

# Refundable Income Tax Credits

## Early Childhood Education Provider Reflections

A Report for the New Mexico Association for the Education of Young Children

Prepared by: Tamara Grybko

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### Background

In 2018, The New Mexico Association for the Education of Young Children (NMAEYC) began work to investigate how a refundable income tax credit (RTC) might be of benefit to Early Childhood Education (ECE) workers in New Mexico. This work was supported with funding from the Brindle Foundation.<sup>1,2</sup> One feature that distinguishes an RTC from a tax deduction is that these credits are fully refundable. That is, even if the amount of the credit is greater than the amount of taxes owed, individuals still receive refunds. The intention of the RTC would be to increase wages for New Mexico's ECE workforce while encouraging its members to pursue higher education. "A meaningful ongoing wage supplement through a refundable tax credit can incentivize professional development/higher education.... which will encourage higher levels of education and increase wages for this ECE workforce."<sup>3</sup>

### Methods

To learn more about how an RTC tied to educational attainment might impact New Mexico's ECE workers, a series of learning conversations and focus groups were held between November 2019 and January 2020. A variety of ECE professionals from across New Mexico shared their reflections, ideas, and questions. The largest group had 25 participants, and was held in conjunction with NMAEYC's annual Public Policy Institute in January 2020. The large size of this group necessitated a more structured approach to help ensure everyone had opportunity to contribute. Participants engaged in small-group discussions in response to questions, then synthesized those responses in whole-group share outs. The compiled responses to these questions are included in Appendix D. The session outline is included in Appendix A. The other groups were much smaller, with one or two participants each. This allowed for interview-style inquiries, rather than needing to use the larger focus group structure. What follows is a collection of the learnings from these conversations.

### Do New Mexico ECE professionals support a refundable tax credit?

The short answer is - yes, but it's complicated. In the large focus group, participants were asked to rank the importance of pursuing an RTC in New Mexico. Of the 19 who voted, all rated it as either *somewhat important* (5) or *very important* (14). While support for a refundable income tax credit was overall positive, focus group participants also painted a nuanced picture of a network of interrelated issues that influence the resilience of New Mexico's ECE workforce. As one participant said, "This is a

bigger ball of wax than just the refundable income tax credits.” And the large focus group agreed one point to share is, “This conversation opened up a lot of important questions”.

## Nuance and Complexity

Important topics that emerged in these conversations and focus groups included: the necessity of wage increases for all ECE workers; the complex structure of ECE in New Mexico; the barriers to accessing education; and the need to demonstrate the value of and amplify respect for ECE professionals and their work.

## Increase Wages

An understanding that pervaded all conversations is that early childhood workers in New Mexico are low-paid, and that raising wages for the profession overall is essential. The average wage for childcare workers is \$9.66 an hour, wages for certified teachers and center directors are somewhat higher.<sup>4</sup> ECE teachers with bachelor’s degrees are paid 50.6% less than those working in public elementary education, and 27.4% of New Mexico ECE workers live at or below the poverty rate.<sup>5</sup> Any program that seeks to increase earnings for members of this profession would be a much-needed boost.

“Early Childhood professionals don’t make much money, as we all know. So, they’re conflicted, ‘Do I invest all this time and money into getting a degree that is not going to have a lot of financial turnaround?’”

Focus group participants asked many questions about who would be eligible for an RTC or wage increase. One value that emerged from this was an interest in making sure any increase in wage benefit the entire ECE workforce in New Mexico, not just those working in licensed centers. Particular settings mentioned included afterschool programs, museums, Tribal programs, home-providers, and migrant communities.

“There needs to be more funding for scholarships in addition to doing this other incentive. It needs to be both for it to be done well.”

That an RTC be a robust income increase for ECE workers was also important. Some participants asked questions about whether an RTC would jeopardize eligibility for programs such as TANF and Medicaid, and what the trade-offs of that might be. Additionally, the RTC would need to be robust enough to quickly recover the costs of making an investment in education. Finally, participants expressed that the RTC would need to be an addition to, rather than a replacement for, the scholarship and wage supplement programs administered by the Children, Youth & Families Department.

