EMPLOYER TOOLKIT

Business Interest in Early Care and Education

Child Care has three distinct roles in Colorado's economy. First, the Child Care sector is the source of early care and education for its 343,960 children under age 5, preparing them for future success in school and work. Second, child care is an essential workforce support for parents and their employers. Third, nearly 5,000 licensed child care businesses generate millions in annual revenues, create thousands of jobs and support higher output multipliers for other economic sectors.

Why Employers Are Interested In Early Care and Education

- Access and affordability for early care and education affect an employee's ability to work. When employees are worrying about child care, productivity is impacted - employees miss work to stay home with sick children or decide to quit work because of child care problems.
- Financial implications for your business are real. "Bottom lines" suffer as productivity declines and employee turnover costs compound.
- With more than two-thirds of young children in Colorado living in households where all adults are in the workforce, attention to child care has risen to a new level.
- Federal and state tax deductions and credits make business investment in child care more affordable while the costs for families hit new heights and approach the level of college tuition. To support working parents, federal Dependent Care Flexible Spending Arrangements are offered by nearly 9 out of 10 large companies. IRS Publication 15-B, Employer's Tax Guide to Fringe Benefits, provides information for Dependent Care Assistance Page 9 through an FSA. Colorado's Child Care Contribution Tax Credit is a 50% state income tax credit for contributions to child care facilities as community investment.

This toolkit provides the business sector with resources and knowledge to enhance Colorado's early childhood environment while supporting its working families.

Developing youth who are ready for post-secondary success begins early. In fact, research shows that 80 percent of brain development happens before age five. During this time of rapid brain growth, a child's environment influences the development of his/her cognitive and emotional skills.

Early investment helps children enter school ready to learn, setting the stage for a successful academic experience and a better prepared workforce of the future. Supporting employees with family-friendly policies and practices helps them thrive at work.

Increasing Access to Quality Child Care
Resource and Referral Services are generally available as a community service providing parents with child care program contacts appropriate to their situation.
Colorado Shines Child Care Referral at Mile High United Way
Colorado Office of Early Childhood
Care.com

Four Ways for Businesses to Support Early Childhood, Its Employees, and the Community

1) Increasing access to quality child care

- On-Site or Near-Site Child Care Program: Employers sponsor a child care program on or near company premises and provide some level of financial support for rent, build-out according to licensing regulations and/or operating costs of the program. Due to the complexities of operating a child care program, employers often outsource the program to professional child care organizations. To learn more about employer sponsored/independently operated child care programs contact:

  Bright Horizons Family Solutions

  Kindercare Education at Work

- Partner with Other Employers: A group of companies in close proximity to one another or similar businesses share the expenses of operating a child care program for their employees. This option is particularly suitable for small companies, city-center businesses, industrial parks, shopping malls and first responder emergency services.

- Family Child Care Network/Cooperative: Family child care is offered for a small number of children in a home setting. Companies can form or fund networks of family child care homes or small owner-operated provide child care to support their employees. For more information, contact Executives Partnering to Invest in Children (EPIC).
- Back-up Care: Employers contract with independent organizations to provide choices for short-term care of employees' children when regular care arrangements fall through, such as when the child care provider is sick or during unexpected school closings. For more information, contact Care.com or Bright Horizons.

- Non-traditional/Shift-Work Child Care: Access to shift-work child care is limited because most center-based child care programs operate with traditional care hours. Employers with high needs for shift-workers should explore a family child network/cooperative or consider an on-site or near-site child care program.

Purchase Child Care Space/Discount Program:

- Purchase Space: The employer contracts for a specified number of spaces in a nearby child care program. Parent fees may cover most or all of the cost of any spaces they use. However, the company funds the cost of unused spaces due to staff turnover or a child "aging out of child care" in order to secure the space for other employees.

- Discount Program: The employer contracts for child care discounts for its employees. An employer can contract with a single child care program or several programs. The contract fees for the discount is considered a company business expense.

2) Supporting Affordable Child Care

Although no over-arching solutions cure the high cost of child care for working families, federal income tax deductions and credit incentivize employers to support their employees with child care related benefits.

IRS supported flexible spending accounts allow employees to choose the benefits they want from a package of programs. Employees especially appreciate the tax-free financial assistance.

There are several types of benefits included the cafeteria (IRS Code Section 125 plans) and flexible spending account (FSAs IRS Code Section 129) plans.

- **Cafeteria Plans** allow employees to choose among a "basket" of benefits that generally include health and group life insurance, medical reimbursement plans for non-insured expenses, and child or elder care expenses, 401(k) retirement savings plans and others. Funding the cafeteria plan includes the employee and the employer contributions. Employer contributions to cafeteria plans are tax deductible for the employer and are not subject to income tax for the employee. Employee contributions through a payroll withholding provides tax-free income. See IRS Publication 15-B, Employer's Tax Guide to Fringe Benefits Page 3 for more information and contact your tax advisor.

