

THE EXPANDED 45F TAX CREDIT:

What Providers and Employers Need to Know

How employers and child care providers can work together to strengthen early learning and create sustainable business models

The Big Picture

Child care is one of the biggest barriers keeping parents out of the workforce. For employers, that means lost talent, higher turnover, and increased hiring costs. For early childhood programs – where costs are high but margins are razor-thin – it means struggling to find sustainable funding while working to stay open and serve families.

The 45F Employer-Provided Child Care Tax Credit changes that equation for both. It gives employers real financial incentives to invest in child care, and it creates new opportunities for early learning providers to grow and thrive on a more sustainable footing.

This resource explains how the credit works and how employers and providers can get started.

What Is 45F?

Section 45F of the Internal Revenue Code is a federal tax credit that lets employers claim substantial tax savings when they invest in child care for their employees. It has been on the books since 2001 but has historically seen limited use.

Starting January 1, 2026, 45F became significantly more helpful. The credit rates rose to 40% (50% for small businesses), annual caps more than tripled, and – for the first time – the law explicitly allows intermediaries like child care resource and referral agencies (CCR&Rs) and non-profit networks to help businesses navigate the credit. In other words, employers don't have to figure this out alone.

The expanded credit is available now.

What Changed in 2026?

Here's what expansion means:

Business Size	Previous Rate	New Rate (2026)	Previous Annual Cap	New Annual Cap
Small Business (\$31M or less in average annual gross receipts)	25%	50%	\$150,000	\$600,000
Other Businesses	25%	40%	\$150,000	\$500,000

In practical terms: a small business can now receive 50 cents back for every dollar it invests in child care for its employees. The annual cap for small businesses has also quadrupled, opening the door to substantial employer investment.

Why This Matters

For employers: child care support becomes a real financial incentive, not just a nice-to-have. It strengthens recruitment, improves retention, and shows employees that the organization is serious about family-friendly benefits.

For providers and networks: funding becomes available to invest in slots, quality improvements, and partnerships. The credit can also help provide a sustainable, predictable source of revenue.

For families: more employer support means more affordable child care – keeping parents working and strengthening the entire early learning sector.

How 45F Works

FOR PROVIDERS

Providers can partner with employers to unlock 45F by doing any of the following:

- Contracting with employers to reserve slots for their employees' children
- Receiving direct payments from employers on behalf of employee families
- Partnering with intermediaries or CCR&Rs to connect with employers seeking child care solutions
- Offering referral and enrollment services to employer partners

What Providers Need to Partner with Employers

To claim the 45F credit, an employer's child care partner must count as a "qualified child care facility" under the law. This means a program must:

- Hold a license and meet all applicable state and local child care requirements
- Have child care as its principal use (home-based programs are an exception)
- Keep enrollment open to employees of the partnering business
- Not give preference to those at the top of the pay scale

Beyond meeting these requirements, providers can make partnerships easier by:

- Keeping documentation of licensing and quality credentials on hand – employers will need it for their records
- Establishing a clear rate structure and a standard contract for employer partnerships
- Setting up simple invoicing so employers can easily track their eligible expenses

Child Care Businesses Can Use 45F

If a child care provider is also an employer, the program can claim the credit for child care provided or paid for on behalf of its own staff.

- One key rule: when child care is the provider's principal business, at least 30% of the facility's enrollees must be dependents of its employees for those costs to qualify.
- Payments to other licensed providers who care for staff members' children can also count.

FOR EMPLOYERS

Employers can claim the credit for:

- Building or improving on-site child care facilities
- Paying child care providers on behalf of employees
- Contracting with external child care providers for slots
- Offering employees referral services (through CCR&Rs or other agencies)

Claiming the credit is straightforward:

1. Track eligible expenses throughout the year
2. Complete IRS Form 8882, one of the IRS's simplest forms
3. Claim the credit on the annual federal tax return

Notes

- It is very important to keep good records along the way – documentation of eligible expenses, child care partner's license, and evidence that the benefit is available to employees broadly, not just those at the top of the pay scale.
- For employers building or expanding a facility: if the building stops operating as child care within ten years, a portion of the credit must be paid back.

A Quick Example

ABC Manufacturing has **250 employees** and wants to support child care.

The company contracts with three local providers and pays a total of **\$100,000 annually**.

HERE'S THE TAX CREDIT:

$$\begin{array}{rcccl} \$100,000 & & 40\% & = & \$40,000 \\ \text{IN} & & \text{CREDIT} & & \text{ANNUAL} \\ \text{EXPENSES} & \times & \text{RATE} & & \text{TAX CREDIT} \end{array}$$

This credit comes directly off ABC's federal tax bill.

NOTE: Because businesses can't deduct expenses they've already claimed as a credit, their *net savings* land slightly below \$40,000, but the return is still substantial and it comes on top of what the investment does for hiring and retention.

A New Option: Working Through an Intermediary

The updated 45F credit allows employers to work through an intermediary – a third party such as a Child Care Resource and Referral agency (CCR&R) – rather than managing everything themselves.

