

August 5th, 2024

Dear House Ways and Means Committee Tax Teams:

Lack of access to affordable, quality child care across the country is having a tremendous impact on parents, children, and employers alike and is holding back our economy. The current child care specific tax provisions - the Child and Dependent Care Tax Credit (CDCTC), Dependent Care Assistance Program (DCAP), and Employer Provided Child Care Tax Credit (45F) - are outdated and simply don't do enough to address these challenges. As the House Majority Tax Teams look to update the tax code, we encourage you to use this opportunity to support hard working families and ease the burden of the cost of care, while also supporting a stable, reliable workforce for employers large and small, by making critical improvements to these provisions.

Existing sources of federal child care funding provide the foundation for supporting states' ability to increase access to affordable, quality child care for working families. However, the primary federal child care subsidy program, the Child Care and Development Block Grant (CCDBG), only serves about 13% of eligible children five and under - this shortage in subsidies leaves many families unable to access the care they need. The existing child care-related tax provisions can play a part in tackling our nation's child care challenges by helping more working families afford care by directly offsetting part of the cost. The CDCTC and DCAP help parents ease the financial burden of child care expenses by allowing them to keep more of what they earn, while 45F helps support employers who want to be part of the solution. Taken together, these federal provisions seek to support hard working families to better provide for their children while employers benefit from a reliable, dependable workforce. Therefore, in addition to robust increased investments to the core federal child care programs, we urge you to expand and better align these current tax provisions for working families and businesses to improve access to quality, affordable child care.

All children deserve access to safe and enriching child care experiences that help set them up for success in school and beyond. Yet, across the country, working parents struggle to access quality child care for their children while they work. Child care is unaffordable in every community across the country, with an average annual price of \$11,582 or \$965 per month.<sup>1</sup> This amounts to a substantial portion of the average family's income, putting additional undue strain on parents who are struggling to make ends meet, at times leaving parents in debt to pay for care. In addition to high costs, supply remains a challenge. Today there are 26.8 million people in the workforce – or one out of every six – who rely on child care and yet nearly one in three (31.7%) children with both parents in the workforce do not have access to

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<sup>1</sup> [https://info.childcareaware.org/hubfs/2023\\_Affordability\\_Analysis.pdf](https://info.childcareaware.org/hubfs/2023_Affordability_Analysis.pdf)

formal child care.<sup>2</sup> The child care gap is in part due to the high cost of providing child care. Many child care providers, themselves small businesses, operate on thin margins, and too often the communities with the greatest need have the most significant challenges in accessing care. In rural and small-town America, the child care gap is higher than the national average (35.1%).<sup>3</sup> Rural families feel this difference acutely, with two in three rural parents (64%) saying that finding child care is difficult, compared to 47% of urban parents.<sup>4</sup>

Without access to quality child care, parents experience declines in workplace productivity or are unable to work altogether. One estimate indicates the U.S. loses a total of \$122 billion in earnings, productivity, and revenue every year due to a continued failure to address the lack of access to affordable, quality child care for many working parents.<sup>5</sup> Our current tax code provides some support to increase the affordability and supply of child care, but limitations in these tax provisions reduce their ability to help working families access the quality child care that meets their individual needs.

The Child and Dependent Care Tax Credit (CDCTC) is the only tax credit that allows working parents to offset the high cost of child care. This credit also allows families to choose what model of care best fits their needs, it does not vary/depend on the type of care - it supports families with the care they choose. In practice, the average family who claims the CDCTC receives approximately \$600 per year, which does not provide adequate support to families as they face high child care costs and the credit has not been permanently updated since 2001.<sup>6</sup> This credit allows taxpayers to claim up to \$3,000 for one dependent (\$6,000 for two or more) in qualifying child care expenses. The maximum credit rate is 35% for the lowest-income taxpayers, and it phases-down as income increases until it reaches 20%. This means the most a parent with one child can receive is \$1,050 - a small fraction of the total cost of child care. We recommend Congress consider the following changes to the CDCTC:

- Make the credit fully refundable.
- Increase the value of the credit.
- Increase the credit rate for the lowest-earning families.
- Index increases to CDCTC maximum eligible expenses to inflation.

Dependent Care Assistance Programs (DCAPs) allow families to exclude up to \$5,000 in child care assistance from their gross income but is limited to those with a sponsoring employer. Child care assistance may include direct payments by an employer for an employee's child care tuition and/or employer sponsored Flexible Spending Accounts (FSAs). The \$5,000 maximum is

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<sup>2</sup> <https://bipartisanpolicy.org/report/child-care-gap/>

<sup>3</sup> <https://bipartisanpolicy.org/blog/rural-communities-feel-lack-of-child-care-options-more-acutely/>

<sup>4</sup> <https://bipartisanpolicy.org/blog/child-care-poll/>

<sup>5</sup> [www.strongnation.org/articles/2038-122-billion-the-growing-annual-cost-of-the-infant-toddler-child-care-crisis](http://www.strongnation.org/articles/2038-122-billion-the-growing-annual-cost-of-the-infant-toddler-child-care-crisis)

