

Millions of working families with young children need quality child care, but the eye-watering cost of care today means many can't afford it. And without it, many parents are forced to miss work or exit the workforce entirely, leaving families financially unstable, employers scrambling to fill jobs, and young children missing opportunities to learn and grow. Existing provisions in the federal tax code can play a powerful role in easing the tremendous financial burden of child care for working families, but they currently have a limited reach.

The bipartisan [Promoting Affordable Childcare for Everyone \(PACE\) Act](#), introduced on February 14, 2024, would [update tax provisions](#) to help more parents afford the child care they need.

1

Child care is one of the largest expenses most families with young children face, with an [average annual price](#) tag of \$11,582 or \$965 per month.

It can easily cost more than the average rent, leaving millions of working families struggling to afford the quality care they need. And without it, many parents are forced to miss work or exit the workforce entirely, leaving families financially unstable, employers scrambling to fill jobs, and young children missing opportunities to learn and grow. As [65% of children in the U.S. under 5](#) have all available parents in the workforce, access to affordable child care that meets each family's individual needs remains essential for a robust economy.

2

The [Promoting Affordable Childcare for Everyone \(PACE\) Act](#) would help provide some needed relief.

Introduced by [Reps. Claudia Tenney \(R-NY\)](#) and [Brad Schneider \(D-IL\)](#), this bipartisan bill would update existing provisions in the U.S. tax code to help more families afford child care by:

- **Enhancing the Child and Dependent Care Tax Credit (CDCTC)** by making the credit fully refundable so that it reaches more low- and middle-income working families; indexing the credit to inflation to ensure it matches rising costs of child care into the future, and raising the credit rate so that families will see more money back in their pockets.
- **Expanding the Dependent Care Assistance Plan (DCAP)** by increasing the amount of pre-tax dollars families can put into a child care assistance plan (similar to a Flexible Spending Account) from \$5,000 to \$7,500.

3

The policies in the PACE Act are popular with voters. The PACE Act puts parents in the driver's seat by ensuring that parents can choose the type of care that works best for their family.

- The CDCTC fosters parental choice by allowing parents to offset the cost of child care at the provider of their choice, whether it be center-based care, faith-based care, or an in-home child care provider.
- DCAP allows parents to save pre-tax dollars in a dependent care FSA for their child care costs, which parents can then use to cover child care costs at a provider of their choice.

4

Voters strongly support the provisions in the PACE Act.

- A [2024 poll from First Five Years Fund](#) found that 76% of voters (including 62% of Republicans, 74% of Independents, and 92% of Democrats) support increasing the CDCTC to help ease the burden of child care costs for working families.
- And 84% of voters (including 84% of swing state voters in AZ, MD, MT, OH, PA, and NV)) support [providing tax incentives](#) to businesses which provide or help their employees find and afford quality early childhood education programs.

5

And the PACE Act has had strong, bipartisan support.

In past Congresses, the bill was previously led by Ways & Means Chairman Jason Smith (R-MO) and former Rep. Stephanie Murphy (D-FL) in the House and Sens. Angus King (I-ME), Susan Collins (R-ME), Jacky Rosen (D-NV), Kyrsten Sinema (D-AZ), and former Sen. Richard Burr (R-NC), in the Senate. More recently, [leaders of the Bipartisan Pre-K and Child Care Caucus sent a letter](#) to the Ways and Means Committee, urging their colleagues to update the tax code to help make child care more affordable.

THE BOTTOM LINE

Congress has an opportunity to help ease the burden of one of the largest expenses facing working families by updating current child care focused tax credits as included in the PACE Act. Pairing tax reform with robust federal investments to strengthen child care supports working families with young children while ensuring greater economic stability across the country. [Learn more](#) about how adapting the tax code is a step towards more affordable child care in the United States.

ABOUT FIRST FIVE YEARS FUND:

The first five years last forever. At First Five Years Fund, we work with lawmakers on both sides of the aisle to protect, prioritize, and build support for early learning and child care programs at the federal level. Reliable, affordable, and high-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. Join us at www.ffyf.org.

