Maine Center for Economic Policy

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Testimony in opposition to LD 203, An Act to Provide an Income Tax Credit for Employer-supported Child Care, and LD 1555, An Act to Establish an Employer Tax Credit for Qualifying Child Care Costs

April 16, 2025

Senator Grohoski, Representative Cloutier, and members of the Taxation Committee, my name is Maura Pillsbury and I am an analyst at the Maine Center for Economic Policy. I am here today to testify in opposition to LD 203 and LD 1555.

We understand the critical value of child care to working families, and in particular the vital role it plays in protecting the economic freedom of women in Maine who face long-term, compounding impacts on their lifetime earnings and retirement security when they cannot access. However, we do not believe these proposals are the best approach to improve our child care system.

Child care is often described as a "market failure." Providers struggle to stay afloat, parents face steep costs, and child care workers are among the lowest-paid employees in our economy. The best ways to fix these problems are for the state to invest in providers, lower the cost of care, and raise compensation for early childhood educators. Maine lawmakers, including many of you, took bold steps in recent years to address these issues,[i] while the federal government directed states to improve subsidy programs, which Maine's Office of Child and Family Services is working hard to implement. To build on that progress, we must shore up and reinforce what we have already built.

Data from the Bureau of Labor Statistics shows the median hourly wage for child care workers in Maine was $16.69 in 2024. Maine's child care workers on average earn less than 60 percent of what kindergarten teachers do.[ii] If we want to attract and retain more people in a career that prepares our youngest residents for success and gives workers in every corner of the state the chance to stay in their jobs, we must do better by them.

In the immediate term, the most impactful step our state can take is to protect and deepen wage supplements for child care workers. In the longer term, Maine should use its recent cost of care study to set goals for making the necessary public investments to realize such a system for all working families.

Research has shown that employer tax credits at both the state and federal levels are not an effective way of expanding access to child care.[iii] State programs have seen limited participation, and many states have repealed employer tax credits in recent years. The federal Employer-Provided child care tax credit has overwhelmingly benefited corporate tax filers in manufacturing, finance and insurance.[iv]

The other major issue families face in accessing child care is its price, which we recognize these bills sponsors are seeking to address. However, providing tax breaks to employers is a less efficient and less equitable means of addressing this issue than providing subsidies directly to families that need support. Households can already make use of federal and state dependent care tax credits, and we recently heard a proposal to expand the Dependent Exemption Tax Credit. Building on proven, existing solutions would be preferable to this poorly targeted new proposal.

As written, these bills would transfer resources that could be targeted to lower- and middle-income families to our state's most prosperous employers. Many of the employers that would maximize the value of this credit may already offer child care benefits to their employees or are able to do so. If these bills became law, workers receiving these benefits may become more tied to their jobs and less likely to seek other opportunities that best suit their talents and goals. Furthermore, these bills may disadvantage small businesses and entrepreneurs that lack the resources to maximize the child care credit offered in this bill, but which compete for the same scarce workers as larger employers. On the other hand, policies that strengthen the entire childcare sector benefit employers of all sizes.

Furthermore, the refundable nature of this credit means the state could be sending checks to corporations that are not paying taxes in Maine, or paying employers for benefits they are already providing. While we agree that resolving our child care challenges will require much greater public investment, we believe investments that build on existing wage and subsidy programs are a much more promising path forward. We respectfully urge caution in supporting these bills and instead ask legislators to support other efforts to directly improve child care workers' wages and household supports.

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[i] Lawmakers expanded income eligibility to the Child Care Affordability Program (previously named the Child Care Subsidy Program) from 85% of State Median Income (SMI) to 125% SMI and revamped the Early Childhood Educator Workforce Salary Supplement System to account for experience and credentials. For more information on these programs, see https://www.maine.gov/dhhs/ocfs/support-for-families/child-care/paying-for-child-care and https://www.maine.gov/dhhs/ocfs/provider-resources/early-childhood-educator-workforce-salary-supplement-program

[ii] US Bureau of Labor Statistics, Occupational Employment and Wage Statistics, May 2024, available at https://data.bls.gov/oes/#/area/2300000

[iii] See "Employer Child Care Tax Credits are Ineffective at All Levels," National Women's Law Center, March 2018, available at https://nwlc.org/wp-content/uploads/2018/03/Employer-Child-Care-Tax-Credit.pdf

[iv] "Employer-Provided Child Care Credit: Estimated Claims and Factors Limiting Wider Use," Government Accountability Office, February 2022, available at https://www.gao.gov/products/gao-22-105264