committee's favorable consideration and a Do Pass recommendation for Senate Bill 2215.

To: Herb Urlacher, Chairman, Senate Finance and Taxation Committee

From: Barb Arnold-Tengesdal,
North Dakota Association for the Education of Young Children

Date: February 12th, 2007

Re: Testimony in support of SB 2215

*Same
given to
House
Finance & Tax*

The North Dakota Association for the Education of Young Children (NDAEYC) is a professional organization connected with NAEYC, and currently has 380 statewide members. The mission of this association is to serve and act on the behalf of children birth to age eight. We work in collaboration with other early childhood groups around the state, such as the ND Head Start Association, ND Kindergarten Association, ND Early Childhood Higher Education Consortium

We urge your support of SB 2215.

The average cost of fulltime childcare in North Dakota can range from \$4600 to \$6700 per child, more than the cost of tuition at a state university (2006 child care data from www.ndchildcare.org). Parents are burdened with the expense of rearing children while staying employed with little or no financial support. To aid families in their efforts to stay employed and build North Dakota's economy, a proposed tax credit for child care expenses incurred by individuals while working is outlined in SB 2215. It is based on a percentage of the federal credit taken.

With over 79% of North Dakota mothers of young children in the labor force (Kid Count 2006), the reality is the majority of women are currently working outside the home. We must begin to see there is not a conflict between helping working families meet their child care needs and supporting "stay-at-home" parents. Many parents (women in particular) move in and out of the labor force at different points in the children's lives. Working parents and stay-at-home parents are not two separate groups in conflict with one another. Many women who work outside the home do not have any other choice. Helping working families pay for their child care expenses does not favor working families over those with a parent at home. A family with child care expenses that are partially offset by a tax credit will still have **less** disposable income than a family at the same income level that has no child care expenses.

It is important to note that this bill addresses a percentage of a taxpayers federal DCTC (Dependent Care Tax Credit) not the federal CTC (Child Tax Credit) or the EITC (Earned Income Tax Credit). It is a graduated scale and peaks out at \$60,000 adjusted gross income. To see an example of how this would affect a working middle-income family, a questions and answers sheet is provided that charts out the federal credit that can be taken.

We believe passing SB 2215 is one of the steps to creating a family friendly environment in our state. We believe it encourages young people to raise children and use the dollars that stay in their wallets to put it back in the community either paying for services such as higher quality child care, enrolling children in community activities or buying merchandise in local stores.

Grow North Dakota.... Invest in Children.

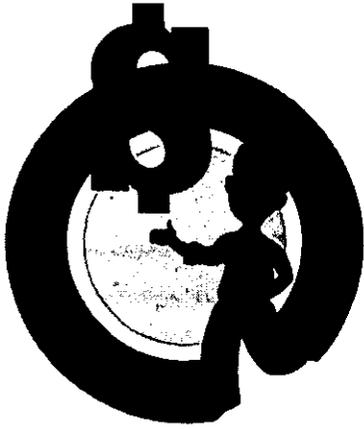
Child care keeps families working!

the expenses of a quality program. Fees for one year of child care for one child range from \$4,671.00 to \$6,703.00 as compared to tuition fees for one year of college at the University of North Dakota at \$4,774.00.

P-1: Annual Cost of Child Care in a Child Care Center

County	Infants	Toddlers	Preschool	School-Age
Cass	\$6,688.00	\$ 6,641.50	\$ 5,914.00	\$ 5,089.50
Grand Forks	\$6,703.50	\$ 6,628.50	\$ 5,805.00	\$ 5,041.50
Burleigh	\$6,489.00	\$ 6,520.50	\$ 6,787.50	\$ 5,187.00
Ward	\$5,489.50	\$ 5,471.50	\$ 4,917.00	\$ 4,796.50
Rural	\$5,148.50	\$ 5,043.00	\$ 4,671.00	\$ 4,392.00

Source: North Dakota Child Care Resource and Referral Agencies, April, 2006



QUESTIONS AND ANSWERS ABOUT THE CREDIT FOR CHILD AND DEPENDENT CARE EXPENSES TAX YEAR 2006

1. *What is the federal Child and Dependent Care Tax Credit?*

The federal **Child and Dependent Care Tax Credit** provides up to \$2,100 in tax assistance to families who pay for care for a qualifying child in order to work in paid employment.

