

November 2025

FISCAL
RESEARCH
CENTER

—
WITHIN THE
PUBLIC FINANCE
RESEARCH CLUSTER

Tax Incentive Evaluation: Employer Credit for Purchasing or Sponsoring Childcare for Employees

Peter Bluestone
Seun Odibo
Nicholas Warner



ANDREW YOUNG SCHOOL
OF POLICY STUDIES

Tel: 404-413-0235

Website: pfrc.gsu.edu

Address:
55 Park Place NE
7th Floor
Atlanta, GA 30303

Mail:
Public Finance Research Cluster
P.O. Box 3992
Atlanta, GA 30302-3992

Tax Incentive Evaluation: Employer Provided Childcare Credit

Prepared by:

Georgia State University
Fiscal Research Center

For:

Georgia Department of Audits and Accounts

November 2025

Authors:

Peter Bluestone*

Seun Odibo

Nicholas Warner

* Associate director and principal investigator; pbluestone@gsu.edu

Fiscal Research Center
Andrew Young School of Policy Studies
Georgia State University
55 Park Place, 7th Floor
Atlanta, Georgia 30303

Executive Summary

In 1994, the Georgia General Assembly passed the Georgia Business Expansion Support Act, which created two interrelated state income tax credit programs: the Qualified Childcare Property Tax Credit (QCPTC) and Employer Purchased or Sponsored Childcare Tax Credit (ESCTC), both codified in O.C.G.A. § 48-7-40.6. The purpose of this report is to evaluate the ESCTC, in accordance with the provisions of O.C.G.A. § 28-5-41.1 (2024 Senate Bill 366), in terms of its fiscal and economic impacts as well as its public benefits.

This report was prepared under a contract with the Georgia Department of Audits and Accounts (DOAA). The report begins with background on the Georgia Business Expansion Support Act, followed by a discussion of similar policies, federal and in other states, as well as a review of academic literature evaluating the performance of similar programs. Subsequent sections present an IMPLAN analysis of the economic and fiscal impacts of the credit, estimates of the tax expenditure and administrative costs, and an analysis of the public benefits of the program in terms of its presumed goal of supporting childcare through families' employers. Information used in this report was obtained from the Georgia Department of Revenue.

The annual cost to the state for this tax credit is estimated at \$18.9 million in fiscal year (FY) 2026. Based on previous findings in the academic literature, the small proportion of childcare in Georgia supported by the program, and a detailed consideration of the economic costs and benefits to employers, we find that the program has not caused employers to provide access. It has been successful in reducing the cost of providing such care to employers already inclined to provide or sponsor childcare for their employees. In addition, based on the amounts contributed and the likely number of employees impacted we conclude that this credit does not have any impact on an employee's decision on purchasing childcare.

We use the IMPLAN input-output model to estimate the economic activity associated with the value of the credit in Georgia. Note that it does not impact our estimates of economic impact as we find that neither employers' decisions to provide childcare nor employees' desires to seek childcare would be impacted if the credit did not exist. The results of this analysis are summarized Tables ES1 and ES2.

As a result of providing the ESCTC, the state's general fund expenditures are implicitly reduced by the amount of the tax expenditure. In the absence of this credit, an alternative use of the funds is modeled assuming an increase in state spending by that amount, allocated across the various spending categories based on recent state budgets. Tables ES1 and ES2 show the estimated amount of state and local revenue, respectively, from this alternative use of funds, which are the opportunity costs of the tax credit. The net fiscal cost to the state, accounting for the tax expenditure and opportunity costs, is estimated at \$20.5 million for FY 2026. Table ES2 shows the net local revenue effects on the same basis.

Table ES1. State Fiscal Effects: Employer Sponsored Childcare Tax Credit, FY 2026–30

<i>(\$ millions)</i>	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Revenue gains from economic impact	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Less:					
Tax expenditure cost	-\$18.9	-\$19.6	-\$20.3	-\$21.1	-\$21.9
Alternative use revenue gains	-\$1.6	-\$1.7	-\$1.7	-\$1.8	-\$1.9
Net Fiscal Effects	-\$20.5	-\$21.3	-\$22.1	-\$22.9	-\$23.8

Table ES2. Local Fiscal Effects: Employer Sponsored Childcare Tax Credit, FY 2026–30

<i>(\$ millions)</i>	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Revenue gains from economic impact	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Less:					
Alternative use revenue gains	-\$0.40	-\$0.41	-\$0.43	-\$0.45	-\$0.46
Net Fiscal Effects	-\$0.40	-\$0.41	-\$0.43	-\$0.45	-\$0.46

The ESCTC provides a public benefit to state residents by helping employers reduce the cost of sponsoring childcare for their employees. Access to early childcare and education helps to improve long-term educational outcomes for the children that participate. Improved long-term educational outcomes may also have long-term economic impacts on the state. Note, these impacts are difficult to establish statistically as well as difficult to measure.

Table of Contents

Introduction.....	1
History and Overview of the Georgia Business Expansion Support Act	1
Purpose.....	1
How the Credit Works	1
Tax Provision-Related Activity	2
Similar Programs in Other States.....	3
But-for Analysis.....	11
Economic Activity	11
Overview of How Economic Activity Is Measured.....	11
IMPLAN Model.....	12
Alternate Use of Forgone Revenue/Tax Expenditure	13
Fiscal Impact.....	14
Revenue Impacts.....	14
Additional Tax Revenue	15
State and Local Taxes Generated from Alternative Use of Funds.....	16
Public and Ancillary Benefits	18
References.....	19
Appendix Value of Alternate Use.....	21

Introduction

In 1994, the Georgia General Assembly passed the Georgia Business Expansion Support Act, which created two interrelated state income tax credit programs: the Qualified Childcare Property Tax Credit (QCPTC) and Employer Purchased or Sponsored Childcare Tax Credit (ESCTC), both codified in O.C.G.A. § 48-7-40.6. The purpose of this report is to evaluate the ESCTC, in accordance with the provisions of O.C.G.A. § 28-5-41.1 (2024 Senate Bill 366), in terms of its fiscal and economic impact as well as its public benefits.

