

## MEMORANDUM

To: Individuals and Organizations Interested in Child Care  
From: Joan Entmacher, Amy K. Matsui, and Susanna Birdsong  
Date: February 11, 2015  
Re: Developments in Federal and State Child and Dependent Care Tax Provisions in 2014

Tax provisions for child and dependent care expenses provide valuable help to many families struggling to pay for the care necessary for them to earn a living. The tax codes of the federal government and 26 states, including the District of Columbia, currently contain a total of 34 child and dependent care (CADC) provisions that reduce the amount of tax owed by families and, in some instances, increase their tax refunds. While some state legislatures have continued to improve their provisions, progress has slowed in recent years, and some states have reduced or even eliminated benefits provided to families through CADC provisions. Advocates can help to expand the number of provisions, improve existing provisions, and inform families about these and other federal and state tax provisions that can help them meet their CADC expenses.

This memorandum summarizes changes to federal and state child and dependent care tax provisions that were enacted or took effect in 2014. The federal Child and Dependent Care Tax Credit was unchanged in 2014, but at the state level, there were two improvements and one setback. Colorado enacted a new, refundable Low-Income Child Care Expenses Credit, effective for tax year 2014, for families with incomes of \$25,000 or less who are unable to claim the federal CADC credit or existing Colorado CADC credit because they do not have federal income tax liability. Iowa improved its existing CADC credit, allowing lower-income families with little or no federal tax liability to claim the state credit, beginning in tax year 2015. But in North Carolina, the 2013 repeal of its CADC credit took effect for tax year 2014.

This memorandum supplements the National Women's Law Center's April 2011 edition of its publication *Making Care Less Taxing: Improving State Child and Dependent Care Tax Provisions*<sup>1</sup> and its accompanying state-by-state report card *Making the Grade for Care*,<sup>2</sup> which together present a comprehensive overview of CADC provisions in effect through tax year 2010. This memorandum and the Center's February 10, 2014, March 8, 2013, and February 10, 2012 memoranda summarizing developments in federal and state CADC provisions in 2013<sup>3</sup>, 2012<sup>4</sup> and 2011<sup>5</sup> provide information on changes since 2010.

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<sup>1</sup> Nancy Duff Campbell et al., Nat'l Women's Law Ctr., *Making Care Less Taxing: Improving State Child and Dependent Care Tax Provisions* (2011), available at [http://www.nwlc.org/sites/default/files/pdfs/nwlc-mclt2011-without\\_report\\_card\\_inside\\_and\\_bookmarked.pdf](http://www.nwlc.org/sites/default/files/pdfs/nwlc-mclt2011-without_report_card_inside_and_bookmarked.pdf) [hereinafter *Making Care Less Taxing*].

<sup>2</sup> Nat'l Women's Law Ctr., *Making the Grade for Care: Ranking State Child and Dependent Care Tax Provisions* (2011), available at <http://www.nwlc.org/sites/default/files/pdfs/nwlc-makinggradeformcare2011.pdf>.

<sup>3</sup> Nat'l Women's Law Ctr., *2014 Supplement to Making Care Less Taxing: Improving State Child and Dependent Care Tax Provisions* (Feb. 2014), available at <http://www.nwlc.org/resource/2014-supplement-making-care-less-taxing-improving-state-child-and-dependent-care-tax-provis>.

This memorandum also reminds advocates of the materials available as a part of the Center's Tax Credits Outreach Campaign to increase the number of eligible families claiming these and other family-related federal and state tax benefits. These materials explain federal and state tax provisions and assist advocates in reaching families who are eligible to claim the benefits of these provisions. The materials also include information on the Premium Tax Credit that is available to help families pay for health insurance, a tax checklist for survivors of domestic violence, and resources for immigrant families.

### **Changes to State CADC Provisions in 2014**

In Colorado, families with incomes at or below \$25,000 who have no federal tax liability (making them ineligible for the federal CADC credit and consequently, the existing Colorado CADC credit) will benefit from a new refundable child care expenses tax credit.<sup>6</sup> For these families, the new Low-Income Child Care Expenses Credit is worth 25 percent of eligible expenses for the care of a dependent less than 13 years old that the taxpayer incurred during the year. The credit is worth a maximum of \$500 for a one child or \$1,000 for two or more children. This credit is available to Colorado families for tax year 2014.