## Complex Structure

The largest systemic issue that emerged in the focus groups was the complexity of the ECE landscape in New Mexico. It includes a range of providers and service models, from home-visiting, to programs in schools, to large non-profits, to businesses, to home-based and community centers, and more. An added layer to this is the compliance and reporting requirements associated with participation in the FOCUS, child care subsidy and other state and national initiatives like Head Start and NM Pre-K. This means that while providers appreciate the intentions of the elements, there is also a diversity of operational and administrative models among New Mexico's ECE providers.<sup>4</sup> One possible sticking point for an RTC in light of this reality is an observation that currently, smaller centers with limited budgets frequently lose valued workers to public schools and larger agencies, entities that can provide robust benefits packages in addition to better salaries, once those workers complete their education and receive degrees. An RTC would not address total compensation, thus might not change this dynamic or have lasting impacts for all service providers

“For whatever reason, I turnout teachers. There are some people who have assistants forever. But I turnout girls every two years. So, I see their situation as well. They come in, they're able to get that scholarship, they're going to school, they're working fulltime....If they get a bachelor's degree, they leave. And I want that for them.”

“The compensation, and benefits. Even though we're able to compensate a little better, we don't have benefits. And if they're a single parent, once they get compensated a little bit better, then they don't qualify for Medicaid and all those things and then it becomes more difficult. I have people working now with bare minimum insurance.”

## Access to Education

Focus group participants overall expressed support for providing access to education and a deep appreciation for the multifaceted value of education, from enriching practice to forming sustaining relationships. This included learning in both formal and informal settings.

“Having that community of early childhood professionals that when you are feeling burnout, or you are feeling at a loss, that's where you can get your support from...It's a bigger community that thinks deeper into behaviors, or deeper into education, deeper into theory.”

“You're getting your degree as you're working in the field. And it's one of those things that you just start understanding. Things I started understanding *why* I needed to do it this way and what this theorist was saying.”

An RTC tied to educational attainment, if it is to be equitable, requires that education be accessible to all. Barriers to accessing higher education in New Mexico featured prominently in discussions. Participants identified a number of ways in which pursuing higher education would be difficult for members of the ECE workforce. These fell broadly into four categories:

- **Financial:** as outlined above, ECE workforce wages in New Mexico are very low. Participants expressed a concern that many would not be able to afford the investments in tuition and related expenses required to complete degrees.

“If you have a family or you’re in school yourself, and you’re trying to pay tuition but also pay your bills, it’s not going to happen. You either quit your job and you have no income, or you quit going to school. Quitting school is the most realistic one for many students.”

“People are poor. They don’t have money. When I want somebody to take a class, I pay for that. . . . If I told them to go to take that class and they had to make a certain grade and I would reimburse them, they would not do it because they wouldn’t have the money to put up-front.”

- **Time-Related:** many ECE workers have complex lives that include not only full-time work, but also caring for children and other family members, running households, and more. One idea that emerged was to find ways for employers to support professional development and education time for their workers, with the acknowledgement that would not be without complications.

“Having that respect for teachers who want to seek out further education. That directors have the ability to give their teachers extra time off so they can work on assignments.”

“I have one (employee) now who’s getting her master’s and she’s at work all day and then goes home and does her work all night. And there’s no time for personal time, family time. That doesn’t encourage people to want to seek professional development, especially if they have kids.”

“Looking at the typical worker. They have families. They’re working fulltime. They’re going to school. That’s a lot for one person, and oftentimes, they’re single parents. We get a lot of single moms in this field.”

- **Geographic:** many communities, particularly those in rural areas of the state, are not within reasonable driving-distance of university or branch campus locations.

“In rural New Mexico, there’s a lot of barriers to education in general. I mean, we have the branch, and that was a big discussion two years ago about getting rid of these branches. We want to hang onto our branch.”

- **Digital:** participants shared that in many New Mexico communities, the combination of lack of access to reliable internet and inability to afford equipment means many in the ECE workforce would be unable to use online learning opportunities without significant support.

“We can’t do an online class, because a lot of people don’t have computers. So, we did a hybrid class. A little bit of it was face-to-face and a little bit was online. But it’s difficult when people are trying to do their lessons on their phone.”

“On the Navajo Reservation, internet access is limited. And that’s a thing for them. Because everything we do is Zoom now. So, they have to go into Farmington and make arrangements to get service when we have these meetings.”