The amount of the credit is based on your income, the number of your dependents in care, and the amount you pay for the care. Families of all income levels are eligible. In general, the higher your child care expenses and the lower your income, the larger your credit.

Note: The **Child and Dependent Care Tax Credit** also covers employment-related care expenses for a spouse or other qualifying person (including a child of any age) who is incapable of caring for himself or herself. If you paid for care for such an individual, you should get more information about the circumstances under which such care is covered by reading Publication 503 on the Internal Revenue Service (IRS) website, at www.irs.gov.

2. *Am I eligible for the Child and Dependent Care Tax Credit?*

To be eligible for the **Child and Dependent Care Tax Credit**, you must:

- Have paid for child care in 2006 for a qualifying child who was under age 13 when the care was provided; *and*
- Have needed the child care to enable you to work or look for work (if you are married, both you and your spouse must have needed the care to work or look for work, or one spouse must have been a full-time student, or unable to care for himself or herself); *and*
- Paid less for care than the amount of your 2006 earned income. (If you are married and filing a joint return, you must have paid less for care than the amount of your earned income or your spouse's earned income, whichever is smaller. (There are special rules for calculating the earned income of a spouse who was a full-time student or unable to care for himself or herself).)

In general, you can only claim the credit for a child whom you can claim as a dependent on your tax return for 2006, but there are special rules for children of certain divorced or separated parents (*see question 5*).

3. *How do I determine if I have a qualifying child for whom I can claim the Child and Dependent Care Tax Credit?*

A qualifying child for the **Child and Dependent Care Tax Credit** is an individual who:

- Is your child, stepchild, adopted child (or child lawfully placed with you for legal adoption), foster child (placed with you by an authorized placement agency or court action), sibling, half-sibling, step-sibling, or a descendant of any of these individuals (e.g., grandchild, niece); *and*
- Lived with you for more than half the year (there are special rules for children who were born or died during 2006, were temporarily absent, or were kidnapped); *and*
- Did not provide over half of his or her own support; *and*
- Is a U.S. citizen or resident alien, or a resident of Mexico or Canada (except for certain adopted children).

4. *What if my qualifying child is also the qualifying child of another person?*

If the other person is your spouse with whom you are filing a joint return, you don't need to read this answer; you claim the child together on your joint return. But there are other situations in which a child might be the qualifying child of more than one person.

If more than one person files a tax return for 2006 claiming the child as a qualifying child, the Internal Revenue Service will apply the following rules to decide who can claim the child:

If more than one tax filer claims the same child and...	Then the child will be treated as the qualifying child of the...
Only one is the child's parent,	parent.
Two are parents and they do not file a joint return,	parent who lived with the child for the longer period of time in 2006.
Two are parents and they do not file a joint return, and the child lived with each parent the same amount of time in 2006,	parent with the higher adjusted gross income in 2006.
None is the child's parent,	person with the highest adjusted gross income in 2006.

However, if more than one person could claim the child as a qualifying child, you can decide together which of you will claim the child as a "qualifying child" for tax purposes in 2006. That person will be able to claim the **Child and Dependent Care Tax Credit** and other tax benefits for that "qualifying child" (including the **Earned Income Credit**, **Child Tax Credit**, dependent exemption, and head of household filing status) if the other eligibility requirements for those tax benefits are met. Whoever you decide can claim the child as a "qualifying child" will be entitled to *all* of these tax benefits for that child; you cannot decide to split them up for that child, unless the special rules for divorced and separated parents apply (see question 5).

