Talking Points

Updated: October 2024

External: Child Care Tax Credits

Key Takeaways

- Along with robust federal funding, tax reform is an important tool in helping more working families find and afford the child care options they need.
- The tax code contains several provisions designed to help working families with child care expenses, but most haven't been updated in decades and, as a result, have not kept pace with the cost of care.
- Modernizing the tax code would help hard-working families pay for the child care they need to work or to look for work.
- There is strong, bipartisan support among both voters and legislators for updating child care provisions in the federal tax code
- And with major provisions of the Tax Cuts and Jobs Act of 2017 expiring next year, Congress has a prime opportunity to make these changes, helping to ease the cost burden for families today while continuing to advocate for the policies that will improve and strengthen federal programs in the longer term.

Talking Points

Child care-specific provisions in the existing federal tax code could play a powerful role in helping working families afford child care.

- The U.S. has traditionally used the tax code to help address real-world challenges and to encourage actions that result in tremendous economic success for our country.
- In the same way that tax credits are used to make retirement and home buying more accessible, the tax code should reflect that child care expenses are typically linked to a parent's ability to work and account for one of the most significant expenses in a family's budget. These include:
  - The **Child and Dependent Care Tax Credit,** the only tax credit that directly helps low- and middle-income working parents offset the cost of child care;
  - **The Dependent Care Assistance Plan, or DCAP,** a flexible spending account (like a health savings account) allowing working parents to set aside pre-tax dollars for child care expenses;
  - And the **Employer-Provided Child Care Credit (known as 45F)**, which supports businesses who want to locate or provide child care for their workforce.

But these provisions are currently out of date and now have a very limited reach.

- These provisions are long overdue for an update and are wildly out of step with the actual cost of child care in this country.
- For example, the CDCTC has not been adjusted in more than two decades, so the benefit has remained the same even as the cost of child care has risen dramatically.

The Child & Dependent Care Tax Credit and the Child Tax Credit are different.

- Many advocates also talk about the Child Tax Credit (CTC) as a benefit to help families. It's important to understand that the CDCTC and CTC support families in very different ways. Families need both.
- The Child Tax Credit (CTC) can be used by families to offset any costs associated with raising a child, like food, rent, clothes, medicine, diapers, etc. It plays an essential role in helping to lift families out of poverty.

- The Child and Dependent Care Tax Credit (CDCTC) specifically helps working parents offset the cost of child care and puts parents in the driver's seat to help ensure families can choose the type of care that works best for them.

There is strong bipartisan support for updating child care provisions in the tax code.

- In a 2024 national poll from FFYF, 76% of voters support increasing the CDCTC, including 62% of Republicans, 74% of Independents, and 92% of Democrats.
- And there are multiple bipartisan bills focused on modernizing the child care provisions of the tax code, including the Child Care Investment Act, the PACE Act, and the Child Care Availability and Affordability Act (among others.) Here's a list.

The time is right. In 2025, there is momentum and opportunity to make change.

- With the major provisions of the Tax Cuts and Jobs Act of 2017 (TCJA) expiring at the end of 2025, Congress will be focused on tax debates next year.
- This provides a don't-miss opportunity to reform the tax code and modernize the CDCTC, DCAP and 45F to better help working families offset the cost of quality child care.
- And momentum is already growing on the Hill, with multiple child care bills introduced by Republicans and Democrats in both the House and Senate. These bills would modernize child care-specific provisions of the tax code to support working families with young children, motivate employers, and bolster the economy.

Conclusion

- Congress can support working families with young children, local employers, and the economy by modernizing the child care provisions in the tax code.
- In 2025, Congress has the opportunity to update the tax code to support working families who need affordable, quality child care. Lawmakers should seize and maximize this chance.
- Making child care more affordable and accessible for working parents not only strengthens family finances but also supports a thriving workforce, boosts the economy, and provides young children with vital opportunities to learn and grow.

Action: Members and Staff

Sign on to bipartisan legislation including:

- **Child Care Availability and Affordability Act - S. 4874** *Sen. Katie Britt (R-AL), Sen. Tim Kaine (D-VA)*
- **The Child Care Investment Act of 2023 - H.R. 4571** *Rep. Salud Carbajal (D-CA), Rep. Lori Chavez De-Remer (R-OR)*
- **The Promoting Affordable Child Care for Everyone (PACE) Act – H.R. 7360** *Rep. Brad Schneider (D-IL), Rep. Claudia Tenney (R-NY)*
- **The Affordable Childcare Act - H.R. 8635** *Rep. Sharice Davids (D-KS), Rep. Marc Molinaro (R-NY)*
- Or any of these included in this list of tax bills.

Action: Partners and Advocates

Contact Joe O'Hern (johern@ffyf.org) to sign on to the latest letter to Ways & Means

Resources

- Side-by-Side: Comparing Tax Bills in the 118th Congress
- The Child Tax Credit and the Child & Dependent Care Tax Credit: Understanding The Differences