One participant also raised the question of potential increased participation in higher education ECE courses as a result of this initiative, and that would create a need for colleges and universities to ramp-up their current efforts – that include a range of distance and hybrid learning models - to meet demands in new and meaningful ways. “The universities (would) need to be prepared, because they’re going to have a big influx of students. And a lot of those students may not be from an area where they can drive to those universities every day or a couple times a week. So, universities need to be prepared with teaching material where we can teach from distance.” And, “We want to have that community, that face-to-face connection, and how can we make that work for someone who’s living somewhere really far away?”

Finally, multiple participants asked what types of education and credentials would qualify ECE workers for RTCs. Specific questions included:

- Would degrees need to be in specific content areas to be eligible?
- What other types of credentials, such as professional certificates, might also be included?
- Would experience, in addition to education, be valued and rewarded in this system?

## Dedication, Professionalism, and Respect

Throughout discussions, participants expressed an awareness of how what they do has a positive impact on the lives of the children and families they work with in their communities. Whether it was sharing ways they find to support employees by paying out-of-pocket for professional development, working hard to support children from families in crisis, or hoping to build cooperation with local businesses and schools, the dedication of participants to their work in the interest of influencing children's lives is clear. Areas that emerged as being important to fostering a vibrant ECE workforce in New Mexico, in addition to compensation, included: improving retention of ECE workers, and fostering understanding of the worth of ECE as a profession.

One hoped-for outcome of the increased earnings associated with RTCs is increased employee retention. While income is an important factor in decision-making about where to work, it is only one. Focus group participants shared a sense of "we're all in this together" as something they value about their work. This is reinforced by research that shows a factor in high-quality ECE in New Mexico is employee longevity, and that one of many contributors that encourages retention is to create a feeling of "being a family".<sup>7</sup>

Participants also shared an awareness that ECE is not necessarily universally received or understood as a meaningful profession. The practitioners in the focus groups overwhelmingly saw value and professionalism in the work they do, and very much want this understanding to be widely shared. An important message that the large focus group agreed upon to share is that an RTC would demonstrate an acknowledgement that ECE work is valuable. A

possible benefit of an RTC or overall wage parity is that it would draw more students into the profession. "It encourages students to seek out what they're actually passionate for because there will be that financial benefit."

"You have people leaving all the time because they're not compensated well, and pretty much not even valued."

"Bringing professionalism to early childhood. That's another thing we've talked about for years."

"It's getting better. But people will walk in all the time and say, 'I need a babysitter'".

## RTC Update: The 2020 New Mexico Legislative Session

On January 24, 2020, HB 200, which proposed in part the creation of a refundable income tax credit for early childhood workers, tied to educational attainment and with increasing credit amounts for workers who hold professional certificates, associate's, and bachelor's degrees. The Consumer & Public Affairs Committee recommended the bill to pass for further review, but it died in the Taxation & Revenue Committee.<sup>8</sup>

## Conclusion

Focus group participants, who represented a range of ECE environments and roles in New Mexico, were on the whole supportive of this workforce having access to an RTC. They also expressed perspectives that RTCs would need to be robust, inclusive, and additions to other incentive programs.

Participants raised questions about how conditions and systemic issues specific to New Mexico might be barriers to participation in an RTC tied to credential attainment, and what its ultimate impact on the profession might be.

Finally, these focus groups were held in late 2019 and early 2020. Since then the covid-19 pandemic has radically altered all aspects of daily life. The immediate effects of this on Early Childhood Education in New Mexico are multiple. Many centers are closed during the stay-at-home period. Some ECE professionals are continuing to provide services to families through distance and online learning, while others have been laid off or furloughed. A number of centers have remained open but with severely restricted service for the children of essential-service providers, and programs in schools will reopen as schools resume in-person attendance. The state of New Mexico is offering temporary incentive pay to ECE workers who continue to serve in centers during the crisis. Staff are grappling with how to re-open safely once centers are allowed to broadly resume business. The mid- and long-term effects of the economic fallout from a months-long shutdown of public life to stem the spread of a novel virus, including compensation parity and increased credentialing for ECE workers, are yet to be fully understood.

