The Grading System

The following criteria determined each state's score. For a fuller discussion of these criteria, see *Making Care Less Taxing: Improving State Child and Dependent Care Tax Provisions.*

Adequacy: The maximum dollar value of state provisions varies considerably. The greater the dollar value of the provision, based on the maximum amount provided for families with care expenses for two children or dependents, the more points it receives. Maximum Points: 30

Credit or Deduction: Because, in general, tax credits are more advantageous to lower-income families and deductions are more advantageous to higher-income families, provisions that are credits do a better job of targeting assistance to families that need it most. Provisions that are credits receive higher points. Maximum Points: 10

Refundability: When a credit is refundable, a family gets a check back from the state if the family's credit exceeds the tax owed. This is especially important to lower-income families who often do not have enough tax liability to take full advantage of the credit for which they are eligible. Maximum Points: 14

Low-Income Targeting: Families with lower incomes need more assistance in meeting their child and dependent care expenses than families with higher incomes. Provisions receive points for incorporating well-designed sliding scales that provide maximum assistance to the lowest-income families and by ensuring that, if the provision is calculated based on the federal child and dependent care credit, the federal amount used is not limited by federal tax liability. Maximum Points: 12

Income Limit: Some provisions eliminate any benefit for families above a particular income level. This reduces the provision's ability to apportion taxes according to family resources and, if the maximum is set too low, denies assistance to many families who need help with employment-related care expenses. The more stringent the limit, the fewer points the provision receives. Maximum Points: 5

Expense Limits: Most provisions limit the dollar amount of expenses eligible for assistance. Limits that are lower than the average cost of care leave families with a large amount of expenses for which they receive no assistance, which reduces their ability to ensure that children and adults receive good care. Provisions with more restricted expense limits receive fewer points. Maximum Points: 9

Dependents Covered: Families need help with care for children and adult dependents who cannot care for themselves. Provisions that do not cover adult dependents or provide less coverage for them receive fewer points. Maximum Points: 6

Quality of Care: Higher-quality care is often more expensive, but beneficial to children and adult dependents. Provisions receive points if they encourage use of higher-quality care, earning more points if they are stronger and cover both children and adults. Maximum Points: 4

Indexing: Numerical values in state provisions erode with inflation, reducing the value of the provision to families. Provisions that include numerical values and automatically adjust these numbers for inflation receive points; states that do not adjust these values lose points. Maximum Points: 3

Forms: Some states highlight the tax provision on their tax forms. Some states have short-form tax returns that lower-income families are more likely to use than higher-income families. Failure to include the provision on the short form means that some eligible families may not receive the credit or deduction. States that highlight the provision on their forms gain points and states with forms and instructions that do not mention the provision or are otherwise misleading, or with short forms that do not include the provision, lose points. Maximum Points: 4

Treatment of Married Couples: Some state provisions require that married couples file jointly or that married couples filing separately take the credit or deduction in a way that minimizes its value to the family. These provisions lose points. Maximum Points: 0

Residency: Some state provisions limit their provision to residents, while others allow non-residents to claim the provision. States that allow non-residents to claim the provision gain points, while states that deny the provision to non-residents lose points. Maximum Points: 3