- **Flexible Spending Accounts (FSAs)** are tax-deferred savings accounts established by the employer to help the employee pay for certain medical expenses, group life insurance and dependent-care expenses. For purposes of this presentation, only dependent care flexible spending accounts will be reviewed.
- **Dependent Care Assistance Plans (DCAPs**) are tax-deferred funds set aside from an employee's gross salary through payroll deduction. Payroll deduction funds are transferred to the employee's DCAP account to provide reimbursement for qualified child care expenses. After the employee accumulates dependent care expense funds in the account, receipts for child expenses are submitted to the account administrator for reimbursement. The account administrator reimburses the employee for costs up to a maximum of $5,000 per year for household child care expenses. Unused set-aside amounts in the account are lost if reimbursement has not been applied for by the end of the plan year. Neither the employer or the employee pays payroll taxes on the amount of salary set aside for child care reimbursement. A DCAP salary-reduction can be offered alone or as part of a flexible benefit program. For more information, see IRS Publication 15-B, Employer's Tax Guide to Fringe Benefits Page 9 and contact your tax advisor.

Employer contributions to dependent care through FSAs:
Employers can choose to contribute to employees' Dependent Care FSAs to the extent that the combined employer and employee contribution does not exceed $5,000 per year. For purposes of the $5,000 limitation, both the FSA and DCAP plan contributions are considered.

Employer contributions to Dependent Care FSAs are not a "match" and employees will receive the full contribution regardless of what their election is, even it may be $0.

Supporting child care with subsidies
An employer may offer workers a child care allowance or subsidy that families can use toward a child care arrangement of their choice. The employer contribution can be a percentage of the total cost of care, a flat amount for all participating employees, or determined by a sliding scale based on a family’s income. The common approach is to provide child care scholarships or negotiate discounts with child care providers as part of a contractual relationship.

3) Developing Family-Friendly Policies and Procedures

In response to tight labor markets and millennials entering the workforce, employers have introduced some out-of-the box solutions to help employees respond to the competing demands of work and home.

Examples of *creative* human-resource-driven cost reimbursements include nannies who accompany employees with infants while traveling on business trips and summer day camp for older children.

For parents, flexibility is important – child care drop-off and pick-up hours are non-negotiable.
For employers, flexible, ad hoc schedules may not be possible.
Flex-Time Policies provide predictable and consistent schedules for all employees.

Common Family-Friendly Business Policies and Practices

Flex-Time Options

- Compressed Time: Full-time work with more hours per day and fewer days per week.
- Flexible Scheduling: Employees work a defined number of hours per day/week with arrival and departure times adjusted around "core business hours" and child care "drop-off and pick-up" times.
- Telecommuting: Employees work from home one or more days a week.
- Part-time Options: Part-day, part-week, part-month, or part-year responsibilities with prorated pay and benefits.
- Job Sharing: Two or more people share one full-time position with clearly defined responsibilities.

Leave Policies

- Vacation: Employees receive a defined number of paid vacation days and may use them in half-day increments.
- Sick Leave: Employees receive a defined number of paid sick days and may use them in half day increments for self-care and to care for a sick family member.
- Personal Leave: Allows a specified number of days off (with or without pay) for short-term emergencies and other personal business.

- Extended Family Leave: Time off for the birth or adoption of a child and to care for a family member with serious health issues. Family leave time may be paid or unpaid with a guarantee of the same or equivalent job upon return to work.
- Paid Time Off (PTO): In lieu of specifically identified leave categories, a defined number of PTO days per year are granted for vacation, sick leave or personal leave.

Benefits

- Flexible Spending Accounts: Tax-deferred savings accounts established by the employer to help the employee pay for certain medical expenses, group life insurance and dependent-care expenses.

- Dependent Care Assistance Plan: Tax-deferred funds set aside from an employee's gross salary through a payroll deduction. The set-aside funds are used to provide reimbursement for qualified child care expenses.
- Backup Child Care: Employers contract with independent organizations to provide choices for short-term care of employees' children when regular care arrangements fall through. For example, the child care provider is sick or the school has an unexpected closing.
- Subsidized Child Care: A child care allowance or subsidy that families can use toward a child care arrangement of their choice. A common approach is to provide child care scholarships or negotiate discounts with child care providers as part.

Culture

- Management Policies: Blend policies and practices to build trust, understanding and appreciation for all employees when equal, but different, employee-friendly options are selected to manage work and personal life.
- Team meetings and trainings: Set days and times that don't conflict with school and child care drop-off and pick-up times.
- Parent Networking Groups: Launch a workplace peer-to-peer parent-employee group with access to resources.