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## Appendices

### Appendix A: NMAEYC Focus Groups Format and Session Outline

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Prepared by: Tamara Grybko

#### People & Roles:

- Facilitator – guide the session, keep the conversation moving, encourage participation, redirect and modify questions as needed (e.g. topics arise or need further examination, conversation moves off topic)
- Note taker – take summary notes during the session that capture the main and important points, questions, concerns, etc. that are voiced
- Translator (if needed) – provide real-time translation service during the session
- Connector – recruit participants and find the space

#### Materials & Supplies:

- Sign-in sheet: name, location, role, email and/or phone
- Name tags
- Laptop (for notetaking)
- Easel paper
- Post-its
- Note pads
- Markers
- Pens
- Recording equipment (most likely a cell phone)
- Handouts (Refundable Tax Credits Overview, discussion questions)
- Bell
- Snacks and beverages
- Gift cards for participants and connector

#### Room set-up:

- Ideally, small tables for small group conversations that can be moved aside easily for full group, circle conversations

#### Welcome and Introduction (15 minutes)

Set up: Circle conversation

- **Overview & Purpose**
  - Welcome and thank you for taking time to meet with us today
  - Facilitator introduces herself, then invites note taker and translator to do the same
  - Focus group purpose: *“We are here today on behalf of NMAEYC, which is learning about refundable tax credits and how they might or might not help create a stronger early childhood workforce in New Mexico. This is an early conversation, and your input today will be used to help NMAEYC leadership decide how to move forward in its policy and advocacy efforts.”*

- **Introductions**
  - Go around the circle, ask everyone to briefly introduce themselves and share what they enjoy most about their work
- **Agree on ground rules/norms for the conversation (Write on easel paper)**
  - Everyone’s voice matters. Listen and speak to ensure everyone has the opportunity to contribute
  - There are no right or wrong answers, I want everyone to feel comfortable even voicing controversial or unconventional opinions. “Challenge ideas, not people”
  - Personal needs: a break will be provided about halfway through the session. Help yourself to snacks & drinks as you need them. If you need to use the restroom, it’s located ----
  - **Discuss confidentiality and informed consent.** In reality, I cannot guarantee full confidentiality. I can guarantee that I will hold confidentiality, and ask that all participants do the same. *“If you need to share something that you learn or hear today, it is important to do so without attribution, or naming the person who made the comment or observation.”*
  - Review ground rules/norms and ask for input, amendments, additions

### Refundable Income Tax Credits Topic Overview (45 – 60 mins)

Set Up: small tables, groups of 2-3 people.

Materials: one-page overview of Refundable Tax Credits, easel paper, note pads, markers, pens, post-its

Framing: Ask people to count off by number of groups for the session, then direct them to tables (1, 2, 3, etc.). Pass out copies of the one-page overviews, enough that everyone has their own copy.

- **Instructions:** Take a few minutes to read the overview of Refundable Tax Credits. Everyone should have a copy. Does anyone need a copy? Once you’ve had time to read, you’ll answer some questions about this in your table groups. Each table will share out to the whole group at the end.
  - Facilitator monitors the reading, checking in to see who needs more time and who’s ready. When the group is ready to move on, introduce the discussion questions
  - Facilitator: *Great. Now, we’re going to move on to discussion of the overview of Refundable tax credits. In your table groups, please discuss the following questions – you each have personal copies of the questions. They’re also written on this easel paper. As you discuss at your tables, please make sure to hear from everyone for each question. I’ll ring this bell (demonstrate) as it’s time to move from one question to the next, and then as it’s time to wrap up the conversation.*
  - Questions:
    - What is your understanding now of what Refundable Tax Credits are and how they work?
    - What questions do you still have about Refundable Tax Credits?
    - What might the impact of a Refundable Tax Credit in NM be for you? For the people you work with?
    - Which points of this conversation are important to share with the whole group?
  - Share out
    - Going question-by-question, each table group shares out the main points of their conversations. The facilitator captures and codes these in real-time in easel paper, and summarizes at the end.

- Gallery Walk
  - Participants, in small groups, take time reviewing the captured responses on the easel paper, and adding additional comments, ideas, and reflections to them – using post-it notes and markers

**Break (10 – 15 minutes)**

**Group Discussion (25 minutes)**

Set Up: Chair Circle

*Now we're going to explore your own perspectives and experiences a little bit. I'll be asking some questions, and will focus on keeping the conversation flowing.*

- Compensation and training realities, strengths, and challenges (open conversation)
- Would a refundable income tax credit, tied to education, help?
  - If so, how?
  - If not, why?
- Imagine a strong, successful ECE workforce in NM –
  - What does that look like to you?
  - What else would help?
- Persisting questions about Tax Credits? Other topics? (We can't answer them all here. But we CAN document and share)

**Closing (10 minutes)**

Set Up: Chair Circle

- Thank everyone for their participation, for sharing their ideas and thoughts
- Reminder about confidentiality and non-attribution
- Share next steps (How NMAEYC will use this info, where to look for follow-up/ how NMAEYC will share findings with participants)

## Appendix B: Refundable Income Tax Credits Overview

The New Mexico Association for the Education of Young Children (NMAEYC) is investigating whether refundable income tax credits would be of use to the Early Childhood Education workforce in New Mexico. This learning will help inform NMAEYC's policy work in the coming years.

