FIRST FIVE YEARS FUND

JANUARY 2025

CHILD CARE & THE FEDERAL TAX CODE

Supporting working families with young children while strengthening our economy.

119TH CONGRESS

ABOUT FIRST FIVE YEARS FUND (FFYF)

The first five years last forever. At First Five Years Fund, we work to build bipartisan support for quality child care and early learning programs at the federal level. Reliable, affordable, and high-quality early learning and child care enhances a child's prospects for a brighter future while also bolstering working parents and fostering economic stability nationwide.

FFYF uses its expertise in policy, government relations, and communications to work with federal policymakers from both political parties to build consensus and advance common-sense solutions that give working families with young children access to the affordable, quality child care options they need. Find our policy priorities, recent polling, legislative trackers and more at www.ffyf.org.

To learn more about these federal programs or ways to get more involved with early learning and care opportunities, contact:

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REFERENCES & LINKS

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05 INTRODUCTION

A MESSAGE FROM

FIRST FIVE YEARS FUND

Child care in the United States remains unaffordable, inaccessible, and in short supply. America's working families and employers have been very clear that access to affordable, quality child care is essential for economic stability and a reliable workforce.

Revamping existing child care-related tax provisions is one important step in helping more families afford child care while supporting businesses who want to provide it.

The United States has traditionally used the tax code to help address real-world challenges like making retirement and home buying more accessible. Today, the federal tax code includes credits aimed at supporting families facing child care challenges and encouraging employers to be part of the solution. However, these provisions have not been updated in decades, leaving them disconnected from the current realities of child care.

By modernizing these provisions, we can promote parental choice, allowing families to keep more of what they earn and selecting the child care options that best suit their needs—whether center-based, faith-based, or family child care. And we can further engage employers, who increasingly view themselves as key partners in addressing the child care challenge.

This starts with updates to the Child and Dependent Care Tax Credit (CDCTC, also known as the Family Care Credit, the only tax credit that specifically helps working parents offset the cost of child care); Dependent Care Assistant Plans (DCAP, flexible spending accounts that allow working parents to set aside pre-tax dollars to pay for child care expenses); and the Employer-Provided Child Care Credit (45F, which supports businesses that want to help locate or provide child care for their employees). It's worth noting that these provisions play a different role than the Child Tax Credit, which is used by families to help with all expenses associated with raising a child, including food, rent, diapers, clothing, and other everyday needs. Together, enhancing these tax provisions would have a real impact on the lives of children and the economic stability of their families.

I hope you find this book of resources and data about child care-related tax credits helpful in your work. Please don't hesitate to reach out with any questions; we look forward to working with you in the weeks ahead.

Sincerely,

Sarah Rittling
Executive Director of the First Five Years Fund

CHILD CARE TODAY: REALITIES & OPPORTUNITIES

A child's first five years are a critical time for their development and growth. Parents strive to provide the best care for their little ones and, for millions of families juggling work and family responsibilities, access to quality, affordable child care is essential. Affordable, quality child care is also crucial for businesses, especially as they struggle to recruit and retain employees.

The availability of affordable, quality child care is both "pro-work" and "pro-family" policy, as it enables parents to work while having the peace of mind that their children are safe and well-cared for. But for too many hard-working families, child care options are limited, expensive, or hard to find.

Federal investments are crucial; this funding provides the foundation to child care systems in our country. The tax code can also play a powerful role in helping child care become more accessible and more affordable.

The following pages provide an in-depth look at child care-specific tax provisions that, if modernized, could help more hard-working families pay for the child care they need to work while also supporting employer efforts to connect their employees with affordable care options. These include:

The Child and Dependent Care Tax Credit (CDCTC), the only tax credit designed specifically to help parents offset the cost of child care.

Dependent Care Assistance Plans (DCAP), which allow 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), which supports businesses who want to locate or provide child care for their workforce, which could have the benefit of increasing the number of child care slots available in their community.

These provisions work together to help offset the cost of child care but, unfortunately, they haven't been updated in decades and, as a result, have not kept pace with increases in the cost of living and cost of child care. Bringing them up to date would help families, employers, and our economy.

SNAPSHOT: CHILD CARE IN THE UNITED STATES

22.9M	Number of children ages 5 and under in the United States.[1]
65%	Percent of these children who live in a home where all available adults work.[2]
$11,582	Average annual amount families pay for child care (or $965 a month).[3]
$552	Average annual amount of the CDCTC tax benefit.[4]
$5,000	Maximum pre-tax contribution to DCAP (taxpayers are not allowed to claim both DCAP and CDCTC).[5]
$600,000	The amount businesses must spend on child care in order to receive the maximum 45F credit of $150,000.[6]

COMPARISON CHART

FEDERAL TAX PROVISIONS

CHILD AND DEPENDENT CARE TAX CREDIT (CDCTC)	EMPLOYER-PROVIDED CHILD CARE CREDIT (45F)	DEPENDENT CARE ASSISTANCE PLAN (DCAP)
WHY IT'S IMPORTANT The only tax credit that directly helps working parents offset the cost of child care.	**WHY IT'S IMPORTANT** Supports both businesses and parents by incentivizing businesses to help employees access child care and increase the number of slots available in the community.	**WHY IT'S IMPORTANT** Reduces parents' total tax amount and lowers out-of- pocket dependent care expenses by allowing the use of tax-free money.
WHAT IT IS Taxpayers can decrease expenses for child care (children under the age of 13) and adult dependents by claiming a maximum of $3,000 for one dependent ($6,000 for two or more) on their annual income taxes. The lowest income taxpayers receive 35% of those expenses as a credit, reducing their taxable income by a maximum of $1,050 for one dependent and $2,100 for two or more.	**WHAT IT IS** Businesses can receive a tax credit to offset some costs incurred by providing child care to their employees. Allowable costs: (1) purchasing, building, or updating property used to provide child care, (2) operating costs, including training, scholarships, and wages for child care staff (3) contracting with a qualified child care provider and (4) contracting for resource and referral services.	**WHAT IT IS** Employee benefit plan - or flexible spending account - that allows employees to deduct $5,000 annually ($2,500 for married parents filing separately) pre-tax to pay for dependent care. This reduces the overall tax burden and precludes these funds from being taxed. Employers can contribute to employees' DCAP, but the combined contribution cannot exceed $5,000.
CURRENT LIMITATIONS • Nonrefundable. If the value of the credit exceeds the amount owed, any balance is forfeited and not paid to the family. Therefore, families with low or $0 tax burden do not benefit. • Disproportionately accessed by middle- and high-income families, rather than those most in need. • Maximum credit is a small fraction of the price of care. • Not indexed for inflation. As child care expenses have risen over the past three decades, the credit's value has not increased to meet rising costs.[1]	**CURRENT LIMITATIONS** • Credit rate is 25% of qualified child care expenses plus 10% of qualified resource and referral expenses. A business must spend $600,000 to receive the $150,000 maximum allowable credit, making it hard for small businesses to spend enough on child care to benefit. • Nonrefundable. Nonprofits and other businesses without federal tax liability cannot participate. • Low take-up rate due in part to the limited financial incentive it offers businesses.[2]	**CURRENT LIMITATIONS** • $5,000 maximum annual tax-free deduction does not sufficiently offset the high cost of child care, and multiple children are not considered. • Only parents with participating employers can access this benefit. • DCAP and CDCTC do not work in tandem. Parents who maximize DCAP cannot claim the CDCTC for additional out-of-pocket expenses.
A PATH FORWARD: WHAT CAN CONGRESS DO? • Make fully refundable, enabling low income families to receive the full benefit. • Increase the credit amount for low earning families. • Index the maximum credit to inflation.	**A PATH FORWARD: WHAT CAN CONGRESS DO?** • Increase the maximum credit and credit rate. Develop a tiered system with a greater credit rate for small and rural employers to incentivize take-up. • Make fully refundable. • Simplify the process for multiple employers to jointly enter a contract with a qualified child care provider.	**A PATH FORWARD: WHAT CAN CONGRESS DO?** • Increase the maximum tax-free deduction to better reflect the true price of child care. • Decouple DCAP exclusions from CDCTC, allowing taxpayers to claim the maximum allowable CDCTC for out-of-pocket child care expenses, regardless of DCAP contribution.