This report was prepared under a contract with the Georgia Department of Audits and Accounts (DOAA). The report begins with background on the Georgia Business Expansion Support Act, followed by a discussion of similar federal and state-level policies as well as a review of academic literature evaluating the performance of similar programs. Subsequent sections present an IMPLAN analysis of the economic and fiscal impacts of the credit, estimates of the tax expenditure and administrative costs, and an analysis of the public benefits of the program in terms of its presumed goal of supporting childcare through families' employers. Information used in this report was obtained from the Georgia Department of Revenue.

History and Overview of the Georgia Business Expansion Support Act

House Bill (HB) 1527, known as the Georgia Business Expansion Support Act, was signed into law and made effective July 1, 1994. This bill was intended as a comprehensive approach to economic development and included multiple tax credit programs and sales tax exemptions. QCPTC and ESCTC were included to expand childcare access, and neither has been modified in any impactful way since their initial passage.

The ESCTC provides for a credit for up to 75 percent of an employers' operating costs for a childcare facility but may not exceed 50 percent of the taxpayer's total state income tax liability of the taxable year. The credit is reduced by the amount received by parents to cover childcare costs. Any unused credit can be carried forward for up to five subsequent years.

Purpose

The primary purpose of the ESCTC is to encourage employers to provide childcare to their employees. Preschool-aged children of a single working-parent or dual working-parent household require care and education during the workday, and childcare represents a prohibitive cost for many parents who would like to enter or remain in the workforce. The state benefits economically by attempting to lower these costs through this credit program, as employers benefit from credits and pass those savings along to their employees through provided or sponsored care.

How the Credit Works

The design of this credit is intended to cover 75 percent of the cost to sponsor or purchase childcare for their employees. It is important to note that the federal tax credit for employer-provided childcare provides a federal credit equal to 25 percent of operating costs for employers

that qualify for that program—together generating credits potentially covering the full cost of childcare.

Employers operating a childcare facility are required to file and attach to their tax return the form IT-CCC75 form annually, where they report the cost to operate such a facility; for employers sponsoring childcare, they report the amount spent sponsoring childcare for their employees. In either case, the amount reimbursed by employees and the number of children supported is also recorded.

The amount expended to operate a facility or to sponsor childcare is reduced by any reimbursement made by parents is multiplied by 0.75 to arrive at a claimed credit amount. This amount is limited to 50 percent of the taxpayer's tax liability. Any unused credit can be carried forward for up five years.

Tax Provision-Related Activity

According to the 2023 American Community Survey (ACS), 14 percent of working individuals in Georgia in 2024 had a child in their household under the age of five. During that same year, there were more than four million jobs in Georgia, according to the Quarterly Census of Employment and Wages (QCEW). This represents a considerable pool of working parents that could potentially be interested in participating in an employer-supported childcare program.

According to the US Bureau of Labor Statistics, 12 percent of US workers in 2023 had access to employer sponsored childcare.¹ That would indicate that even though many workers could potentially benefit, relatively few employers provide the opportunity—even though federal and state tax credit programs attempt to cover much of the cost to do so. Based on data from DOR, this appears to be the case in Georgia with the ESCTC.

Table 1 below summarizes the generated credit amounts and number of certified firms for tax year (TY) 2015–24. For illustrative purposes, the average credit amount per certified firm is provided to show that the average annual credit per employer is highest in 2023 at \$13,600. According to the 2024 Market Rate Survey from DECAL a week of childcare for a three-year-old was \$175 in 2023. DECAL assumes that a three-year-old will have on average 48 weeks of paid care during a year. Therefore, the average certified employer generated credits equivalent to the annual cost of childcare for fewer than two three-year-olds.

Though the credit averages more than \$10 million in claims per year from 2015-24, it is a relatively small amount relative to the total demand for child care and the size of the child care industry. For scale, there are more than 394,000 business establishments in Georgia in 2025 according to the QCEW and roughly 1,000 participate in this credit program annually. At the credit rate of 75 percent of purchased or sponsored care \$10 million in credits represents

¹ www.bls.gov/charts/employee-benefits/percent-access-quality-of-life-benefits-by-worker-characteristic.htm

approximately \$13 million in childcare purchased or sponsored. DECAL reports that this industry generated \$3.5 billion in gross receipts in 2024.

Multiple potential explanations exist, which will be introduced here, supported by previous research findings described in the literature review in a following section. Sponsored or purchased childcare is not the only avenue that employers have to support their employees in accessing childcare. In the United States, flexible spending accounts (FSAs), also known as Dependent Care Assistance Plans, are the most commonly used employer-administered program to support childcare (Matos & Galinsky, 2014). These accounts allow workers to access pretax dollars to purchase childcare and therefore effectively reducing its out-of-pocket cost. This method is simple for employers to implement and do not require the administrative overhead of owning and operating a childcare center or contracting with one to sponsor their employees' children.

Table 1. Employer Provided or Sponsored Childcare Credits (ESCTC), 2015–24

Tax Year	Claimed (\$ millions)	Certificate Count	Average Credit Claimed per Certificate	Annual Tuition for a 3-Year-Old
2015	\$11.1	862	\$12,904	\$6,384
2016	\$14.1	928	\$15,215	\$6,607
2017	\$16.1	1,058	\$15,236	\$6,837
2018	\$14.7	1,135	\$12,913	\$7,076
2019	\$14.4	1,188	\$12,088	\$7,323
2020	\$8.8	1,025	\$8,582	\$7,579
2021	\$6.5	1,104	\$5,872	\$7,843
2022	\$5.0	637	\$7,902	\$8,117
2023	\$6.0	443	\$13,599	\$8,400
2024*	\$0.9	289	\$3,066	\$8,693
* At the time of this report 2024 is incomplete				

Similar Programs in Other States

The federal government and many states, like Georgia, have chosen to support childcare through tax credits for employers to establish childcare facilities or sponsor/purchase childcare for their employees. The federal 45F tax credit for employer-provided childcare is equal to 25 percent of qualified childcare expenses up to a limit of \$150,000 annually. Employers can receive an additional credit equal to 10 percent of resource and referral services. The program has similar procedures to the QCPTC for adjusting the available claimable credits in the event that the childcare facility changes ownership or purpose. Note that businesses can deduct these expenses as usual business expenses, so claiming the credit represents a marginal benefit to a typical expense deduction.

