CHILD AND DEPENDENT CARE TAX CREDIT (CDCTC)

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Millions of American families are struggling to find quality, reliable, and affordable child care they can depend on. This is having a devastating impact on our youngest learners, working families, and the health of local economies. Making quality child care more accessible supports parents' ability to enter or return to the labor force. Quality child care also has a real impact on the workforce of the future by supporting the development of skills children need to be successful later in life. In addition to increased investments to the core federal child care programs, expanding and better aligning the current tax provisions for working families and businesses is an important part of any child care solution.

With an average price of **$11,582 per year, per child**, the costs associated with quality child care are rapidly outpacing key expenses faced by families, including housing, placing quality care out of reach for many working parents.[1] While there are a handful of tax credits and deductions that support families with children, the Child and Dependent Care Tax Credit (CDCTC) is the only tax credit that directly helps working parents offset the cost of child care.[2] The CDCTC allows taxpayers to decrease expenses for child care and keep more of what they earn. The credit also puts parents in the driver's seat by ensuring they can choose the type of child care that works best for them including center-based care, faith-based care, or family child care.

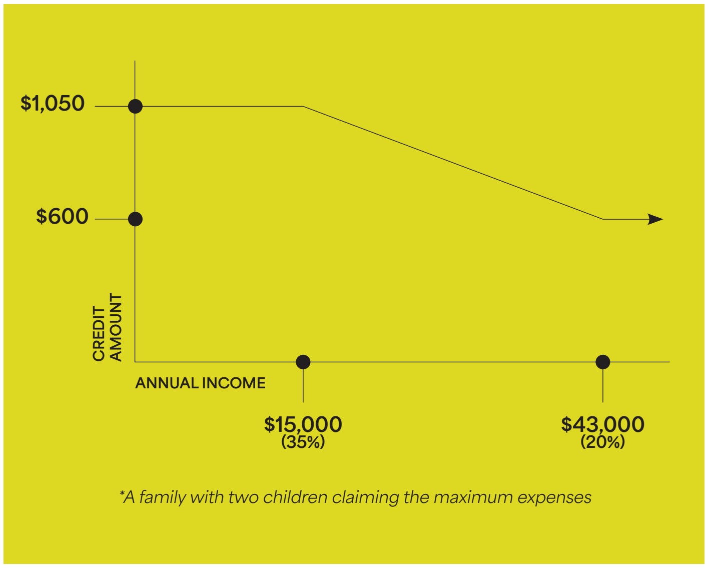
HOW DOES THE CDCTC HELP FAMILIES?

The CDCTC is based on a combination of income level and the amount paid for child care while working, looking for work, or going to school. Families can benefit from the CDCTC if they meet the minimum income to file a tax return. Taxpayers can decrease expenses for child care (children under the age of 13) and adult dependents by claiming the credit on their annual income taxes.[3]

HOW DOES IT WORK?

The maximum amount of child or dependent care expenses a taxpayer can claim is $3,000 for one dependent and $6,000 for two or more. The lowest-income taxpayers (with incomes under $15,000) receive 35% of those expenses as a credit (35% of $3,000 is $1,050 for one dependent). This phases down as income increases until it reaches 20% for taxpayers with incomes above $43,000 (20% of $3,000 is $600 for one dependent).

CDCTC CREDIT RATE*



**A family with two children claiming the maximum expenses*

The credit helps families pay for child care by reducing their taxable income by a maximum of $1,050 for one dependent and $2,100 for two or more dependents. On average, families receive less than $600.[4]

With the average price of child care at $11,582 per year, in practice the credit often offsets less than one month of care.[5]

TEMPORARY EXPANSION DURING THE PANDEMIC

For tax year 2021, the American Rescue Plan (ARP) temporarily expanded the CDCTC to reach more families in need by:

- Making it fully refundable,
- Increasing the credit rate to 50% for families with incomes less than or equal to $125k,
- Extending the 20% credit rate to families with incomes between $183k and $400k, and
- Increasing the amount of eligible expenses to $8,000 for one dependent and $16,000 for two or more.

In tax year 2021, taxpayers that claimed the CDCTC received an average credit of $2,099 (an additional $1,548 from 2020).[6] However, the temporary expansion has expired and the CDCTC has reverted back to prior levels.

WHAT ARE THE CURRENT LIMITATIONS OF CDCTC?

Unfortunately, the CDCTC is outdated and is not available to the families who are most in need. The CDCTC has not been permanently adjusted in two decades and is not indexed for inflation, so even as child care expenses have increased, the credit has not evolved to meet these rising costs. Current limitations of the CDCTC include:

Most low-income families are unable to access the credit.
The credit is nonrefundable, which means the CDCTC can only reduce a tax bill to zero (and not provide the difference as a refund). As a result, low-income families with $0 tax burden and some middle-income tax-paying families with qualified expenses do not benefit from the credit. According to the Tax Policy Center, only 12% of families with children benefited from the credit under pre-ARP rules.[7] Fewer than 1% of all taxpayers with incomes under $15,000 claim the CDCTC, compared to almost 30% of those with incomes between $100,000 - $200,000. [8]

The current credit amount does little to offset the actual cost of care.
Since 1990, child care costs have risen 214%, far outpacing the 143% increase in average family income.[9] Because the CDCTC lacks any inflation adjustment, it has not kept pace with escalating child care costs, meaning families aren't getting as much help from the credit as they used to. In its current form, most families with one child receive an average of about $600 –around 5% of the average annual cost of child care ($11,582).[10]

WHAT CAN CONGRESS DO?

By expanding and updating the CDCTC, policymakers have an opportunity to help address working families' child care needs. To help the CDCTC better fulfill its role and help working parents afford child care, Congress should:

- Make the CDCTC fully refundable, enabling low-income families to receive the full benefit.
- Increase the credit rate and maximum credit to give families more support.
- Index the maximum credit for eligible expenses to inflation.

BIPARTISAN SUPPORT

There has been bipartisan support for the CDCTC over the past few years. Click here to learn more about recently introduced bills that improve the CDCTC.[11]

CDCTC is one of a few tax provisions that specifically address the cost and accessibility of child care. Click here to learn more about two other tax credits that uniquely support child care–The Employer-Provided Child Care Credit (45F) and the Dependent Care Assistance Program (DCAP)–and why all three are necessary to support our nation's youngest learners, their parents, employers, and the economy at large.[12]

[1] Child Care Aware of America, "Child Care at a Standstill: Price and Landscape Analysis" (2024).
[2] FFYF, "Federal Tax Provisions That Support Child Care" (2023).
[3] An adult dependent is a person who isn't mentally or physically able to care for himself or herself and lives with the taxpayer for more than half the year
[4] Congressional Research Services, "Child and Dependent Care Tax Benefits: How They Work and Who Receives Them" (2021).
[5] Child Care Aware of America, "Child Care at a Standstill: Price and Landscape Analysis" (2024).
[6] Internal Revenue Service (IRS), SOI tax stats - Historic Tables
[7] Tax Policy Center, "Key Elements of the U.S. Tax System" (2020).
[8] Linda K. Smith,Kathlyn McHenry, Bipartisan Policy Center, "How Two Tax Policies Help Working Families Access and Afford Child Care" (2021).
[9] FFYF, "The First Five Things To Know About: Federal Funding for Early Learning and Child Care" (2023).
[10] Child Care Aware of America, "Annual Child Care Landscape Analysis" (2024).
[11] FFYF, "Side-By-Side: Comparing Tax Bills, 2024 (2024).
[12] FFYF, "Federal Tax Provisions That Support Child Care" (2023).