FIRST FIVE YEARS FUND

11 OVERVIEW

CHILD AND DEPENDENT CARE TAX CREDIT **(CDCTC)**

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, licensed family child care or care in their home such as a nanny.

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, the average CDCTC benefit was $2,099, a more than $1,540 increase from 2020, where the average benefit was $552. The temporary expansion has expired and the CDCTC benefit has reverted back to prior levels.

The CDCTC and the CTC: Why Families Need Both

The Child and Dependent Care Tax Credit is the only tax credit that directly helps working parents offset the cost of child care, which they must have to go to work. It also helps to ensure more children have access to high-quality early learning opportunities.

The Child Tax Credit can be used by families with children to offset any costs associated with raising a child, like food, rent, clothes, medicine, diapers and more. It plays an essential role in helping families manage the costs associated with raising children and lifting families out of poverty.

As parents' struggle with the rising cost of basic goods and services including child care, both credits are essential to supporting parent's ability to provide for their family and creating a path to prosperity for current and future generations.

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]

CDCTC: STATE BY STATE

Millions of hard-working American families struggle to afford quality child care so they can work or attend school. The Child and Dependent Care Tax Credit (CDCTC) is the only tax credit that directly helps low- and middle-income working parents offset the cost of child care. However, the credit hasn't been meaningfully updated in more than 20 years. Even as the cost of living and price of child care has risen, the CDCTC has remained at 2001 levels, making it much less helpful in defraying the cost of child care. The time is right for Congress to take action and modernize the CDCTC to support working families, young children, the workforce, and local economies.

The CDCTC is long overdue for an update.

- CDCTC benefit levels were last updated in 2001. It isn't adjusted for inflation, so the benefit has remained the same even as the cost of child care has risen dramatically.
- It also isn't fully refundable, so once it reduces a tax bill to zero, any leftover credit is forfeited. That means many low-income working families with small tax bills cannot access the full credit.

Temporarily updating the CDCTC in 2021 made a huge difference to working families.

- In 2021, the American Rescue Plan Act (ARPA) temporarily expanded the CDCTC for one year by:
- Making it fully refundable, so families with low tax bills could receive the full benefit;
- Increasing the amount of eligible child care expenses parents could claim; and
- Increasing the credit rate.
- As a result, more families received a larger benefit, helping to cover more of their child care expenses.

The time is right to update the CDCTC. There is momentum and opportunity.

- With the major provisions of the Tax Cuts and Jobs Act of 2017 (TCJA) expiring at the end of 2025, Congress will be focused on tax debates next year. This provides a don't-miss opportunity to reform the tax code and modernize the CDCTC (along with other child care-related tax provisions) to better help working families offset the cost of quality child care.
- This has public support. In a 2025 national poll, the CDCTC was the most popular child care-related tax credit, with 86% of voters saying they support increasing it, including 83% of Republicans, 83% of Independents, and 91% of Democrats.
- And momentum is already growing on the Hill, with multiple child care bills introduced by Republicans and Democrats in both the House and Senate. These bills would modernize child care-specific provisions of the tax code to support working families with young children, incentivize employers, and bolster the economy.

CDCTC SNAPSHOT

$3,500	Average annual cost of child care in 2001 (when CDCTC benefit levels were set)
$11,582	Average annual cost of child care in 2023
$552	Current average benefit, (at levels set in 2001)
$2,099	Average benefit, 2021 (under temporary expansion)
+$1,500	Additional amount families could receive to defray child care costs under an expanded benefit

Child and Development Care Tax Credit: Side-By-Side

CDCTC Comparison	Amount of child care expenses families can claim on their taxes	Credit Rate (phased down as income rises)	Refundable	BOTTOM LINE: Average credit for a working family
2001-Today	\$3,000 – 1 child \$6,000 – 2+ children	20-35%	No	\$500-600
2021 single-year expansion	\$8,000 – 1 child \$16,000 – 2+ children	20-50%	Yes	\$2,099

CHILD CARE TAX LEGISLATION IN THE 118TH CONGRESS

Senate

S. 4874: Child Care Availability and Affordability Act

Sen. Katie Britt (R-AL)

Sen. Tim Kaine (D-VA)

S.3657: The Child and Dependent Care Tax Credit Enhancement Act

Sen. Robert Casey (D-PA)

Sen. Ron Wyden (D-OR)

Sen. Patty Murray (D-WA)

House

H.R. 4571: Child Care Investment Act of 2023

Rep. Salud Carbajal (D-CA)

Rep. Lori Chavez-DeRemer (R-OR)

H.R. 7360: Promoting Affordable Child Care for Everyone (PACE) Act

Rep. Claudia Tenney (R-NY)

Rep. Brad Schneider (D-IL)

H.R. 7252: Child and Dependent Care Tax Credit Enhancement Act

Rep. Danny Davis (D-IL)

Rep. Suzan DelBene (D-WA)

CDCTC: STATE BY STATE

	AVERAGE CDCTC AMOUNT TY 2021	AVERAGE CDCTC AMOUNT TY 2022	DIFFERENCE IN CDCTC AMOUNT
Alabama	$2,215	$609	-$1,606
Alaska	$2,138	$653	-$1,485
Arizona	$2,019	$603	-$1,416
Arkansas	$2,003	$591	-$1,412
California	$2,105	$642	-$1,463
Colorado	$1,934	$582	-$1,352
Connecticut	$1,923	$599	-$1,324
D.C.	$1,904	$630	-$1,562
Delaware	$2,192	$584	-$1,320
Florida	$2,142	$620	-$1,522
Georgia	$2,267	$614	-$1,653
Hawaii	$1,815	$583	-$1,232
Idaho	$1,845	$590	-$1,255
Illinois	$2,095	$610	-$1,485
Indiana	$2,015	$587	-$1,428
Iowa	$2,065	$598	-$1,467
Kansas	$2,086	$597	-$1,489
Kentucky	$1,977	$596	-$1,381
Louisiana	$2,242	$609	-$1,633
Maine	$2,176	$623	-$1,553
Maryland	$2,159	$640	-$1,519
Massachusetts	$1,861	$586	-$1,275
Michigan	$2,188	$591	-$1,597
Minnesota	$2,048	$563	-$1,485
Mississippi	$2,331	$638	-$1,693
Missouri	$2,052	$598	-$1,454
Montana	$1,820	$559	-$1,261
Nebraska	$2,098	$601	-$1,497
Nevada	$2,357	$649	-$1,708
New Hampshire	$2,081	$613	-$1,468
New Jersey	$1,978	$642	-$1,336
New Mexico	$1,744	$541	-$1,203
New York	$1,968	$631	-$1,337
North Carolina	$2,025	$583	-$1,442
North Dakota	$2,321	$613	-$1,708
Ohio	$2,122	$595	-$1,527
Oklahoma	$1,976	$588	-$1,388
Oregon	$1,799	$555	-$1,244
Pennsylvania	$1,989	$601	-$1,388
Rhode Island	$2,079	$607	-$1,472
South Carolina	$2,195	$610	-$1,585
South Dakota	$2,152	$633	-$1,519
Tennessee	$2,012	$612	-$1,400
Texas	$2,283	$641	-$1,642
Utah	$1,929	$603	-$1,326
Vermont	$2,012	$571	-$1,441
Virginia	$2,123	$620	-$1,503
Washington	$1,990	$598	-$1,392
West Virginia	$1,645	$501	-$1,144
Wisconsin	$2,061	$566	-$1,495
Wyoming	$1,910	$603	-$1,307
United States	$2,099	$613	-$1,486

