OFFICE OF THE STATE AUDITOR

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Members of the Legislative Oversight Committee Concerning Tax Policy, Joint Budget Committee, and House and Senate Finance Committees:

This report contains the evaluation we conducted of the Child Care Contribution Income Tax Credit, as required by Section 39-22-121(6.8)(d), C.R.S.

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Child Care Contribution Income Tax Credit

Tax Expenditure Evaluation • August 2026 • 2026-TE6

OFFICE OF THE STATE AUDITOR
COLORADO

Tax Type:	**Income**
Expenditure Type:	**Credit**
Statutory Citation:	**Section 39-22-121, C.R.S.**
Year Enacted:	**1998**
Repeal/Expiration Date:	**January 1, 2038**
Revenue Impact:	**$27.5 million (Tax Year 2024)**

Purpose given in statute or enacting legislation? **Yes**

The Child Care Contribution Income Tax Credit (Child Care Contribution Credit) allows taxpayers who make monetary contributions to promote child care in the state to claim an income tax credit equal to 50 percent of the contributions. The credit is capped at $100,000 per tax year and is not refundable. If the credit exceeds the taxpayer's tax liability, the credit can be carried forward for 5 years. Statute defines child care as "care provided to a child twelve years of age or younger." Eligible child care facilities include both nonprofit and for-profit organizations, and the specific types of facilities that can receive credit-eligible contributions include child care centers, child placement agencies, foster care homes, homeless youth shelters, residential child care facilities, and approved nonprofit facility schools that are affiliated with a licensed or certified hospital. Taxpayers can also make credit-eligible contributions to certain child care supportive programs, such as referral organizations and organizations that provide grants or loans to parents in the state requiring financial assistance for child care. Statute provides that contributions may be used for the establishment or operation of a child care facility, the establishment of a grant or loan program for parent(s) requiring financial assistance for child care, training of child care providers, and the establishment of an information dissemination program to provide information and referral services to assist parent(s) in obtaining child care. The purpose of the credit is to encourage taxpayers to make donations that promote child care in the state.

In 2023, with House Bill 23-1091, the General Assembly created statutory performance measures for the Child Care Contribution Credit and required the Department of Revenue (Department) to begin collecting information related to the performance measures for each credit-eligible contribution, including the contribution amount, the person/organization to whom the taxpayer made the contribution, the type of child care facility and/or program to which the taxpayer made the contribution, and the county in which the person/organization receiving the contribution is located. The Department revised its Child Care Contribution Tax Credit Certification (DR 1317 or certification form) to be used beginning in Tax Year 2024 and also completed programming in GenTax, the Department's tax processing system, to allow the data from the redesigned certification form to be captured.

We found:

- **The number of taxpayers that claimed the Child Care Contribution Credit and its revenue impact to the State—which corresponds to benefits received by taxpayers—was significant during the Tax Years 2015 through 2024 period.** According to Department data, in Tax Year 2024, the most recent year of available data, the Child Care Contribution Credit was claimed on 15,117 returns and had a total revenue impact to the State of about $27.5 million, which corresponds to the benefit taxpayers received from the credit. During the 10-year period from Tax Years 2015 to 2024, eligible child care facilities and programs collectively received at least an estimated total of $589.9 million in contributions that were eligible for the Child Care Contribution Credit, which is an average of about $59 million in total contributions per year.

- **Despite the Department revising the certification form and reprogramming GenTax, detailed, comprehensive, and reliable data about the organizations and type of contributions for which taxpayers claimed the Child Care Contribution Credit was not available for Tax Year 2024 and is unlikely to be available in the future.** There are a couple of primary reasons for this, including that most taxpayers attach the certificate as a PDF to their returns, which is not readable by GenTax, and only 2 out of 37 software products that support the Colorado individual income tax return have programmed their software to support the certification form in a machine-readable format. Both are niche products that were not used by any taxpayers who claimed the credit. Additionally, we examined a targeted selection of 200 credit claims and found that some taxpayers do not attach a credit certificate to their returns, some taxpayers continued to use an older version of the certification form (which does not capture detailed information about the contribution), and some taxpayers did not fill out every field even when they used the newer version of the certification form. When the General Assembly has wanted detailed information on other credits (e.g., the Enterprise Zone Contribution Credit, Homeless Contribution Tax Credit), it has put a state agency in charge of certifying credits and reporting the information to the Department. This approach has resulted in greater administrative oversight of those credits and more comprehensive and regularly available data on credit-eligible contributions and the organizations receiving them. However, there would be a fiscal impact to have another agency administer the Child Care Contribution Credit.

- **In the targeted section of 200 credit claims that we examined in GenTax (out of 15,117 total credit claims), the majority of the contributions went to child care centers, which includes daycares, preschools, before- and after-school programs, and camps.** Almost all taxpayers indicated that the contributions would be used for the establishment or operation of a child care facility in the state that uses the donation to provide child care. Eighty-five percent of the contributions in our targeted selection went to organizations located along the Front Range, with 51 percent of contributions going to organizations in Denver.