Table 2 provides an overview of states that have similar programs to Georgia, delineated by whether a state has a tax credit for acquiring a childcare facility or a tax credit program for purchasing or sponsoring childcare for their employees. States that they have both types of programs—as Georgia does—include California, Florida, Illinois, Indiana, Iowa, Louisiana, Oregon, Rhode Island, South Carolina, and West Virginia. This remainder of this section discusses similar state policies.

Table 2. States with Employer Childcare Tax Credit Programs Similar to Georgia

State	Purchasing Childcare Property	Purchasing or Sponsoring Childcare
Alabama		X
Alaska		X
Arkansas		X
California	X	X
Colorado	X	
Connecticut	X	
Florida	X	X
Illinois	X	X
Indiana	X	X
Iowa	X	X
Kansas		X
Kentucky		X
Louisiana	X	X
Maine	X	
Maryland		X
Mississippi		X
Nebraska	X	
New Mexico		X
New York		X
Oregon	X	X
Rhode Island	X	X
South Carolina	X	X
Virginia	X	
West Virginia	X	X

At the state level, TOOTRiS is a key platform that connects early education providers and employers interested in participating in employer-based childcare benefit programs.² Their detailed summaries of state-level tax credit programs are heavily incorporated below in discussions of the 10 states that provide both types of childcare credits presented in Table 2.

² [State Childcare Tax Credits & Incentives \(Updated January 2025\)](https://tootris.com/edu/blog/government/business-child-care-tax-credits-incentives-by-state-2023/), page available here: <https://tootris.com/edu/blog/government/business-child-care-tax-credits-incentives-by-state-2023/>

Summary of other state programs

California

In California, the State Credit for Childcare Facilities (45F) is a state tax credit designed to incentivize employers to establish or enhance childcare facilities for their employees' children. Eligible employers can claim a credit equal to 30 percent of the costs incurred for setting up, constructing, or renovating such facilities, provided they meet criteria—including being a qualified taxpayer, establishing the facility in California, and adhering to state and local regulations. This credit not only helps employers offset childcare facility costs, improving their ability to attract and retain employees, but also contributes to increasing the availability of childcare options in the state. Employers may also qualify for additional federal credits under Form 8882, which can offer up to \$150,000 in annual tax benefits.

Florida

Florida has introduced a new childcare tax credit initiative aimed at assisting businesses in covering the costs of childcare for their employees, effective for the 2024–25 fiscal year.³ This initiative is designed to reduce the financial burden of childcare and enable more parents to participate fully in the workforce.

Employers can use the tax credit in three ways. First, for facility startup costs, employers can claim a tax credit of up to 50 percent of the startup costs for operating an eligible childcare. The maximum credit varies by size of business from \$1 million for businesses with 1–19 employees to \$250,000 for businesses with more than 250 employees. Second, employers can claim a \$300 per month credit for each eligible employee's child or grandchild (when the grandparent is the caregiver) enrolled in an employer-operated and licensed childcare facility. Credit amounts vary by business size, with the maximum credit of \$1 million for businesses with more than 250 employees. Third, businesses making payments directly to an eligible childcare facility for the benefit of an employee's children or grandchildren (when the grandparent is the caregiver) can claim a tax credit of 100 percent of these payments, up to \$3,600 per child per tax year.

Illinois

Illinois provides businesses with a tax credit to create their own on-site childcare facilities for their employees and a credit for dependent care assistance. In the former, businesses that provide a facility for the care of their employees' children are eligible for a 30-percent credit on start-up costs, plus 5 percent of the annual expenses necessary to operate the facility. In the latter, employers engaged in manufacturing can claim a fair market value of in-kind dependent care assistance provided to employees. This assistance can include on-site day care facility services, estimated at 125 percent of reasonably estimated direct costs.

Indiana

³ See link here: https://www.ced.org/assets/pdf/ell-statemaps/201003_CED_StateTaxMergedDoc%20FL.pdf

Beginning in 2024, Indiana's new Employer Childcare Expenditure Tax Credit is available to employers who provide childcare to employees. Employers can claim a tax credit equivalent to 50 percent of expenditures related to establishing and operating childcare facilities, as well as for direct payments made to licensed childcare providers. This initiative not only helps businesses lower their tax liability but also contributes to improved employee retention and job satisfaction by addressing the childcare needs of working parents.

Iowa

Iowa provides both an Employer Childcare Tax Credit and a Childcare Business Incentive Grant. The first is designed to encourage businesses to establish and operate their own childcare facilities or contract with existing providers to support their workforce. Taxes are reduced by an employer childcare tax credit that is equal to the proportion of the federal employer-provided childcare tax credit provided in section 45F of the Internal Revenue Code for the taxpayer. Any credit in excess of the tax liability is not refundable, but the excess can be credited to the tax liability for the following five years or until depleted, whichever comes first. The aggregate amount of tax credits authorized pursuant to this section shall not exceed an aggregate limit of \$2 million annually. Effective for tax years beginning on or after January 1, 2023.

The Iowa Childcare Business Incentive Grant was instituted in 2022 and can be used to address infrastructure projects on-site or to support agreements between businesses and local childcare programs that create new childcare slots. Since 2022, Iowa has awarded 191 projects with \$75.6 million in grant funding to help create over 10,700 new childcare slots.

Louisiana

Louisiana provides several options for businesses to receive childcare tax credits in the state. The Childcare Provider Tax Credit is a refundable credit based upon the average monthly number of children who participate in the Childcare Assistance Program or are foster children. Participation in the state's childcare quality rating system is necessary for eligibility for these providers. The Credit for Childcare Directors and Staff is a tax credit program that provides financial incentives to childcare providers who pursue professional development opportunities. This credit was established in 2008 and has been renewed several times. It is part of a broader effort by the state of Louisiana to improve the quality of childcare and early childhood education in the state.