2025 CHILD CARE & THE FEDERAL TAX CODE

EMPLOYER-PROVIDED CHILD CARE CREDIT **(45F)**

Millions of American families are struggling to find quality, reliable, 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 allows and encourages parents to enter or return to the labor force. It 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. Updating provisions of the federal tax code is an important part of any child care solution as it benefits working parents and young children while supporting economic stability across the country.

The costs associated with quality child care are rapidly outpacing other expenses faced by families, including housing and higher education. In recent years, child care costs even rose at a rate that outpaced inflation. The average price of child care is $11,582 per year, which represents 10% of household income for a married couple with children and 32% of household income for a single parent.[1] Given these factors, quality child care remains out of reach for many working parents. There are a handful of tax credits and deductions that support families with children, and the Employer-Provided Child Care Credit (45F) is one of the ways[2] the tax code is used to help address the needs of both working parents and employers. Under 45F, employers receive a tax credit for helping their employees access child care. Participating businesses can provide child care on-site or contract with local child care facilities. In doing so, employers are helping to increase the number of child care slots available in their community.

HOW DOES 45F HELP EMPLOYEES & EMPLOYERS?

Employees

- Are better able to access and afford child care
- Are more productive and engaged at work

Employers

- Have stronger employee recruitment and retention
- Are able to expand their potential labor force
- Can receive more tax savings through 45F than by simply deducting child care expenses

HOW DOES 45F WORK?

45F allows employers to claim a nonrefundable tax credit of up to $150,000 per year. The tax credit covers up to 25% of qualified child care expenditures plus 10% of qualified child care resource and referral service expenditures. Businesses must spend at least $600,000 on child care related expenses to receive the full credit.

Qualified child care expenditures:

- Providing a qualified child care facility, which includes acquiring, constructing, rehabilitating, or expanding property to provide a child care facility to employees.
- Operating a qualified child care facility, which includes training costs, certain compensation for employees, scholarship programs, and qualified operating expenses.
- Contracting with a qualified child care facility (including home-based providers) to provide services to employees.

Qualified child care resource and referral service expenditures:

- Expenses incurred to help employees find child care services.

EXAMPLE: 45F BENEFITS EMPLOYERS

A business contracts with a qualified child care facility to provide child care for its employees. → The business incurs $700,000 in child care expenses. → The business can then apply $600,000 of those expenses to 45F. → The business gets $150,000 in tax savings by utilizing 45F (25% x $600,000).

There are also other tax benefits available to businesses.

WHAT ARE THE CURRENT LIMITATIONS OF 45?

While 45F provides support to increase the affordability and supply of child care, the low credit rate and its nonrefundable nature limit the credit's ability to truly have an impact.

The Credit Rate is Too Low

Businesses must spend $600,000 to receive the maximum credit of $150,000. The low credit rate is especially prohibitive for small businesses that often do not have the profit margins to make significant investments in child care.

Many Businesses Can't Participate

Because the credit is nonrefundable, nonprofits and other businesses without federal tax liability are not eligible to claim the credit.

Despite the advantages of employer-provided care, the U.S. Government Accountability Office (GAO) found that the credit has a low take-up rate.[3] This is due in part to the limited financial incentive the credit offers businesses. GAO estimated that between 169 and 278 corporate businesses, which is less than 1% of corporate tax returns, claimed between $15.7 million and $18.8 million in credit on their 2016 returns. Therefore, only a small fraction of families currently benefit from 45F.

BIPARTISAN SUPPORT

There has been bipartisan support for 45F over the past few years. Click here to learn more about recently introduced bills that improve 45F.[4]

45F 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 Child and Dependent Care Tax Credit (CDCTC) 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.[5]

WHAT CAN CONGRESS DO?

Congress should take steps to improve 45F to better meet the needs of working families and businesses. To improve access to quality, affordable child care, Congress should:

- Make 45F fully refundable.
- Increase the maximum credit and credit rate.
- Develop a tiered system with a greater credit rate and maximum credit for small employers and employers in rural areas to incentivize credit take-up.
- Simplify the process for multiple employers to jointly enter a contract with a qualified child care provider.

2025 CHILD CARE & THE FEDERAL TAX CODE

DEPENDENT CARE ASSISTANCE PLANS **(DCAP)**

Millions of American families are struggling to find quality, reliable, 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 allows and encourages parents to enter or return to the labor force. It 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. Updating provisions of the federal tax code is an important part of any child care solution as it benefits working parents and young children while supporting economic stability across the country.

The costs associated with quality child care are rapidly outpacing other expenses faced by families, including housing and higher education. In recent years child care costs even rose at a rate that outpaced inflation. The average price of child care is $11,852 per year, which represents 10% of household income for a married couple with children and 32% of household income for a single parent. Given these factors, quality child care remains out of reach for many working parents. Dependent Care Assistance Plans (DCAP) are one way[1] the tax code can support working parents' access to child care. There are a handful of tax credits and deductions that support families with children. Among these is DCAP, an employer-sponsored benefit–usually in the form of a flexible spending account (FSA)–that helps working parents cover the cost of child care for children under the age of 13, including programs before school, after school, and during the summer.

HOW DOES DCAP HELP FAMILIES?

Families whose employer participates in DCAP can deduct up to $5,000 per year from their pre-tax gross earnings to pay for dependent care expenses (regardless of the number of children). DCAP reduces parents' overall tax burden and lowers out-of-pocket dependent care costs by allowing the use of tax-free money.

HOW DOES DCAP WORK?

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 contribute based on their estimated care expenses. Married parents filing taxes jointly and single parents can contribute a maximum of $5,000 annually ($2,500 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, but the combined contributions cannot exceed $5,000.

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 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, generally unused DCAP funds do not roll over, therefore any unspent funds are forfeited to the employer.

WHAT ARE THE CURRENT LIMITATIONS OF DCAP?

Unfortunately, DCAP is outdated and the maximum contribution is not enough to make a meaningful difference in reducing child care expenses. Additionally, the DCAP maximum contribution hasn't been adjusted since 1986. Low employer participation and the inability to benefit from CDCTC and DCAP simultaneously severely limit the number of families who can benefit.

The Maximum Deduction is Too Low

The maximum family contribution is $5,000 per year. Unlike health care FSAs, DCAP contribution limits are not indexed for inflation and have been at this level for over 35 years despite the rapidly growing costs of child care. The current deduction is not sufficient to offset the annual cost of child care, which averaged $11,852 in 2023[2]. Additionally, the limit does not increase if families have multiple children. While Congress temporarily increased the amount that employees could set aside to $10,500 under the American Rescue Plan Act of 2021, these limits have now reverted back to prior levels.