Policy Consideration

If the General Assembly wants more data on the Child Care Contribution Credit, it could consider directing another state agency to administer the credit and collect data on contributions, contribution recipients (e.g., facility type, location), and recipients' use of the contributions.

Child Care Contribution Income Tax Credit

Background

The Child Care Contribution Income Tax Credit (Child Care Contribution Credit) allows taxpayers who make monetary contributions to promote child care in the state to claim an income tax credit for their contribution. The Child Care Contribution Credit was originally established in 1990 through Senate Bill 90-161, and was initially limited to economically distressed areas of the state known as "enterprise zones." Specifically, Senate Bill 90-161 added contributions "to promote child care in enterprise zones… for the purpose of implementing the economic development plan for the enterprise zone" to the Enterprise Zone Contribution Credit, which provides tax credits for taxpayer contributions to approved projects that contribute to economic development and are located in enterprise zones. In 1998, the General Assembly passed Senate Bill 98-154, which established the Child Care Contribution Credit statewide and removed it from the Enterprise Zone Contribution Credit.

The Child Care Contribution Credit is equal to 50 percent of the taxpayer's contribution and is capped at $100,000 per tax year. The credit is not refundable, but if the credit exceeds the taxpayer's tax liability, the credit can be carried forward for 5 years. Contributions must be given without an exchange for services (e.g., tuition or fee payments to a facility are not eligible). Additionally, taxpayers cannot claim the credit for contributions to a child care facility if the taxpayer or a relative of the taxpayer has a financial interest in the facility. Statute [Section 39-22-121(2), C.R.S.] provides that contributions may be used for the following activities:

- The establishment or operation of a child care facility.
- The establishment of a grant or loan program for parent(s) requiring financial assistance for child care.
- Training of child care providers.
- The establishment of an information dissemination program to provide information and referral services to assist parent(s) in obtaining child care.

As discussed later, organizations that receive credit-eligible contributions are supposed to indicate on the Child Care Contribution Tax Credit Certification (Form DR 1317 or certification form) which of those four activities listed previously that it intends for the contribution to be used and then provide the certification form to the contributing taxpayer.

Section 39-22-121(1.7), C.R.S., defines child care as "care provided to a child twelve years of age or younger." Eligible child care facilities include both nonprofit and for-profit organizations, and the specific types of facilities that can receive credit-eligible contributions include child care centers, child placement agencies, foster care homes, homeless youth shelters, residential child care facilities, or approved nonprofit facility schools that are affiliated with a licensed or certified hospital. In addition to licensed child care facilities, statute allows for contributions to child care centers that are not required to have a license, such as family child care homes that serve four or fewer children or child care centers that are being built, as well as contributions to child care supportive programs, such as referral organizations or organizations that provide grants or loans to parents in the state requiring financial assistance for child care [Section 39-22-121(2) and (6.5), C.R.S.]. To manage the eligibility of contributions to organizations that are not required to have a license, Department of Revenue (Department) regulations require any unlicensed child care program or service provider—including grant or loan programs and information dissemination and referral services—to register with the Department [1 CCR 201-2 Rule 39-22-121(6)]. Organizations must complete the Unlicensed Child Care Organization Registration Application (Form DR 1318) and the Department assesses whether the organization supports child care and qualifies for contributions for which donors may claim the credit. The Department publishes on its website a list of approved organizations that are not required to have a license. According to Department data, there are almost 3,300 organizations/programs on its approved list. The majority of these organizations (98 percent) are child care centers, including daycares, preschools, and programs serving school-aged children (e.g., camps or after-school care). According to the Department, it does not maintain data on the reasons that organizations apply, but anecdotally, the Department reported that the most common reason that organizations apply is that the organization wants to accept contributions for the construction of a facility that will ultimately become licensed. It is possible that some organizations or programs on the Department's approved list remain on its list even though the organizations or programs have since become licensed.

In 2004, the General Assembly passed House Bill 04-1119, which clarified that, for purposes of determining eligibility for the credit, contributions only include contributions to facilities or programs that serve children aged 12 or younger. However, the bill provided a provision that allowed organizations that had already been accepting contributions and served children between aged 13 and 18 to be grandfathered in and to continue receiving credit-eligible contributions. Grandfathered organizations must complete the Child Care Contribution Tax Credit Grandfathered Organization Application (Form DR 1319) to register with the Department. As of January 2026, there were 69 child care facilities that were grandfathered in and can receive credit-eligible contributions.

Taxpayers claim the credit by submitting the certification form, which is completed by the organization that they contributed to, with their Colorado income tax return where they also report the credit amount claimed.

We did not identify any other state with a credit that operates exactly the same as Colorado's Child Care Contribution Credit. There are several states that allow credits for contributions to some of the same types of organizations or for some of the same purposes as Colorado's credit. Specifically, we identified six states with similar credits. North Dakota allows a credit for contributions to child placement agencies. Georgia, Indiana, and Louisiana allow credits for contributions to organizations that support foster care. Idaho allows a credit for contributions to youth rehabilitation facilities. Pennsylvania allows a credit for businesses that contribute to certain approved organizations that provide scholarships for pre-kindergarten.