Louisiana also has a tax credit for Business-Supported Childcare. Qualified businesses are eligible for a refundable tax credit based on the quality rating of their center. Eligible support includes capital and maintenance expenses, not to exceed \$50,000 in expenses per tax year; payments made to an eligible childcare facility to support employees, not to exceed \$5,000 per child per tax year; the purchase of childcare slots at eligible childcare facilities actually provided or reserved for children of employees, not to exceed \$50,000 per tax year. The credit allows for a percentage of eligible expenses based on the quality rating of the facility. Lastly, Louisiana has a tax credit for Donations to Resource and Referral Agencies. These are private agencies that contract with the Department of Education to provide information and services to parents and

childcare providers. The credit is equal to the amount donated but cannot exceed \$5,000 per tax year.

Oregon

Oregon also offers several childcare-related credits. Businesses can receive tax credits for amounts paid or incurred during the taxable year for dependent care assistance provided to employees. The credit amount is 50 percent of the amount incurred by the employer with a limit of \$2,500 per employee per year, and it applies to costs associated with contacting a third-party provider, purchasing an employee's childcare through payments to a third-party provider, providing direct subsidies or vouchers to employees, or contracting for childcare resource and referral services.

Another Oregon tax credit is allowed based on costs paid or incurred to acquire, construct, reconstruct, renovate, or otherwise improve real property for a dependent care facility. The credit allowed under this section is at least of 1) \$2,500 multiplied by the number of full-time equivalent employees employed by the employer, 2) 50 percent of the cost of the acquisition, construction, reconstruction, renovation or other improvement, or 3) \$100,000.

Last is the Oregon Childcare Contribution Tax Credit, which encourages individuals and corporations to make certified contributions to the Office of Childcare (under ORS 329A.706). The tax credit is limited to the lesser of 50 percent of the contribution made during the tax year or the total tax liability for that tax year. If the contribution is deducted for federal tax purposes, the credit amount must be added back to federal taxable income for Oregon state tax calculations, and any unused portion can be carried forward one year. The Office of Childcare issues tax credit certificates up to a maximum total of \$500,000 per calendar year.

Rhode Island

Rhode Island provides businesses an income tax credit when they pay for childcare services for their employees or provide property for a childcare facility. The Adult and Child Day Care Assistance and Development Tax Credit offers a credit to employers who invest in providing or facilitating adult and child day care services for their employees or the employees of their commercial tenants. For the purchase of services, employers may claim 30 percent of the total amount spent in Rhode Island during the taxable year on day care services for dependent children or adult family members of employees or employees of their commercial tenants. For establishing or operating a day care facility, employers may claim 30 percent of the costs incurred during the taxable year to establish or operate a licensed day care facility primarily for the dependent children of employees or employees of their commercial tenants. Employers may also collaborate with other businesses to establish or operate a licensed day care facility and may claim 30 percent of their share of the total expenditures during the taxable year. Finally, employers dedicating rental or lease space for licensed child day care services may claim 30 percent of the total amount foregone in rent or lease payments. This amount is calculated as the difference between fair market rental value and the actual rental amount received.

South Carolina

In South Carolina, employers who purchase a qualified childcare property for use by their employees or provide payments to independent care facilities for the benefit of employees are eligible to receive a tax credit. The credit amount is equal to 50 percent of the employer's capital expenditures—no more than \$100,000 for costs incurred in establishing a childcare program for its employees' children, to operate a childcare program for employees, or payments made directly to licensed or registered independent childcare facilities. The credits allowed may not exceed \$3,000 for each participating employee per year.

Starting in 2022, West Virginia offers tax credits for employers that construct, expand, improve, or operate an employer-provided childcare facility. In addition, the state offers credits to employers who also sponsor childcare for their employees. The former credit is used exclusively in the construction, expansion, improvement, or operation of an employer provided childcare facility. The aggregate amount is equal to 50 percent of the cost of all qualified childcare property purchased or acquired by the taxpayer and first placed in service during a taxable year, and such credit may be claimed at a rate of 20 percent per year over a period of five taxable years. For the latter credit, an employer must provide or sponsor childcare for employees, and the credit amount is equal to 50 percent of the cost of operation to the employer.

Literature Review on Employer-sponsored Tax Credit Programs and Parental Employment from Early Childhood Education Access

Multiple areas of academic literature elucidate the rationale of employer tax credit policies intended to support employees' access to early childcare and education. Two primary economic rationales exist for government subsidies for early childcare, in general, and through employer-based tax credits. First, such credits are intended to improve the educational outcomes for children to prepare them for elementary school through social and emotional learning.⁴ These long-term economic outcomes are difficult to measure and are outside the scope of this report. The second rationale is the support of parents entering the labor force, which is based on the cost of childcare being a prohibitive obstacle for parents, usually mothers, to enter the workforce. The literature of similar policies in inducing labor force participation is summarized first in this section.

In addition to credit programs' impact on these economic outcomes, the uptake (or lack) of such programs has also been studied, and that literature will be reviewed as well. The reasons for the apparent lack of interest in such programs by employers are investigated in an observational manner in the literature, specifically surveys and interviews were used. The particularities of Georgia's specific program and how it might impact the uptake of the EPCTC will be covered in a following section.

Rates of Female Labor Force Participation in Georgia, Compared to Other States

Female labor force participation rates in the United States have remained relatively steady over the last 30 years, ranging from 56 to 58 percent from 1990 to 2024 (International Labour Organization, ILO). The national levels of female labor force participation are mirrored in the State of Georgia, according to data from the US Department of Labor. At 55 percent, Georgia's female labor force participation lags behind states like Alaska (67 percent), Minnesota (66 percent), Colorado (63 percent), and North and South Dakota (65 and 66 percent, respectively).

In the academic literature, numerous researchers have provided empirical evidence pointing to the negative economic consequences of low female labor force participation. Nobel laureate Claudia Goldin argued in her early work that national income per capita would have been 14 percent lower than the immense growth experienced between 1890 and 1980 without female participation (Goldin, 1986). In Galor and Weil (1996), the authors introduce a feedback loop concept that emphasizes the positive impact of female labor force participation on economic output. More recent studies have confirmed these initial findings in a range of contexts (Tsani et al., 2013; Lechman and Kaur, 2015; Altuzarra et al., 2019). Clearly, economies benefit from increasing the proportion of women involved in the workforce.