The Number of Families Participating in DCAP is Limited

Few parents benefit from DCAP, as only those with sponsoring employers are eligible to participate. Bureau of Labor Statistics data indicate that only 43% of civilian workers had access to dependent care FSAs in 2021.[3] The number of employees who actually took advantage of those benefits is likely much lower. Employees with access to DCAP are generally higher-compensated employees at larger companies. Even so, often employees cannot afford to set aside money from their paychecks, making participation difficult. For these reasons, DCAP is unlikely to reach the parents who need the most support accessing and affording child care.

Taxpayers Can't Claim Both DCAP and the CDCTC

As the provisions are currently written, parents who contribute the maximum to their DCAP are unable to also claim the Child and Dependent Care Tax Credit (CDCTC) for additional out-of-pocket expenses.[4] The CDCTC is the only tax credit dedicated specifically to helping working parents offset the cost of child care. Contributing to a DCAP decreases dollar-for-dollar the maximum eligible expenses a parent can claim with the CDCTC. The inability to couple DCAP and CDCTC makes it more difficult for families to afford care, as the average cost of child care is far greater than both the contribution limits for DCAP and credit rates under the CDCTC.

BIPARTISAN SUPPORT

There has been bipartisan support for DCAP over the past few years. Click here to learn more about recently introduced bills that improve DCAP.[5]

DCAP 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 Child and Dependent Care Tax Credit (CDCTC) and the Employer-Provided Child Care Credit (45F)–and why all three are necessary to support our nation's youngest learners, parents, employers, and the economy at large.[6]

WHAT CAN CONGRESS DO?

Congress should take steps to reform DCAP to better meet the needs of working families, including:

- Increase the maximum tax-free deduction to better reflect the true price of child care.
- Decouple DCAP exclusions from the CDCTC. This would allow taxpayers to claim the maximum allowable CDCTC for out-of-pocket child care expenses, regardless of DCAP contribution.

FIRST FIVE YEARS FUND

23 A DEEPER DIVE

A TIMELINE

CHILD CARE TAX PROVISIONS

1954	Congress provided an itemized deduction for child care expenses in the amount of $600 incurred for the care of children under the age of 12 and other dependents.
1976	The 1954 deduction was converted into the CDCTC.
1981	Congress allowed parents to set aside their income for child care expenses on a tax-free basis with DCAP.
1986	Congress set the DCAP contribution limit at $5,000.
2001	Congress approved a temporary increase to the CDCTC and enacted the 45F credit on a temporary basis (set to expire in 2010).
2010	Congress extended the 45F credit through 2012.
2012	Bipartisan majority voted to keep the expansion of the CDCTC permanent and make the 45F credit permanent.
2017	Tax Cuts and Job Act passes with no changes to CDCTC, DCAP, and 45F.
2021	The American Rescue Plan Act (ARPA) made temporary changes to the CDCTC and DCAP for tax year 2021.
2025	Expiration of Tax Cuts and Jobs Act (TCJA).

UNDERSTANDING THE DIFFERENCE BETWEEN

THE CHILD AND DEPENDENT CARE TAX CREDIT AND THE CHILD TAX CREDIT

OVERVIEW

- The **Child and Dependent Care Tax Credit (CDCTC)** specifically helps working parents offset the cost of child care and puts parents in the driver's seat to help ensure families can choose the type of care that works best for them.
- The **Child Tax Credit (CTC)** can be used by families to offset any costs associated with raising a child, like food, rent, clothes, medicine, diapers, etc. It plays an essential role in helping to lift families out of poverty.
- The current CDCTC benefit levels were **set in 2001**; they have not been adjusted to keep pace with inflation or the current cost of care.
- As parents struggle with the rising cost of basic goods and services including child care, **both credits are essential**. Together they support parents' ability to provide for their family and create paths to prosperity for current and future generations.

The Child and Dependent Care Tax Credit and the Child Tax Credit support families in very different ways. **Families need both.**

Child care is not a luxury for American families – it's a necessity. Yet the high costs associated with quality child care are rapidly outpacing most other expenses, including the cost of housing and higher education. This is simply untenable for many families. According to Child Care Aware of America, the national annual average price of child care in 2023 was $11,582 per year. And beyond cost, many parents struggle to find care that meets their unique needs, including availability, flexibility, work hours, and other preferences.

This pervasive lack of access to affordable, quality child care options impacts the economic security of our nation's families.

The U.S. has traditionally used the tax code to help address real-world challenges and to incentivize behaviors that result in tremendous economic success for our country. In the same way that tax credits are used to make retirement and home buying more accessible, the tax code should reflect that child care expenses are typically linked to a parent's ability to work and account for one of the most significant expenses in a family's budget.

There are two federal tax credits that aim to support families with young children.

The Child and Dependent Care Tax Credit (CDCTC) is targeted at helping working families offset the cost of child care at the provider of their choice. The Child Tax Credit (CTC) supports families in managing the high costs of raising a child, and is most often used to cover everyday household expenses.[1]

Enhancing both of these credits would have a real impact on the economic stability of families, leading to long-term benefits for young children and families.

WHAT IS THE CHILD AND DEPENDENT CARE TAX CREDIT (CDCTC)?

The CDCTC is the only tax credit that directly helps working parents offset the cost of child care. It also fosters parental choice, with parents able to claim the type of care that best fits their family's individual needs, whether it be center-based care, faith-based care, or an in-home child care provider.

The CDCTC allows taxpayers to decrease expenses for child care (children under the age of 13) and adult dependents by claiming the credit on their annual income taxes. The credit a family receives is calculated by multiplying the amount of expenses by the appropriate credit rate.

ENHANCING THE CTC & CDCTC

	$11,582	Average annual cost of child care in 2023
CDCTC	$552	Current average benefit
	$2,099	Temporarily expanded benefit (tax year 2021)
CTC	$2,000	Current average benefit (for a child age 5 and under)
	$3,600	Temporarily expanded benefit (tax year 2021)

HOW DO FAMILIES USE THE CTC & CDCTC?

CDCTC
The CDCTC is a tax credit specific to child care expenses.

- **100% of parents who claim the credit use it to offset child care costs.**

CTC
The CTC can be used to defray any costs associated with raising a child. When the CTC was temporarily increased in 2021:

- **Only 16% of parents who claimed the credit used it to offset child care costs.**

Parents also used the tax credit for other essentials including:

- Food (52%)
- Utilities (52%)
- Rent/Mortgage (45%)
- Clothes (44%)
- Education costs (40%)
- Vehicle Payments (19%)
- Debts (19%)
- Child Care (16%)

Source: Center on Budget and Policy Priorities analysis of U.S. Census Bureau Data

The maximum amount of child or dependent care expenses a taxpayer can claim on their taxes is $3,000 for one dependent and $6,000 for two or more. The credit rate phases down as incomes rise.

Lowest income taxpayers (families with an adjusted gross income - or AGI[2] - of $15,000 or less): 35% of expenses in the form of a credit (or $1,050 for one dependent and $2,100 for two or more).

Highest income taxpayers (families with an AGI of $43,000 or more): 20% of expenses in the form of a credit (or $600 for one dependent and $1,200 for two or more).