This matters because small and mid-sized businesses often don't have the HR staff to find providers, check quality, or manage contracts.

Think of an intermediary like a real estate agent for child care – someone who brings the two sides together and handles the details in between by:

- Connecting employers with vetted child care providers
- Calculating the expected return and making the business case clear
- Managing contracts and payments
- Handling tax documentation and reporting
- Matching and enrolling families

Important Note: this is a new model, and it's still taking shape. Few working examples exist so far, and the U.S. Department of the Treasury has not yet issued rules on how these arrangements should operate – including any limits on the fees intermediaries typically charge. Until that guidance arrives, employers and providers should review fee structures carefully.

Getting Started

For Providers and Networks:

- ✓ Identify employers in the community who might benefit
- ✓ Build relationships with intermediaries that can aggregate demand
- ✓ Develop intermediary services where capacity allows
- ✓ Ensure systems are in place to receive streamlined payments and share tax documentation

For Employers:

- ✓ Talk to an intermediary or CCR&R about how 45F could work for the business
- ✓ Use an ROI calculator to estimate potential savings
- ✓ Partner with quality child care providers
- ✓ Claim the credit on the annual tax return

Real World Examples: 45F

FM Bank and Trust in Blytheville, Arkansas – a steel town with a competitive local workforce - launched a child care program supported by 45F in January 2025 (under the smaller pre-2026 credit), offering up to \$5,000 per employee directly to licensed child care providers in the area. The program was introduced at one branch, where five employees enrolled in the initial offering, directly benefiting both the employees and their young children.

Bank leadership reports that the strong early results have prompted discussions about expanding the program to all 13 of its branches, signaling its potential as an effective workforce support and retention strategy in the community.

Frontier Co-op, headquartered in Norway, Iowa, is a member-owned cooperative that manufactures and sells herbs and spices. The company uses 45F to subsidize a portion of child care costs for employees. Families pay roughly \$110–\$115 a week per child for on-site care or receive partial reimbursement for using licensed providers outside the center.

According to Frontier, “Many of Frontier Co-op’s early employees were farming families. Parents often had to bring their children to work, which led the company to create a child care center, and today the 45F tax credit helps make it possible to sustain and expand that kind of support for working families.”

Why Should Providers Participate?

Financial stability

- Predictable, recurring revenue from employer contracts – not dependent on enrollment fluctuations
- Diversification of revenue streams that better reflects the actual cost of providing quality care
- Payments come directly from employers, reducing reliance on family co-pays
- Helps address the thin-margin problem by adding a stable revenue stream alongside existing funding

Business growth

- Reserved slots guarantee occupancy, which is one of the biggest drivers of financial instability for providers
- Employer partnerships can support expansion of capacity and slots
- Opportunity to build longer-term contracts rather than month-to-month enrollment
- Can support quality improvements that might otherwise be unaffordable

Market positioning

- Being a vetted, employer-preferred provider elevates a provider's standing in the community
- Builds relationships with local employers that can generate referrals beyond the formal contract
- Positions the program as a community anchor and business partner, not just a service provider

Workforce pipeline

- Stable, predictable revenue supports better staff compensation and retention
- Quality improvements funded through 45F partnerships can support broader workforce development goals

THE BOTTOM LINE

45F is a valuable opportunity for both companies and providers – and it's designed to be accessible. Employers and providers don't need to be tax experts to use it – intermediaries and CCR&Rs may be able to help them navigate it as federal guidance develops.

For employers, it's an investment in their workforce.

For providers, it's new revenue and partnerships.

For families, it's affordability and stability.

For the early learning sector, it's growth, quality, and sustainability.

Learn More

First Five Years Fund

- [Employer-Provided Child Care Credit \(45F\)](#) - an overview of what it is, how it works
- [How 45F Helps Employers Strengthen Child Care Options](#) - real-world stories of businesses using 45F to support employees and their bottom lines

Civitas Strategies

- [The Employer-Provided Child Care Tax Credit Guide](#) - a plain-language walkthrough of the credit, with worked examples and FAQs
- [The 45F Intermediary Opportunity](#) - a concept paper on what intermediary models could look like, including CCR&Rs, Tri-Share programs, and provider networks

Additional Resources

- IRS, [Employer-Provided Child Care Credit](#) (tax years 2026 and later)
- IRS Form 8882, [Credit for Employer-Provided Childcare Facilities and Services](#), and instructions
- Congressional Research Service, [“The 45F Tax Credit for Employer-Provided Child Care”](#) (IF12379)
- Bipartisan Policy Center, [“45F Employer-Provided Child Care Tax Credit: 2026 Guide”](#)

Contacts

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The first five years last forever. First Five Years Fund works to protect, prioritize, and build bipartisan support for quality child care and early learning programs at the federal level. Reliable, affordable, quality early learning and child care can be transformative, not only enhancing a child's prospects for a brighter future but also bolstering working parents and fostering economic stability nationwide. www.ffyf.org.

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