Childcare and Female Labor Force Participation

In the same Galor and Weil (1996) study, the authors highlight the role of childbearing in women's decision to enter the labor force. Their feedback loop model incorporates the tradeoff between raising children and the foregone wages from entering the labor force. This is elaborated in the research of many future scholars that show the positive relationship between access to childcare and women's decision to enter the labor force. In Cortes and Pan (2020), the authors showed that about two-thirds of the remaining gender wage gap in the United States is driven by the higher childbearing costs on women than men. In an innovative study, Lundborg et al. (2017) use the randomness in IVF treatment success to show that fertility effects are "negative, large, and long-lasting." Their findings are especially important because they highlight not just the effect on the short-term labor choices (i.e., reduction in working hours or dropping out of the labor force), but also the longer-term effects of women earning less later in their careers as a direct consequence of having children.

Employer Effects of Childbearing

While the effects of childbearing costs on female employee outcomes are well documented, studies have also shown that there is a cost to employers as well. For instance, Zhang et al. (2017) found that an increase in absence rates from 0.1 to 0.2 reduces output from between 8.6 percent to 23.4 percent. In response, employers have often implemented some form of childcare policy to minimize the cost of childcare to employees. A sizeable body of research has studied the relationship between employer-provided childcare and employee retention and productivity. Hipp et al. (2017) studied a sample of the over 10,000 employees employed by Cornell University and estimated the effect of flexible spending account (FSA) contributions for

dependent care, finding that receiving these grants had a positive effect on organizational commitment and stress. Connelly et al. (2004) use a contingent valuation method that showed that this benefit is not restricted to employees with younger children but also includes employees who do not directly benefit from the program.

Effect of Childcare Subsidy Programs

Given the empirical evidence on the costs to both employers and employees, many federal and state-level policies have been implemented to ameliorate these costs through some form of subsidy program. In Herbst (2017), the author studies the effect of a universal childcare program administered in the United States during World War II on female employment outcomes. He finds that increasing spending on childcare by \$44 (i.e., from the bottom quartile of spending to the top quartile) increased female employment by 4.4 percentage points. In other words, a \$1 per child increase in childcare spending increased female employment by 0.1 percentage points. A similar study in Quebec by Lefebvre and Merrigan (2008) find that introducing province-wide childcare subsidies led to an 8-percentage point increase in labor force participation and 231 extra annual hours. In Blau and Tekin (2003), the authors evaluate the effect of consolidating US child care subsidy programs and increasing both funding and flexibility to states. They find that for a low-income US family, receiving a childcare subsidy from the Child Care and Development Fund, employment increased by a minimum of 13 percentage points. Similarly, Davis et al. (2018) find that TANF childcare subsidies led to employment increases that ranged from 16 to 31 percentage points.

Failure of Tax Credit Programs

Despite the convergence of employee and employer needs and the documented success of other childcare subsidy policies, efforts to reduce childcare costs through credits for employer-provided childcare services have been largely unsuccessful. For instance, the federal program to encourage employers to build childcare centers (45F) is heavily underutilized. In the most recent year available, only 169 to 278 corporate income tax returns claimed credits under the 45F program. This accounts for less than 1 percent of corporate tax returns (Smith et. al, 2022). The GAO report proposes a number of explanations for why uptake has been below expectations, including the cost and complexity of providing childcare services, particularly among smaller employers, as well as a general lack of awareness of the program. The report also cited the inadequacy of the credit as a prohibiting factor, with an on-site childcare center costing about \$1 to \$3 million to build while the annual credit is limited to \$150,000. This is compounded by employers reporting that they do not have enough federal tax liability to take advantage of the program because the program is non-refundable.

In the academic literature, there is limited research specifically focusing on these credits. The most detailed is by Kelly (2003), who studies the effect of the 1981 Economic Recovery Tax, which provided a tax break for building an on-site childcare center, on actual provision of these services. A key finding corroborates the GAO report. Kelly finds that organizational size plays a significant role in the decision to build a childcare center. One of their surveyed managers was

quoted as saying “We just can’t justify it with 300 employees. We don’t have the space, number one, we don’t have the expertise, number two, and we don’t have the expense, number three, that we can handle it” (Kelly, 2003).

On the employee side, however, there is considerable research on the decision making of parents in selecting childcare facilities. In Meyers and Jordan (2006), the authors develop a framework that identifies several factors that are central to parents’ childcare decision making: the needs and the resources of the family, cultural norms and preferences, and contextual opportunities and constraints. Coley et al. (2014) build on this framework and show that while cost is an important factor in choosing between parent care, family childcare, and center childcare, competition for center childcare facilities and employment type of the parent are stronger determinants of parents’ decision-making. As such, employers have no guarantee that simply subsidizing their childcare center would guarantee usage by employees.

But-for Analysis

Consideration of the ‘but-for’ impacts of this credit program first requires a theoretical framework for what would likely occur if this credit were not in place. Working parents, absent access to the lower costs associated with their employers participating in this program, would still need to access early childcare and education. In other words, without this credit, most parents would still engage in the labor market and purchase childcare. As was shown in the literature review section above, the potentially lower costs of care have little measurable effect on the decision of working parents to utilize early childcare and education. Thus, the economic impacts to the labor force from additional participation and the child care industry from increased enrollments are not considered here. Again, as was shown in the literature review section, while the credit may have a modest impact on employers’ decisions to participate in the programs to provide childcare, it does not have a measurable impact on the amount of childcare provided. Thus the ‘but-for’ estimate is zero, meaning that if the credit did not exist there would be no change in economic activity.

Economic Activity

Overview of How Economic Activity Is Measured

We measure economic activity using data on estimated childcare service spending, with FY 2026 as the representative year because it represents the estimated reasonable magnitude, given future year estimates. We calculate the net effect of the state-level credit by assuming all the economic activity would occur without it and then subtract the estimated economic activity associated with an alternative use of the funds. Table 4 summarizes the estimated economic activity. The remainder of this section provides details.