However, families may claim less than the maximum amount of expenses, and as a result, receive a smaller credit amount. Additionally, if a taxpayer's employer contributes to their care expenses, through a dependent care flexible spending account, or if they take advantage of an employer-sponsored care facility, they may need to subtract the amount contributed to those benefits from their total qualifying expenses. On average, families receive less than $600.[3]

Prior to 2021, the CDCTC had not been amended since 2001 and was not adjusted for inflation. For tax year 2021, COVID-19 relief legislation temporarily made the CDCTC refundable and increased the maximum credit rate, the phaseout threshold, and the amount of eligible expenses, providing meaningful support to working families by increasing the average credit to over $2,000. However, the CDCTC has since reverted to prior levels.

WHAT IS THE CHILD TAX CREDIT (CTC)?

The CTC helps qualifying parents with children under age 17 offset any costs associated with raising a child. For tax year 2023, the CTC was $2,000 per qualifying dependent child if one's modified adjusted gross income (MAGI)[4] is $400,000 or below (married filing jointly) or $200,000 or below (all other filers).

The CTC is "nonrefundable," meaning if the value of the credit exceeds the amount owed, any balance is forfeited and not paid to the family. The CTC was temporarily expanded for a single year (tax year 2021) under the American Rescue Plan. As a result, in 2021, the maximum annual payment increased from $2,000 per child to $3,000 per child for children ages 6 to 17 years and $3,600 per child for children ages 0 through 5 years. The credit was also made fully refundable, and families were able to receive up to half of their full credit in monthly installments. According to the United States Census Bureau, the temporary expansion of the CTC helped reduce child poverty to a record low of 5.2% in 2021.

WHY DO WE NEED AN EXPANDED CHILD AND DEPENDENT CARE TAX CREDIT (CDCTC)?

The CDCTC has not been amended in two decades and is not indexed for inflation, so even as child care expenses have risen sharply, the credit has not changed to meet these increasing costs. Consequently, with the average price of child care at $11,582 per year, the credit often offsets less than one month of care.

Additionally, most low-income families are unable to access the credit. The CDCTC is "nonrefundable," which means it only offsets up to the amount owed in income tax. If the value of the credit exceeds the amount owed, any balance is forfeited and not paid to the family. As a result, most low-income families with $0 tax burden and some middle-income tax-paying families with qualified expenses do not benefit from the credit.

By making the CDCTC fully refundable (which enables low-income families to receive the full benefit), increasing the credit amount for the lowest-earning families, and indexing the maximum credit for eligible expenses to inflation, Congress can support families who can least afford quality child care.

FAMILIES NEED BOTH THE CTC AND THE CDCTC.

Child care is a necessity for working families. There are nearly 15 million children ages 5 and under in the United States who may need care because all their available parents are in the workforce.[5] Parents need quality, affordable options.

The CTC plays an essential role in helping families manage the costs associated with raising children and lifting families out of poverty.[6] The CTC is available to parents for each qualifying dependent child under the age of 17 and reflects that families with children have more expenses and less disposable income than those making the same amount without children. Parents can use this credit for any expense.

In contrast, the CDCTC specifically offsets the cost of child care, which parents must have to go to work. Just as businesses deduct the costs of earning the income on which they pay tax, working parents pay taxes on the wages they earn and should receive tax relief for the child care costs required to earn those wages. The CDCTC offers that assistance to working parents, allowing families to earn much-needed income, strengthen the American labor force, and ensure more children have access to high-quality early learning opportunities.

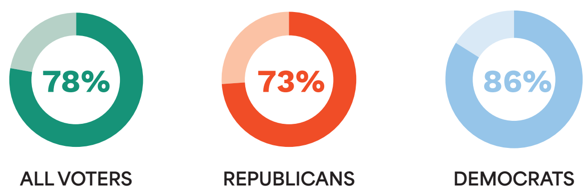
Child care is **not a luxury** for American families - it's **a necessity**.

As parents struggle with the rising cost of basic goods and services including child care, both credits are critical to supporting parent's ability to provide for their family.

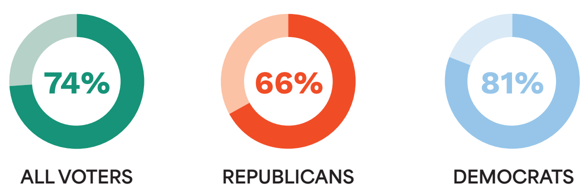
STRONG VOTER SUPPORT FOR THE CDCTC AND THE CTC

According to a 2023 poll from FFYF, voters support making child care more affordable by increasing the CDCTC and the CTC.

SUPPORT FOR INCREASING THE CDCTC



SUPPORT FOR INCREASING THE CTC



2025 CHILD CARE & THE FEDERAL TAX CODE

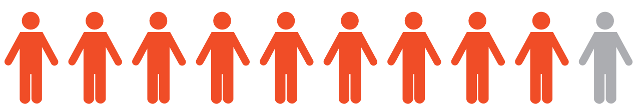
POLL: GOP VOTERS CALL ON CONGRESS, WHITE HOUSE TO ACT ON CHILD CARE

In the 2024 election, voters made it clear that child care challenges were causing a serious strain on family finances, workplace productivity, and the economy as a whole. They wanted candidates to have a plan to address these challenges and now, with the Trump White House and the Republican-led 119th Congress underway, they want action.

A new national poll conducted by the Republican polling firm UpONE Insights shows **child care expenses continue to be a major financial burden on working families**. The poll, which surveyed more than 1,000 registered voters nationwide as well as an oversample of Republican primary voters, also found **an overwhelming majority of Republicans want the White House and Congress to take action**. The following are key takeaways from the poll.

Voters say child care costs are straining family budgets.

NINE IN TEN REPUBLICANS think it's a **problem or crisis** that Americans can't afford child care.

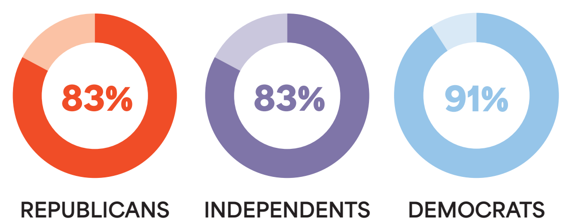


And the cost of child care is causing two-thirds of younger Republicans to delay having children.

61% OF REPUBLICAN VOTERS under age 34 say either they or someone they know have put off or delayed having children due to child care costs.

The Child and Dependent Care Tax Credit (CDCTC) is the most popular child care-related tax credit.

The Child and Dependent Care Tax Credit (CDCTC) is the only federal tax credit that specifically allows working parents to keep more of what they earn to pay for child care. **It is the most popular child care-related tax credit**, with 86% saying they support increasing the CDCTC.



Voters want President Trump and the GOP-led Congress to take action.

79% OF REPUBLICANS say they want **President Trump and Republicans in Congress to do more** to help working parents afford quality child care.

Voters also say improving access to affordable child care will both help **lower costs** for working families (85%) and **improve the overall economy** (71%).

55% OF REPUBLICAN VOTERS say increasing funding for and access to quality child care **is as important for families as securing the border and stopping the increase of crime**.

Key voters are less likely to vote for candidate who eliminated an existing child care tax credit.

In fact, **63% OF VOTERS** would be less likely to vote for a candidate who voted to eliminate an existing tax credit for child care expenses for working families, including **50% OF GOP PRIMARY VOTERS** and **59% OF INDEPENDENT WOMEN.**

CHILD CARE & TAX

CONGRESSIONAL RESEARCH SERVICE REPORTS

The Congressional Research Service (CRS) creates nonpartisan and objective reports designed to support Congress through comprehensive and reliable legislative research and analysis. CRS reports cover a wide range of important and timely topics including child care issues and tax credits. Below reports can be found about tax credits relating to child care such as the Child and Dependent Care Tax Credit (CDCTC), the Dependent Care Assistance Program (DCAP), and 45F.

