

Strengthening Child Care Tax Incentives to Support Working Families

Child care is not a luxury for American families – it’s a necessity. Yet the costs associated with quality child care are rapidly out-pacing most other expenses faced by families, including the cost of housing and higher education.

The U.S has traditionally used the tax code to help address real-world problems and to incentivize behaviors that result in overall economic benefits for Americans. **In the same way that tax credits are used to make retirement and higher education more accessible, the tax code should reflect that child care expenses typically are directly linked to a parent’s ability to work.** Strengthening the Child and Dependent Care Tax Credit (CDCTC) will help working families who are struggling with the rising cost of quality child care, benefiting the workforce of today – and tomorrow.

According to a 2019 report from Child Care Aware of America, on average, two-income families paid 11% of their income for child care, and in single-parent households, 36% of parent income goes to child care. And only 15% of American voters say that most or all local programs available to lower and middle-income families are high-quality and affordable. In fact, those making over \$100,000 per year are virtually just as likely as those who earn less than \$40,000 per year to say that few programs near them are affordable and high quality.

This pervasive lack of access to affordable, quality child care impacts the economic mobility of our nation’s families. According to the United States Census Bureau, caretaking contributed to mothers’ decisions to work part-time or take unpaid leave, but it played an even bigger role in deciding whether to work. Of women with at least one child under the age of 6, 61% reported caretaking as the reason they experienced joblessness and

75% of postsecondary students with children who dropped out of school say that child care would have helped them achieve their degree, while only 27% of students with children complete their degrees within six years.



The resulting growth of the child care sector also stands to immediately benefit the U.S. economy. According to the Committee for Economic Development, the U.S. child care industry directly and indirectly supports an estimated \$99.3 billion in total U.S. output. The industry is made up of 675,000 small businesses and provides over 1.5 million jobs.

Access to quality early learning affects more than just today’s workforce – it has a real impact on the workforce of the future by allowing children to develop the skills they need for success. While parents are working, crucial developmental experiences in quality child care build the cognitive and character skills that children need to do well in school and in life, including attentiveness, persistence, impulse control, and



sociability. In fact, studies show that children –in particular, those from low-income families – who receive a high-quality early childhood education are proven to be more likely to earn higher wages, live healthier lives, avoid engagement in the criminal justice system, raise stronger families, and contribute to society.



Only working parents pay taxes on the wages they earn and need tax relief for the child care costs that are directly associated with earning wages.

some middle-income, taxpaying families are unable to take advantage of it. The Tax Policy Center found that nearly 40% of the credit's value is claimed by families earning \$100,000 or more, while almost no families in lower tax brackets were able to access the credit. Making the enhanced CDCTC permanent would support families who can least afford quality child care.

● What is the Child and Dependent Care Tax Credit (CDCTC)?

While currently a handful of tax credits and deductions support families with children, only the CDCTC is designed to help working parents with the cost of work-related child care expenses. The credit allows families to claim a percentage of dependent care expenses depending on their adjusted gross income (AGI). A maximum credit of \$2,100 (35% of \$6,000 in expenses) is available to families with two or more children and an AGI of \$15,000 or less. The percentage declines by 1% (to a minimum of 20%) for each \$2,000 by which the AGI exceeds \$15,000. For tax year 2021, [COVID-19 relief legislation](#) made the CDCTC refundable and increased the maximum credit rate, the phaseout threshold, and the amount of eligible expenses.

👉 Why do we Need an Expanded Child and Dependent Care Tax Credit?

The recent, temporary changes to the CDCTC addressed long-standing issues that have prevented the credit from providing meaningful support to working families. First, 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, the maximum credit, prior to the 2021 amendments, represents only about 10% of the average annual cost of care for two children in the United States. Additionally, the credit is not currently refundable, meaning most low and

◆ Couldn't we eliminate the CDCTC and increase the Child Tax Credit (CTC)?

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, even those unrelated to the cost of raising children, and families with lower household incomes are expected to [use the CTC](#) to pay for essential costs such as food or rent.

In contrast, the CDCTC 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.

■ Voter Support for the CDCTC

According to a 2021 poll from FFYF, voters support making child care more affordable by providing parents with a child care tax credit.