5. *I am divorced and have custody of my child, but I am releasing my claim to the dependency exemption for 2006 to the noncustodial parent. Can I claim the Child and Dependent Care Tax Credit?*

Yes. If you had custody for the greater portion of 2006 (and meet the other requirements for the credit), you may claim the **Child and Dependent Care Tax Credit**, even though you signed Form 8332 or a similar statement agreeing not to claim the child as a dependent for 2006.

6. *What kind of child care expenses qualify?*

Expenses for any type of child care—in a center, a family day care home, a church, or by your neighbor, for example—qualify as long as you paid the expenses, the primary purpose of the care was for the child's well-being and protection, and the care was necessary for you to work or look for work in paid employment. The care may be provided by a relative, except a spouse, dependent, or your child who was under age 19 at the end of 2006. If the provider cares for more than six persons, the provider must comply with applicable state and local laws and regulations.

7. *How much am I eligible to receive from the Child and Dependent Care Tax Credit?*

The **Child and Dependent Care Tax Credit** is calculated as a percentage of qualified child and dependent care expenses. The amount you are eligible to receive depends on your adjusted gross income (AGI), the number of children in care, and the amount of your qualified expenses. Qualified expenses for 2006 may not exceed \$3,000 for one qualifying child or other qualifying person and \$6,000 for two or more qualifying children or other qualifying persons. Individuals and couples with 2006 adjusted gross incomes of \$15,000 or less receive a credit equal to 35 percent of eligible expenses, for a maximum of \$2,100. The rate decreases as adjusted gross income increases above \$15,000 until it reaches 20 percent for individuals and couples with adjusted gross incomes above \$43,000. **The maximum value of the credit for a family with an AGI of \$15,000 or less is \$2,100 for two or more dependents (\$1,050 for one dependent), and for a family with an AGI above \$43,000 is \$1,200 for two or more dependents (\$600 for one dependent).**

The table that follows gives you a general idea of the value of the credit to you by showing the amount of the credit available for families at different income levels with varying child care expenses. The amount you actually receive from the credit may be limited by your federal income tax liability since the credit is not refundable.

Sample Child and Dependent Care Tax Credit Amounts for Tax Year 2006

Adjusted Gross Income	Care Expenses for One or More Qualifying Children or Persons*			Care Expenses for Two or More Qualifying Children or Persons		
	\$1,000	\$2,000	\$3,000	\$4,000	\$5,000	\$6,000+
\$0-\$15,000	\$350	\$700	\$1,050	\$1,400	\$1,750	\$2,100
\$15,001-\$17,000	\$340	\$680	\$1,020	\$1,360	\$1,700	\$2,040
\$17,001-\$19,000	\$330	\$660	\$990	\$1,320	\$1,650	\$1,980
\$19,001-\$21,000	\$320	\$640	\$960	\$1,280	\$1,600	\$1,920
\$21,001-\$23,000	\$310	\$620	\$930	\$1,240	\$1,550	\$1,860
\$23,001-\$25,000	\$300	\$600	\$900	\$1,200	\$1,500	\$1,800
\$25,001-\$27,000	\$290	\$580	\$870	\$1,160	\$1,450	\$1,740
\$27,001-\$29,000	\$280	\$560	\$840	\$1,120	\$1,400	\$1,680
\$29,001-\$31,000	\$270	\$540	\$810	\$1,080	\$1,350	\$1,620
\$31,001-\$33,000	\$260	\$520	\$780	\$1,040	\$1,300	\$1,560
\$33,001-\$35,000	\$250	\$500	\$750	\$1,000	\$1,250	\$1,500
\$35,001-\$37,000	\$240	\$480	\$720	\$960	\$1,200	\$1,440
\$37,001-\$39,000	\$230	\$460	\$690	\$920	\$1,150	\$1,380
\$39,001-\$41,000	\$220	\$440	\$660	\$880	\$1,100	\$1,320
\$41,001-\$43,000	\$210	\$420	\$630	\$840	\$1,050	\$1,260
\$43,001+	\$200	\$400	\$600	\$800	\$1,000	\$1,200

*Individuals or couples with only one qualifying child or person may claim no more than \$3,000 in qualifying expenses.

