

HOUSE BILL REPORT

ESSB 6038

As Reported by House Committee On:
Human Services, Youth, & Early Learning

Title: An act relating to reducing the costs associated with providing child care.

Brief Description: Reducing the costs associated with providing child care.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Wilson, C., Lovelett, Keiser, Kuderer, Lias, Nguyen, Nobles, Randall, Salomon, Valdez and Wellman).

Brief History:

Committee Activity:

Human Services, Youth, & Early Learning: 2/20/24, 2/21/24 [DP].

Brief Summary of Engrossed Substitute Bill

- Temporarily expands the business and occupation tax exemption that currently applies to child care services for children under the age of 8 to instead apply to care of children under the age of 13 or under the age of 19 with a verified special need or who are under court supervision.
- Prohibits the Department of Children, Youth, and Families from charging fees for child care licenses.

HOUSE COMMITTEE ON HUMAN SERVICES, YOUTH, & EARLY LEARNING

Majority Report: Do pass. Signed by 9 members: Representatives Senn, Chair; Cortes, Vice Chair; Rule, Vice Chair; Eslick, Ranking Minority Member; Couture, Assistant Ranking Minority Member; Callan, Goodman, Ortiz-Self and Taylor.

Minority Report: Without recommendation. Signed by 2 members: Representatives Dent and Walsh.

Staff: Omeara Harrington (786-7136).

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Background:

Business and Occupation Tax.

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state without any deduction for the costs of doing business. Businesses must pay the B&O tax even though they may not have any profits or may be operating at a loss.

A taxpayer may have more than one B&O tax rate, depending on the types of activities conducted. Major B&O tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent (businesses with taxable income of less than \$1 million) or 1.75 percent (businesses with taxable income of \$1 million or more) for services and for activities not classified elsewhere. Several preferential rates also apply to specific business activities.

In addition, a taxpayer may be eligible to utilize other tax preferences, including credits and deductions, to reduce their tax liability.

Tax Rates Applicable to Child Care Services.

In general, businesses providing child care for periods of less than 24 hours are subject to a preferential tax rate of 0.484 percent of gross receipts. However, income received by nursery schools, preschools, child care providers, and privately operated kindergartens for the care or education of children who are under 8 years of age and not enrolled in or above the first grade is exempt from the B&O tax.

Tax Preference Performance Statement.

State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Child Care Licensing Fees.

Generally, any person or entity that provides child care or early learning services outside of a child's own home must obtain a license from the Department of Children, Youth, and Families (DCYF). The DCYF is required to charge fees for obtaining a child care license. The fee may be waived when, in the discretion of the DCYF, the fee would not be in the best interest of public health and safety, or would be to the financial disadvantage of the state.

The DCYF rules establish an annual fee of \$125 for child care centers for the first 12

children, plus \$12 for each additional child. For family home providers, the established annual fee is \$30. The DCYF was prohibited from imposing child care licensing fees from July 25, 2021, to June 30, 2023.

Summary of Bill:

From October 1, 2024, until January 1, 2035, the current B&O tax exemption for child care services is extended to apply to amounts received for the care and supervision for periods of less than 24 hours of children who are under the age of 13, or who are under the age of 19 and have a verified special need or are under court supervision.

A tax preference performance statement is required, with the stated public policy objective of reducing the costs associated with providing child care by expanding the B&O tax exemption for child care services to include income derived from the child care and education of children up to age 12.

Additionally, the DCYF is prohibited from charging fees to obtain a child care license.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains multiple effective dates. Please see the bill.

Staff Summary of Public Testimony:

(In support) The rising cost of child care is a significant concern. There is a gap between supply and demand that increases the already high price for child care. This bill will encourage the opening of more child care businesses, which in turn will increase supply and lower the cost. The cost of child care is higher than college tuition, and student parents are struggling to keep up with expenses and also pay for child care. Every little bit of help in this area is a lifeline. This bill brings providers closer to breaking even. Providers are operating at a loss and are having to spend reserves to keep programs afloat. The pandemic was a tipping point for many providers, and 25 percent of providers on the Olympic Peninsula closed during that time. For the vitality of the economy, it is important to remove barriers that currently exist for working parents trying to access care and providers trying to operate businesses.

(Opposed) None.

Persons Testifying: Tathagata Pal, Graduate and Professional Student Association,

Washington State University; Alan Leshner, Inland Northwest YMCA; Wendy Bart, Olympic Peninsula YMCA; and Mirian Mencias, Associate Students University of Washington—Seattle.

Persons Signed In To Testify But Not Testifying: None.