



## Legislative Fiscal Bureau

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February 7, 2024

TO: Members  
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Assembly Bill 1023/Senate Bill 976: Expand Child and Dependent Care Expenses Credit, Tax Year 2024

On January 29, 2024, Assembly Bill 1023 (AB 1023) was introduced and referred to the Joint Committee on Finance. An identical companion bill, Senate Bill 976 (SB 976), was introduced and referred to the Joint Committee on Finance on January 30, 2024. A public hearing was held in the Joint Committee on Finance on February 1, 2024. AB 1023 and SB 976 are hereafter referred to as "the bill."

### BACKGROUND

Taxable income, the amount of income actually subject to tax, is calculated under current law by subtracting the state sliding scale standard deduction and personal exemptions from Wisconsin adjusted gross income (AGI). The state's marginal income tax rate and bracket schedule is then applied to taxable income to determine gross tax liability, against which eligible taxpayers may subtract any nonrefundable credits to arrive at net tax liability. Nonrefundable credits cannot be used in excess of gross tax liability.

Federal law provides a nonrefundable individual income tax credit for child and dependent care expenses that are paid for the purpose of enabling a taxpayer (both spouses if married) to be gainfully employed. The maximum amount of expenses that can be claimed for the federal credit is: (a) \$3,000 if the claimant has one qualifying child (under the age of 13) or dependent (generally an individual who is physically or mentally unable to care for himself or herself); and (b) \$6,000 if the claimant has more than one qualifying child and/or dependent. Expenses eligible for the credit include the cost of day care provided outside the home, as well as household services needed to care for the qualifying dependent (such as those of a cook, babysitter, or housekeeper). Eligible expenses are reduced dollar-for-dollar for any amounts excluded as dependent care assistance benefits provided by the individual's employer (a separate state and federal tax benefit for child and dependent care expenses up to \$5,000 per family).

The federal credit is calculated as a percentage of eligible expenses, with the percentage ranging from 35% to 20%, depending on the claimant's federal AGI. For tax year 2024, the maximum

reimbursement percentage of 35% begins to phase down once federal AGI exceeds \$15,000. The minimum reimbursement percentage of 20% is provided once a taxpayer's federal AGI reaches \$43,000. Assuming a claimant has total expenses equal to or exceeding the maximum allowed (\$3,000 for one qualifying child/dependent and \$6,000 for two or more), the maximum federal credit amount is between \$1,050 and \$600 for one child/dependent and between \$2,100 and \$1,200 for two or more children/dependents.

State law provides a nonrefundable credit for child and dependent care expenses equal to 50% of the corresponding federal credit. The state credit acts as a supplement to the federal credit and reimburses between 17.5% and 10% of the claimant's eligible expenses. Assuming a claimant has total expenses equal to or exceeding the maximum allowed (\$3,000 for one qualifying child/dependent and \$6,000 for two or more), the maximum state credit amount is between \$525 and \$300 for one child/dependent and between \$1,050 and \$600 for two or more.

Together, the state and federal credits reimburse between 52.5% and 30% of eligible expenses for the first \$3,000 of expenses (\$6,000 for two or more children/dependents). The maximum combined credit is between \$1,575 and \$900 for one child/dependent and between \$3,150 and \$1,800 for two or more. For an individual whose employer does not offer a dependent care assistance benefits program, neither state nor federal law provide a tax benefit for child and dependent care expenses incurred above \$3,000 (\$6,000 for two or more children/dependents).

## **SUMMARY OF BILL**

Beginning in tax year 2024, the bill would expand the state credit for child and dependent care expenses to equal 100% of the corresponding federal credit claimed on the claimant's federal income tax return in the same tax year. The credit would be further expanded, such that the maximum allowable expenses under the state credit would equal \$10,000 for one qualifying child/dependent (instead of \$3,000) and \$20,000 for two or more qualifying children/dependents (instead of \$6,000).