Note that the amount you actually receive from this credit may be limited by your tax liability.

8. *If I receive benefits through a Dependent Care Assistance Program, can I still claim the Child and Dependent Care Tax Credit?*

In some cases you are allowed to claim both the **Child and Dependent Care Tax Credit** and receive benefits through a Dependent Care Assistance Program. For example, if you spent more for child and dependent care than you received in Dependent Care Assistance Program benefits, you may be able to claim the **Child and Dependent Care Tax Credit** for the difference. If all of your child and dependent care expenses are covered by benefits received through a Dependent Care Assistance Program, you cannot claim the **Child and Dependent Care Tax Credit**. The amount of any Dependent Care Assistance Program benefits you received in 2006 should be shown in Box 10 of your W-2 form.

9. *I don't owe any taxes – can I still claim the Child and Dependent Care Tax Credit?*

No. If you owe no federal income taxes, you cannot claim the **Child and Dependent Care Tax Credit**. But even if you only owe a small amount of taxes, claiming the **Child and Dependent Care Tax Credit** can increase the amount of any refund you may be eligible for from the **Earned Income Credit** or the **Child Tax Credit**.

10. *If my child has a scholarship or the government pays for my child care, can I claim the Child and Dependent Care Tax Credit?*

The **Child and Dependent Care Tax Credit** is based on the amount of qualified care expenses *you pay*. Therefore, if your child care is free to you, you will not be eligible for the credit. However, if only part of the cost of your child care is subsidized and you pay for part of the care, you can claim the credit based on the actual amount you paid. For example, if your child care center charges \$2,000 a year and you received a scholarship for \$1,500 and paid \$500, then you may claim the credit based on \$500 in child care expenses.

11. *Can I claim the Child and Dependent Care Tax Credit if I also claim the Child Tax Credit and the Earned Income Credit?*

Yes. If you are eligible for these credits, you can claim benefits under all three provisions and decrease your taxes or increase your refund.

12. *How do I claim the Child and Dependent Care Tax Credit?*

To claim the **Child and Dependent Care Tax Credit**, you must file either Form 1040 or 1040A (not 1040EZ) and a separate form or schedule with your tax return. With Form 1040, file Form 2441. With Form 1040A, file Schedule 2. Note that if you were married at the end of 2006, you generally must file a joint return in order to claim the credit, although special rules apply if you lived apart from your spouse.

You must provide a Social Security Number (SSN) or an Individual Taxpayer Identification Number (ITIN) for yourself, your spouse if you are married, and any qualifying child or dependent. If you are applying for a child who was placed in your home for adoption for whom you cannot get an SSN, you must get an Adoption Taxpayer Identification Number (ATIN).

If you are eligible for an SSN, you should apply for it rather than an ITIN. You must get the SSN before filing your tax return. It can take some time to receive an SSN, so apply well in advance. To apply for an SSN, complete Form SS-5 from the Social Security Administration, available at <http://www.ssa.gov/online/ss-5.html>. If you are applying for an ITIN, you must file your tax return at the same time as you file your application for an ITIN. To apply for an ITIN, complete Form W-7 from the Internal Revenue Service, available at <http://www.irs.gov/pub/irs-fill/fw7.pdf>. To apply for an ATIN, several weeks before you plan to file your taxes you must file Form W-7A, available from the Internal Revenue Service at <http://www.irs.gov/pub/irs-pdf/fw7a.pdf>.

You must also provide basic information about your provider, including the provider's name, address, and, if the provider is not a tax-exempt organization, an identification number (the provider's SSN or Employer Identification Number). If you have tried to get your provider's identification number but have not been successful, you can explain on your return that you asked for the information but the provider did not comply with your request.

