OHIO LEGISLATIVE SERVICE COMMISSION

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Office of Research and Drafting

Legislative Budget Office

H.B. 577
135th General Assembly

Fiscal Note & Local Impact Statement

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Version: As Introduced

Primary Sponsor: Rep. White

Local Impact Statement Procedure Required: Yes

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Highlights

- The bill creates a refundable tax credit against the personal income tax (PIT) valued up to $6,000 per tax year, limited to $3,000 for taxpayers with only one qualifying child, for eligible employment-related child care expenses provided for the care of qualifying dependent children under the age of 13.
- The percentage of a claimant's qualifying child care expenses eligible to be claimed as a credit ranges from 10% to 100% (in increments of 15%) based on the level of a family's household income relative to the federal poverty line (FPL).
- Total state revenue losses are expected to approach $574.9 million the first year following enactment, with losses rising at a rate generally matching inflation in the cost of child care services in future years. The PIT distributes 96.6% of its revenue to the GRF, with the remaining amounts evenly shared between the Local Government Fund (LGF, Fund 7069) and Public Library Fund (PLF, Fund 7065).

Detailed Analysis

The bill authorizes a refundable tax credit against the personal income tax (PIT) for eligible employment-related child care expenses provided for the care of qualifying dependent children under the age of 13. Eligible expenses are defined under section 21 of the Internal Revenue Code for the purposes of the federal dependent care credit and generally include costs incurred for the care of a qualifying child that enable the taxpayer to be gainfully employed as well as household services provided primarily for the child's wellbeing.[1] The proposed tax credit is capped at $3,000 of eligible child care expenses for families with one dependent child and $6,000 for families with two or more dependent children.

The percentage of a claimant's qualifying child care expenses eligible to be claimed as a credit is progressive, ranging from 10% to 100% (in increments of 15%), based on the level of a family's household income relative to the federal poverty line (FPL). Taxpayers with household incomes at or below 450% of the FPL would qualify for a credit on 100% of their eligible child care expenses (not to exceed the aforementioned cap), while families with incomes between 451% and 750% of the FPL would qualify for a credit equal to a portion of their expenses. For tax year (TY) 2024, 450% of the FPL is $140,400 and 750% is $234,000 for a four-person household; the same values for a household size of two are $91,980 and $153,300, respectively.[2]

Percentage of Child Care Expenses Eligible for Credit, by FPL	
Household Income Relative to Federal Poverty Line	**Credit Percentage Applied Against Eligible Expenses**
At or below 450%	100%
451% to 500%	85%
501% to 550%	70%
551% to 600%	55%
601% to 650%	40%
651% to 700%	25%
701% to 750%	10%

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This revenue estimate was compiled using data from the 2023 U.S. Census Bureau's Annual Social and Economic Supplement (ASEC) to the Current Population Survey (CPS) which included measures of total household income, child care expenses, and the number of children

[1] 26 United States Code (U.S.C.) 21; see also 26 Code of Federal Regulations (C.F.R.) 1.21-1, Internal Revenue Service (IRS) Publication 503, and IRS Topic 602.

[2] U.S. Department of Health and Human Services (HHS): 2024 Federal Poverty Guidelines.

in a household. The 2022 U.S. Census Bureau's American Community Survey (ACS) was used to provide estimates of the number of Ohio resident children under age 13.[3]

Dependent care credit

The bill also prohibits taxpayers from claiming two state tax credits on behalf of the same child care expenses. As a result, this analysis assumes all eligible taxpayers would claim the refundable child care expense credit proposed by the bill rather than the less lucrative nonrefundable dependent care credit available under continuing law in R.C. 5747.054.

The Ohio Department of Taxation publishes its Tax Expenditure Report biennially, as required in R.C. 5703.48. This report details the forgone revenue to the GRF from the implementation of each statutorily defined tax expenditure; credits applied against the Ohio individual income tax are included in this definition. The report for FY 2024-FY 2025 estimates the forgone revenue from Ohio's current dependent care credit in FY 2024 at $2.0 million.[4] The revenue estimate in this analysis incorporated the GRF savings associated with applicable families no longer utilizing this nonrefundable tax credit.

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[3] U.S. Census Bureau: 2023 ASEC and 2022 ACS.

[4] Ohio Department of Taxation: Tax Expenditure Report (FY 2024-FY 2025).