<sup>6</sup> [www.childcareaware.org/thechildcarestandstill/](http://www.childcareaware.org/thechildcarestandstill/)

not sufficient to offset the total cost of child care, the limit does not increase as parents have more children, and the provision has not been updated since 1986. Moreover, contributions to a DCAP decrease the maximum eligible expenses dollar-for-dollar with what a parent can claim on the CDCTC. This means parents who max out their DCAP are unable to claim the CDCTC for additional out-of-pocket expenses. We recommend that Congress consider the following changes to the DCAP:

- Increase the exclusion maximum to better reflect the cost of child care.
- Decouple dependent care assistance program (DCAP) exclusions from CDCTC expenditures. This would allow taxpayers to claim the CDCTC up to the maximum allowable expenses for any out-of-pocket child care expenses, regardless of employer DCAP contribution.

To help increase child care supply, the Employer-Provided Child Care Tax Credit (45F) incentivizes businesses to help their employees locate child care and increase the number of child care slots available in their community. Current law provides employers a nonrefundable tax credit of up to 25% of qualified child care expenditures and 10% of qualified child care resource and referral expenditures. The credit maximum is \$150,000, meaning businesses must spend \$600,000 to receive the full credit. 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. Because the credit is nonrefundable, nonprofits and other businesses without federal tax liability are not eligible to claim it. The GAO found that 45F currently has a low take-up rate, in part due to the limited financial incentive the credit offers businesses having not been updated since 2001. To make the credit more accessible to employers, we recommend Congress consider the following changes to 45F:

- Make the tax credit 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 make it more financially feasible to claim the credit.
- Simplify the process for multiple employers to jointly enter a contract with a qualified child care provider for child care services to claim the credit.

While expanding 45F can help incentivize more employers to be part of the solution, employers alone will not be able to cover the entire cost of child care for their employees, so enhancements to CDCTC and DCAP go hand in hand with 45F in helping to tackle the cost of care for working families. Increasing supports that help parents afford child care without concurrently increasing supply however will not increase access, as the marginal increase in a parent's budget is not enough to offset the cost to providers to increase their capacity or open a new business. Therefore, while enhancements to tax provisions are a key piece of tackling

the larger child care puzzle, dedicated federal investments to address child care supply in our country are also desperately needed.

There is longstanding bipartisan support for improving and expanding these tax provisions. The bipartisan Child Care Investment Act introduced by Rep. Salud Carbajal (D-CA) and

Rep. Lori Chavez-DeRemer (R-OR) would expand and improve all three provisions, and the PACE Act, introduced by Rep. Brad Schneider (D-IL) and Rep. Claudia Tenney (R-NY) would improve both the CDCTC and DCAP. In addition, the co-chairs of the Bipartisan Pre-K and Child Caucus sent a letter to Ways and Means Committee leadership calling on the committee to expand these tax provisions.<sup>7</sup>

Members on both sides of the aisle and voters across the political spectrum have made clear that without intervention, child care will continue to be unaffordable and inaccessible for working families.<sup>8</sup> Thank you for your time and consideration. We look forward to working with you to strengthen America's child care system and better support children and parents alike.

Sincerely,

### **National Organizations**

Abriendo Puertas/Opening Doors

America Forward

Association of Maternal & Child Health Programs

Bipartisan Policy Center Action

Bright Horizons

Busy Bees North America

Campaign for a Family Friendly Economy

Care.com

Child Care Aware of America

Council for Professional Recognition

Early Care & Education Consortium

Eastern Point Collective

Executives Partnering to Invest in Children (EPIC)

First Five Years Fund (FFYF)

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<sup>7</sup> [www.ffyf.org/wp-content/uploads/2024/01/Caucus-Tax-Letter.pdf](http://www.ffyf.org/wp-content/uploads/2024/01/Caucus-Tax-Letter.pdf)

<sup>8</sup> [www.ffyf.org/2024/05/16/new-polling-on-child-care-and-the-2024-election/](http://www.ffyf.org/2024/05/16/new-polling-on-child-care-and-the-2024-election/)

Goldman Sachs 10,000 Small Businesses Voices  
High Road Restaurants  
Independent Restaurant Coalition  
Kaplan Early Learning Company  
Kiddie Academy  
KinderCare Learning Companies  
Learning Care Group  
Low Income Investment Fund (LIIF)  
March for Moms  
Moms First  
National Association of Counties (NACo)  
National Association of Women Business Owners (NAWBO)  
National Child Care Association  
National Council of Jewish Women  
National Head Start Association  
New America's Early & Elementary Education Policy Program  
New Horizon Academy  
Parents as Teachers  
Primrose Schools  
Safari Kid Global Inc.  
Save the Children  
SHRM  
Small Business For America's Future  
Small Business Majority  
Start Early  
The Educare Network  
The Nest Schools  
The Sunshine House Inc  
TOOTRiS  
U.S. Chamber of Commerce  
YMCA of the USA

