What It Means: Child Care Tax Credits in the Senate Tax Package

FIRST FIVE YEARS FUND

OVERVIEW

The Senate tax package contains updates to tax policy which will help make child care more affordable for more working families with young children:

- Enhancements to the **Child and Dependent Care Tax Credit (CDCTC)**, the only tax credit that specifically helps working parents offset the cost of child care;
- Improvement of the **Employer-Provided Child Care Credit (45F)**, which supports businesses who want to help locate or provide child care for their employees;
- Expansion of **Dependent Care Assistance Plans (DCAP)**, flexible spending accounts that allow working parents to set aside pre-tax dollars to pay for child care expenses.

With two-thirds of children ages five and under living in homes where all available parents are working, child care is not optional for most families – it's essential. Child care-related tax breaks can help parents offset the cost of care, but they haven't been updated in decades. The Senate tax package includes enhancements to the three provisions currently in the U.S. tax code.

The Child and Dependent Care Tax Credit (CDCTC)

The **Child and Dependent Care Tax Credit** is the only tax credit that directly helps low- and middle-income working parents keep more of what they earn to pay for child care.

How It Works Now (Simplified Version)

- Working parents can claim a portion of their child care expenses on their taxes – up to $3,000 for one child and up to $6,000 for two or more children.
- Families then receive a percentage of their claimed expense back as a tax credit. The amount is determined by a sliding scale, with families at lower income levels receiving a higher percentage back.

Under the Senate Proposal

- Under the Senate proposal, working parents can claim $3,000/$6,000 of their child care expenses. Now, however, families with the lowest incomes would receive 50% of their claimed child care expenses as a tax break (up from the current 35%). That percentage gradually decreases as incomes rise. This credit expansion would be permanent.
- As a result, nearly 4 million families* - including dual-income households earning up to $210K and single-income households earning up to $105K - would see an increased tax credit.

CDCTC	Under Current Law		The Senate Proposal		The Difference
If your family has a joint income of ...	You receive this percentage of your claimed expense ...	Your maximum credit for two children ...	You receive this percentage of your claimed expense ...	Your maximum credit for two children ...	This is a potential increase of ...
$30-$34K	34%	$2,040	49%	$2,940	**$900**
$58-$62K	27%	$1,620	42%	$2,520	**$900**
$86-$150K	20%	$1,200	35%	$2,100	**$900**
$182-$186K	20%	$1,200	26%	$1,560	**$360**
$206 + above	20%	$1,200	20%	$1,200	**SAME**

*Based on FFYF calculation from 2022 Internal Revenue Service filer data.

Employer-Provided Child Care Credit (45F)

The **Employer-Provided Child Care Credit (45F)** supports businesses who want to help locate or provide child care for their employees.

How It Works Now (Simplified Version)

- Businesses may receive a maximum tax credit of $150,000 (based on 25% of their qualified child care expenses). To receive the maximum credit, businesses need to spend $600,000 on child care-related expenses.

Under the Senate Proposal

- The Senate proposal would increase the maximum credit and credit rate, providing more of an incentive for businesses to participate. It would also index the credit to inflation.
- It would also create a larger credit rate and maximum credit for small businesses.
- And it would simplify the process for multiple employers to jointly contract with a qualified child care provider.

45F	Under Current Law	The Senate Proposal
% of child care expenses covered	25%	40% for larger businesses, 50% for small businesses
Maximum Credit	$150,000	$500,000 for larger businesses $600,000 for small businesses
Allows small businesses to pool to contract with a qualified child care provider	No	Yes

Dependent Care Assistance Plans (DCAP)

Dependent Care Assistance Plans (DCAP) allow 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).

How It Works Now (Simplified Version)

- Families whose employer participates in DCAP can deduct up to $5,000 per year from their pre-tax earnings to pay for dependent care expenses.
- This level was set in 1986.

Under the Senate Proposal

- The Senate proposal would increase the amount of pre-tax income that families can deduct to $7,500 annually.

DCAP	Under Current Law	The Senate Proposal
Amount a household can put into a pre-tax flexible savings account to use on child care	$5,000	$7,500

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