The Office of the State Auditor (OSA) last evaluated the Child Care Contribution Credit in 2021. Since that time, the General Assembly has passed two bills that made substantive changes to it. In 2023, House Bill 23-1091 created a statutory purpose for the credit, which is **"to encourage taxpayers to make donations that promote child care",** and performance measures. **Specifically, statute provides that the OSA "shall measure the effectiveness of the tax credit…based on the number and value of credits that are claimed. For income tax years commencing on or after January 1, 2024, in order to allow the general assembly and the state auditor to measure the effectiveness of the credit, the department of revenue, when administering the credit, shall collect, at a minimum, the following information about the taxpayer's contribution to promote child care: (I) The contribution amount; (II) The person to whom the taxpayer made the contribution; (III) The type of contribution made…; (IV) The type of child care facility and programs to which the taxpayer made the contribution; and (V) The county in which the person receiving the donation is located."** House Bill 23-1091 also required the Department "to study possible improvement to the tax credit allowed pursuant to this section and to develop recommendations for further measuring the effectiveness of the tax credit." The Department published its study and recommendations in July 2024. We discuss the results of the Department's study and recommendations later in this report. In 2026, House Bill 26-1004 extended the credit's availability to tax years beginning prior to January 1, 2038 and also clarified that the credit's purpose is specifically to encourage taxpayers to make donations that promote child care "in the state."

In our 2021 evaluation, we found that the Child Care Contribution Credit provides a moderate incentive for taxpayers to contribute to child care organizations and services supporting child care. Specifically, the credit may encourage some taxpayers to contribute to child care organizations as opposed to contributing to other types of charitable organizations. However, the credit appears to offer a stronger incentive for taxpayers to increase their contribution amount to child care organizations that they had already decided to contribute to. Statute requires our office to prepare a tax expenditure evaluation of the Child Care Contribution Credit during the tax year commencing on January 1, 2026 but no later than September 15, 2026 [Section 39-22-121(6.8)(d), C.R.S.]. Since we evaluated the Child Care Contribution Credit recently, this follow-up evaluation focuses on reporting on the new information the General Assembly required the Department to start collecting about taxpayers' contributions beginning in Tax Year 2024 as well as the number and value of credits claimed.

Evaluation Results

The number of taxpayers that claimed the Child Care Contribution Credit and its revenue impact to the State—which corresponds to benefits received by taxpayers—was significant during the Tax Years 2015 through 2024 period. According to Department data provided to our office in April 2026, in Tax Year 2024, which is the most recent year of data available, the Child Care Contribution Credit was claimed on 15,117 returns and had a total revenue impact to the State of about $27.5 million, which corresponds to the benefit taxpayers received from the credit. Exhibit 1 shows the number of taxpayers who claimed the credit during the 10-year period from Tax Year 2015 through 2024.

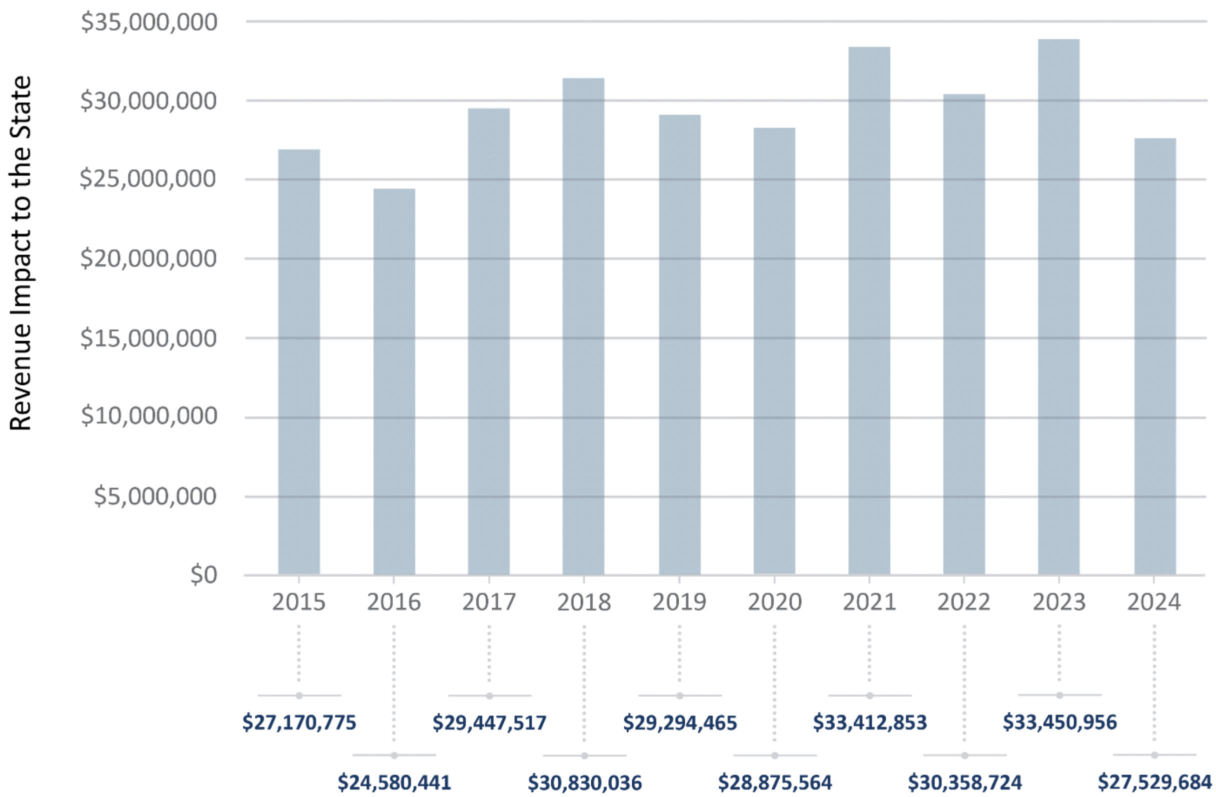
Exhibit 1
Number of Child Care Contribution Credit Claimants by Year, Tax Years 2015 through 2024[1]