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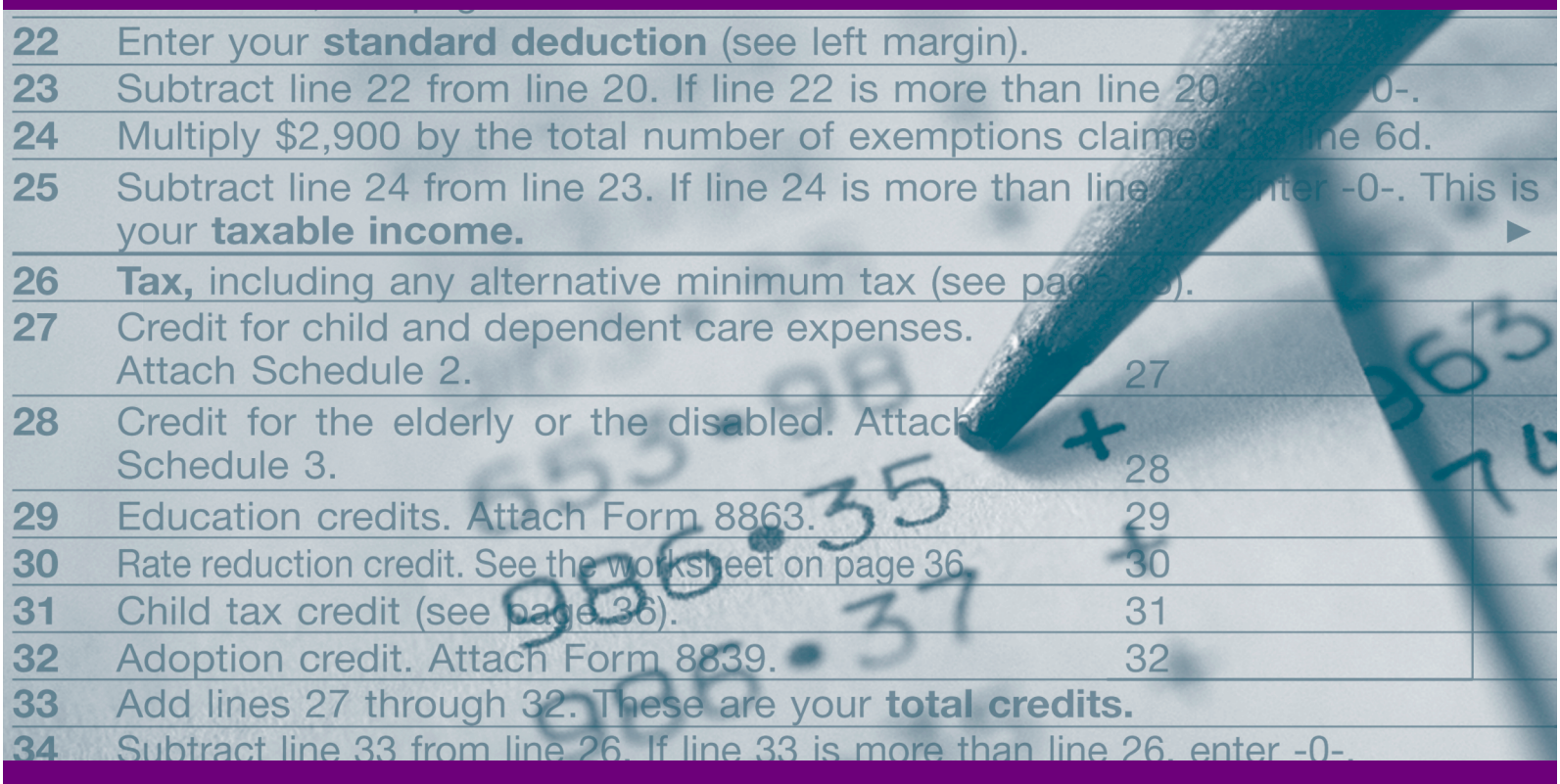
Making the Grade *for* Care

Ranking State Child and Dependent Care Tax Provisions



April, 2002

NATIONAL WOMEN'S LAW CENTER
EXPANDING THE POSSIBILITIES

Making the Grade for Care

Ranking State Child and Dependent Care Tax Provisions

This report card grades state provisions in effect for tax year 2001 according to a point system based on the criteria identified in the National Women's Law Center's companion report, *Making Care Less Taxing: Improving State Child and Dependent Care Tax Provisions. Making Care Less Taxing* provides an overview of state child and dependent care (CADC) tax provisions and describes the best policies for states to adopt when designing such provisions. CADC provisions are important because they help families recoup through the tax system some of their employment-related child and dependent care expenses.

The higher the grade, the closer a state is to meeting the best policies for a CADC tax provision. The adequacy of the tax benefit — the amount of tax relief or refund that a family could receive under the provision — is the most important factor in assessing a state CADC tax provision, but it is not the only one, as illustrated by the chart on the next two pages. Consequently, one state provision that ranks higher than another state provision may not always produce a larger maximum benefit.

