



# MAINE TAX ALERT

A Publication of Maine Revenue Services for Tax Professionals

Volume 12, No. 1

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Public Communications Tel: (207) 626-8465

## Child-Care Credit News

This edition of the Maine Tax Alert is devoted exclusively to issues relating to the various Maine Income Tax child-care credits. The first article discusses a new and improved worksheet for calculating the child-care credit under 36 M.R.S.A. § 5218, including the doubling of that portion of the credit related to expenses paid for quality child-care services and determining the amount of the credit that is refundable.

The second article presents a number of documents relating to the certification by the Department of Human Services of child-care facilities as quality child-care facilities and to the Quality Child-Care Investment Credit under 36 M.R.S.A. § 5219-Q. These documents include application instructions and application forms for requesting certification as a quality child-care facility and for requesting certification of investments that qualify for the Quality Child-Care Investment Credit.

## Improved Worksheet for Child-Care Credit

The 2001 Maine Individual Income Tax Booklet Long Form 1040ME includes, at page 20, a worksheet for calculating the child-care credit available to parents for certain child-care expenses. The worksheet, in part, was designed to help taxpayers calculate that portion of the child-care-credit that qualifies for a doubling of the credit relating to expenses paid for quality child-care services and the amount of the credit that is refundable. Quality child-care services are services provided by a site certified by the Department of Human Services, Office of Child-Care and Head Start, as a Quality child-care provider. In cases where a taxpayer may have child-care expenses at both a quality and non-quality child-care facility, the original worksheet did not provide explicit instructions or space for calculating the ratio of the federal credit that relates to amounts paid for quality child-care services. The revised worksheet provides explicit directions for calculating the ratio and several lines for recording the calculations. The new worksheet is posted on the MRS web page at: <http://www.state.me.us/revenue> under *Forms/Publications* then click *2001 Forms for Schedule A Adjustments to tax*.

## Quality Child-Care Credit

New tax benefits relating to the provision of quality child-care services are available for tax years beginning on or after January 1, 2001. The individual income tax credit for child-care expenses (*see* 36 M.R.S.A. § 5218) and business tax credit for employer-assisted day care (*see* 36 M.R.S.A. § 5217) double if the related expenses are for quality child-care services. In addition, a new Quality Child-Care Investment Credit has been created (*see* 36 M.R.S.A. § 5219-Q) for facilities that make improvements toward the goal of providing quality child-care services.

Quality child-care services are services provided at a child-care site that meet minimum licensing standards and:

- A. Is accredited by an independent, nationally recognized program approved by the Department of Human Services, Office of Head Start and Child Care;
- B. Utilizes recognized quality indicators for child-care services approved by the Department of Human Services, Office of Head Start and Child Care; and
- C. Includes provisions for parent and client input, a review of the provider's policies and procedures, a review of the provider's program records and an on-site program review.

For large, multifunction agencies, only those portions of the child-care sites that were reviewed by the accrediting body may be considered sites that provide quality child-care services.

The Office of Child Care and Head Start will issue certificates to facilities that provide quality child-care services. Child-care facilities wanting to apply for certification may obtain an application at <http://www.state.me.us/revenue>, printing out this Maine Tax Alert or by contacting the Office of Child Care and Head Start at the address or telephone number listed below. For purposes of the individual tax credit for child-care expenses and the business tax credit for employer-assisted day care, taxpayers claiming the double credit amount must, with their tax return, provide the certificate number of the quality child-care facility. Taxpayers will be responsible for obtaining the certificate number from their child-care provider. Only the credit amounts relating to expenses paid on or after the date of the certificate qualify for the double credit amount. The Office of Child Care and Head Start will provide Maine Revenue Services with a list of certified facilities. This list, absent the certificate numbers, is posted to the Maine Revenue Services Web site shown above.