FOR MORE INFORMATION

Information about other tax benefits available to families with children is available on the National Women's Law Center's website at <http://www.nwlc.org/loweryourtaxes>. Further information is also available from the Internal Revenue Service on its website, www.irs.gov, by calling 1-800-TAX-1040 toll free or by contacting your local Volunteer Income Tax Assistance (VITA) clinic for free assistance.

February 12, 2007

SENATE FINANCE & TAXATION COMMITTEE SB 2215
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SENATOR URLACHER AND COMMITTEE MEMBERS:

My name is Caitlin McDonald. I am appearing today on behalf of the YMCAs of North Dakota. We strongly support SB 2215 and urge your favorable consideration.

Day care needs are growing in North Dakota beyond anyone's comprehension. In Bismarck, the YMCA has a multi-million dollar addition to its building designed primarily for day care for infants and toddlers as well as other youngsters. The addition has been full from the day it opened and we currently have a waiting list for enrollment.

This type of legislation has been successful in other states. It proves helpful to employers, since it makes it easier for them to recruit and keep a happy, productive workforce. It helps families, since it allows varied work schedules. And, it helps children find a better and more structured care environment than simply having a babysitter coming into the home.

There wasn't a fiscal note posted prior to this hearing. I suspect this is because the Tax Department was faced with the uncertainties involved with this proposal. I don't believe you will see a mad rush of employers using this tool. Rather, it will be used selectively as employers see how it will assist them and their employees.

We respectfully urge a "do pass" from this committee.

If you have any questions, I'd be glad to try to answer them. THANK YOU FOR YOUR TIME AND CONSIDERATION.

2

To: Ray Holmberg, Chairman, Senate Appropriations Committee
From: Barb Arnold-Tengesdal,
North Dakota Association for the Education of Young Children
Date: February 14th, 2007
Re: Testimony in support of SB 2215

The North Dakota Association for the Education of Young Children (NDAEYC) is a professional organization connected with NAEYC, and currently has 380 statewide members. The mission of this association is to serve and act on the behalf of children birth to age eight. We work in collaboration with other early childhood groups around the state, such as the ND Head Start Association, ND Kindergarten Association, ND Early Childhood Higher Education Consortium

We urge your support of SB 2215.

The average cost of fulltime childcare in North Dakota can range from \$4600 to \$6700 per child, more than the cost of tuition at a state university (2006 child care data from www.ndchildcare.org- see page 2 of testimony). Parents are burdened with the expense of rearing children while staying employed with little or no financial support. To aid families in their efforts to stay employed and build North Dakota's economy, a proposed tax credit for child care expenses incurred by individuals while working is outlined in SB 2215.

Why support working families and not those who are stay at home parents?

With over 79% of North Dakota mothers of young children in the labor force (Kid Count 2006), the reality is the majority of women are currently working outside the home. We must begin to see there is not a conflict between helping working families meet their child care needs and supporting "stay-at-home" parents. Many parents (women in particular) move in and out of the labor force at different points in the children's lives. Working parents and stay-at-home parents are not two separate groups in conflict with one another. Many women who work outside the home do not have any other choice. Helping working families pay for their child care expenses does not favor working families over those with a parent at home. A family with child care expenses that are partially offset by a tax credit will still have **less** disposable income than a family at the same income level that has no child care expenses.

It is important to note that this bill addresses a percentage of a taxpayers federal DCTC (Dependent Care Tax Credit) not the federal CTC (Child Tax Credit) or the EITC (Earned Income Tax Credit). It is a graduated scale and peaks out at \$60,000 adjusted gross income. To see an example of how this would affect a working middle-income family, look at the second to the last page of testimony where a chart identifies the federal credit that can be taken by families at several income levels.

