



DEPENDENT CARE ASSISTANCE PLANS (DCAP)

With the average annual cost exceeding **\$13,000 per child**,¹ millions of American families struggle to afford quality child care. **Dependent Care Assistance Plans (DCAP)** provide some financial relief by allowing working parents to use pre-tax income to cover some child care costs for children under the age of 13.

Through flexible spending accounts, the DCAP exclusion gives parents flexibility to choose the type of care that best suits their needs – whether that’s a licensed child care center, home-based provider, faith-based care, or even a nanny.

An estimated **43% of employees in the private sector have access to DCAP**.² DCAP provides support for working parents and is a key component in the broader effort to improve access to affordable child care in the United States.

HOW DCAP WORKS

DCAP allows working parents to set aside pre-tax income to pay for child care in an employer-offered flexible spending account (similar to health spending accounts).

Working parents (married filing a joint return or single parents) can elect to have up to \$7,500 per year excluded from their wages for child care expenses, and married couples filing separately can set aside \$3,750 per year. Employers can also choose to contribute to employees’ DCAP account, but the combined contributions cannot exceed \$7,500 regardless of how many children they have. DCAP reduces parents’ overall tax burden and lowers out-of-pocket dependent care costs by allowing the use of tax-free dollars.

THE UPDATED CDCTC

In 2025, DCAP was permanently expanded as part of the tax reconciliation package (H.R. 1).

Under The Expansion

- Families whose employers participate in DCAP can now exclude \$7,500 per year from their pre-tax wages to pay for dependent care expenses (up from the previous \$5,000 limit).


Proposed future changes:


- **Further increasing** the maximum tax-free exclusion to better reflect the true price of child care;
- **Incentivizing** employers to contribute to, offer a DCAP exclusion, or both;
- **Decoupling** DCAP exclusions from the Child and Dependent Care Tax Credit (CDCTC) - allowing taxpayers to claim the maximum allowable CDCTC for out-of-pocket child care expenses regardless of DCAP contribution. Currently families can not benefit from both.




DCAP IN ACTION

An employee typically enrolls in DCAP during the participating employer's annual open enrollment period. They may enroll mid-year if they experience an approved "life event," such as the birth or adoption of a child, marriage, divorce, or other changes that may impact the need for dependent care.

 **The employee elects the amount they would like to exclude from wages based on their estimated care expenses.** Married parents filing taxes jointly and single parents can exclude a maximum of \$7,500 annually (\$3,750 for married parents filing separately) to pay for dependent care. Pre-tax funds are deducted directly from parents' paychecks, which reduces their overall taxable income. Once the employee selects the contribution amount, it cannot be changed for the remainder of the year unless they experience a qualifying life event. Employers can also choose to contribute to employees' DCAP accounts, but the combined contributions cannot exceed \$7,500.

 **The employee submits required documentation.** Generally, this includes a claim form along with an itemized receipt or provider certification showing that an eligible service was provided. Qualified dependent care expenses for children under the age of 13 include child care, pre-K, summer day camp, before and after school programs, and transportation to and from eligible care.

 **Throughout the year, the employee can use funds in their DCAP account to pay for care.** Individuals can elect to either receive reimbursements in one lump sum at the end of the year or throughout the year. While the plan does include a grace period of 2.5 months following the end of the calendar year, unused DCAP funds generally do not roll over, therefore any unspent funds are forfeited to the employer.



Access to affordable, reliable child care is essential for working families. Without it, parents face limited or unaffordable options, leading to financial strain, reduced work hours, or leaving the workforce entirely. This also affects families as well as employers, costing the economy billions in lost wages and productivity each year.

THE BIGGER PICTURE

The three tax policies that specifically help working parents afford child care while engaging employers who are eager to help are the Child and Dependent Care Tax Credit (CDCTC), Employer-Provided Child Care Credit (45F), and Dependent Care Assistance Plans (DCAP). Ideally, these tax credits work **together** to ease the burden on parents and help employers attract and retain workers.

This is one part of the overall strategy to ensure families have a wide range of high quality, affordable options to meet their child care needs. This includes strengthening and prioritizing investments in trusted federal programs; enhancing tax provisions; bolstering efforts to expand the supply of child care; and ensuring more children have access to the quality care and early learning opportunities that will help them succeed.

LEARN MORE

TOPLINES: An overview of the changes to child care-related tax policies in the 2025 Tax Reconciliation Package (H.R. 1).

CDCTC BY INCOME LEVELS: A look at the tax credit amount working parents could receive depending on income, filing status, and number of children.

STATE-BY-STATE: How many families receive the CDCTC (as of 2022, the latest available data).

DEEP DIVES: One-pagers providing information about the three primary child care tax provisions, including: [CDCTC](#), [45F](#), and [DCAP](#).

¹ Child Care Aware of America, "Child Care at a Standstill: Price and Landscape Analysis" (2024).

² U.S. Bureau of Labor Statistics, [Employee Benefits](#)