## **Local Chambers of Commerce**

Alaska Chamber  
Arizona Chamber of Commerce & Industry  
Association of Washington Business  
Boone Area Chamber of Commerce  
Business Council of Alabama  
Cabarrus Regional Chamber of Commerce  
Dayton Area Chamber of Commerce  
Greater Kansas City Chamber of Commerce  
Greater San Antonio Chamber of Commerce  
Greater Shreveport Chamber  
Greater Wilmington Chamber of Commerce  
Harrisonburg-Rockingham Chamber of Commerce  
Idaho Association of Commerce and Industry  
Indiana Chamber of Commerce  
Kentucky Chamber of Commerce  
Little Rock Regional Chamber of Commerce  
Metro Atlanta Chamber  
Michigan Chamber of Commerce  
Missouri Chamber of Commerce and Industry  
Montana Chamber of Commerce  
Mount Horeb Area Chamber of Commerce  
North Carolina Chamber  
New Jersey Chamber of Commerce  
Ohio Chamber of Commerce  
Santa Rosa Metro Chamber of Commerce  
South Carolina Chamber of Commerce  
The State Chamber of Oklahoma  
Vegas Chamber

## **State**

Alaska  
Arizona  
Washington  
North Carolina  
Alabama  
North Carolina  
Ohio  
Missouri  
Texas  
Louisiana  
North Carolina  
Virginia  
Idaho  
Indiana  
Kentucky  
Arkansas  
Georgia  
Michigan  
Missouri  
Montana  
Wisconsin  
North Carolina  
New Jersey  
Ohio  
California  
South Carolina  
Oklahoma  
Nevada

**Local Organizations**

Adirondack Foundation/Adirondack Birth to Three Alliance  
Advocates for Children of New Jersey  
Arizona Early Childhood Education Association  
Bell Policy Center  
California Child Care Resource & Referral Network  
Common Good Iowa  
Compliance Childcare Consulting  
Connecticut Voices for Children  
Early Childhood Alliance  
First Five Nebraska  
Georgia Early Education Alliance for Ready Students (GEEARS)  
Groundwork Ohio  
Illinois Action for Children  
Kansas Action for Children  
Kentucky Voices for Health  
Kids Win Missouri  
Louisiana Policy Institute for Children  
Maryland State Child Care Association  
Minnesota Child Care Association  
Neighborhood Villages  
Oklahoma Partnership for School Readiness  
Prevent Child Abuse Illinois  
Raising Illinois PN3 Coalition  
Texas Licensed Child Care Association  
Utah Private Child Care Association (UPCCA)  
VOICES for Alabama's Children  
Western Carolina University  
Zero to Five Montana

**State**

New York  
New Jersey  
Arizona  
Colorado  
California  
Iowa  
Colorado  
Connecticut  
Utah  
Nebraska  
Georgia  
Ohio  
Illinois  
Kansas  
Kentucky  
Missouri  
Louisiana  
Maryland  
Minnesota  
Massachusetts  
Oklahoma  
Illinois  
Illinois  
Texas  
Utah  
Alabama  
North Carolina  
Montana

**Child Care and Early Learning Providers**

	<b><u>State</u></b>
Academy for Artistic Development and Early Learning	Texas
Adventure Discovery Center	Texas
Appleseed Childhood Education	Indiana
Brainy Kids Place, LLC	Texas
Christian Preschool Centers, Inc.	Texas
Clayton Early Learning	Colorado
Country Kids Academy	Texas
DAYTRIP	California
Ds Heart to Heart	Texas
Early Learner South Dakota	South Dakota
Faith Academy	Texas
First Class Child Care Center	Texas
Footprints Learning Academy	Texas
Footsteps & Fingerprints	Texas
Garden Ridge Prep. School	Texas
Gingerbread Kids Academy	Texas
Greystone House Montessori	Texas
Heartland Montessori Academy	Texas
Hopscotch Learning Academy	Texas
Jefferson Place Learning Center, Inc.	Texas
Kidco Learning Center	Texas
Kids Clubhouse	Texas
Kids R Kids Seven Lakes	Texas
Kids World Learning Center	Texas
Kindred Learning Academy	Texas
Little Treeschool/Big Treeschool	Montana
Little Tyke Learning Centers	Texas
Mini Kidspace Daycare & Learning Academy, Inc.	Texas
Miss Bloomingdale's Academy	Texas
Montessori of University Village	Texas
Moore County Chamber of Commerce	North Carolina



Noah's Ark Childcare	Montana
Odessa Day Nursery	Texas
OurKids Montessori School	Texas
Primrose School of Prosper	Texas
Providence Preparatory School	North Carolina
PSA	Texas
Rise Academy	Texas
Rising Starz Child Care Center	Texas
Spell Well Montessori School	Texas
St. Paul Lutheran YKT Child Care Center/The Learning Garden	Texas
Stepping Stones Academy	Texas
Stonegate Angel Care	Texas
The Toddlers Den	Texas
This Little Light Learning Center	Texas
Tiny Tots U Learning Academy	Texas
Tomorrow's Promise Montessori Schools	Texas
Young Sprouts Creative Learning Center	Texas
ZONE 4 KIDS CHILD CARE & LEARNING CENTER	Texas
Zutado Soul	North Carolina