Tax Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Claimants	22,154	16,639	18,484	18,174	17,740	16,907	16,445	15,647	15,972	15,117

Source: Office of the State Auditor analysis of Department of Revenue data.
[1] Data on claims of the Child Care Contribution Credit by pass-through entities that file a composite nonresident return is not available or not releasable for all years included in the chart. Specifically, data on claims of the credit by pass-throughs is not available for Tax Years 2015, 2016, 2017, 2019, 2021, and 2023 and is not releasable in order to preserve taxpayer confidentiality for Tax Year 2022. However, in the years in which data is available and releasable for pass-through entities, the number of taxpayers claiming the credit ranged from 3 to 11 so their impact on the number of claims is insignificant.

Exhibit 2 shows the annual State revenue impact of the credit during the 10-year period from Tax Year 2015 through 2024.

Exhibit 2
Child Care Contribution Credit Annual State Revenue Impact, Tax Years 2015 through 2024[1]



Source: Office of the State Auditor analysis of Department of Revenue data.
[1] Data on claims of the Child Care Contribution Credit by pass-through entities that file a composite nonresident return is not available or not releasable for all years included in the chart. Specifically, data on claims of the credit by pass-throughs is not available for Tax Years 2015, 2016, 2017, 2019, 2021, and 2023 and is not releasable in order to preserve taxpayer confidentiality for Tax Year 2022. However, in the years in which data is available and releasable for pass-through entities, the total annual amount collectively claimed by these types of taxpayers ranged from $688 to $15,715, so the amount claimed by these taxpayers in years in which data is not available or not releasable is likely insignificant relative to the total revenue impact of the credit.

As shown in Exhibit 2, the revenue impact—and corresponding benefit received by taxpayers—consistently remained significant during the 10-year period from Tax Years 2015 to 2024, ranging from a low of about $24.6 million in Tax Year 2016 to a high of about $33.5 million Tax Year 2023.

Since the credit is calculated based on 50 percent of eligible contributions (subject to the $100,000 annual cap per taxpayer), the contributions associated with these credits represent a significant amount of funding to child care facilities and programs in the state, which supplements state- and federally-funded programs. The legislative declaration for House Bill 26-1004, which extended the Child Care Contribution Credit for 10 additional years, states, "In the face of uncertain federal support and a challenging state budget environment, renewing the child care tax contribution credit for 10 years is critical to support Colorado child care and after-school providers, families, and local economies." Operating a child care facility is high-cost and child care centers have small break-even margins. According to a report from the Bell Policy Center, "Child care is labor-intensive. The primary cost of providing child care is salaries, which account for 52-63 percent of a provider's budget. Personnel costs are higher for programs serving babies and toddlers than preschoolers because child-staff ratios are lower for our youngest children. Other key costs are food, classroom materials, administrative expenses, rent, utilities, and benefits. Break-even margins are slim and dependent on market rates for tuition and subsidy structures for public funding." During the 10-year period from Tax Years 2015 to 2024, eligible child care facilities and programs collectively received at least an estimated total of $589.9 million in contributions that were eligible for the Child Care Contribution Credit, which is an average of about $59 million in total contributions per year.

Although the Child Care Contribution Credit provides a significant amount of funding to child care facilities in the state, there are other public funding sources that provide larger amounts of funding. The major public funding sources for child care in Colorado are the Colorado Child Care Assistance Program (CCCAP), the Universal Preschool Program (UPK), and Head Start Preschool and Early Head Start programs. Exhibit 3 provides a brief description of these programs and how much funding these programs provided for early child care and education.