Table 4. Net Economic Activity – Employer Sponsored Childcare Tax Credit

<i>(\$ millions)</i>	Employment	Labor Income	Value Added	Output
Gross Activity for Period	404	\$14.4	\$21.6	\$37.2
Less: “But-for” Reduction	404	\$14.4	\$21.6	\$37.2

Activity Net of “But-for”	0	\$0.0	\$0.0	\$0.0
Less: Alternative Use Impacts	414	\$19.9	\$24.9	\$37.3
Net Economic Impact	-414	-\$19.9	-\$24.9	-\$37.3

Source: IMPLAN and authors’ calculations

IMPLAN Model

To estimate the economic impact of the ESCTC in Georgia, the IMPLAN model is used. IMPLAN is a regional input-output model that estimates how an initial change in spending or revenue for any industry category works its way through a regional economy. It also has data on the size of each industry in the economy in terms of revenue and employment at the state and county level. The model includes detailed data on industry size by revenue and employment at the state and county level and applies sector-specific multipliers to estimate the effects of initial spending by firms on suppliers and labor. For this analysis, we use 2023 IMPLAN data, adjusted to reflect average annual revenues and wages in 2024 dollars. Below is an overview of key IMPLAN terms used in the report.

- *Output* is the value of production. This includes the value of all final goods and services, as well as all intermediate goods and services used to produce them. IMPLAN measures output as annual firm-level revenues or sales, assuming firms hold no inventory.
 - Estimates of output changes resulting from all childcare-related economic activity, including education and related services provided, are then used to estimate state and local sales tax revenue.
- *Labor income* includes total compensation—wages, benefits, and payroll taxes—for both employees and self-employed individuals. Wage-gain estimates are used to estimate incremental state income tax revenue.
- *Employment* includes full-time, part-time, and temporary jobs, including the self-employed. Job numbers do not represent full-time equivalents, so one individual may hold multiple jobs.
- Three changes (effects) comprise the *total impact* and can be calculated for relevant activity reviewed (output, employment, and labor income):
 - *Direct effects* are the changes that initiate the ripple effects through the economy. For this analysis, direct effects are increased firm output (revenue) directly attributable to the credit.
 - *Indirect effects* are the economic activity supported by business-to-business purchases in the supply chain for child and family care services. For example, education supplies, food and beverages for children, and office supplies, would be included here. Each of the supplying businesses subsequently spends a portion of the money they receive on their own production inputs, such as office space, computers, and supplies, which in turn prompts spending by the suppliers of these inputs. This spending continues but progressively diminishes in its in-state

impacts due to ‘leakages,’ which occur when firms spend money on imports (including imports from other states), taxes, and profits.

- *Induced effects* are economic activity that occurs from households spending labor income earned from direct and indirect activities. This activity results from household purchases of items such as food, healthcare, and entertainment. The labor income spent to generate these effects does not include taxes, savings, or compensation of nonresidents (commuters), as these leave the local economy (leakage).

Table 5 shows the economic impact associated with the representative year FY 2026 childcare spending. The benefit of the tax credit is modeled as additional income to the family and child services sector. Direct spending by this sector, due to the additional income, supported 308 direct jobs with a total labor income of \$9.0 million. Sector spending supported an additional 95 indirect and induced jobs, but it should be noted that these do not necessarily reflect full-time employment. In total, childcare spending associated with the ESCTC credit also supported \$14.4 million in total labor income, \$21.6 million in value added, and \$37.2 million in total output.

Table 5. Economic Impact of Childcare Spending, FY 2026

<i>(\$ millions)</i>	Employment	Labor Income	Value Added	Output
Direct Effect	308	\$9.0	\$11.2	\$18.9
Indirect Effect	43	\$2.4	\$4.5	\$8.8
Induced Effect	52	\$3.0	\$5.9	\$9.5
Total Effect	404	\$14.4	\$21.6	\$37.2

Source: IMPLAN and authors’ calculations

Alternate Use of Forgone Revenue/Tax Expenditure

The induced economic impacts estimated above do not account for forgone state revenues, i.e., the economic impacts of alternative uses of the funds currently expended through this tax credit. SB 366 requires evaluations of tax incentives to include estimates of *net* economic and fiscal impacts, thus requiring consideration of the economic and revenue effects of alternative uses of the revenues that would be available for other purposes in the absence of the exemption.

Alternatives could include other economic incentives, spending in other policy areas across state government, or a reduction in taxes—all of which could also result in direct, indirect, and induced economic effects. However, absent information as to how the General Assembly would otherwise choose to spend foregone revenue if not on the credit, we estimate the impact of using the revenue to fund an equivalent increase in state government spending in proportion to existing expenditures. That is, we allocate the foregone revenue to industry sectors as direct effects based on the sector shares of spending in the state budget. The two largest categories of spending—education (47 percent) and healthcare (21 percent)—account for about 68 percent of the state budget for FY 2025 (See Appendix table).

As detailed in Table 6, if the state received the forgone revenue associated with the excluded early childcare and education spending, it could be expected to generate approximately \$37.3 million in

gross output. This estimate includes \$18.9 million in annual direct government outlays (the FY 2026 estimated tax expenditure for the exemption) plus the amounts shown for indirect and induced effects resulting from the initial, direct outlays.

Table 6. Summary of Alternative Use Economic Impacts

(\$ millions)	Employment	Labor Income	Value Added	Output
Direct Effect	315	\$14.2	\$13.9	\$18.9
Indirect Effect	26	\$1.6	\$2.8	\$5.2
Induced Effect	73	\$4.1	\$8.2	\$13.2
Total Effect	414	\$19.9	\$24.9	\$37.3

Source: IMPLAN and authors' calculations

Fiscal Impact

A summary of the fiscal impacts of the ESCTC credit is presented in Table 7. We then detail the estimates of the revenue effects of the credit's economic impacts and the opportunity cost of the tax expenditure—the revenues that could be expected from the alternate use of funds. The detailed estimates are projected forward to obtain the amounts below.