We believe passing SB 2215 is one-step to creating a family friendly environment that encourages young people to raise children and use dollars that stay in their wallets to support other community services such as paying for higher quality child care, enrolling children in community activities or buying merchandise in local stores.

Grow North Dakota.... Invest in Children.

Child care keeps families working!

**Testimony
Senate Bill 2215
Senate Appropriations Committee
February 14, 2007**

Chairman Holmberg, and members of the committee, my name is Linda Lembke, the director of the Child Care Resource and Referral program serving eastern North Dakota and I am also President-Elect for the North Dakota Association for the Education Young Children. I am going to offer some background information on child care tax credits and urge you to support this bill as a strategy to sustain the young working families in North Dakota.

Background

Child care is a necessity for most young families. The Dakotas lead the nation with the highest proportion of women with children under six in the workforce at 76%. 77,690 women with children under the age of 17 are in the workforce. Nearly 73,000 children under 13 years old need some form of care while their parents work. North Dakota's licensed early care and education programs have the capacity to care for 32,044 children.

Many parents face high monthly child care costs, and struggle to afford quality child care. These young families are simultaneously trying to buy or maintain reliable cars, buy a house or save for a down payment, plus pay child care costs. One year of care for a baby costs more than one year of tuition at one of North Dakota's universities. Parents of college students, who have had 18 years to plan, have financial aid packages available to them. Parents of young children have not had that lead time to save for child care costs, and often have nowhere to turn for financial support. The earning potential of these parents is significant to our current and future tax base. "The Economic Impact of Child Care in North Dakota" research brief, published in 2004 by North Dakota KIDS COUNT!, reports that a conservative estimate of the total household income for all families relying on child care can be obtained by multiplying the 17,021 families who filed for federal child care tax credit by the median family income. It indicated that more than \$743 million of North Dakota's income is generated by families who are relying on paid child care.

40% of the families who contact CCR&R to help them find child care cite cost as a major influence in making their child care decisions. Families earning the state's median income can pay 10-12% of a family's annual wages for child care expenses. A family of four with income of \$36,000 can pay 25% of their annual earnings for child care. This family would not be eligible for child care assistance.

Average annual tuition for care of one infant	\$ 5,352
Average annual tuition for care of one preschooler	\$ 4,728
Annual tuition fees for state university	\$ 4,174
Total cost of child care from birth to 2nd grade	\$41,392

The federal Child and Dependent Care Tax Credit provides up to \$2,100 in tax assistance to families who pay for care for a qualifying child in order to work in paid employment. The amount of the credit is based on income, the number of dependents in care, and the amount paid for care. In general, the higher the child care expenses are and the lower the family's income is, the larger the credit will be. Expenses for any type of child care – in a center, a family child care home, a church, by your neighbor – qualify as long as the family paid the expense and the primary purpose of the care was for the well-being and protection of the child while the parent worked or looked for work. The maximum value of the credit for a family with an adjusted gross income of \$15,000 or less is \$2,100 for two or more dependents, or \$1,050 for one dependent. For a family with an AGI above \$43,000, the maximum value is \$1,200 for two or more dependents, or \$600 for one dependent. Most families receive a 20% credit. The federal credit is claimed on the 1040 or 1040A – not the 1040EZ, and the filer must provide the child care provider's name, address and identification number. The federal credit is not refundable.

Twenty-eight states offer a State child and dependent care tax credit. Under SB 2215, a North Dakota family of three, with one child in full-time care and an adjusted gross income of \$36,000 would see a 24% federal credit of \$720 plus a 20% state credit of \$144. This \$864 would total approximately 18% of their actual child care expense.

Show North Dakota's working families that they are important to you, that they are important to our economy, and that you recognize the challenges they face in raising their young children by passing this bill to help them offset a portion of their child care expenses. Thank you for your thoughtful consideration.

2-28-07 AM
#1 SB.2215-A

Senate Bill 2215

Chairman Belter, members of the House Finance and Taxation Committee, my name is Tom Fiebiger, Senator, District 45, Fargo. I am pleased to appear here today in support of Engrossed Senate Bill 2215.