DEPENDENT CARE

Current Tax Benefits and Legislative Issues

February 4, 2015: Discusses tax treatment of dependent care expenses under two provisions (CDCTC and DCAP) and options for changing those policies.

THE CHILD AND DEPENDENT CARE CREDIT

Impact of Selected Policy Options

December 5, 2017: Includes estimates of CDCTC under current law and estimates distributional effect of selected policy options (making the credit refundable, converting the credit into a deduction, increasing the credit rate, and increasing the maximum amount of expenses). Uses 2014 calendar year data.

CHILD AND DEPENDENT CARE TAX BENEFITS

How They Work and Who Receives Them

Updated February 1, 2021: Provides overview of CDCTC and the exclusion for employer-sponsored child and dependent care, focusing on eligibility requirements and benefit calculations, includes summary data.

THE CHILD AND DEPENDENT CARE TAX CREDIT (CDCTC)

Temporary Expansion for 2021 Under the American Rescue Plan Act of 2021 (ARPA; P.L. 117-2)

Updated May 10, 2021: Summarizes the temporary expansion of the CDCTC for 2021 (through ARPA), highlighting the credit amount for 2021 before and after temporary expansion. Includes policy considerations like the difference in benefits among socioeconomic backgrounds, the consequences of lump sum payment, concerns of improper claims, and an increase in budget deficit.

EMPLOYER-PROVIDED CHILD CARE CREDIT

Estimated Claims and Factors Limiting Wider Use

February 2022: GAO study on the Employer-Provided Child Care Credit using data from 2016, outlines limitations that prevent employers' use of the credit and offers suggestions from groups interviewed.

THE 45F TAX CREDIT FOR EMPLOYER-PROVIDED CHILD CARE

April 12, 2023: Provides an overview of 45F and its potential to incentivize business owners to provide child care for their employees while outlining the reasons why this credit is so underutilized and which aspects could be examined in order to increase the effectiveness of 45F.

VIEW ALL CRS REPORTS

31 LEGISLATION

TAX LEGISLATION IN THE 119TH CONGRESS

Child and Dependent Care Tax Credit (CDCTC)

This credit is specifically targeted to help low- and middle-income working parents offset the cost of child care, but with an average benefit of just $600, the benefit hasn't kept pace with the cost of care and is too low to meet the needs of families.

The Employer-Provided Child Care Tax Credit (45F)

This credit for employers supports businesses who want to locate or provide child care for their workforce. However, the low credit rate and high threshold for participation keeps most businesses from utilizing it.

Dependent Care Assistance Plan (DCAP)

These plans allow working parents to set aside pre-tax income to pay for child care in an employer-offered flexible spending account. However, the current DCAP contribution limit of $5,000 has been unchanged since 1986.

	Introduced and Co-Sponsored by:	Improves CDCTC	Improves 45F	Improves DCAP
Child Care Availability and Affordability Act **S.847**	Sen. Katie Britt (R-AL) Sen. Tim Kaine (D-VA) Sen. Jeanne Shaheen (D-NH) Sen. Joni Ernst (R-IA) Sen. Shelley Moore Capito (R-WV) Sen. Susan Collins (R-ME) Sen. John Curtis (R-UT) Sen. Kirsten Gillibrand (D-NY) Sen. Angus King (I-ME) Sen. Amy Klobuchar (D-MN)	✓	✓	✓
Child Care Availablity and Affordability Act **H.R.1827**	Rep. Salud Carbajal (D-CA) Rep. MIke Lawler (R-NY) Rep. Juan Ciscomani (R-AZ) Rep. Sharice Davids (D-KS)	✓	✓	✓
Affordable Child Care Act **H.R.1408**	Rep. Sharice Davids (D-KS) Rep. Brian Fitzpatrick (R-PA) Rep. Suzanne Bonamici (D-OR) Rep. Salud Carbajal (D-CA) Rep. Ryan Mackenzie (R-PA) Rep. Eric Sorensen (D-IL)	✓	✓	✓
Promoting Affordable Child Care for Everyone (PACE) Act	Rep. Claudia Tenney (R-NY) Rep. Brad Schneider (D-IL)	✓		✓

Child Care Availability and Affordability Act

S.847 - Sen. Katie Britt (R-AL), Sen. Tim Kaine (D-VA), Sen. Jeanne Shaheen (D-NH), Sen. Joni Ernst (R-IA), Sen. Shelley Moore Capito (R-WV), Sen. Susan Collins (R-ME), Sen. John Curtis (R-UT), Sen. Kirsten Gillibrand (D-NY), Sen. Angus King (I-ME), Sen. Margaret Hassan (D-NH), Sen. Amy Klobuchar (D-MN), Sen. David McCormick (R-PA), Sen. Thomas Tillis (R-NC), Sen. Mark Warner (D-VA)
H.R.1827 - Rep. Salud Carbajal (D-CA), Rep. Mike Lawler (R-NY), Rep. Juan Ciscomani (R-AZ), Rep. Sharice Davids (D-KS).
Reintroduced: February 2025
This bill modernizes existing tax credits to offset the high cost of child care for working families by making the **CDCTC** refundable for low- and middle-income families while increasing the maximum amount that parents can receive from $1,050 for one child to $2,500, and from $2,100 for 2 or more children to $4,000. It also increases the max amount that can be saved by a family through **DCAP** to $7,500, and increases the maximum credit amount of **45F** to $500,000 and the max percentage of costs covered from 25% to 50% (and to 60% for small businesses and those in rural areas), allowing for employers to better support their employees in locating and affording child care.

Affordable Child Care Act

H.R.1408 - Rep. Sharice Davids (D-KS), Rep. Brian Fitzpatrick (R-PA), Rep. Ryan Mackenzie (R-PA), Rep. Suzanne Bonamici (D-OR), Rep. Salud Carbajal (D-CA), Rep. Ryan Mackenzie (R-PA) Rep. Eric Sorensen (D-IL)
Reintroduced: February 2025
This bill aims to address several affordability and access concerns by expanding and enhancing existing tax credits to better serve families needs: it doubles the max credit rate for the **CDCTC** to $6,000 & $12,000; doubles the max credit amount of **45F** to $300,000; and doubles the max amount that can be saved by a family through **DCAP** to $10,000.

Promoting Affordable Childcare for Everyone (PACE) Act

H.R.2900 - Rep. Claudia Tenney (R-NY), Rep. Brad Schneider (D-IL)
Reintroduced April 2025
This bill helps parents to better afford child care by improving the **CDCTC** to make it refundable, index it to inflation, and increase the value of the credit, modernizing the credit to better suit the needs of working parents. It also improves **DCAP** by increasing the amount of pre-tax dollars parents can set aside from $5,000 to $7,500 and indexes the cap to inflation.

Scan to learn more about
Child Care Tax Legislation
in the 119th Congress

FIRST FIVE YEARS FUND

35 LETTERS OF SUPPORT

LETTERS OF SUPPORT

Modernizing the tax code to help make child care more affordable has strong support among national, state, and local organizations, advocacy groups, businesses, and child care providers. The following are links to sign-on letters highlighting this support and the full text of a letter sent in August 2024, including its 150 signatories.

DECEMBER 2024
Letter to President-Elect Trump, Senate Finance Committee, House Ways and Means Committees, and House and Senate Leadership from 127 organizations and businesses including national and from 40 states and territories.

