February 11, 2025

Dear Member of Congress,

Working families across the country depend on quality, affordable, and reliable child care – but this care is often too costly and difficult to find. These challenges hurt our youngest learners, parents, as well as employers, and the health of our economy, which relies on a stable workforce. Current child care tax provisions - the Child and Dependent Care Tax Credit (CDCTC), Employer Provided Child Care Tax Credit (45F), and Dependent Care Assistance Program (DCAP) - are an important part of the solution, benefiting working parents and supporting economic stability across the country. With the 2025 expiration of several provisions of the Tax Cuts and Jobs Act (TCJA), Congress has the opportunity to not only protect but modernize these credits to better serve more families. Therefore, we encourage you to prioritize the needs of working families by making the inclusion of these credits a top priority in any negotiated tax package that moves forward this Congress.

CCAoA is the only national organization that supports every part of the child care system. Together with an on-the-ground network of child care resource and referral (CCR&R) organizations working in states and communities, CCAoA provides research that drives effective practice and policy, builds strong child care programs and skilled professionals, helps families find and afford quality child care, delivers thought leadership to the military and direct service to its families, works with employers on child care solutions, and provides a real-world understanding of what works and what doesn't to spur policymakers into action and help them build solutions. Together we make America child care strong—and that makes everyone stronger.

Across the country, working parents struggle to access and afford quality child care for their children while they work, attend school, or job training. Child care is unaffordable in every region of the country, with an average annual price of $11,582 or $965 per month.[1] This amounts to a substantial portion of the average family's income, and in many cases is a family's largest monthly expense, straining parents who are struggling to make ends meet. At the same time, child care supply remains a challenge, with the rising costs to provide high-quality and safe care, it continues to be increasingly difficult for providers to keep their businesses afloat. 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 the continued failure to address the lack of access to affordable, quality child care for working parents.[2]

The CDCTC is the only tax credit that is specifically designed to offset the cost of child care so that parents can keep more of what they earn to help pay for it. The CDCTC has not been permanently updated since 2001, which means the value has not kept up with the current high cost of child care. The credit allows taxpayers to claim a percentage of up to $3,000 for one dependent ($6,000 for two or more) in qualifying child care expenses. However, the average family who claims the CDCTC receives about $600 per year, which does not even cover the cost of one month of child care for most families. Additionally, many families with low income receive little or no credit because the credit is not refundable. If families have zero tax liability, they do not receive the value of the credit as a refund. Making the credit fully refundable, allowing families with low-income to receive the full benefit, increasing the credit amount, and indexing the maximum credit to inflation are all strategies that will help the credit serve more families that need help paying for child care.

The American Rescue Plan Act (ARPA) expanded and improved the CDCTC in tax year 2021. Under the ARPA, the CDCTC was worth a maximum of $4,000 for one child and $8,000 for two or more children.[3] Parents who claimed the credit received an average credit of $2,100.[4] The credit was also made fully refundable, meaning some families with low-income struggling with child care costs were able to claim the CDCTC for the first time. In 2022, nearly 6.5 million families received the expanded CDCTC for the 2021 tax year.[5] This amounted to 288,000 more families that received the credit than in 2020, before the ARPA expansion. An increase in the amount of CDCTC funds parents receive is correlated with more mothers entering the workforce. One study found that on average a $100 increase in CDCTC benefits was associated with a 1.5% increase in maternal labor force participation.[6] Another report similarly found that simply making the credit refundable would help reduce child poverty by 9.2 percent over ten years.[7]

Currently, there are proposals in Congress to cut the CDCTC. This would harm working families who rely on the CDCTC to help afford child care. For families with an income too high to qualify for subsidies under the Child Care and Development Block Grant (CCDBG), but who still do not make enough to easily afford child care, this is one of the only dedicated tools available to provide financial relief.

While Congress may also consider expanding the Child Tax Credit (CTC), this should be done alongside updates to the CDCTC. Families need both tax credits - the CTC has proven to be a meaningful support to families managing the high costs associated with raising a child, but families also need dedicated support to offset the high cost of child care specifically. During the expansion of the CTC in 2021, only about 16% of parents used the funds to pay for child care, the majority needed to use the larger return for other necessities such as food, utilities, housing, and other expenses.[8] Families need the additional support of dedicated child care tax credits to truly see relief from the high cost of child care.

The Employer-Provided Child Care Tax Credit (45F) incentivizes businesses to help their employees locate child care and offset costs. Currently, employers are given a nonrefundable tax credit of up to 25% of qualified child care expenditures and 10% of qualified child care resource and referral expenditures. The maximum credit is $150,000 per year, meaning businesses must spend $600,000 to receive the full credit. This is prohibitive for small businesses that are unable to make investments of that size in child care. Additionally, because the credit is nonrefundable, nonprofits and businesses without federal tax liability are not eligible to claim the credit. For the credit to be more accessible to employers, Congress has the opportunity to modernize the credit by increasing the maximum credit and credit rate, making it fully refundable, developing tiered credit rates for small and rural employers to incentivize take-up, and simplifying the contract process with qualified child care providers.

Dependent Care Assistance Programs (DCAPs) allow families with a sponsoring employer to exclude up to $5,000 in child care assistance from their gross income. Child care assistance may be paid to an employee in the form of direct payments by an employer and/or employer-sponsored Flexible Spending Accounts (FSAs). Having not been updated since 1986, this credit falls short of covering today's cost of child care. The maximum amount is $5,000, which is far less than the average annual cost of care and does not increase if parents have more than one child. Additionally, parents who max out their DCAP are unable to also claim the CDCTC for additional out-of-pocket child care expenses. Increasing the maximum deduction and decoupling DCAP exclusions from CDCTC would go a long way modernizing this credit to better support families' needs.

Efforts to protect and expand child care tax credits have a long history of bipartisan support from Members on both sides of the aisle and are supported by voters across the country.[9] In the 118th Congress, several bills were introduced in the House and Senate by Republicans and Democrats, acknowledging that without intervention, child care will continue to be unaffordable and inaccessible for working parents.[10] We urge Congress to protect and enhance these child care-specific tax credits in any negotiated tax package that moves forward this Congress to ensure that working families receive the support they need to make child care affordable. 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.

Sincerely,

Susan Gale Perry

Chief Executive Officer
Child Care Aware® of America

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[10] First Five Years Fund. (October 2024). Side-By-Side: Comparing Tax Bills, 2024. https://www.ffyf.org/resources/2024/09/side-by-side-comparing-tax-bills-2024/