Exhibit 3
Programs that Fund Child Care that Provide Significant Public Funding to Child Care Facilities in Colorado

Program	Brief Program Description	Amount of Funding
Universal Preschool Program (UPK)	UPK offers at least 10 hours per week of preschool funding to all children in the year before they enter kindergarten (typically 4-year-olds); regulations increased this to 15 hours. Contingent on available funding, some of these children are eligible for full-day, 30-hour per week preschool if they are from a low-income household and have a qualifying factor, such as homelessness, foster care, dual language learner, have an Individualized Education Plan (IEP), or are experiencing poverty. Three-year-olds who have at least one qualifying factor are eligible to receive 10 hours per week of covered preschool funding. This program is funded by the State.	$349.1 million (Fiscal Year 2026)
Colorado Child Care Assistance Program (CCCAP)	CCCAP provides financial assistance for child care to certain low-income families that are working, seeking employment, or participating in training or education. This program is primarily federally funded but the State and local governments also contribute funds. As of July 1, 2026, 14 counties in Colorado had a CCCAP enrollment freeze; counties freeze CCCAP enrollment when the costs of the program exceed the funding available.	$185.7 million (Fiscal Year 2026)

Program	Brief Program Description	Amount of Funding
Head Start Services	Head Start services are available at no cost to children ages birth to 5 in eligible families. Early Head Start services work with families that have children ages birth to 3. Head Start preschool services work with children ages 3 to 5 and their families. Many child care programs operate both Early Head Start services and Head Start preschool. Programs deliver child development services in center-based, home-based, or family child care settings. Head Start services are federally funded but the State and local governments may also contribute. Head Start services can be supplemented by other programs such as UPK. As of Fiscal Year 2024, there were 250 Head Start preschool and Early Head Start program sites in Colorado.	$165.0 million (Fiscal Year 2024)

Source: Office of the State Auditor analysis of Bell Policy Center report "Quality Child Care in Colorado: A Cost Study"; Joint Budget Committee Staff Budget Briefing FY 2026-2027 Department of Early Childhood; information from the U.S. Department of Health and Human Services Office of Head Start; and First Five Years Fund 2025 Head Start: Colorado information sheet.

Most child care centers that participate in the programs described in Exhibit 3 are eligible to receive contributions for which the contributor may claim the Child Care Contribution Credit. Additionally, some child care centers may be eligible to claim a Child Care Facility Investment Credit. There are two credits available:

- Facility Owner Investment Credit [Section 39-22-517(1), C.R.S.] – Allows the owners of licensed child care facilities, family care homes, and foster care homes to claim an income tax credit for 20 percent of their investment in qualified property and equipment. The Department reports that, for Tax Year 2023, 460 individuals claimed this credit for a total of $684,864. Data on claims of this credit by corporations is not releasable for Tax Year 2023 in order to preserve taxpayer confidentiality.

- Employer Facility Investment Credit [Section 39-22-517(2), C.R.S.] – Allows employers that operate a licensed child care facility for their employees to claim an income tax credit for 10 percent of the employer's investment in qualified property and equipment for the child care facility. The child care facility must be incidental to the business, meaning that it cannot be a major part of the employer's business activities. The Department reports that, for Tax Year 2023, 18 individuals claimed this credit for a total of $16,802. No corporations claimed this credit for Tax Year 2023.

Qualified investments for both credits include purchases of items that are depreciable and have a useful life of more than 1 year (e.g., crib mattresses, stoves, vehicles, and playground equipment). Operating expenses (e.g., rent, utilities, and property taxes), purchases of real estate, and single use products (e.g., paper products, diapers, food, and office supplies) are not eligible. Child care centers that operate as for-profit businesses are more likely to claim these credits than nonprofit child care centers since they must have income tax liability in order to benefit from the credits.

Detailed, comprehensive, and reliable data about the organizations and type of contributions for which taxpayers claimed the Child Care Contribution Credit was not available for Tax Year 2024 and is unlikely to be available in the future. In order to allow our office to measure the effectiveness of the credit, statute required the Department to collect the following information about the taxpayer's contributions to child care facilities for which the credit was claimed starting in Tax Year 2024:

- The contribution amount,
- The person/organization to whom/which the contribution was made, and
- The type of contribution made (e.g., fund operation of a child care facility, train child care providers), the type of child care facility and/or program to which the taxpayer made the contribution, and the county in which the person/organization receiving the contribution is located.

The Department was appropriated funds to redesign the certification form and it redesigned the form to be used beginning in Tax Year 2024. The new version of the certification form includes fields for collecting all of the information required by statute. The Department also completed programming in GenTax, the Department's tax processing system, to allow data from the redesigned certification form to be captured as part of its modernized e-file return schema for state income tax returns. However, the data from the redesigned certification form is not available for Tax Year 2024 and will likely not be available for future years for various reasons, including:

- **First, most taxpayers attach a PDF to their tax returns, which is not readable by GenTax.** The certification form has not historically been a filing form; it is a certificate. According to Department staff, "Certificate forms require a taxpayer to validate information during the course of the tax year with a certifying agency or third party (i.e., a child care facility)…Most often, certificate-type forms are completed on paper, with the issuing party keeping a copy and the recipient receiving a copy…When tax time comes, the taxpayer has a paper document filled out with any information available from the issuing party. In order to report the information to us, a taxpayer (or their tax advisor) would have to manually key this type of data into their tax return. Since the credit's inception, this has not been a required step. Most taxpayers include the certificate as proof of filing as a PDF attachment to their return. GenTax cannot read the data from PDF attachments to translate them into stored reporting data because any type of document can be made into a PDF attachment. Changing taxpayer behavior when they are interacting with 3rd party software providers is challenging without mandates upon those 3rd party providers…"
- **Second, the certification form is not a filing form that is supported by most tax filing software vendors, so the information collected on the form cannot systematically be retrieved from GenTax.** According to Department staff, "Many vendors will only support