AUGUST 2024
Letter to House Ways and Means Committee Tax Teams from more than 150 organizations, Chambers of Commerce and businesses.

JANUARY 2024
Letter to Ways and Means from leaders of the Bipartisan Pre-K and Child Care Caucus.

JANUARY 2024
Joint statement from 20+ national organizations.

SEPTEMBER 2023
Letter to Congress from 85 organizations, Chambers of Commerce and businesses.

The following pages contain the full text and signatories of the August 2024 letter, which contained the most comprehensive overview of the full suite of child care tax priorities.

Scan to read the full list of letters of support,

August 5th, 2024

Dear House Ways and Means Committee Tax Teams:

Lack of access to affordable, quality child care across the country is having a tremendous impact on parents, children, and employers alike and is holding back our economy. The current child care specific tax provisions - the Child and Dependent Care Tax Credit (CDCTC), Dependent Care Assistance Program (DCAP), and Employer Provided Child Care Tax Credit (45F) - are outdated and simply don't do enough to address these challenges. As the House Majority Tax Teams look to update the tax code, we encourage you to use this opportunity to support hard working families and ease the burden of the cost of care, while also supporting a stable, reliable workforce for employers large and small, by making critical improvements to these provisions.

Existing sources of federal child care funding provide the foundation for supporting states' ability to increase access to affordable, quality child care for working families. However, the primary federal child care subsidy program, the Child Care and Development Block Grant (CCDBG), only serves about 13% of eligible children five and under - this shortage in subsidies leaves many families unable to access the care they need. The existing child care-related tax provisions can play a part in tackling our nation's child care challenges by helping more working families afford care by directly offsetting part of the cost. The CDCTC and DCAP help parents ease the financial burden of child care expenses by allowing them to keep more of what they earn, while 45F helps support employers who want to be part of the solution. Taken together, these federal provisions seek to support hard working families to better provide for their children while employers benefit from a reliable, dependable workforce. Therefore, in addition to robust increased investments to the core federal child care programs, we urge you to expand and better align these current tax provisions for working families and businesses to improve access to quality, affordable child care.

All children deserve access to safe and enriching child care experiences that help set them up for success in school and beyond. Yet, across the country, working parents struggle to access quality child care for their children while they work. Child care is unaffordable in every community across the country, with an average annual price of $11,582 or $965 per month.[1] This amounts to a substantial portion of the average family's income, putting additional undue strain on parents who are struggling to make ends meet, at times leaving parents in debt to pay for care. In addition to high costs, supply remains a challenge. Today there are 26.8 million people in the workforce – or one out of every six – who rely on child care and yet nearly one in three (31.7%) children with both parents in the workforce do not have access to formal child care.[2] The child care gap is in part due to the high cost of providing child care. Many child care providers, themselves small businesses, operate on thin margins, and too often the communities with the greatest need have the most significant challenges in accessing care. In rural and small-town America, the child care gap is higher than the national average (35.1%).[3] Rural families feel this difference acutely, with two in three rural parents (64%) saying that finding child care is difficult, compared to 47% of urban parents.[4]

Without access to quality child care, parents experience declines in workplace productivity or are unable to work altogether. One estimate indicates the U.S. loses a total of $122 billion in earnings, productivity, and revenue every year due to a continued failure to address the lack of access to affordable, quality child care for many working parents.[5] Our current tax code provides some support to increase the affordability and supply of child care, but limitations in these tax provisions reduce their ability to help working families access the quality child care that meets their individual needs.

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[1] https://info.childcareaware.org/hubfs/2023_Affordability_Analysis.pdf
[2] https://bipartisanpolicy.org/report/child-care-gap/
[3] https://bipartisanpolicy.org/blog/rural-communities-feel-lack-of-child-care-options-more-acutely/
[4] https://bipartisanpolicy.org/blog/child-care-poll/
[5] www.strongnation.org/articles/2038-122-billion-the-growing-annual-cost-of-the-infant-toddler-child-care-crisis

The Child and Dependent Care Tax Credit (CDCTC) is the only tax credit that allows working parents to offset the high cost of child care. This credit also allows families to choose what model of care best fits their needs, it does not vary/depend on the type of care - it supports families with the care they choose. In practice, the average family who claims the CDCTC receives approximately $600 per year, which does not provide adequate support to families as they face high child care costs and the credit has not been permanently updated since 2001.[6] This credit allows taxpayers to claim up to $3,000 for one dependent ($6,000 for two or more) in qualifying child care expenses. The maximum credit rate is 35% for the lowest-income taxpayers, and it phases-down as income increases until it reaches 20%. This means the most a parent with one child can receive is $1,050 - a small fraction of the total cost of child care. We recommend Congress consider the following changes to the CDCTC:

- Make the credit fully refundable.
- Increase the value of the credit.
- Increase the credit rate for the lowest-earning families.
- Index increases to CDCTC maximum eligible expenses to inflation.

Dependent Care Assistance Programs (DCAPs) allow families to exclude up to $5,000 in child care assistance from their gross income but is limited to those with a sponsoring employer. Child care assistance may include direct payments by an employer for an employee's child care tuition and/or employer sponsored Flexible Spending Accounts (FSAs). The $5,000 maximum is not sufficient to offset the total cost of child care, the limit does not increase as parents have more children, and the provision has not been updated since 1986. Moreover, contributions to a DCAP decrease the maximum eligible expenses dollar-for-dollar with what a parent can claim on the CDCTC. This means parents who max out their DCAP are unable to claim the CDCTC for additional out-of-pocket expenses. We recommend that Congress consider the following changes to the DCAP:

- Increase the exclusion maximum to better reflect the cost of child care.
- Decouple dependent care assistance program (DCAP) exclusions from CDCTC expenditures. This would allow taxpayers to claim the CDCTC up to the maximum allowable expenses for any out-of-pocket child care expenses, regardless of employer DCAP contribution.

To help increase child care supply, the Employer-Provided Child Care Tax Credit (45F) incentivizes businesses to help their employees locate child care and increase the number of child care slots available in their community. Current law provides employers a nonrefundable tax credit of up to 25% of qualified child care expenditures and 10% of qualified child care resource and referral expenditures. The credit maximum is $150,000, meaning businesses must spend $600,000 to receive the full credit. The low credit rate is especially prohibitive for small businesses that often do not have the profit margins to make significant investments in child care. Because the credit is nonrefundable, nonprofits and other businesses without federal tax liability are not eligible to claim it. The GAO found that 45F currently has a low take-up rate, in part due to the limited financial incentive the credit offers businesses having not been updated since 2001.

To make the credit more accessible to employers, we recommend Congress consider the following changes to 45F:

- Make the tax credit fully refundable.
- Increase the maximum credit and credit rate.
- Develop a tiered system with a greater credit rate and maximum credit for small employers and employers in rural areas to make it more financially feasible to claim the credit.
- Simplify the process for multiple employers to jointly enter a contract with a qualified child care provider for child care services to claim the credit.

[6] www.childcareaware.org/thechildcarestandstill/

While expanding 45F can help incentivize more employers to be part of the solution, employers alone will not be able to cover the entire cost of child care for their employees, so enhancements to CDCTC and DCAP go hand in hand with 45F in helping to tackle the cost of care for working families. Increasing supports that help parents afford child care without concurrently increasing supply however will not increase access, as the marginal increase in a parent's budget is not enough to offset the cost to providers to increase their capacity or open a new business. Therefore, while enhancements to tax provisions are a key piece of tackling the larger child care puzzle, dedicated federal investments to address child care supply in our country are also desperately needed.