Table 7. Fiscal Impact Summary

(\$ millions)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Tax Expenditure Cost						
State	-\$18.16	-\$18.92	-\$19.57	-\$20.34	-\$21.10	-\$21.87
Revenue Gains from Economic Impact						
State	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Local	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Alternative Use Reduction						
State	-\$1.56	-\$1.62	-\$1.68	-\$1.75	-\$1.81	-\$1.88
Local	-\$0.39	-\$0.40	-\$0.41	-\$0.43	-\$0.45	-\$0.46
Net Fiscal Effects						
State	-\$19.72	-\$20.54	-\$21.25	-\$22.08	-\$22.91	-\$23.75
Local	-\$0.39	-\$0.40	-\$0.41	-\$0.43	-\$0.45	-\$0.46
Total Net Fiscal Effects	-\$20.10	-\$20.94	-\$21.67	-\$22.51	-\$23.36	-\$24.21
State ROI	-\$0.09	-\$0.09	-\$0.09	-\$0.09	-\$0.09	-\$0.09

Note: The ROI value indicates for every dollar invested, 9 cents are lost.

Revenue Impacts

Forgone Revenue

We estimate foregone revenue associated with project expenditures of the representative year, outlined below in Table 8, estimating lost revenue from the ESCTC

Table 8. Tax Expenditure Cost Estimates

(\$ millions)	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
State Tax Expenditure	-\$18.92	-\$19.57	-\$20.34	-\$21.10	-\$21.87

Source: DOR data and authors' calculations

We next estimate the additional tax revenue associated with the alternative use scenario outlined in the economic activity section of this report.

Additional Tax Revenue

Below, Table 9 shows the estimates for state and local tax revenues attributable to economic activity associated with the base year FY 2026. State income tax is estimated using employee compensation generated by IMPLAN. Labor income estimated in the family and childcare services sector is comprised mostly of service workers, with an average income of approximately \$37,000 per job. Based on Georgia DOR tax data—specifically, the net tax liability relative to adjusted gross income (AGI) for taxpayers with similar AGI in tax year (TY) 2022—we estimate an average effective tax rate under current law of 5.13 percent on labor income for in-state residents.

IMPLAN incorporates estimates of sales and property taxes. However, the model relies on levels of economic activity rather than sales or property tax rates and tax bases; thus, they are not our preferred estimates. Instead, to estimate sales tax revenues, we use the model's estimated incremental output for various retail sectors and adjust for the taxable portion of sector sales to arrive at estimates of taxable sales. For retail sectors, IMPLAN reports as output only the retail gross margin, not the total sales at retail, so these estimates are grossed up using average gross margin rates from IMPLAN for each retail sector to arrive at estimated sales to which the tax would be applied. The state sales tax is calculated using the state sales tax rate of 4 percent, and the local sales tax is calculated using an average local sales tax rate of 3.38 percent—the population-weighted average as of January 2024, according to the Tax Foundation. The state and local sales tax estimates for the base year are also shown in Table 9.

To estimate the additional property tax due to the economic activity associated with the tax credit, we calculate the ratio of the IMPLAN estimate of sales tax to our preferred estimate of sales tax above and apply this to the IMPLAN estimate of property tax revenue. This estimate assumes that economic activity generating IMPLAN's sales tax estimates is like that which generates the property tax—thus, this estimate should be treated cautiously.

Finally, about 76 percent of Georgia state tax collections come from personal income and state sales taxes. Georgia collects a host of other taxes that make up the remaining 24 percent, on average. Two taxes make up about one-half of the 24 percent: corporate income tax and title ad valorem tax (TAVT) on motor vehicles.

Table 9 shows the base-year estimated revenue from these other taxes, assuming a proportional effect, such that 24 percent of total tax revenues holds for the economic activity resulting from the ESCTC. Recall that the but-for analysis concludes that, in the short term, the same amount of childcare would be purchased if the tax credit was removed. Thus, the estimates in Table 9 have no fiscal impact on the state because the credit is deemed to have no short-term economic impact.

Table 9. State and Local Tax Revenue from Childcare Services (FY 2026 base, \$ millions)

Tax Type	State Revenue	Local Revenue
Personal Income Tax	\$0.74	

Sales Tax	\$0.12	\$0.12
Property Tax	\$0.00	\$0.22
All Other State Taxes	\$0.27	
Total	\$1.13	\$0.34

Source: IMPLAN and authors' calculations

State and Local Taxes Generated from Alternative Use of Funds

New annual tax revenues resulting from the alternative use case are estimated in a similar manner as that generated by projected expenditures.

Table 10. State and Local Tax Revenues: Alternative Use of Funds (\$ *millions*)

Tax Type	State Revenue	Local Revenue
Personal Income Tax	\$1.03	
Sales Tax	\$0.16	\$0.16
Property Tax	\$0.00	\$0.23
All Other State Taxes	\$0.37	
Total	\$1.56	\$0.39

Source: IMPLAN and authors' calculations

Administrative Costs

The ESCTC credits have been in existence since 1994, and its administrative group has shifted from time to time. Currently this credit is overseen by the same group that oversees several other credits that require pre-approval and have a cap on the total donations. These credits include:

Qualified Foster Care Credit

Qualified Education Expense Credit

Qualified Law Enforcement Credit

Rural Hospital Credit

These credits are generally administered by a team of 7 individuals in the Taxpayer Services Division of the Department of Revenue as well as a team of business testers to make sure the credits work in a testing environment. It is estimated that the total personnel cost is \$6,500 annually when including fringe benefits. This is due to the low volume of credits processed annually. The Department also estimates that it costs approximately \$325,000 per year from an IT perspective to program and update all state tax credits. Finally, the Department estimates it costs about \$5,000/year from a tax policy perspective.

Methods to Optimize Tax Credit Performance

The ESCTC credits are not widely used. As was discussed earlier, there are several likely reasons for this. First, the credits are limited but those limits are only known to the tax payer after they have incurred the expense of sponsoring or providing childcare for their employees. Thus, the credits make tax planning a challenge. In addition, the credits are limited in the amount employees can utilize to 50 percent of tax liability, further limiting the credits benefit to employers that participate. Employees may also find the options offered by the employer limited and prefer to use the FSA accounts which offer greater flexibility in terms of childcare facilities and arrangements. Georgia's experience with the ESCTC is similar to that of other states with similar credits.

Increasing the amount of credits that can be taken above the 50 percent taxable income limit would increase the utilization by the businesses already participating and could increase overall

interest in the program as well. To this end many credits in Georgia are allowed to be taken against the income tax withholding that employers remit to the state. Interest and utilization for tax credit programs usually increase when this is an option for businesses.