electronic filing and tax preparation when it makes financial sense for them to do so based on their client population, and as a result, they are permitted to opt out of supporting particular credits and schedules. The majority of software tools typically only allow filers to submit the form as an attachment. Though we do not know for sure, this choice probably reflects the fact that the costs to program their software to allow taxpayers or practitioners to key in the data for transmission to DOR in a machine-readable form outweigh the benefits of offering that functionality…For tax year 2025, only two software programs from the same company [out of 37 software products that support the Colorado individual income tax return] claim to support this form. They are FileYourTaxes and ProTaxPro, both niche products, and neither of which was used by the taxpayers claiming the credit. This form is not currently mandated for e-filing; mandating particular forms or filing rules has other impacts. We could mandate support of the DR 1317 from all of the vendor partners, but we try to only impose these mandates when critical for tax administration reasons. These mandates could mean that some software products would choose not to support Colorado taxpayers or pull out of Colorado for e-filing. Losing vendors would give Colorado taxpayers fewer choices and may push some to file on paper. Paper filing often bears higher costs to the state (processing, errors, etc)."

In addition to the technological challenges the Department noted, we also noted additional data collection challenges resulting from taxpayer behavior. Due to time constraints, we were unable to examine all 15,117 claims of the credit for Tax Year 2024 in GenTax. We looked at two targeted selections: (1) the 100 taxpayers who claimed the largest credits in Tax Year 2024. These taxpayers all claimed credits of at least $28,000 in Tax Year 2024 (although many were carrying forward credits from prior years) and collectively the credits of these 100 taxpayers totaled about $4.7 million of the approximately $27.5 million in credits claimed in Tax Year 2024. And, (2) we looked at a random sample of 100 taxpayers that claimed a credit in the amount of $500. We chose $500 because that was the most common credit amount in Tax Year 2024, as well as the median credit amount. Although neither of these selections are representative of the entire population of 15,117 credit claims and cannot be projected to the entire population, we noted the following issues among these two targeted selections that could potentially be issues with some of the remaining credits that we did not examine in GenTax:

- **It appears that many taxpayers do not attach their certification form to their income tax returns.** Of the 100 taxpayers with the largest credits, 15 of them either did not attach the certification form or the certification form was attached but unreadable due to the poor quality of the attached form. Of the 100 randomly selected taxpayers who claimed a $500 credit in Tax Year 2024, 35 of them did not attach the certification form to their income tax returns.

- **Many taxpayers continued to use an older version of the certification form,** which does not ask taxpayers to include information on the type of contribution made (e.g., fund operation of a child care facility, train child care providers) or the type of child care facility and programs to which the taxpayer made the contribution. Of the 100 taxpayers with the largest credits in Tax Year 2024, 24 of them used only the old certification form. It was common for taxpayers with large credits to donate to multiple organizations and therefore have multiple certification forms, and 15 of the 100 taxpayers with the largest credits used a mix of old and new certification forms. Of the 100 randomly selected taxpayers who claimed a $500 credit in Tax Year 2024, 30 of them used an old version of the certification form.

- **Of the taxpayers who used the new version of the certification form, some of them did not fill out every field on the form, which means complete information is not available even when taxpayers used the correct, current form.** For example, many taxpayers who donated to a child care facility did not indicate which specific type of facility it was (e.g., child care center, residential care facility, foster care home, child placement agency). Additionally, some filled out the wrong facility type. For example, several taxpayers said they contributed to approved facility schools, but the specific organization to which they contributed (the name of which is provided on the form) was not an approved facility school. An approved facility school is a specific type of child care facility that is a nonprofit school located at a licensed or certified hospital and provides schooling to children who are inpatient and receiving long term care in a hospital setting. However, it is likely not clear to taxpayers what an approved facility school is when filling out the form, and therefore, some taxpayers may choose the wrong facility type.

For the 200 Child Care Contribution Credit claims for Tax Year 2024 that we reviewed, when taxpayers attached a certification form to their return, we captured information from the certification form in order to provide the General Assembly information on what some of the contributions are being used for, to which types of facilities the contributions are being made, and where in the state the recipient organizations are located. This is a very small targeted selection (i.e., less than 200 taxpayers since not everyone attached a form or filled it out completely) of a large population (15,117 taxpayers) and, therefore, the information included below should not be projected to the entire population. Instead, the information is intended to provide general observations from the small targeted selection of credit claims that we examined in GenTax for which the taxpayer attached a certification form.