The Office of Child Care and Head Start will also certify investments that are eligible for the Quality Child-Care Investment Credit. An application for certification of qualified investments and related costs must be submitted to the Office of Child Care and Head Start. An application form may be obtained at <http://www.state.me.us/revenue>, printing out this Maine Tax Alert or by contacting the Office of Child Care and Head Start at the address or telephone number listed below. The application must include a plan outlining steps to be taken that will significantly contribute toward the ability of the child-care facility to improve its level of child-care services toward the goal of providing quality child-care services. The Office of Child Care and Head Start will notify each investor of its determination and forward a list of investors making certified investments in the previous year to Maine Revenue Services. A copy of the completed application certified by the Office of Child Care and Head Start must be attached to the Maine income tax return in order to claim the Quality Child Care Investment Credit. More details about who qualifies for the credit, qualified investments and credit amounts are provided in the instructions for the application form and Maine income tax forms (also available at Maine Revenue Services web site shown above). The web site also provides Questions and Answers for issues that may not be directly addressed by these instructions.

Any questions or submissions may be made to:

Carolyn Drugge, Director  
Office of Child-care and Head Start  
Maine Department of Human Services  
11 State House Station  
Augusta, ME 04333  
207-287-5060

Any questions regarding the tax credit:

Bill Brunelle, Planning & Research Associate  
Income/Estate Tax Division  
Maine Revenue Services  
24 State House Station  
Augusta, ME 04333-0024  
207-626-8482

# CSC

**COMMUNITY  
SERVICES  
CENTER**

DEPARTMENT OF HUMAN SERVICES

## ACTION TRANSMITTAL

1. Log No: DCCS-PI-2001-02

2. Issuance Date: April 30, 2001

3. Originating Office: Division of Contracted Community Services

4. Key: Child-Care Tax Credits

### PROGRAM INSTRUCTION

**TO:** Child-Care Providers in the State of Maine

**REFERENCES:** 22 MRSA, Subtitle 3, Chapter 1082 § 4100, 36 MRSA § 5218

**PURPOSE:** Eligibility for a child-care tax credit

**BACKGROUND:** The Maine legislature approved a tax credit for any Maine taxpayer that enrolls their child or children in a “quality” child-care center or home, as defined by the Maine Department of Human Services, Office of Child Care and Head Start. This credit is available for child-care expenses incurred after December 31, 2000. The new law doubles the credit currently allowed from the amount of 25% of the federal tax credit allowable for child-care expenses. The credit is also refundable up to \$500.

#### Definition of a Quality Child-Care Program

The Department of Human Services, Office of Child Care and Head Start defines a “quality” child-care program/provider as meeting one of the following standards:

1. Current accreditation by one of the following agencies:
  - a. National Association for the Education of Young Children (NAEYC)
  - b. National Association for Family Child Care (NAFCC)
  - c. National School Age Care Association (NSACA)
2. Meets Head Start Performance Standards for Programs of Excellence and Quality as evidenced by a certificate issued within the past three years from the Administration for Children and Families – New England Office.
3. A family child-care provider who holds at least one of the following credentials or degrees:
  - a. Child Development Associate Credential; or
  - b. Associates, Bachelor, Masters, or PhD in early-childhood education, child development, or related degree. Providers with related degrees will need at least 12 credits in early-childhood education. Providers qualifying under this category 3(b) will need to complete a 3-credit course in early-childhood education or 45 hours of the Maine Roads to Quality Core Knowledge Training every 3 years to maintain quality status.

In addition, all providers that qualify due to a college degree must pass a quality checklist conducted by your licensing worker at your next licensing visit.

**Application**

All providers meeting one of the above standards must register with the Department of Human Services, Office of Child Care and Head Start using the attached application. The Department of Human Services will review the material for accuracy and if approved issue a “Certificate of Quality” to the applicant. The applicant must renew with the Department of Human Services upon expiration of the Certificate of Quality.

If a provider has been cited for abuse or neglect or any other significant licensing violations, the Department reserves the right to revoke or not issue a Certificate of Quality.