Additionally, the 90 percent own-employee's children enrollment requirement for the QCPTC limits the number of employers willing to engage in a large-scale investment that assumes future enrollment. The employers that construct or purchase a childcare facility to support their employees do not qualify for the credit if large numbers of non-employee students attend but the financial sustainability of such a facility could depend on those students if their employees don't have enough children or are not interested in this benefit. If this program were more accessible to employers, the operations portion of the ESCTC would also increase.

In general, we find that the purpose of the credit to incentivize firms to provide childcare, is inhibited by the limitations discussed above. While the credit may have a modest impact on an individual employer's decision to provide childcare, it does not have a measurable impact on amount of childcare available in the state. Also, due to the small amount of the average credit, we do not find that it has any effect on labor force participation. Should the structure and rules of the credit be modified to make it more accessible these conclusion could change.

Public and Ancillary Benefits

Recruiting and retaining employees is a significant challenge to employers throughout the state. Childcare is an important part of helping to allow parents to fully enter the workforce. Many parents leave or never apply for a work opportunity due to challenges finding and affording childcare. This policy helps alleviate these barriers for employed parents and their employers in the state. This is particularly true at the time of this report as the economy settles back into the post-COVID norms. Many workers are transitioning back into the office and the necessity for affordable childcare options is being heightened. The ESCTC could be one of the tools that the state and Georgia's businesses could use to better-manage this transition by helping provide more affordable childcare.

Though not quantified in this evaluation, early childcare and education have educational impacts on children through traditional teaching and improved social and emotional learning. Access has been shown to improve later-life outcomes for children as well. Education broadly has long been considered a general public good.

References

- Goldin, C. (1986). The female labor force and American economic growth, 1890-1980. In *Long-term factors in American economic growth* (pp. 557-604). University of Chicago Press.
- Galor, O., & Weil, D. N. (1993). The gender gap, fertility, and growth.
- Tsani, S., Paroussos, L., Fragiadakis, C., Charalambidis, I., & Capros, P. (2013). Female labour force participation and economic growth in the South Mediterranean countries. *Economics Letters*, 120(2), 323-328.
- Lechman, E., & Kaur, H. (2015). Economic Growth and Female Labor Force Participation—Verifying The U-Feminization Hypothesis. New Evidence For 162 Countries Over the Period 1990-2012. *Economics & Sociology*, 8, 246-257.
- Altuzarra, A., Gálvez-Gálvez, C., & González-Flores, A. (2019). Economic development and female labour force participation: The case of European Union countries. *Sustainability*, 11(7), 1962.
- Cortés, P., & Pan, J. (2023). Children and the remaining gender gaps in the labor market. *Journal of Economic Literature*, 61(4), 1359-1409.
- Lundborg, P., Plug, E., & Rasmussen, A. W. (2017). Can women have children and a career? IV evidence from IVF treatments. *American Economic Review*, 107(6), 1611-1637.
- Zhang, W., Sun, H., Woodcock, S., & Anis, A. H. (2017). Valuing productivity loss due to absenteeism: firm-level evidence from a Canadian linked employer-employee survey. *Health economics review*, 7(1), 3.
- Hipp, L., Morrissey, T. W., & Warner, M. E. (2017). Who participates and who benefits from employer-provided child-care assistance?. *Journal of Marriage and Family*, 79(3), 614-635.
- Connelly, R., Degraff, D. S., & Willis, R. A. (2004). The value of employer-sponsored child care to employees. *Industrial Relations: A Journal of Economy and Society*, 43(4), 759-792.
- Herbst, C. M. (2017). Universal child care, maternal employment, and children's long-run outcomes: Evidence from the US Lanham Act of 1940. *Journal of Labor Economics*, 35(2), 519-564.
- Lefebvre, P., & Merrigan, P. (2008). Child-care policy and the labor supply of mothers with young children: A natural experiment from Canada. *Journal of Labor Economics*, 26(3), 519-548.
- Blau, D., & Tekin, E. (2007). The determinants and consequences of child care subsidies for single mothers in the USA. *Journal of population economics*, 20(4), 719-741.
- Davis, E. E., Carlin, C., Krafft, C., & Forry, N. D. (2018). Do child care subsidies increase employment among low-income parents?. *Journal of Family and Economic Issues*, 39(4), 662-682.

- Smith, L., Osborn, C., & Walsh, B. (2022). The Employer-Provided Child Tax Credit (45F).
- Kelly, E. L. (2003). The strange history of employer-sponsored child care: Interested actors, uncertainty, and the transformation of law in organizational fields. *American journal of Sociology*, 109(3), 606-649.
- Meyers, M. K., & Jordan, L. P. (2006). Choice and accommodation in parental child care decisions. *Community Development*, 37(2), 53-70.
- Coley, R. L., Votruba-Drzal, E., Collins, M. A., & Miller, P. (2014). Selection into early education and care settings: Differences by developmental period. *Early Childhood Research Quarterly*, 29(3), 319-332.
- Smith, L., Osborn, C., & Walsh, B. (2022). The Employer-Provided Child Tax Credit (45F).

Appendix Value of Alternative Use

Table shows the approximate breakdown of state expenditures into functional areas that either directly correspond or are similar to the specified IMPLAN sectors in terms of the nature of labor and other inputs.

Category	Share state spending	IMPLAN codes	IMPLAN Sector Descriptions
Education, PK-12	40.0%	462	Elementary and secondary schools, and post-secondary education
Education, Post-Sec	15.1%	463	colleges
Health Care	22.7%	475	Individual and family services
Public Safety, excl Corrections	3.4%	453	Facilities support services
Public Safety, Corrections	4.3%	457	Investigation and security services
Mobile Georgia	7.2%	439	Architectural, engineering, related svcs.
Growing Georgia	1.9%	451	Management of companies and enterprises
General Government	5.4%	469	Management of companies and enterprises

Source: Spending shares based on AFY 2019 - AFY 2025 Governor's Budget Report

<https://opb.georgia.gov/budget-information/budget-documents/governors-budget-reports>