There is longstanding bipartisan support for improving and expanding these tax provisions. The bipartisan Child Care Investment Act introduced by Rep. Salud Carbajal (D-CA) and Rep. Lori Chavez-DeRemer (R-OR) would expand and improve all three provisions, and the PACE Act, introduced by Rep. Brad Schneider (D-IL) and Rep. Claudia Tenney (R-NY) would improve both the CDCTC and DCAP. In addition, the co-chairs of the Bipartisan Pre-K and Child Caucus sent a letter to Ways and Means Committee leadership calling on the committee to expand these tax provisions.[7]

Members on both sides of the aisle and voters across the political spectrum have made clear that without intervention, child care will continue to be unaffordable and inaccessible for working families.[8] Thank you for your time and consideration. We look forward to working with you to strengthen America's child care system and better support children and parents alike.

Sincerely,

National Organizations
Abriendo Puertas/Opening Doors
America Forward
Association of Maternal & Child Health Programs Bipartisan Policy Center Action
Bright Horizons
Busy Bees North America
Campaign for a Family Friendly Economy Care.com
Care.com
Child Care Aware of America
Council for Professional Recognition
Early Care & Education Consortium
Eastern Point Collective
Executives Partnering to Invest in Children (EPIC) First Five Years Fund (FFYF)
Goldman Sachs 10,000 Small Businesses Voices High Road Restaurants
Independent Restaurant Coalition
Kaplan Early Learning Company
Kiddie Academy
KinderCare Learning Companies
Learning Care Group
Low Income Investment Fund (LIIF)
March for Moms
Moms First
National Association of Counties (NACo)
National Association of Women Business Owners
National Child Care Association
National Council of Jewish Women
National Head Start Association
New America's Early & Elementary Education Policy Program
New Horizon Academy
Parents as Teachers
Primrose Schools
Safari Kid Global Inc.
Save the Children
SHRM
Small Business For America's Future
Small Business Majority
Start Early
The Educare Network
The Nest Schools
The Sunshine House Inc
TOOTRiS
U.S. Chamber of Commerce
YMCA of the USA

7 www.ffyf.org/wp-content/uploads/2024/01/Caucus-Tax-Letter.pdf

8 www.ffyf.org/2024/05/16/new-polling-on-child-care-and-the-2024-election/

Local Chamber of Commerce	State
Alaska Chamber	Alaska
Arizona Chamber of Commerce & Industry	Arizona
Association of Washington Business	Washington
Boone Area Chamber of Commerce	North Carolina
Business Council of Alabama	Alabama
Cabarrus Regional Chamber of Commerce	North Carolina
Dayton Area Chamber of Commerce	Ohio
Greater Hartsville Chamber of Commerce	South Carolina
Greater Kansas City Chamber of Commerce	Missouri
Greater Ottumwa Partners in Progress	Iowa
Greater San Antonio Chamber of Commerce	Texas
Greater Shreveport Chamber	Louisiana
Greater Topeka Partnership	Kansas
Greater Wilmington Chamber of Commerce	North Carolina
Harrisonburg-Rockingham Chamber of Commerce	Virginia
Idaho Association of Commerce and Industry	Idaho
Indiana Chamber of Commerce	Indiana
Kentucky Chamber of Commerce	Kentucky
Little Rock Regional Chamber of Commerce	Arkansas
Metro Atlanta Chamber	Georgia
Michigan Chamber of Commerce	Michigan
Missouri Chamber of Commerce and Industry	Missouri
Montana Chamber of Commerce	Montana
Mount Horeb Area Chamber of Commerce	Wisconsin
North Carolina Chamber	North Carolina
New Jersey Chamber of Commerce	New Jersey
Ohio Chamber of Commerce	Ohio
Santa Rosa Metro Chamber of Commerce	California
Sauk Valley Area Chamber of Commerce	Illinois
South Carolina Chamber of Commerce	South Carolina
The State Chamber of Oklahoma	Oklahoma
Vegas Chamber	Nevada

Local Organizations	State
Adirondack Foundation/Adirondack Birth to Three Alliance	New York
Advocates for Children of New Jersey	New Jersey
Arizona Early Childhood Education Association	Arizona
Bell Policy Center	Colorado
California Child Care Resource & Referral Network	California
Common Good Iowa	Iowa
Compliance Childcare Consulting	Colorado
Connecticut Voices for Children	Connecticut
Early Childhood Alliance	Utah
First Five Nebraska	Nebraska
Georgia Early Education Alliance for Ready Students (GEEARS)	Georgia
Groundwork Ohio	Ohio
Illinois Action for Children	Illinois
Kansas Action for Children	Kansas
Kentucky Voices for Health	Kentucky
Kids Win Missouri	Missouri
Louisiana Policy Institute for Children	Louisiana
Maryland State Child Care Association	Maryland
Minnesota Child Care Association	Minnesota
Neighborhood Villages	Massachusetts
Oklahoma Partnership for School Readiness	Oklahoma
Prevent Child Abuse Illinois	Illinois
Raising Illinois PN3 Coalition	Illinois
Texas Licensed Child Care Association	Texas
Utah Private Child Care Association (UPCCA)	Utah
VOICES for Alabama's Children	Alabama
Western Carolina University	North Carolina
Zero to Five Montana	Montana

Child Care and Early Learning Providers	**State**
Academy for Artistic Development and Early Learning	Texas
Adventure Discovery Center	Texas
Appleseed Childhood Education	Indiana
Brainy Kids Place, LLC	Texas
Christian Preschool Centers, Inc.	Texas
Clayton Early Learning	Colorado
Country Kids Academy	Texas
DAYTRIP	California
Ds Heart to Heart	Texas
Early Learner South Dakota	South Dakota
Faith Academy	Texas
First Class Child Care Center	Texas
Footprints Learning Academy	Texas
Footsteps & Fingerprints	Texas
Garden Ridge Prep. School	Texas
Gingerbread Kids Academy	Texas
Greystone House Montessori	Texas
Heartland Montessori Academy	Texas
Hopscotch Learning Academy	Texas
Jefferson Place Learning Center, Inc.	Texas
Kidco Learning Center	Texas
Kids Clubhouse	Texas
Kids R Kids Seven Lakes	Texas
Kids World Learning Center	Texas
Kindred Learning Academy	Texas
Little Treeschool/Big Treeschool	Montana
Little Tyke Learning Centers	Texas
Mini Kidspace Daycare & Learning Academy,Inc.	Texas
Miss Bloomingdale's Academy	Texas
Montessori of University Village	Texas
Moore County Chamber of Commerce	North Carolina
Noah’s Ark Childcare	Montana
Odessa Day Nursery	Texas
OurKids Montessori School	Texas
Primrose School of Prosper	Texas
Providence Preparatory School	North Carolina
PSA	Texas
Rise Academy	Texas
Rising Starz Child Care Center	Texas
Spell Well Montessori School	Texas
St. Paul Lutheran YKT Child Care Center/The Learning Garden	Texas
Stepping Stones Academy	Texas
Stonegate Angel Care	Texas
The Toddlers Den	Texas
This Little Light Learning Center	Texas
Tiny Tots U Learning Academy	Texas
Tomorrow's Promise Montessori Schools	Texas
Young Sprouts Creative Learning Center	Texas
ZONE 4 KIDS CHILD CARE & LEARNING CENTER	Texas
Zutado Soul	North Carolina

cc: Senate Finance Committee

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