Please return the application to:

Maine Department of Human Services  
Community Services Center  
Division of Licensing  
11 State House Station  
Augusta, ME 04333-0011

**Notification to Parents**

Child-care providers that receive Certificates of Quality are encouraged to notify parents of their eligibility for the tax credit. The provider must provide the certificate number to parents for purposes of completing their state tax return. The Department of Human Services will provide a list of approved quality providers to the Maine Revenue Services on December 31<sup>st</sup> of each year.

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Kerry Wiersma, Director  
Division of Contracted Community Services

**Maine Department of Human Services  
Office of Child Care and Head Start  
Application for Certificate of Quality**

Date of Application: \_\_\_\_\_ Please Circle: Original Application / Renewal

Program Name:	
Director Name:	
Street Address:	
City/State/Zip:	
Phone Number:	Fax Number:
Type of Facility: (please circle)	Child-Care License Number:
Center / Family Child-Care Provider / Nursery School	

A child-care provider will be issued a Certificate of Quality if it meets one of the following criteria with proper documentation.

1. **Accreditation.** Please indicate below and provide a copy of the current accreditation certificate for one of the following approved accrediting bodies:

\_\_\_\_\_ National Association for the Education of Young Children      Valid \_\_\_/\_\_\_/\_\_\_ through \_\_\_/\_\_\_/\_\_\_

\_\_\_\_\_ National Association of Family Child Care      Valid \_\_\_/\_\_\_/\_\_\_ through \_\_\_/\_\_\_/\_\_\_

\_\_\_\_\_ National School Age Care Association      Valid \_\_\_/\_\_\_/\_\_\_ through \_\_\_/\_\_\_/\_\_\_

2. **Head Start Performance Standards.** Please provide a certificate verifying status as a Program of Excellence or a Program of Quality as issued by the U.S. Department of Health and Human Services, Administration for Children and Families, New England Office. In addition, please provide a list of sites that were visited by the federal review team at the last program review.

\_\_\_\_\_ Date certificate issued.

3. **Family Child Care**

a. **Child Development Associate.** Please provide a copy of a current CDA certificate.

Date Issued \_\_\_/\_\_\_/\_\_\_      Renewal Date \_\_\_/\_\_\_/\_\_\_

b. **College Degree.** Please provide a copy of either the applicants Associates, Bachelors, Masters, or PhD in early-childhood education, child development, of related degree. For those with a related degree, please provide a copy of a transcript indicating at least 12 credits in early-childhood education. For renewal applicants, please provide documentation of completion of at least a 3-credit course in early-childhood education or completion of 45 hours of Maine Roads to Quality Core Knowledge Training.

<b>CSC</b> <b>COMMUNITY</b> <b>SERVICES</b> <b>CENTER</b>	<b>DEPARTMENT OF HUMAN SERVICES</b>	
	<b>ACTION TRANSMITTAL</b>	
	<b>1. Log No: DCCS-PI-2002-01</b>	<b>2. Issuance Date: 1/8/2002</b>
	<b>3. Originating Office: Division of Contracted Community Services</b>	
<b>4. Key: Child-Care Investments Tax Credits for Individuals and Corporations</b>		

### PROGRAM INSTRUCTION

- TO:** Child-Care Providers in the State of Maine
- REFERENCES:** 22 MRSA, Subtitle 3, Chapter 1082 § 4100, 36 MRSA, Chapter 822 § 5219-Q
- PURPOSE:** Application for a Child-Care Investment Tax Credit
- BACKGROUND:** Child-care providers are now eligible for a tax credit for qualified investments that contribute to the ability of the site to improve its level of child-care services toward the goal of providing quality child-care services.

Please see the attached Guidance and Questions and Answers from Maine Revenue Services for information on eligible taxpayers, calculating the credit, and other definitions.