In Iowa, families with limited federal tax liability will soon benefit from an amendment to the state's current CADC credit. Beginning in tax year 2015, the state credit will be calculated as a percentage of the federal credit *before* it is limited by federal tax liability.<sup>7</sup> Prior to this change, many low-income families in Iowa were unable to fully benefit from the state credit because it was calculated as a percentage of the federal credit, after the federal credit had been limited by federal tax liability. (If tax filers have little or no federal income tax liability, they may not claim the federal credit because it is not refundable. Even if low-income families claim the federal credit, they may not fully benefit from that credit because of limited federal tax liability.) For example, if a family's federal credit based on its applicable percentage of expenses is \$800 but its federal tax liability is only \$200, the family is able to claim a credit of only \$200 on its federal return—and thus a percentage of that reduced amount on its state return. Because of the 2014 amendment to Iowa law, that family will be able to claim an Iowa credit based on a percentage of the full \$800 for tax year 2015—but not when they file their taxes this year for 2014.

As part of a broader tax overhaul, North Carolina repealed its CADC in 2013, and that change will take effect in tax year 2014.<sup>8</sup> Families in North Carolina will not be able to claim the state credit, previously worth up to \$780, when they file their taxes for 2014 in 2015 or later years, unless the credit is reinstated. This change in law will result in a significant loss for

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<sup>4</sup> Nat'l Women's Law Ctr., *2013 Supplement to Making Care Less Taxing: Improving State Child and Dependent Care Tax Provisions* (Mar. 2013), available at <http://www.nwlc.org/resource/2013-supplement-making-care-less-taxing-improving-state-child-and-dependent-care-tax-provis>.

<sup>5</sup> Nat'l Women's Law Ctr., *2012 Supplement to Making Care Less Taxing: Improving State Child and Dependent Care Tax Provisions* (Feb. 2012), available at <http://www.nwlc.org/resource/2012-supplement-making-care-less-taxing-improving-state-child-and-dependent-care-tax-provis>.

<sup>6</sup> Colo. Rev. Stat. § 39-22-119.5 (2014).

<sup>7</sup> 2014 Iowa Legis.Serv. S.F. 2337 (West).

<sup>8</sup> 2013 N.C. Sess. Laws 316, § 1.1(b) (2013).

families in North Carolina who incur employment-related child and dependent care expenses. For example, in tax year 2012, 237,755 tax filers claimed the North Carolina CADC credit, for a total of \$53,642,500.<sup>9</sup>

### **Tax Credits Outreach Campaign for Tax Year 2014**

Each year, the Center conducts a national Tax Credits Outreach Campaign in partnership with state advocates and service providers to help families take advantage of federal and state child and dependent care tax provisions and other valuable tax benefits. Campaign partners work to get the word out to families through child care services and other networks, the media, large employers, and state agencies. Similar campaigns in previous years have significantly increased the number of families claiming these tax benefits and the amount of benefits they receive.

The Center provides outreach materials to Campaign partners, including fliers available in Spanish, English, Mandarin Chinese and Vietnamese, and other informational materials to inform families about the benefits available for tax year 2014 from the federal CADC credit, Earned Income Tax Credit, Child Tax Credit, and Premium Tax Credit that is available to help families pay for health insurance. The Center has also prepared state-specific fliers in English and Spanish for every state, describing parallel state tax provisions, as well as a variety of other informational and campaign materials. All of these materials are available on the Center's tax credits outreach campaign web page, [www.nwlc.org/loweryourtaxes](http://www.nwlc.org/loweryourtaxes).

You can help spread the word to eligible families by distributing outreach fliers, including an article about tax credits in your newsletter, and linking to the Center's tax credits outreach web page on your website. To find out more about how you can spread the word about valuable federal and state tax benefits, check out the Center's Toolkit for Child Care Advocates, also available at [www.nwlc.org/loweryourtaxes](http://www.nwlc.org/loweryourtaxes).

The Center invites you to become a Community Partner in the campaign. The Center is providing its Community Partners with tailored materials, including media materials, and technical assistance upon request. To sign up to be a Community Partner, please contact Amanda Hooper at [ahoop@nwlc.org](mailto:ahoop@nwlc.org).

### **Conclusion**

For more information about federal and state tax credits for which families may be eligible, please visit [www.nwlc.org/loweryourtaxes](http://www.nwlc.org/loweryourtaxes). Center staff would be happy to work with you to establish or expand a child and dependent care tax provision in your state, conduct a conference call or webinar for advocates in your state, or connect your organization with tax credits outreach campaigns in your area. Please contact Amy Matsui at [amatsui@nwlc.org](mailto:amatsui@nwlc.org) for more information.

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<sup>9</sup> Telephone Interview with Thomas Beam, Tax Specialist, North Carolina Dep't of Revenue (Feb. 6, 2014).