



The First Five Things To Know About: The Federal Tax Code and Child Care

Millions of American families are struggling to find the affordable, reliable, quality child care they depend on to go to work. This has a devastating impact on our youngest learners, working parents, and the health of local economies.

It's a complicated issue, but there are actions we can take today that would make an impact, including updating provisions of the United States tax code. This would help strengthen America's child care system, benefiting working parents and young children while supporting economic stability across the country.

Here are the First Five Things to Know about the role the federal tax code could play in strengthening America's child care system.

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Child care is a major expense for working families with small children. Today, the high cost and limited supply of quality, reliable child care means it can be very hard to find. Wait lists are long and care can be so expensive that many working parents simply cannot afford it. (Since 1990, child care costs [have risen](#) 214%, with the price of care rising 25% in the last decade alone — twice as fast as other major expenses like housing and groceries.)

The federal tax code has provisions designed to help offset the high cost of child care. [These include:](#)

- The **Child and Dependent Care Tax Credit (CDCTC)** is the only tax credit designed specifically to help parents offset the cost of child care.
- The **Dependent Care Assistance Program (DCAP)** allows some working parents to set aside a small amount of their pre-tax paycheck to pay for child care expenses (including employer-sponsored child care contributions).
- The **Employer-Provided Child Care Credit (known as 45F)** supports businesses who want to locate or provide child care for their workforce, while also increasing the number of child care slots available in their community.

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Unfortunately, these provisions are limited in their reach, which reduces their ability to help working parents access quality child care. Updating the federal tax code would simultaneously help more parents afford child care while supporting employer efforts to connect employees to child care options. Together with strong federal funding for programs, this would strengthen America's child care system, benefitting working families, young children, and local economies.

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This is popular with Republican, Democratic, and Independent voters. A [2023 poll from First Five Years Fund](#) found that 78% of voters (including 73% of Republicans and 86% of Democrats) support increasing the tax credit specifically designed to help working parents offset the cost of child care. And 82% of voters (including 78% of Republicans and 86% of Democrats) support providing tax incentives to businesses which provide or help their employees find and afford quality early childhood education programs.

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Congress can expand and update these tax provisions to help working families and bolster local economies. Child care experts, providers, and employers [are calling on the Senate Finance and the House Ways and Means Committees](#) to take action to make child care more affordable by bolstering supports for working parents and employers who understand that access to child care is an essential part of a stable, productive workforce. When combined with existing sources of federal child care funding, these tax provisions have the potential to improve access to the quality, reliable, affordable child care that families and employers need.

Updating the federal tax code to strengthen child care has bipartisan and multifaceted support.

- 85 child care experts, providers, and employers [have signed a letter to Congress](#) calling for updates to the federal tax code to help strengthen child care.
- And a bipartisan group of Members [is already taking action](#) to improve these tax credits with [H.R. 4571](#), the Child Care Investment Act of 2023, which was introduced by Rep. Salud Carbajal (D-CA) and Rep. Lori Chavez-DeRemer (R-OR). This bill would enhance the three existing tax credits to address the cost and accessibility of child care for working parents.

Learn More

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About First Five Years Fund

First Five Years Fund (FFYF) knows that early childhood development is a practical, non-partisan issue—so we collaborate with a diverse and wide range of federal and state advocates, business and thought leaders, and policymakers to help build consensus and craft child care and early learning policies that provide lasting economic and social returns. Learn more at www.ffyf.org.