The Office of Child Care and Head Start must certify investments eligible for the credit. Investors who want investments certified for the quality child-care investment tax credit must submit a plan outlining steps to be taken that will significantly contribute toward the ability of the child-care site to improve its level of child-care services toward the goal of providing quality child-care services. Investors must also submit an application for certification of qualified investments and related costs to the Office of Child Care and Head Start using the attached form. The Office of Child Care and Head Start will notify each investor of its determination and forward a list of investors making certified investments in the previous year to Maine Revenue Services. A copy of the completed application certified by the Office of Child Care and Head Start must be attached to the taxpayer's Maine income tax return in order to claim the quality child-care investment tax credit.

#### Qualified Investments

Qualified investments are investments made by investors in a child-care site located in Maine that significantly contribute to the ability of the site to improve its level of child-care services toward the goal of providing quality child-care services. Qualified investments may include:

1. Acquisition of, or improvements to, tangible personal property and real property;

2. Rental of tangible personal property and real property;
3. Educational costs directly related to the provision of child-care services; and
4. Salary increases for child-care staff and salaries for additional child-care staff to reduce staff-to-child ratios;

The term “qualified investment” does not include expenditures made with funds received from federal and state grants. An investment in a facility providing quality child-care services at the time of the investment is not a qualified investment unless the investment represents an incremental expenditure to expand child-care services beyond that required for the initial quality child-care certification.

### Quality Child-Care Services

Quality child-care services means services provided at a child-care site that meets minimum licensing standards and:

- A. Is accredited by an independent, nationally recognized program approved by the Department of Human Services, Office of Head Start and Child-care (as defined in DCCS-PI-2001-02);
- B. Utilizes recognized quality indicators for child-care services approved by the Department of Human Services, Office of Head Start and Child-care; and
- C. Includes provisions for parent and client input, a review of the provider's policies and procedures, a review of the provider's program records and an on-site program review.

For large, multifunction agencies, only those portions of the child-care sites that were reviewed by the accrediting body may be considered sites that provide quality child-care services.

Any questions or submissions may be made to:

Carolyn Drugge, Director  
Associate  
Office of Child-care and Head Start  
Maine Department of Human Services  
11 State House Station  
Augusta, ME 04333  
207-287-5060

Any questions regarding the tax credit:

Bill Brunelle, Planning & Research  
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Maine Revenue Services  
24 State House Station  
Augusta, ME 04333-0024  
207-626-8482

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Kerry Wiersma, Director  
Division of Contracted Community Services

# Qualified Investments in Child-Care Programs Application for Certification

(If this application receives a certificate number below, attach it to your Maine income tax return to claim the credit)

## Taxpayer Information:

Taxpayer/Entity Name:

\_\_\_ Sole Proprietor

Address:

\_\_\_ Partnership

\_\_\_ LLC

\_\_\_ S corporation

\_\_\_ C corporation

Phone:

Social Security Number or Federal ID Number:

**Description of Qualified Investment. Applicant must attach a copy of a long-term action plan that outlines the steps intended to be taken that will significantly contribute toward the ability of the child-care site to improve its level of child-care services toward the goal of providing quality child-care services. Describe below all steps taken during the tax year toward achieving this goal and then enter the related qualified investments in the spaces provided.**

Investment amounts (list specific investment items and total investment amount for each category below):

Tangible personal property: \$ \_\_\_\_\_

Real property: \$ \_\_\_\_\_

Rental payments: \$ \_\_\_\_\_

Education: \$ \_\_\_\_\_

Additional and/or increased salaries: \$ \_\_\_\_\_

**Total Qualified Investment (please attach documentation):** \$ \_\_\_\_\_

Under penalties of perjury, I declare that I have examined this application and all attachments and, to the best of my knowledge and belief, they are true, correct, and complete.

Officer's Signature \_\_\_\_\_ Date \_\_\_\_\_

\_\_\_\_\_ Title \_\_\_\_\_

Please forward to: Office of Child Care and Head Start, Maine Department of Human Services, 11 State House Station, Augusta, ME 04333-0011; or fax to 207-287-5031.

