

## Office of Parish Finance Parish Bulletin

### TOPIC

#### Colorado's Income Tax Credit For A Qualifying Contribution to Promote Child Care:

#### Guidance for Parishes, Diocesan Schools and Other Catholic Ministries with Qualifying Child Care Services

### INTRODUCTION

One way the state of Colorado supports child care is through an income tax credit available for qualifying contributions made by taxpayers to qualifying child care locations.<sup>1</sup>

As a general matter –

- any taxpayer that makes a qualifying monetary contribution to promote child care in Colorado may claim an income tax credit of fifty percent (50%) of the total value of the qualifying contribution; and,
- the amount of credit generated for contributions made during any one tax year may not exceed \$100,000 per taxpayer.<sup>2</sup>

This is of course good news for locations offering qualifying child care services, as it provides further motivation for potential donors to give to child care facilities/programming in the state.

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<sup>1</sup> Introduced several decades ago, and periodically extended by the state legislature, the credit is currently available for tax years commencing *prior* to January 1, 2025.

<sup>2</sup> Bulletin content *is not* intended to provide tax guidance to potential donors seeking a child care contribution tax credit. Nor are parishes, diocesan schools, or other locations with child care facilities/programming authorized to provide tax guidance. Rather, potential donors are best served by working directly with their tax advisors for such guidance.

To assist with processing a contribution/accessing the credit, Colorado's Department of Revenue has published a helpful "FYI"<sup>3</sup> for use by both taxpayers and child care facilities. Entitled *FYI Income #35: Child Care Contribution Credit*, the FYI is currently located at the following state webpage link: <https://tax.colorado.gov/sites/tax/files/Income%2035.pdf><sup>4</sup>

Parishes, diocesan schools and other separately incorporated ministry locations interested in whether this Colorado income tax credit program applies to their programming are encouraged to pull *FYI Income #35* and review its content.

**This Bulletin is intended to supplement the *FYI Income #35* document by highlighting key aspects of Colorado's child care contribution tax credit.**

## DISCUSSION

### *Who is this Parish Bulletin intended to assist and on what topics?*

Bulletin content is intended for business managers, priests, finance councils, school principals and administrative staff to assist each as they assess the following topics:

- What is a "qualifying contribution?"
- Does your location generally qualify as a child care facility for purposes of the credit?
  - If the answer is "no" to the previous question, what next?
  - If the answer is "yes" to the previous question, proceed to the following:
    - What is an eligible child care purpose?
    - What is the process of certifying the contribution for a donor?

Bulletin content is not intended to provide tax guidance to potential donors seeking a child care contribution tax credit. Nor are parishes, diocesan schools, or other locations with child care facilities authorized to provide tax guidance. Rather, donors are asked to work directly with their tax advisors for such guidance.

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<sup>3</sup> Note: Colorado Department of Revenue FYIs are generally non-binding overviews that provide good guidance, but by their nature cannot address all aspects of any given topic. If a location has a specific question regarding a fact pattern that it believes merits further examination not (clearly) addressed in the *FYI Income #35*, in this Bulletin, or in any other source cited by the state, contact Parish Finance for assistance before proceeding with a donation, certificate of donation, etc.

<sup>4</sup> Webpage links regularly fail; if any embedded link in this Bulletin ceases to work, please alert Parish Finance and Bulletin content will be updated accordingly.

### *What is a ‘qualifying contribution’?*

What is a ‘qualifying contribution’? This key question is addressed in *FYI Income #35* but merits coverage here, too:

- A contribution MUST be monetary . . . meaning, contributions of services or property, including shares of stock, DO NOT qualify for the credit.
- A contribution MUST be directly related to promoting child care *in* Colorado.
- A contribution MUST be made for an ‘eligible child care purpose’ (see p. 4 of this Bulletin).
- A contribution MUST be made to one of the following:
  - to a licensed child care facility
  - to an approved facility school
  - to a registered or grandfathered child care program
- NO credit is allowed under certain circumstances, the most notable of restrictions in our Catholic nonprofit, 501(c)(3) context being as follows:
  - No credit is allowed if a contribution is made to a child care facility in which the taxpayer, or a person related to the taxpayer, has a financial interest (“related” means by blood, marriage, or by control in the case of a corporate/partnership donor).
  - No credit is allowed if the donor receives “consideration” from the facility in exchange for the contribution, meaning, for example, child care fees/tuition cannot be treated as a donation. HOWEVER, per the regulations, a company may contribute to a child care facility and claim a tax credit based on that contribution even if the employees of that donor company receive a benefit in the form of discounted child care.

### *Does your location generally qualify as a child care facility for purposes of the credit?*

Check your location’s licensing / registration status by reviewing your location’s internal records AND by checking state records found at the following link: <https://cdhs.colorado.gov/our-services/child-and-family-services/child-care> (see far right link options currently located mid-way down the state’s webpage).

