



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 \$10,853 per year, which represents 10% of household income for a married couple with children and 33% 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 ways² 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:

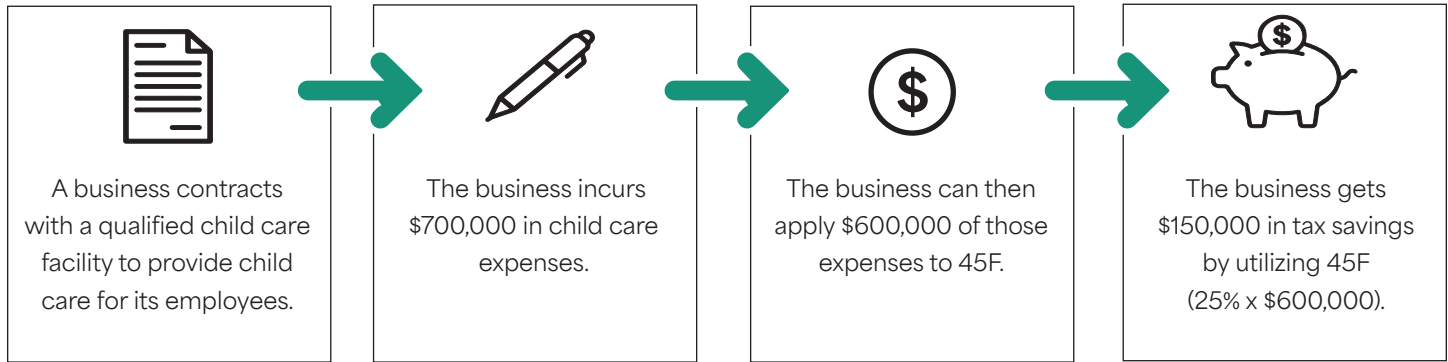
- Providing a qualified child care facility, which includes acquiring, constructing, rehabilitating, or expanding property to provide a child care facility to employees.
- Operating a qualified child care facility, which includes training costs, certain compensation for employees, scholarship programs, 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



*There are also other tax benefits available to businesses.

WHAT ARE THE CURRENT LIMITATIONS OF 45F?

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.

WHAT CAN CONGRESS CAN 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.

¹ Child Care Aware of America, "[Catalyzing Growth: Using Data to Change Child Care](#)"

² FFYF, "[Federal Tax Provisions That Support Child Care](#)"

³ U.S. Government Accountability Office (GAO), "[The 45F Tax Credit for Employer-Provided Child Care](#)"

⁴ FFYF, "[New Polling on Child Care and the 2024 Election](#)"

⁵ FFYF, "[Federal Tax Provisions That Support Child Care](#)"

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