

COLORADO CHILD CARE TAX CREDIT

A 50% Colorado State Income Tax Credit is available to Colorado tax payers who make a **cash** donation to **child care** programs at qualifying institutions. Child care programs generally include the early childhood program, before- and after-school care and summer camps. The credit is available under the provisions of the Colorado Child Care Contribution Credit (C.R.S. 39-22-121) created for the purpose of promoting and funding child care in Colorado.

The effect of this credit is that half of a cash donation to these programs is offset by a dollar-for-dollar reduction of the donor's Colorado income taxes. In addition, the donor is still able to claim their full charitable contribution on their federal and state income tax returns if they itemize your donations. See **Note**.

Note: *IRS proposed regulations on Contributions in Exchange for State or Local Tax Credits, if adopted, will require the offset of the federal charitable tax contribution deduction by the amount of the state tax credit received. As currently drafted, the proposed regulations would apply to contributions made after August 27, 2018. Refer to the tables below for the effect of the proposed regulations on the after-tax cost of contributing.*

Guidelines

Gifts must be monetary donations. **Cash, checks and credit cards will be accepted.** Also accepted are qualifying charitable distributions (QCD) made in accordance with federal law and IRS regulations from an individual retirement account (IRA). Gifts of stock or other securities, labor or equipment are not eligible.

The Child Care Contribution Credit expires December 31, 2024, so gifts up to \$200,000 paid during calendar years 2019 – 2024 are eligible.

The maximum credit the donor may take in any one year is \$100,000 (50% X \$200,000), or their actual Colorado income tax liability for the year – whichever is less. However, any unused credit may be carried forward for up to five additional years.

As required by law, the organization should provide each donor with a form stating the amount of the contribution to the Child Care Programs. The form needs to be filed by donor with their Colorado tax return unless filing electronically, in which case it must be made available to the Colorado Department of Revenue if requested.

The gift may enable an immediate reduction in the donor's estimated tax payments and/or state withholding. The donor should consult with their personal tax advisor to confirm the effects on their personal finances.

Estimated Tax Effects <u>Before</u> Proposed Regulations*	Federal Tax Rate		
	37%	35%	32%
Child care contribution	\$ 10,000	\$ 10,000	\$ 10,000
Colorado Child Care Credit	(5,000)	(5,000)	(5,000)
Federal tax savings	(3,700)	(3,500)	(3,200)
State tax savings (4.63% state rate)	(463)	(463)	(463)
Related federal tax effect**	2,021	1,912	1,748
After-tax cost of contribution	\$ 2,858	\$ 2,949	\$ 3,085
Tax savings	\$ 7,142	\$ 7,051	\$ 6,915
After-tax cost per dollar contributed	28.6¢	29.5¢	30.9¢

Estimated Tax Effects <u>After</u> Proposed Regulations*	Federal Tax Rate		
	37%	35%	32%
Child care contribution	\$ 10,000	\$ 10,000	\$ 10,000
Colorado Child Care Credit	(5,000)	(5,000)	(5,000)
Federal tax savings	(1,850)	(1,750)	(1,600)
State tax savings (4.63% state rate)	(232)	(232)	(232)
Related federal tax effect**	1,936	1,831	1,674
After-tax cost of contribution	\$ 4,854	\$ 4,849	\$ 4,842
Tax savings	\$ 5,146	\$ 5,151	\$ 5,158
After-tax cost per dollar contributed	48.5¢	48.5¢	48.4¢

* IRS proposed regulations on Contributions in Exchange for State or Local Tax Credits, if adopted, will require the offset of the federal charitable tax contribution deduction by the amount of the state tax credit received. As currently drafted, the proposed regulations would apply to contributions made after August 27, 2018.

** Lower state income taxes mean lower state tax deductions for federal tax purposes in the following tax year.