At a Glance

Funding Our Future: Generating State and Local Tax Revenue for Quality Early Care and Education

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Definition of early care and education. We use the definition found in *Transforming the Financing of Early Care and Education*—nonparental care from birth to kindergarten entry that occurs outside a child's home, and includes a variety of settings encompassing programs operated by child care centers and family child care homes.

The political and policy relevance of early care and education—and support for its expanded funding—is on the rise. Now is a great time for early childhood leaders to consider a previously overlooked approach to raising funds: dedicated state and local tax revenue for early care and education. Noteworthy work has already been done, both at the state and local levels, to support quality early care and education through dedicated taxes. These revenues are having a significant impact on long-term goals, as seen in the local children's taxing districts in Florida or the new approach to corporate and business taxation in Oregon. The pioneers who started this work in states and localities around the country demonstrate early successes in helping to close the extreme funding gap in early care and education. *Funding Our Future: Generating State and Local Tax Revenue for Quality Early Care and Education* catalogues the "what" of some of these foundational efforts and introduces potential "next generation" tax policy ideas for consideration, and is based on the work of the Child Care Revenue Work Group.

The Child Care Revenue Work Group, which brought together tax experts and seasoned early childhood leaders, was created to help identify a range of potential tax policy areas to introduce to state and local leaders with a focus on expanding high-quality early care and education, especially for infants and toddlers. The Work Group identified seven tax areas that state and local early childhood leaders can consider pursuing to expand and diversify public funding for early care and education. Funding Our Future provides definitions, examples of current uses of these taxes, and new, next generation ideas about:

- Corporate and Business Taxes.
- Estate and Inheritance Taxes.
- Personal Income Taxes.
- Property Taxes.
- Sales Taxes.
- Sin Taxes.
- Special District Governments.

GUIDING QUESTIONS—nine strategic and technical questions for early childhood leaders and their partners to consider—are included prior to the descriptions of the seven tax areas examined to aid early childhood leaders who are new to exploring questions related to tax-based revenue generation to support their early care and education policy.

The Child Care Revenue Work Group identified Guiding Questions to support conversations among leaders when evaluating potential sources of funding for child care. The questions, listed below, are designed to test the legal, administrative, and political feasibility of these tax policies within state and local contexts. Without the answers to these questions, it is difficult to know whether a revenue generation policy may be appropriate for your community and may contribute to improved access to high-quality early care and education and, if so, which one. It also should be noted that these questions will need to be considered simultaneously and reflect trade-offs in terms of level of government, taxing options and money raised as part of a holistic process to determine what pathway will be most successful.

1. What jurisdiction will levy the tax? Decide whether the state, city, county, school district, or other level of government will collect the revenue.

2. Is the tax legally feasible? Identify whether the jurisdiction in question has the authority to levy this particular tax and through what mechanism. Is the tax levied via the legislative body or by citizens through petition/ballot?

3. Can the tax be dedicated to early care and education? Identify whether revenue generated by this particular mechanism can be designated for a specific purpose, and whether infant-and-toddler child care is an acceptable purpose.

4. Is the tax politically feasible? Determine what support and political opposition a proposal might face.

5. Is the tax progressive or regressive? Consider who is most likely to pay the tax and how this is related to their current income and consumption patterns. Are lower-income families likely to pay a higher share of their income for this tax and, if so, is this higher burden offset by the service offered or able to be mitigated in some way?

6. Does the tax have communication power related to early care and education? Identify any clear connection between the funding mechanism and funding use.

7. Who pays for the tax? Who benefits from the tax? Consider whether the tax disproportionately impacts different types of taxpayers and whether this outcome advances or compromises your policy goal.

8. Is the tax timely? Confirm that you have considered any new taxing opportunities that may have developed from the passage of recent legislation or are made possible given the local or state context.

9. How does the projected generated revenue fit into the near- and long-term strategy for meeting the need for quality early care and education? Identify the role that this funding would play in the effort to fully fund access to high-quality early care and education.

State and local tax policies in seven areas are found in the full report, including current examples and "next generation" ideas to pursue. For example:

- Two new laws in Oregon and Washington state demonstrate new approaches in **corporate and business taxation**: taxes on large corporations are being dedicated to education, including early care and education. At the local level, there are innovations in taxing commercial property transactions in order to expand affordable, quality early care and education.
- Use of **estate and inheritance taxes** for the next generation of young children presents a powerful communications opportunity. We explore "next generation" ideas in this area; these taxes have not yet been dedicated for early care and education purposes.
- Cities, such as Dayton, Ohio, have been at the forefront of using **personal income tax revenue** to fund early care and education. New opportunities—local and state—may be available, especially with an approach that focuses on those with high wealth.
- Localities in the South, Midwest, and Western parts of the country lead the way in using set-asides of **property tax revenue** to fund quality early care and education, including Memphis, Tennessee; Cincinatti, Ohio; and King County, Seattle.
- **Sales taxes** are currently used—local and state—to support early care and education in places such as Pitkin County, Colorado; San Antonio, Texas; and the state of South Carolina. At the same time, there are new ideas to modernize this source of funding. Potential reforms include taxing more services, modernizing state sales taxes to cover online purchases, and closing outdated tax loopholes. This increased funding could be used for early care and education.
- Many local and state governments can—and do—put **sin taxes** on tobacco, alcohol, sugary beverages, and sports betting, and are exploring new areas such as legalized marijuana and vaping products. While there can be significant industry opposition, advocates have successfully pursued a variety of sin taxes with dedicated revenue for early care and education at the state level, e.g., Arizona, California, and Georgia, and locally, e.g., Philadelphia.
- Florida has long had children's taxing districts, a form of **special district governments**. Interest is now increasing in this approach, which state governments authorize and local governments implement.