

Testimony in opposition to LD 1222, An Act to Expand Child Care Services Through an Employer-supported Tax Credit April 11, 2023

Senator Grohoski, Representative Perry, 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 1222, "An Act to Expand Child Care Services Through an Employer-supported Tax Credit."

I want to first convey that we appreciate the effort to tackle important issues that this bill represents. 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, in the absence of child care, face career disruptions that have long-term, compounding impacts on their lifetime earnings and retirement security. However, we do not believe this proposal is an optimal approach to improving what ails our child care system.

The primary issue affecting our lack of child care is low wages and the resulting challenge to attract and retain workers in this sector. A 2021 survey by the National Association for the Education of Young Children found 85 percent of child care centers in Maine were experiencing staffing shortages, with low wages overwhelmingly identified as the biggest barrier to recruitment. A survey last year found the top challenges for Maine's child care centers were growing waitlists and staff shortages.

Data from the Bureau of Labor Statistics shows the median hourly wage for child care workers in Maine is lower than that of retail salespeople and food prep workers. Maine's child care workers on average earn less than 60 percent of what kindergarten teachers do, and just over half (53.5 percent) of what elementary school teachers do. If we want to attract and retain more people into a career that 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 invest in deeper wage supplements for child care workers. In the longer term, Maine should conduct a comprehensive cost of care survey to establish what it costs to deliver high quality, dependable child care, and then commit the public investments necessary to realize such a system for all working families. Both issues are central pieces to Senator Jackson's bill forthcoming child care workforce bill, which we think is the model for child care policy.

Advocates of LD 1222 will assert that by extending tax credits to child care providers who offer free or reduced-price care to their employees, it will allow them to raise wages. This may be true, but it does so in a poorly targeted way, since the bill applies to all employers across the state, including those who already have the resources to offer child care benefits to their workers. If the credits in

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this bill were offered only to employers of child care workers, we would view it in a very different light. As we all know, child care workers are poorly compensated, child care centers are under resourced, and child care workers and employers alike would benefit from more support to cover the cost of benefits.

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.ⁱ 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.ⁱⁱ These resources would be better used by expanding and improving our state's child tax credit and by directly improving workers' wages.

The other major issue families face in accessing child care is its price, which we again applaud this bill's supporters for seeking to address. However, providing tax breaks to employers is a less efficient and less equitable means of addressing this issue than to provide subsidies directly to families that need support.

Further, this bill does not include some identified best practices for state tax subsidies such as including a sunset date so extending the program in the future has to be proactively discussed, and goals and evaluation parameters that will be needed for a tax expenditure review by OPEGA.

As written, this bill would transfer significant 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 are likely either already offering child care benefits to their employees or are able to do so. If this bill 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, this bill 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.

There is not yet a fiscal note and we do not have a cost estimate for this bill, but we suspect it will be significant. The refundable nature of this credit means the state could be paying out-of-state corporations that are not paying taxes in Maine. The bill's structure would also result in profitable corporations getting credits for benefits they are already providing. While we fully agree that resolving our child care challenges will require much greater public investment, we believe investments to raise the wages of child care workers, and improve and expand our child care subsidies are a much more promising and equitable path forward. We respectfully urge caution in supporting this bill and instead ask legislators to support other efforts to more directly improve child care workers' wages and household supports.

ⁱ 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>

ⁱⁱ "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>