Report Card

A–	New York
B+	Minnesota
B	California, Hawaii, Oregon (WFCC), Nebraska
C+	Colorado, Iowa, Louisiana (dependent care), Maine, Ohio, Oregon (CADC)
C	Arkansas, Delaware, District of Columbia, Kansas, Kentucky, Maryland (credit), New Mexico, North Carolina, Oklahoma, Rhode Island, South Carolina, Vermont
C–	Idaho, Massachusetts, Virginia
D	Louisiana (child care), Maryland (deduction), Montana
F	Alabama, Arizona, Connecticut, Georgia, Illinois, Indiana, Michigan, Mississippi, Missouri, New Jersey, North Dakota, Pennsylvania, Utah, West Virginia, Wisconsin

The 15 states with the lowest grade are states with personal income taxes that do not include a child and dependent care tax provision.

The nine states that have no personal income tax, or tax only certain non-wage personal income, are not graded: Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming.

The National Women's Law Center is a non-profit organization that has been working since 1972 to advance and protect women's legal rights. The Center focuses on major policy areas of importance to women and their families, including employment, education, reproductive rights and health, and family economic security — with special attention given to the needs of low-income women.

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Grades

State	Adequacy	Credit or Deduction	Refundability	Low–Income Targeting	Income Limit	Expense Limits	Dependents Covered	Quality	Indexing	Forms	Treatment of Married Couples	Residency	Total
Maximum Points	30	10	14	12	5	9	6	4	3	4	0	3	100
AR	4	10	7	3	5	6	6	2	0	3	0	3	49
CA	17	10	14	10	4	6	6	0	–1	4	0	2	72
CO	19	10	14	4	3	6	3	0	–1	4	0	0	62
DE	14	10	0	3	5	6	6	0	0	1	–1	0	44
DC	10	10	0	1	5	6	6	0	0	4	0	3	45
HI	21	10	14	9	5	6	6	0	–1	4	–2	0	72
ID	7	0	0	0	5	6	6	0	0	1	0	3	28
IA	20	10	14	5	2	6	6	0	–1	2	0	3	67
KS	6	10	0	2	5	6	6	0	0	4	0	0	39
KY	4	10	0	2	5	6	6	0	0	4	0	0	37
LA (Child Care)	1	10	0	0	5	6	3	0	–1	0	0	3	27
LA (Dependent Care)	26	10	2	5	5	6	3	0	0	0	0	3	60
ME	14	10	7	3	5	6	6	3	0	1	0	3	58
MD (Credit)	10	10	0	8	3	6	6	0	–1	–1	0	3	44
MD (Deduction)	3	0	0	0	5	6	6	0	0	2	0	3	25
MA	8	0	0	0	5	7	6	0	–1	4	0	3	32
MN	26	10	14	9	1	6	6	0	2	4	–2	3	79
MT	2	0	0	4	0	3	6	0	–1	–1	0	3	16
NE	26	10	7	9	5	6	6	0	–1	4	–2	0	70
NM	18	10	14	0	0	4	4	0	–1	1	0	0	50
NY	28	10	13	12	5	6	6	0	–1	4	–3	3	83
NC	12	10	0	8	5	6	6	0	–1	1	0	3	50
OH	26	10	0	6	2	6	6	0	–1	2	0	3	60
OK	4	10	0	2	5	6	5	0	0	3	0	1	36
OR (CADC Credit)	26	10	2	8	2	6	6	0	–1	4	0	3	66
OR (WFCC Credit)	29	10	0	11	2	9	4	0	2	4	–2	3	72
RI	6	10	0	2	5	6	6	0	0	4	0	3	42
SC	5	10	0	0	5	6	6	0	0	4	–2	2	36
VA	4	0	0	0	5	6	6	0	0	4	0	3	28
VT	5	10	0	2	5	6	6	0	0	4	0	3	41