This bill enhances workforce development by increasing the affordability of child care for employees. Over half the states have similar child and dependent care tax provisions, including Minnesota and Montana. This makes our neighbor states attractive to young families in the labor force.

Lack of affordable child care has discouraged parents from working or taking a job in the community, according to a local study. (Child Care Arrangements in Grand Forks, 2000.) The labor force profits when employees are able access effective child care arrangements by lowering absenteeism and other workplace disruptions while increasing productivity. (CO Commission on Child Care Financing, 1995.)

Fees for one year of child care for one child in North Dakota range from \$4671.00 to \$6703.00 as compared to tuition fees for one year of college at the University of North Dakota at \$4774.00. (North Dakota Child Care Resource and Referral Agencies, April 2006.) The need for child care is relatively high in North Dakota.

In 2000, 46,413 North Dakota children under six years of age lived with one or both of their parents. In two parent homes, 71% of children under six had two employed parents. An even larger percentage (78%) of children in single parent families had a parent who worked. The vast majority of children of all ages in this state have employed parents. (North Dakota KIDS COUNT! Economic Impact of Child Care in North Dakota, NDSU, 2004.)

This is something tangible we can do to help create a family friendly environment in North Dakota. Working parents trying to raise a family in our state would receive a much needed state income tax credit to help offset this cost. As our population ages and young families struggle to afford daycare, we need to ask who will be working in this state in the future. It also means giving our young parents choices of more money for a different day care provider or, importantly, perhaps being able to work less and have more time with their children. Let's make this much needed investment in our working parents and their children – our future.

Mr. Chairman, to help North Dakota families, I respectfully request this committee's favorable consideration and a Do Pass recommendation for Engrossed Senate Bill 2215.

#3 SB 2215-A

TO: House Finance and Taxation Committee

FROM: Linda Lembke, Director, Child Care Resource & Referral

DATE: February 28, 2007

RE: Senate Bill 2215

Background

Child care is a necessity for most young families. The Dakotas lead the nation with the highest proportion of women with children under six in the workforce at 76%. 77,690 women with children under the age of 17 are in the workforce. Nearly 73,000 children under 13 years old need some form of care while their parents work. North Dakota's licensed early care and education programs have the capacity to care for 32,044 children.

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#3 2-28-01
SB 2215-A

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228-07-AM

SB 2215 A

#4

February 28, 2007

HOUSE FINANCE & TAXATION COMMITTEE
SB 2215

REPRESENTATIVE BELTER AND COMMITTEE MEMBERS:

My name is Caitlin McDonald. I am appearing today on behalf of the YMCAs of North Dakota. We strongly support SB 2215 and urge your favorable consideration.

Day care needs are growing in North Dakota beyond anyone's comprehension. In Bismarck, the YMCA has a multi-million dollar addition to its building designed primarily for day care for infants and toddlers as well as other youngsters. The addition has been full from the day it opened and we currently have a waiting list for enrollment.

This type of legislation has been successful in other states. It proves helpful to employers, since it makes it easier for them to recruit and keep a happy, productive workforce. It helps families, since it allows varied work schedules. And, it helps children find a better and more structured care environment than simply having a babysitter coming into the home.

While I am not a tax expert, this bill seems somewhat limited in scope since it applies, on a percentage basis, only to the percentage of the federal dependent care credit a taxpayer claimed for dependent care services incurred to enable the taxpayer to be gainfully employed in this state under the strict requirements of the IRS code.

With this limitation, it is hard to understand the \$2.5 million fiscal note. We don't believe there will be that high of a usage of this provision. Rather, it will be used selectively by taxpayers to whom all the limitations apply.

We respectfully urge a "do pass" from this committee.

If you have any questions, I'd be glad to try to answer them. THANK YOU FOR YOUR TIME AND CONSIDERATION.