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LAW CENTER**



# Tax Credits Related to Child Care

# Child Care Tax Provisions for Families

- Federal Child and Dependent Care Tax Credit (CDCCTC) (nonrefundable)
- 28 states have child and dependent care tax provisions
  - 25 states have credits (15 of which are refundable)
  - 4 states have deductions

# How Do These Tax Provisions Work for Families?

- Families claim a tax benefit based on out-of-pocket care expenses when they file their tax returns
- Expenses generally must be
  - Related to work or finding work
  - Under a certain limit (federal: \$3,000 for one child/\$6,000 for two or more)
- Percentage based on income is applied to expenses

# How Do These Provisions Help Families?

- Child and dependent care tax provisions *reduce the amount of tax or provide tax refunds*
- *Example:* A single mother with two children lives in Silver Spring. She is paid \$30,000 per year and spends \$6,000 on child care expenses.
  - *Theoretically, she is eligible for a \$1,620 federal credit (nonrefundable) and a \$518 MD child care credit (refundable).*
  - However, if she claims the standard deduction, this mother will only have \$923 in federal tax liability. So, she can only receive a \$923 federal credit (nonrefundable) and a \$295 MD child care credit (refundable).
  - (This does not take other tax credits like CTC and EITC into account.)

STATE TAX PROVISION <sup>1</sup>	MAXIMUM VALUE
Arkansas Child Care Credit	\$420
<b>Arkansas Early Childhood Program Credit<sup>2</sup></b>	<b>\$420</b>
California Child and Dependent Care Expenses Credit	\$1,050
<b>Colorado Child Care Expense Tax Credit<sup>3</sup></b>	<b>\$1,050</b>
<b>Colorado Low-Income Child Care Expenses Credit</b>	<b>\$1,000</b>
Delaware Child Care Credit <sup>4</sup>	\$1,050
District of Columbia Credit for Child and Dependent Care Expenses	\$672
<b>District of Columbia Keep Child Care Affordable Tax Credit</b>	<b>\$1,115 (per eligible child)</b>
Georgia Child and Dependent Care Expense Credit	\$630
<b>Hawaii Credit for Child and Dependent Care Expenses</b>	<b>\$5,000</b>
Idaho Tax Subtraction for Child and Dependent Care Expenses	\$780
<b>Iowa Child and Dependent Care Credit<sup>5</sup></b>	<b>\$1,575</b>
Kansas Credit for Child and Dependent Care	\$525
Kentucky Child and Dependent Care Credit	\$420
<b>Louisiana Child Care Credit<sup>6</sup></b>	<b>\$1,050</b>
<b>Louisiana Child Care Expense Credit<sup>7</sup></b>	<b>\$2,100</b>
<b>Maine Child Care Credit<sup>8</sup></b>	<b>\$1,050</b>
<b>Maine Adult Dependent Care Credit<sup>9</sup></b>	<b>\$525</b>

# What Are the Limitations of These Provisions?

- Small, complementary role in child care assistance
  - Does not increase child care supply or help child care providers
  - Must be paired with robust direct child care assistance
- Improvements
  - Refundable
  - Percentages are higher for lower-income families

# Other Child Care Related Tax Provisions

- Dependent Care Assistance Program (DCAP)
- Employer-Provided Child Care Credit (EPCCC)
- Federal and state policymakers have recently shown renewed interest in expanding these provisions
- They do not meaningfully help families with low incomes or help build the child care supply

# Dependent Care Assistance Program

- Allows employees to put aside \$5,000 pre-tax dollars for child care expenses if employers permit
- Are available mostly to higher earners
  - Families with \$100,000 or more received 88 percent of the benefit
  - Families making <\$30,000 received 1 percent
- Only useful to families who can afford to set money aside out of their paychecks
- Doesn't give families more resources to pay for care expenses



# Employer-Provided Child Care Credit

- Allows a business to claim the credit if it provides child care benefits to its employees
- Federal EPCCC and 19 state EPCCCS, but aren't widely used
  - In 2020, less than 1 percent of corporate tax returns claimed the EPCCC
  - Since 2002, 10 states have repealed or discontinued their employer tax credits.
- Most likely to benefit big, corporate employers--significant upfront and on-going costs for on-site child care
- Not all employees benefit--more available at corporate headquarters, but not in warehouse, distribution, or retail locations

## For More Information

- States Can Make Care Less Taxing, Tax Year 2023: <https://nwlc.org/resource/states-can-make-care-less-taxing-tax-credits-related-to-child-care-tax-year-2022/#>
- Tax Credits Are Not the (Full) Solution to the Child Care Crisis: <https://nwlc.org/why-tax-credits-are-not-the-full-solution-to-the-child-care-crisis/>
- Improving the Child and Dependent Care Tax Credit Would Help More Working Families with the High Cost of Child Care: <https://nwlc.org/resource/improving-the-child-and-dependent-care-tax-credit-would-help-more-working-families-with-the-high-cost-of-child-care/>
- If you have questions, you can reach out to Kat Menefee at [kmenefee@nwlc.org](mailto:kmenefee@nwlc.org)