Additionally, please also review the list at the following link to determine if your location should be removed from/added to the state’s “unlicensed” list currently found at the following state web link: [https://tax.colorado.gov/sites/tax/files/Unlicensed\\_Child\\_Care\\_Facilities\\_or\\_Programs\\_01-2020.pdf](https://tax.colorado.gov/sites/tax/files/Unlicensed_Child_Care_Facilities_or_Programs_01-2020.pdf)

If your location is NOT licensed / registered, and your location perceives it could and should be, that needs to be addressed directly with the state through an appropriate filing. The child care licensing/registration process with the state is beyond the scope of this Bulletin, but please contact Parish Finance for further discussion of your location's vision and resources.

### *What is an 'eligible child care purpose'?*

At this point, you have confirmed your location is eligible to accept donations that permit application of Colorado's child care contribution tax credit. What next? You must determine what a donation must be used for in order for all or any portion of the donation to qualify for the credit.

Contributions **MUST** be made for an 'eligible child care purpose' to qualify for the credit. Again, select content of the *FYI Income* #35 merits repeating here.

**First**, contributions **MUST** be directly related to promoting child care in Colorado.

**Second**, post-2004, and absent grandfathered programming, the credit is only allowed for contributions made to promote child care for children aged 12 or younger.<sup>5</sup>

**Thereafter**, contributions for eligible child care purposes generally consist of:

- donating money for the establishment or operation of:
  - a licensed child care facility that uses the donation to provide child care
  - an approved facility school that uses the donation to provide child care
  - a childcare program that is not a childcare facility but provides childcare services like those provided by a childcare center.
- donating money to establish a registered grant or loan program for parents requiring financial assistance for childcare.
- donating money to a registered program for the training of child care providers
- donating money for the establishment of an information dissemination program that assists parents with information and referral services for child care.

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<sup>5</sup> As it is not anticipated that it applies, this Bulletin does not discuss "grandfathered" locations with programming that continues to qualify for credit eligible donations despite a change in the law in 2004. Such grandfathered programming provides for the care of minors up to the age of 18.

*Note: The state's language when providing instructions on this topic shifts between "eligible child care purposes" and "qualifying" donation versus "nonqualifying" donation.*

Donor intent must be followed as is prudent and permissible, but there may be times when a donation is to be allocated between a "qualifying" donation and a "nonqualifying" donation. Pulling directly from the regulations and *FYI Income #35*, examples of contributions requiring an allocation include:

- contributions made to a licensed child care center that provides care for children both aged 12 and under (a qualified donation eligible for the credit), and aged 13 and over (a nonqualified donation not eligible for the credit);
- contributions made to a church that uses part of the donation to fund its child care center (a qualified donation eligible for the credit) and part to fund other charitable functions (a nonqualified donation not eligible for the credit);
- contributions to a community center construction project that includes both a child care center (a qualified donation eligible for the credit) as well as other facilities (a nonqualified donation not eligible for the credit).

***How is a child care facility to document the donation for the donor, and otherwise address "qualified" and "nonqualified"?***

A location accepting donated money under Colorado's child care contribution tax credit program MUST provide a signed statement to the donor that thoroughly identifies the child care facility, the donor, the donation amount, and what portion qualifies for the credit versus what portion does not qualify for the credit (if allocation must occur), ALL as reflected on Colorado's tax form DR 1317, entitled "Child Care Contribution Tax Credit Certification" and found at: [https://tax.colorado.gov/sites/tax/files/DR1317\\_2013.pdf](https://tax.colorado.gov/sites/tax/files/DR1317_2013.pdf)

As discussed in the previous section, note that the DR 1317 form allows for an allocation between "qualified" and "nonqualified" donation amounts.

Additional comments:

- The statement must include a description of the eligible purpose(s) for which the contribution will be used, and that . . .
  - the contribution will be utilized 100% for purposes directly related to promoting child care.

OR, if 100% is not going to be used for such purpose, then

- the statement must clearly state the portion of the contribution that *qualifies* for the credit computation.
- It is the responsibility of the child care facility/program to prove that the percentage of the contribution reported as utilized for purposes directly related to promoting child care is accurate and no portion has been expended on any other expense or purpose.
  - Example: A contribution of \$1,000 is made to a qualifying childcare facility. Seventy percent (70%) of the contribution is expended on qualifying purposes and the other thirty percent (30%) is expended on unrelated overhead expenses of the organization. The statement must clearly state that only \$700 of the contribution is eligible for calculating the credit.
- If a child care facility operates several different programs, not all of which qualify for the credit, then expenses must be accounted for specific to various programs and contributions have to be directly allocated to the qualified programs. This includes construction costs. Percentage of use or area method are acceptable ways to calculate the ratio.
- Donors typically prefer to maximize the deductibility/credit allowance of their donation. Parishes, diocesan schools and other ministry locations with qualifying programming should be prepared to work with a donor if an allocation may be deemed a preferred route.
- When filling out the DR 1317 form, follow the simple instructions located at the bottom of the form, including the instruction NOT to fill in the donor's social security number. That latter task must be left to the donor.

### FINAL STEP

Once your location has established it is eligible to participate in Colorado's child care contribution tax credit, alert potential donors! The Office of Parish Finance is ready to assist your team with communications out to the public.

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Thank you. If Parish, Diocesan School or other ministry personnel have any questions or require further clarification, please reach out to the Archdiocese of Denver's Office of Parish Finance at [aodparishfinance@archden.org](mailto:aodparishfinance@archden.org).

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