- **Type of Child Care Facility or Program Receiving Contributions.** The overwhelming majority of contributions from our targeted selection were to child care facilities rather than other programs, such as a program to provide information to parents about the availability of child care. In some cases, "other program" was selected on the certification form, but based on the organization to which the contribution went, it appeared to be a child care facility rather than another program. In our targeted selection, there were fewer than five contributions to other programs that appeared to actually be funding other programs. The most common facility type to receive contributions was child care centers; almost all of the forms for our targeted selection that donated to a child care facility indicated that the facility was a child care center. The term child care center includes daycares, preschools, before- and after-school care, and camps (e.g., summer camps when school is not in session). In our targeted selection, there was also a residential treatment center and a youth homeless shelter that received contributions. As noted earlier in the report, some taxpayers indicated that they donated to approved facility schools, but the organizations they listed on their certification forms are not approved facility schools.

- **How Contributions Will Be Used.** Of the taxpayers in our targeted selection who filled out a new certification form, almost all of them indicated the contribution would be used "For the establishment or operation of a child care facility in the state that uses the donation to provide child care." A few selected multiple options for what the contribution would be used for. The most common combination was (1) For the establishment or operation of a child care facility in the state that uses the donation to provide child care, (2) For the training of child care providers in the state, and (3) To fund a grant or loan program for parents in the state requiring financial assistance for child care. However, it is unclear when selecting what the contribution would be used for whether the taxpayer or organization filling out the certification form selected what the contribution was actually going to be used for or what it could potentially be used for; it is possible some taxpayers or organizations perceived this selection to be restrictive or binding on the organization and, therefore, may have selected multiple options in order to allow the organization to use it for any eligible purpose at their discretion when it was actually only used for one of the purposes indicated on the certification form.

- **Location of Organizations Receiving Contributions for Which a Credit was Claimed.** We captured the cities that organizations receiving contributions from our targeted selection were located in. This information was reported on both the old and new versions of the certification form. In our targeted selection, 85 percent of the contributions went to organizations located along the Front Range—with 51 percent of the contributions going to organizations in Denver, 8 percent going to organizations in Colorado Springs, and 7 percent going to organizations in Fort Collins. Fifteen percent of contributions went to organizations outside of the Front Range that are located in rural areas, including Alamosa, Aspen, Avon, Buena Vista, Cañon City, Del Norte, Dillon, Glenwood Springs, Grand Junction, Gypsum, Monte Vista, Montrose, New Castle, Pagosa Springs, Salida, and Steamboat Springs. Some of the organizations in these rural areas that received contributions are child care facilities that operate full-time daycares and preschools serving infants through preschool-aged children. Others provide care for school-aged children when school is not in session, including before- and after-school programs, day camps, and overnight summer camps.

When the General Assembly has wanted detailed information on other credits, it has put a state agency in charge of certifying credits and reporting the information to the Department. As shown in Exhibit 2 earlier in the report, the Child Care Contribution Credit has a significant annual revenue impact to the State, and the General Assembly appears to want more data on which persons/organizations are receiving contributions; what specific types of child care facilities are receiving contributions; what the contributions are being used for; and where in the state the contributions are going. For the reasons discussed earlier, comprehensive data is unlikely to be available for future tax years with the existing administration of the credit. In the Department's House Bill 23-1091 Study of the Child Care Contribution Tax Credit, released in July 2024, the Department recommended requiring reporting by recipient organizations. Specifically, in the study, the Department pointed out that the two other contribution credits available in the state—the Enterprise Zone Contribution Tax Credit and the Homeless Contribution Tax Credit—require direct reporting of credits to the Department by a certifying agency. The Enterprise Zone Contribution Credit is overseen by local enterprise zone administrators, the Office of Economic Development and International Trade (OEDIT), and the Economic Development Commission. The Homeless Contribution Tax Credit is overseen by the Division of Housing within the

Department of Local Affairs. For both credits, generally, the organization or project must apply to the administering agency and be approved to receive credit-eligible contributions. The administering agency or the organization provides contributors with a tax credit certificate, which they must attach to their tax return in order to claim the credit. There is regular reporting on both of these credits by their respective administrators on recipients of the contributions, contribution amounts, and what the contributions are being used for, typically through annual reports. The Division of Housing publishes a list of organizations and projects eligible to receive contributions for which the contributor may claim the Homeless Contribution Tax Credit on its website. OEDIT also publishes a list of the projects eligible for the Enterprise Zone Contribution Credit on its website. These credits also require direct reporting of credits to the Department by a certifying agency.

The Department study states, "In the case of the contribution credits, recipient organizations enter contribution data into systems maintained by the administering agencies. The administering agencies then submit annual reports to the Department regarding credit certificates issued. This allows the Department to check credit claims against these third-party data sources to prevent fraudulent and erroneous credits. Direct reporting can also provide the administering agency with valuable data regarding the sources and recipients of contributions. Agencies outside the Department of Revenue often have greater flexibility with respect to the use and disclosure of information they collect. This data could be used to measure the credits efficacy and equity, inform marketing and outreach efforts, and improve administration of the credit." In the OSA's experience in evaluating these two credits, as well as other credits in which another agency is involved in administering them, we are often able to get more detailed data about credits certified, including credit recipient information, contribution recipient information (when applicable), and the activities associated with the credit's generation, and we are typically able to get this data sooner than we are able to get Department data, which is often limited to the total number of credits issued and the amount. We are also often able to get contributor or contribution recipient contact information from administering agencies, which allows us to conduct surveys of contributors and contribution recipients to get valuable stakeholder feedback on a larger scale than we are otherwise able to get by interviewing a small selection of contributors or contribution recipients.