### Office Use Only

Officer's Signature \_\_\_\_\_ Date \_\_\_\_\_ Certificate # \_\_\_\_\_

**Maine Revenue Services**  
**Guidance on Child-Care Investment Credit**  
**36 MRSA § 5219-Q; 22 M.R.S.A. § 4100**

The child-care investment tax credit is available to investors that make qualified investments (*see* definitions below). For purposes of this credit, the term corporation includes business entities defined in 36 M.R.S.A. § 5102(6) (corporations) and § 5206(8) (financial institutions), and also includes partnerships, LLCs, S-corporations, and estates and trusts subject to Maine income tax.

To calculate the credit, the **qualifying portion** is:

- For a corporation, financial institution, partnership, LLC, S-corporation, estate or trust, 30% of up to \$30,000 of expenditures, apportioned if part of an affiliated group engaged in a unitary business; and
- For individuals, if the investor expends at least \$10,000 in one year, \$1,000 each year for 10 years and \$10,000 at the end of the 10-year period.

The credit may not reduce the tax otherwise due below zero. Any unused portion of the credit may be carried over to the following year or years until exhausted.

**Investor:** An investor is a taxpayer operating a child-care facility that makes qualified investments. The term investor does not include a person who makes a contribution, gift, or a loan to a child-care site. Tax benefits or potential tax benefits are not considered returns on the investment.

**Qualified Investments:** **Qualified investments are investments made by investors in a child-care site located in Maine that significantly contribute to the ability of the site to improve its level of child-care services toward the goal of providing quality child-care services. Qualified investments may include:**

1. Acquisition of, or improvements to, tangible personal property and real property;
2. Rental of tangible personal property and real property;
3. Educational costs directly related to the provision of child-care services; and
4. Salary increases for child-care staff and salaries for additional child-care staff to reduce staff-to-child ratios;

The term qualified investment does not include expenditures made with funds received from federal and state grants. An investment in a facility providing quality child-care services at the time of the investment is not a qualified investment unless the investment represents an incremental expenditure to expand child-care services beyond that required for the initial quality child-care certification.

**Quality Child-Care Services:** Quality child-care services means services provided at a child-care site that meets minimum licensing standards and:

1. Is accredited by an independent, nationally recognized program approved by the Department of Human Services, Office of Head Start and Child-care;
2. Utilizes recognized quality indicators for child-care services approved by the Department of Human Services, Office of Child-care and Head Start; and
3. Includes provisions for parent and client input, a review of the provider's policies and procedures, a review of the provider's program records and an on-site program review.

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**Maine Revenue Services**  
**Quality Child-Care Investment Tax Credit**  
**Questions and Answers**  
**36 M.R.S.A. § 5219-Q**

1. Who is an investor? Do contributors (i.e., gifts or transfers without expectation of a return or profit) qualify for the credit? Do investors who are non-owners of child-care facilities qualify for the credit? (Note: The qualifying portion of the credit is equal to expenditures paid or incurred by the taxpayer.)

*The usual definition of investor is one who makes an investment with an expectation of earning a profit. Within the context of the credit, an investor is a taxpayer that directly pays or incurs the expense for a certified investment (§ 5219-Q(2)). This would exclude contributors and investors not directly incurring the expense for the certified investment. An investor would include a taxpayer operating a not-for-profit child-care facility for its employees.*

2. Do investments in non-profit facilities qualify for the credit?

*Yes, but only investments made by a taxpayer in a not-for-profit facility operated by the taxpayer. An example is a not-for-profit child-care facility operated by the taxpayer for the benefit of its employees.*

3. Is a loan considered an investment?

*No. Although a loan will generate a return, the investor in this case would not generally incur the expense relating to the investment.*

4. Are the tax benefits under § 5219-Q considered returns on investment?

*No. Tax benefits are generally not considered returns on investment.*

5. Should only expenditures incurred above and beyond minimum licensing standards qualify for the ITC?

*No. Expenditures incurred in order to meet minimum licensing standards are also expenditures incurred toward the ability of the child-care site to improve its level of child-care services toward the goal of providing quality child-care services.*

6. Once salaries or other ongoing expenditures are certified for the credit, do they indefinitely qualify under the "working towards the goal of" or "maintaining" quality child-care standards?

