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Governor

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Secretary of Revenue

**TESTIMONY ON  
SENATE BILL 74  
TO SENATE COMMITTEE  
ON ECONOMIC DEVELOPMENT  
April 14, 1999**

Thank you for the opportunity to present information concerning the creation of a state individual income tax credit for expenses related to child or dependent care.

Federal law provides a credit for child and dependent care expenses for up to \$2400 for one child, and \$4800 for two or more children. Depending on the adjusted gross income, the credit can be as much as 30% of child care expenses. As the AGI increases, the percentage applied declines according to a schedule. For AGI above \$28,000, the credit is 20% of eligible expenses.

The maximum federal credit is \$720 for one dependent and \$1440 for two or more dependents. The federal credit may be claimed only if the tax filer and spouse are both working, or if one parent is a full-time student or an individual incapable of caring for himself or herself. In the case of a single parent tax filer, the filer must also be working full time.

The only Wisconsin tax benefit provided for child and dependent care services under current law, is an exclusion from gross income of the amount of employer sponsored child care or dependent care that does not exceed \$5000.

Adoption of SB 74, which would create a nonrefundable credit for child and dependent care expenses equal to 50% of the federal credit, would offset a portion of a taxpayer's costs of earning income. For many tax filers, child care and dependent care is a significant expense they face in earning wages.

The committee should be aware however, that many costs of earning income are currently not deductible. These would include costs of commuting to and from work or meals during the workday. Allowing a credit only for certain expenses incurred by just one segment of the workforce would raise questions of tax fairness. A new credit would not be in line with the objective of tax simplification that is one of the primary goals of the Governor's tax reform proposal.