

EXHIBIT G



STATE OF ARKANSAS
**Department of Finance
and Administration**

Commissioner of Revenue
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October 9, 2020

Hon. Charlene Fite, Chair
Aging, Children, and Youth, Legislative
& Military Affairs Committee

Hon. Bart Hester, Chair
Children and Youth Committee

Multi-Agency Complex
1 Capitol Mall
Little Rock, Arkansas 72201

Chairwoman Fite and Chairman Hester:

The Arkansas Department of Finance and Administration (“DFA”) was requested to provide information for the October 19, 2020, joint meeting of your committees concerning the following tax credits discussed below that are available under Arkansas law.

1. Child Care Credit

The Child Care Credit is a credit available to individuals for expenses for household and dependent care services necessary for gainful employment. Twenty percent (20%) of the federal credit under 26 U.S.C. § 21 is allowed on the taxpayer’s Arkansas individual income tax return. *See* Ark. Code Ann. § 26-51-502(a) and (b) (Repl. 2020). This non-refundable credit is claimed on line 35 of the Arkansas return. From income tax return information contained in DFA’s records for the 2018 and 2019 tax years, the number of returns filed claiming the credit and the dollar amount of credits claimed are as follows:

2018 – 54,007 taxpayers (returns) claimed a total of \$6,292,264 in credits

2019 – 51,254 taxpayers (returns) claimed a total of \$6,038,584 in credits

2. Early Childhood Program Credit

The Early Childhood Program Credit is a refundable credit equal to twenty percent (20%) of the federal childcare credit under 26 U.S.C. § 21. The qualified individual must have a dependent child in an approved childcare facility. For purposes of qualifying for the credit, an “approved childcare facility” is a facility that provides an appropriate early childhood program, as defined in Ark. Code Ann. § 6-45-103 and is approved in accordance with Ark. Code Ann. § 6-45-109. *See* Ark. Code Ann. § 26-51-502(c)(1)(C) (Repl. 2020). This credit is claimed on line 43 of the Arkansas return.

For the 2018 and 2019 tax years, the number of returns filed claiming the credit and the dollar amount of credits claimed are as follows:

2019 – 1076 taxpayers (returns) claimed a total of \$136,692 in credits

2018 – 915 taxpayers (returns) claimed a total of \$114,088 in credits

Please note that Arkansas law does not permit a Taxpayer to claim both the Child Care Credit and Early Childcare Program Credit. *See* Ark. Code Ann. § 26-51-502(c)(2) (Supp. 2019).

3. Employer-Provided Child Care Credit

A business that operates, or contracts to operate, a childcare facility for the primary purpose of providing childcare services to its employees is allowed an income tax credit of three and nine-tenths percent (3.9%) of the annual salary of its employees employed exclusively in providing childcare service, or a \$5,000 income tax credit for the first year the business provides its employees with a childcare facility. *See* Ark. Code Ann. § 26-51-508(a) (Repl. 2020). The childcare facility must be a licensed facility under the Child Care Facility Licensing Act, Ark. Code Ann. § 20-78-201 et seq, and certified as having an appropriate early childhood program under Ark. Code Ann. § 6-45-109. *See* Ark. Code Ann. § 26-52-512(a) (Repl. 2014). If the credit is not utilized in the first year, the credit may be carried over for an additional two years. *See* Ark. Code Ann. § 26-51-508(d) (Repl. 2020).

If two or more businesses participate in a childcare program, each business is allowed an income tax credit of three and nine-tenths percent (3.9%) of the annual salary of those employees on the business' payroll that are employed exclusively for providing childcare services. *See* Ark. Code Ann. § 26-51-508(b) (Repl. 2020). The first year's \$5,000 credit is prorated among the businesses based upon the cost paid by each business for the initial construction and equipping the childcare facility. *Id.*

For the Employer-Provided Child Care Credit provided under Ark. Code Ann. § 26-51-508, DFA was unable to locate any return information for the 2018 or 2019 tax years where a taxpayer claimed the benefit of this credit.

I will be present at the October 19, 2020, joint meeting of the committees to present this information and to answer any questions. If you have any additional questions or require further information, please do not hesitate to contact me.

Sincerely,



Charles S. Collins
Commissioner of Revenue