*No. Only expenditures incurred relating to qualified investments that assist the child-care facility to attain the level of providing quality child-care services qualify for the credit. Expenditures incurred on or after that date that merely allow the facility to maintain the standard of providing quality child-care services do not qualify for the credit. However, incremental expenditures that expand or improve child-care services beyond that required for the initial quality child-care certification also qualify.*

7. Do rental costs qualify for the credit? (Note: The same issues raised relative to salaries also apply to rental costs.)

*Yes, as long as the expenditure assists the child-care facility to attain the goal of providing quality child-care services.*

8. Do financial institutions taxed under § 5206 qualify for the credit? Do flow-through entities (if so, what credit base is used)? Do insurance companies qualify?

*Financial institutions and flow-through entities qualify for the credit under the corporate provisions relating to the qualifying portion. Insurance companies subject to the insurance premiums tax do not qualify for the credit because of the absence of any legislation allowing the credit.*

<u>Department</u>	<u>Telephone Numbers</u>	<u>FAX Numbers</u>	<u>E-mail Addresses</u>
Taxpayer Service Center	(207) 287-2076	(207) 287-5855	
Central Registration	(207) 287-2338	(207) 287-3733	
Collections & Compliance	(207) 624-9595	(207) 287-6627	<a href="mailto:compliance.tax@state.me.us">compliance.tax@state.me.us</a>
Corporate Tax	(207) 624-9670	(207) 287-6627	<a href="mailto:corporate.tax@state.me.us">corporate.tax@state.me.us</a>
E-file Help Desk	(207) 624-9730	(207) 624-9740	<a href="mailto:efile.helpdesk@state.me.us">efile.helpdesk@state.me.us</a>
Electronic Funds Transfer	(207) 287-8276	(207) 287-6975	<a href="mailto:efunds.transfer@state.me.us">efunds.transfer@state.me.us</a>
Estate Tax	(207) 626-8480	(207) 624-9694	<a href="mailto:income.tax@state.me.us">income.tax@state.me.us</a>
Fuel Tax	(207) 624-9745	(207) 287-6628	<a href="mailto:fuel.tax@state.me.us">fuel.tax@state.me.us</a>
Forms Request Line	(207) 624-7894	(207) 622-3517	
Income Tax Assistance	(207) 626-8475	(207) 624-9694	<a href="mailto:income.tax@state.me.us">income.tax@state.me.us</a>
Insurance Premium Tax	(207) 624-9582	(207) 624-9694	
Payment Plan/Income Tax	(207) 621-4300	(207) 621-4328	
Payment Plan/Other	(207) 624-9595	(207) 287-6627	
Practitioners' Hotline	(207) 626-8458	(207) 624-9694	
Property Tax	(207) 287-2011	(207) 287-6396	<a href="mailto:prop.tax@state.me.us">prop.tax@state.me.us</a>
Public Communications	(207) 626-8465	(207) 287-3618	
Sales Tax	(207) 287-2336	(207) 287-6628	<a href="mailto:sales.tax@state.me.us">sales.tax@state.me.us</a>
Taxpayer Advocate	(207) 624-9649	(207) 624-9694	
TTY Service	(207) 287-4477	-----	
Withholding Tax	(207) 626-8475	(207) 624-9694	<a href="mailto:withholding.tax@state.me.us">withholding.tax@state.me.us</a>

### Suggestions for the Tax Alert?

Please contact: **Public Communications**

This publication is designed to keep taxpayers, tax practitioners and the general public informed of developments, problems, questions and matters of general interest concerning Maine tax law, policy and procedure. The articles in this newsletter are not designed to address complex issues in detail, and they are not a substitute for Maine tax laws and/or regulations.

#### STATE OF MAINE

**Angus S. King Jr., Governor**

**Janet E. Waldron, Commissioner  
Administrative and Financial Services**

**Anthony J. Neves, Executive Director  
Maine Revenue Services**