

# The Gross Receipts Tax Undermines Quality Child Care



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## Introduction:

Some states levy a sales tax on goods and services. In New Mexico, there is no sales tax but there is a gross receipts tax. For child care providers, that means all receipts from child care – whether that reflects the weekly payments parents make for care or provider payment rates made by the Children, Youth and Families Department (CYFD) for the care of low income children, are subject to the gross receipts tax.

The policy assumption by the New Mexico Taxation and Revenue Department is that child care providers can pass on the cost of the tax to parents. However, the reality is that parents are already struggling with the cost of child care. Another 7 percent added to the weekly cost of care only serves as an additional barrier for parents in accessing quality child care.

With regard to state payments for low income children, the rates paid by CYFD are already below market costs and therefore the gross receipts tax only serves to further exacerbate the difference between the market rate and the rate the state pays for low income children.



## Child Care Affordability

National polling shows that the top two concerns about child care for parents are

quality and cost. In New Mexico, parents want quality care for their children but the cost of child care is high.

- The average annual cost of center-based care for an infant is \$7,802.
- The average annual cost of center-based care for a preschool-age child is \$6,988.
- The average annual cost of family child care home-based care for an infant is \$6,241.
- The average annual cost of family child care home-based care for a preschool-age child is \$5,863.

The reality is that the average annual cost of center-based child care in New Mexico exceeds the annual cost of college at our state's four year public universities.

### Low Wage Working Families Struggle with the Cost of Child Care

- **For families at 150% of poverty**, the average annual cost of center-based infant care is 37% of income; the average annual cost for a preschool-age child is 23% of income.
- **For families at 200% of poverty**, the average annual cost of center-based infant care is 18.6% of income; the average annual cost for a preschool-age child is 16.7% of income.
- **For single parents**, the challenge of affording child care is that much greater with the average cost of care exceeding a third of their income.

## Quality Child Care

There has been much discussion in New Mexico about the need for quality child care to ensure that children are both safe and in a setting to promote their healthy development. The reality is that quality programs are possible when programs have sufficient resources to attract and retain talented staff, invest in staff training and education, as well as invest in classroom resources. Too often, the cost of operating a quality program exceeds the rates that parents can afford to pay (as well as the rates that the state may pay for low income children).

Removing child care payments from the gross receipts tax will provide a minimal boost to the ability of programs to offer a quality setting. The current system only undercuts the ability of program directors to offer quality care because, quite simply, parents cannot pay more. The cost of care is already high and many families struggle with the cost (particularly families with more than one young child or those families earning low wages).



In the case of CYFD child care rate payments on behalf of low income children, the gross receipts tax (combined with a child care director's inability to pass the cost onto families) may lead to more families in unlicensed care, the quality of which is unknown. Alternatively, since the gross receipts tax acts to reduce CYFD payments (when the cost cannot be passed onto parents), the tax reduces program resources which leads to lower quality care.



## Policy Recommendation

Child care payments should be exempt from the gross receipts tax to promote family access to higher quality care.

Alternatively, programs with a star rating of 3 or higher should be exempt from the gross receipts tax.

Program resources are directly related to the quality of child care programs. It's time to ensure that child care programs have the resources they need to promote healthy child development and school readiness.

### Sources:

The Economy's Impact on Parents' Choices and Perceptions about Child Care (2010). Child Care Aware of America.

<http://www.naccrra.org/public-policy/resources/policy-library-recent-reports/economys-impact-on-parents-choices>

Parents and the High Cost of Child Care (2016). Child Care Aware of America. <http://www.usa.childcareaware.org/advocacy-public-policy/resources/reports-and-research/costofcare/>