## **FISCAL EFFECT**

The bill would increase the nonrefundable state credit by between \$2,975 (for individuals with federal AGI below \$15,000) and \$1,700 (for individuals with federal AGI over \$43,000) for a taxpayer with one child/dependent and between \$5,950 and \$3,400 for a taxpayer with two or more children/dependents, relative to current law. As a result, the maximum state credit would equal between \$3,500 and \$2,000 for a taxpayer with one child/dependent, and between \$7,000 and \$4,000 for a taxpayer with two or more children/dependents, depending on the taxpayer's federal AGI.

The bill is estimated to reduce individual income tax collections by \$72.9 million annually, beginning in 2024-25.

A distributional table is provided as an attachment. As displayed in the table, it is estimated that 111,170 filers would receive total tax decreases of \$72.9 million under the bill in tax year 2024, for an average decrease of \$656.

Prepared by: Dan Spika  
Attachment

## ATTACHMENT

### AB 1023/SB 976: Expand Child and Dependent Care Expenses Credit to 100% of the Federal Credit and Increase Creditable Expenses to \$10,000 (One Child/Dependent) or \$20,000 (Two or More Children/Dependents), Tax Year 2024

<u>Wisconsin Adjusted Gross Income</u>	<u>Taxpayers with a Tax Decrease</u>					<u>Count of All Returns</u>	<u>Percent of all Returns in AGI Class</u>
	<u>Count</u>	<u>Percent of Count</u>	<u>Amount of Tax Decrease</u>	<u>Percent of Decrease</u>	<u>Average Decrease</u>		
Under \$20,000	50	<0.1%	\$2,130	<0.1%	\$43	988,790	<0.1%
20,000 to 25,000	310	0.3	19,390	<0.1	63	143,830	0.2
25,000 to 30,000	1,070	1.0	91,970	0.1	86	150,890	0.7
30,000 to 40,000	5,140	4.6	957,170	1.3	186	301,040	1.7
40,000 to 50,000	5,910	5.3	2,086,570	2.9	353	276,640	2.1
50,000 to 60,000	5,140	4.6	2,266,030	3.1	441	230,640	2.2
60,000 to 70,000	4,700	4.2	2,270,750	3.1	483	179,180	2.6
70,000 to 80,000	4,740	4.3	2,547,800	3.5	538	145,160	3.3
80,000 to 90,000	5,210	4.7	3,149,480	4.3	605	115,060	4.5
90,000 to 100,000	5,740	5.2	3,812,640	5.2	664	97,920	5.9
100,000 to 125,000	16,470	14.8	12,059,350	16.5	732	196,500	8.4
125,000 to 150,000	15,850	14.3	11,888,930	16.3	750	140,440	11.3
150,000 to 200,000	20,330	18.3	15,651,760	21.5	770	156,570	13.0
200,000 to 250,000	9,220	8.3	7,159,130	9.8	776	68,550	13.5
250,000 to 300,000	4,240	3.8	3,333,890	4.6	786	33,720	12.6
300,000 to 500,000	5,060	4.6	3,974,790	5.5	786	48,260	10.5
500,000 to 1,000,000	1,660	1.5	1,378,640	1.9	831	19,700	8.4
1,000,000 and over	330	0.3	279,910	0.4	848	8,010	4.1
<b>Total</b>	<b>111,170</b>	<b>100.0%</b>	<b>\$72,930,330</b>	<b>100.0%</b>	<b>\$656</b>	<b>3,300,900</b>	<b>3.4%</b>

--In tax year 2024, it is estimated that a total of 111,170 filers (3.4% of all filers) would receive tax decreases totaling \$72.9 million, for an estimated average decrease of \$656.

--Taxpayers with Wisconsin AGI under \$100,000 would comprise 34.2% of all filers with a decrease and would receive 23.6% of the estimated decrease. Their estimated average tax decrease would be \$453 in tax year 2024.

--Taxpayers with Wisconsin AGI of \$100,000 or more would represent 65.8% of all filers with a decrease and would receive 76.4% of the estimated decrease. Their estimated average tax decrease would be \$762 in tax year 2024.

--In general, the estimated average tax decrease rises with Wisconsin AGI over the AGI categories shown above.

Based on a simulation of tax year 2024 by the Department of Revenue.