Both of these credits have lower revenue impacts to the State than the Child Care Contribution Credit and significantly more administrative oversight. For example, in Tax Year 2023, the most recent year of data available, the revenue impact of the Enterprise Zone Contribution Tax Credit was about $6.8 million and the revenue impact of the Homeless Contribution Tax Credit was about $3.6 million. As shown in Exhibit 2 earlier in the report, the revenue impact of the Child Care Contribution Credit was $33.5 million in Tax Year 2023.

Policy Consideration

If the General Assembly wants more data on the Child Care Contribution Credit, it could consider directing another state agency to administer the credit and collect data on contributions, contribution recipients (e.g., facility type, location), and recipients' use of the contributions. In the Department's study on this credit, the Department recommended having another agency administer the credit. The study states, "The lack of reporting with respect to this credit impairs the state's ability to ensure this valuable credit is getting to the organizations that will put the funds to their best use and to ensure that organizations are using the funds appropriately…Because the child care contribution credit requires the recipient to put the contribution to a qualifying use, reporting on the actual use is a reasonable requirement. Improved transparency and accountability will ensure, and allow the state to measure, that the credit is effective in meeting its goals."

However, the Department also noted in its study that "stakeholders were reticent to add administrative burden to the credit program." As part of its study, the Department convened three public workgroups with stakeholders, one of which was focused on the administration of the credit. The Department noted, "The general theme of the comments received indicated significant concern with greater administrative oversight for this credit. Commentators were concerned that additional administrative requirements would decrease the usefulness of the credit. Importantly, the concern applies to adding more reporting requirements on both the donor and the recipient organization. At the same time, commentators wanted services that would require the Department to identify eligible recipient organizations. For example, organizations wanted to receive communications from the Department regarding form changes and program updates. Eligible recipients also wanted to be listed in a directory to provide donors with greater certainty regarding eligibility." As noted in the Evaluation Results section of this report, eligible recipient projects for the Enterprise Zone Contribution Credit and Homeless Contribution Tax Credit are listed on administrators' respective websites so donors can easily determine whether a particular organization or project is an eligible recipient, and data is readily available on the specific projects or organizations that have been approved to receive credit-eligible contributions.

When conducting its study, statute also required the Department to consult with the Early Childhood Leadership Commission (Commission) and the Department of Early Childhood. The Commission's Executive Subcommittee recommended that the Department of Early Childhood co-administer the credit with the Department, including having oversight of developing an eligibility determination process with input from the Commission. In response, the Department of Early Childhood stated, "While the Department of Early Childhood has expertise in child care licensing, the Department [of Early Childhood] does not currently have the sufficient staffing, resources, data systems, or program infrastructure to absorb the administration and oversight of this credit. If recommendations from this report – such as enhancing marketing, implementing a verification process, and refining eligibility – are adopted, the resources needed for implementation would further increase…The Department of Early Childhood does not currently have the capacity nor infrastructure to administer the credit, and additional resources and FTEs would be necessary. If another agency administers the credit, the Department of Early Childhood can offer its expertise in child care licensing and regulation to assist in structuring and overseeing the credit to ensure it meets the state's child care needs." The Department of Early Childhood also expressed concerns about any increased administrative burden on recipient organizations: "The tax credit should remain as burden-free to child care providers as possible, given that many child care providers are already stretched thin in managing and running a child care organization. Currently, child care providers can accept credit-eligible contributions without administrative burden. To the greatest extent possible, the ease of administration for providers, such as limited reporting or registration requirements, should be preserved to ensure the credit remains equitable and accessible across Colorado's mixed-delivery system. If additional administrative burden were added to the credit, providers –particularly small or private providers with limited administrative capacity—may face barriers in accepting credit-eligible contributions."

If the General Assembly directs another agency to administer the Child Care Contribution Credit, it would likely get more comprehensive data on the credit's usage, specifically which organizations are receiving credit-eligible contributions and the amounts, the location of the organizations, and the organizations' use of the contributions. As presented in the Department study, having another agency administer the credit could have the added benefit of providing additional oversight of the credit by ensuring the types of organizations receiving contributions are eligible and using the contributions for eligible purposes. It could also provide contributors with assurance that the organization to which they are donating is an approved organization. However, there would be a fiscal impact to have another agency administer the credit. In addition, as the Department of Early Childhood pointed out, any additional administrative requirements could have consequences for the recipient organizations. Specifically, some child care providers that currently receive credit-eligible contributions may not have administrative capacity for any new registration or reporting requirements, which could reduce the use and effectiveness of the credit for these types of child care facilities. Additional and new/different processes relating to making contributions and obtaining a certificate may also frustrate contributors, which could also negatively impact child care facilities if contributors stop making or reduce their credit-eligible contributions. The current administration of the credit has been in place since the credit was established as a standalone credit in 1998 so changing longstanding taxpayer and organization behavior could be a difficult and frustrating process for both contributors and organizations receiving contributions.

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