What are Refundable Income Tax Credits?

- They are credits that are applied to annual income taxes. In this case, they would be used to supplement income for individuals working in Early Childhood Education, a field with high-need and – benefit to families, but also generally low salaries
- Unlike deductions, these tax credits are fully refundable. For example, someone who owes \$500 in taxes and is eligible for a \$1000 tax *deduction* would have a \$0 tax bill. Someone who owes \$500 in taxes and is eligible for a \$1000 tax *credit* would receive a \$500 refund.

The refundable income tax credit model NMAEYC has been considering would be designed to:

1. Increase salaries for employees working in Early Childhood Education
2. Be a tiered system, tied to educational achievement. So, the more education someone working in Early Childhood Education has completed (to a point), the greater their tax credit would be
3. Provide at least a 10% increase in income
4. Apply to New Mexico State income taxes
5. The intentions of this model are to:
  - a. Increase salaries for Early Childhood Education professionals
  - b. Make it possible for more people working in Early Childhood Education to pursue higher education
  - c. Improve Early Childhood Education experiences for more New Mexico children
  - d. Decrease burnout and position turnover in Early Childhood Education

## **Appendix C: Refundable Income Tax Credit Reflection Questions**

1. What is your understanding now of what Refundable Income Tax Credits are and how they work?
2. What questions do you still have about Refundable Income Tax Credits?
3. What might the impact of a Refundable Tax Credit in NM be for you?
4. What might the impact of a Refundable Income Tax Credit be for the people you work with?
5. Which points of this conversation are most important to share?

## Appendix D: Compiled Large Focus Group Responses to Reflection Questions

1. What is your understanding now of what Refundable Income Tax Credits are and how they work?
  - How long does this last? Is it a long-term solution?
  - It's a deduction that will help with minimizing taxes or giving larger refunds.
  - Allows families to use money for paying bills and for everyday expenses.
  - It's different from a deduction because the credit is refundable, but both apply to tax liability.
  - Get money back.
  - Early Childhood Credentials lead to the tax credit eligibility.
  
2. What questions do you still have about refundable income tax credits?
  - Is there a pro-rated amount if you receive a degree mid-year?
  - How long does this last? Is it a long-term solution?
  - What happens when you retire?
  - What defines an ECE credential?
  - How would people's involvement be verified and who would be eligible?
  - What degrees would be eligible?
  - If an educator does not have formal education how would we validate that?
  - Does the tax credit only for the employee or also the center?
  - Is the tax credit pro-rated when they attain a degree within a tax year?
  - Are ECE's at all centers eligible?
  - What if you come in as a teacher mid-year?
  - Will it include years of experience for teachers that don't have formal education?
  - Could it be connected to teacher retention in a particular center?
  
3. What might be the impact of a refundable tax credit for you and the people you work with?
  - Effectively raise the wages of educators we work with.
  - Formal education vs. informal education workers, who would be eligible?
  - What about out-of-school-time workers that work in after school programs, at risk youth, museums, in home care, early interventions etc., are they included?
  - Could be an incentive to further education.
  - Could lead to higher quality of teachers with more education.
  - Increasing the workforce.
  - Will increase income and possibly effect eligibility for support programs.
  - Could improve teacher retention.
  - What is the definition of professionalism?
  - What are loopholes in the program design?
  - Earning degrees and incentives then moving on to a higher paying job?
  - Does this apply to centers that provide for migrant workers?
  - Does this reflect if you are not a state taxpayer? Meaning working on a reservation you don't have to pay NM taxes.
  
4. Which points of this conversation are important most important to share?
  - This conversation opened up a lot of questions that are important.
  - Inclusivity is important and critical.

- The ambiguity of the credential.
- Increasing the field with the tax credit, how will the state support those attaining higher question?
- Overall benefit to educators.
- Your work is valuable and acknowledged.
- Improve quality of life.
- How will verification and criteria be put in place and monitored?
- How will funding for higher education be supported?