4) Federal Tax Supports for Employees with Child Care Expenses

Salary reduction through Dependent Care Assistance Plans (DCAPs) allows employees to set aside a certain portion of their wages for child care expenses through a payroll deduction. The deducted funds are held in the employee's DCAP account as reimbursable funds for qualified child care expenses. After the employee accumulates dependent care expense funds in the account, receipts for child expenses are submitted to the account administrator for reimbursement. The account administrator may reimburse the employee for costs up to a maximum of $5,000 per year for household child care expenses. Unused set-aside amounts in the account are generally lost if reimbursement has not been requested by the end of the plan year. Neither the employer or the employee pay payroll taxes on the amount of salary set aside for child care reimbursement. Also, see above for more information on Dependent Care Assistance Plans (DCAPs).

Child Tax Credit (CTC) is $2,000 per qualifying child under age 17 at the end of the tax year. Each child must have a valid social security number to qualify for the credit. Beginning in 2018 CTC will phase-out according to the taxpayer's income. For further information see Publication 972 Child Tax Credit and consult your tax advisor.

Federal Tax Incentives for Employers

Improves Child Care Affordability for Employees
Flexible Spending Accounts (FSAs) are tax-deferred savings accounts established by the employer to help the employee pay for certain medical expenses, group life insurance and dependent-care expenses. A contribution made to an employee dependent care flexible spending account is considered an ordinary and necessary business expense and deducted accordingly. For more information, see IRS Publication 535 Page 10 and consult your tax advisor.

See above on Dependent Care Assistance Plans (DCAPs)

Employer Child Care Subsidies are cash or cash equivalent payments offered to employees as a child care allowance or subsidy that is used toward a child care arrangement of their choice. The employer contribution is a percentage of the total cost of care, a flat amount for all participating employees, or determined by a sliding scale based on a family's income. The common approach is to provide child care scholarships or negotiate discounts with child care providers as part of a contractual relationship.

Amounts paid by an employer to provide a child care service for employees may be deductible as ordinary business expenses under IRC Section 162 because the child care services reduce absenteeism and turnover, aid in recruitment and retention of employees, and increase productivity for the employer. Consult your tax advisor for more information.

Improves Access to Child Care for Employees

Employer provided child care or child care referral services: As part of the general business credit, employers may claim a 10% - 25% federal tax credit up to $150,000 for qualified child care facility and resources and referral expenditures. Qualified child care expenditures are limited to the fair market value of the child care service provided and include payments:

- To acquire and construct, rehabilitate or expand property that (1) Is to be used as part of a qualified child care facility of the taxpayer, (2) Is depreciable (or amortizable) property, and (3) Is not part of the principal residence of the taxpayer or any employee of the taxpayer.
- For the operating expenses of a qualified child care facility of the taxpayer, including training of employees, scholarship programs and providing increased compensation to employers with higher levels of child care training; or
- Under a contract with a qualified child care organization to provide child care services to employees of the taxpayer.

A *qualified child care facility* is a facility that meets the requirements of all applicable laws and regulations of the state or local government in which it is located, including the licensing of the facility as a child care facility. The following conditions must also be met.

- The principal use of the facility must be to provide child care (unless the facility is also the personal residence of the person operating the facility).
- Enrollment in the facility must be open to employees of the taxpayer during the tax year.
- If the facility is the principal trade or business of the taxpayer, at least 30% of the enrollees of the facility must be dependents of the employees of the taxpayer.
- The use of the facility (or the eligibility to use the facility) must not discriminate in favor of highly compensated employees.

Qualified child care resource and referral expenditures are amounts paid or incurred under a contract to provide child care resource and referral services to employees of the taxpayer. The provision of the services (or the eligibility to use the services) must not discriminate in favor or highly compensated employees.

For additional information see IRS Form 8882 and consult your tax advisor to review IRS Code Section 45(f).

Employer Child Care Start Up Expenses - Start-up and investigatory expenses incurred in the development of a new child care center may be amortized over 60 months or more under IRC Section 195. Eligible expenses may include costs for advertising, needs assessments, consultant services, and staff training.

Employer Child Care Capital Expenses - Costs incurred for acquiring, constructing, and/or remodeling a building to be used as a child care center can be depreciated over a 39-year period under the Modified Accelerated Cost Recovery System described in IRC Section 168. Costs of equipping the building can be depreciated over varying recovery periods depending on the type of business in which the center is located and the type of equipment. See IRS Publication 946 for specific depreciation instructions.

Employer Child Care Business Expenses - Amounts paid by an employer to provide a child care service for employees may be deductible as ordinary business expenses under IRC Section 162 because the child care services reduce absenteeism and turnover, aid in recruitment and retention of employees, and increase productivity for the employer. For more information consult your tax advisor.

Paid Family Leave

The 2017 Tax cuts and Jobs Act passed a two-year pilot program that provides a tax credit for up to 25% of wages paid to a qualifying employee taking family leave for up to 12 weeks. To qualify for the tax credit employers must provide at least two weeks of paid family leave for at least 50% of their regular earnings. Employees must have worked for one year at an annual wage less than $72,000. Part-time-worker paid family leave also qualifies for the tax credit. The pilot program expires in December 2019 with the original bill sponsor, Senator Deb Fischer (R-NE), recommending the program is extended to 2022.