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CHILD CARE

Tax Provisions Fail to Fill the Gaps in Child Care Assistance for Low-Income Families

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High-quality child care gives children a strong start toward success in school and life and enables parents to work and support their families. Yet many families—particularly low-income families—lack access to the high-quality child care and early education they need. The Child Care and Development Block Grant (CCDBG) provides direct child care assistance for low- and moderate-income families—but the funding falls far short of the need. Two tax provisions—the Child and Dependent Care Tax Credit (CDCTC) and the Dependent Care Flexible Spending Account (FSA)—are intended to help working families meet their child care expenses. Yet these tax policies provide little or no help to the low-income families who need it the most.

Child care is a major expense—especially for lower-income families.

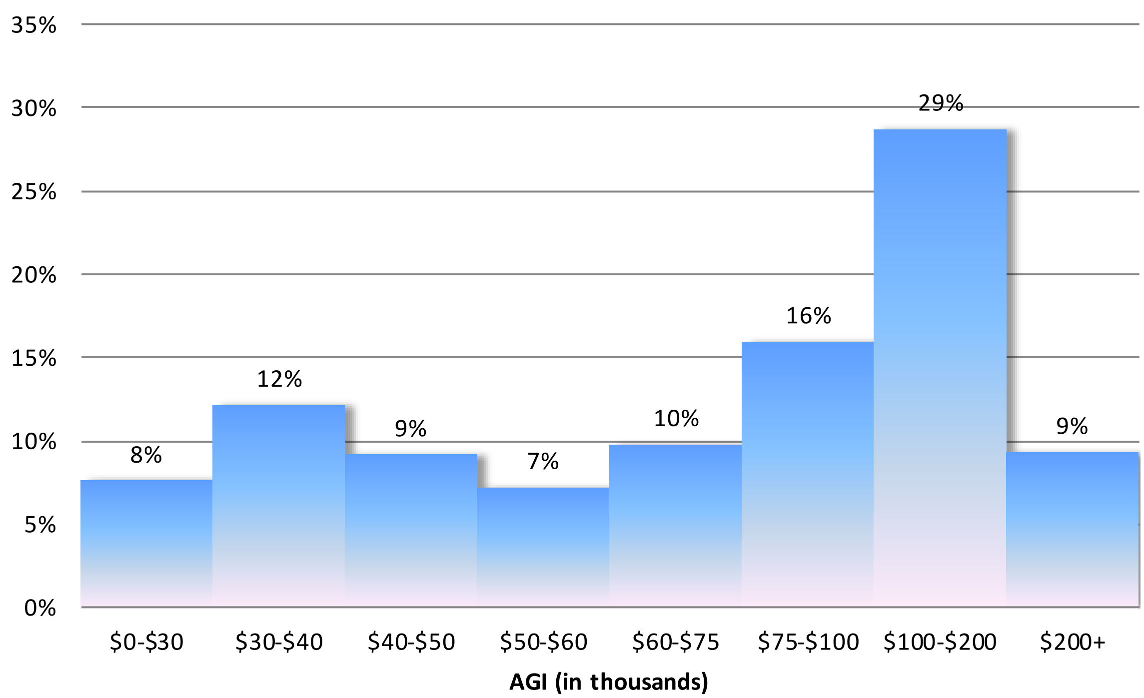
- The average cost of full-time care for one child ranges from approximately $4,000 to over $16,500, depending on the age of the child, the type of care and where the family lives.[1]
- One in five working mothers of children ages three and under works in a job that typically pays $10.50 per hour or less.[2] A woman who earns $10.50 per hour and works full time, year round only makes $21,000 per year.
- Child care consumes a larger share of the budgets of lower-income families. Families below the federal poverty line who pay for child care for children under age five spend an average of 36 percent of their income on that care.[3] For families between 100 to 200 percent of the federal poverty line, those costs average 20 percent of family income.[4]

Many lower-income families do not receive the direct child care assistance they need.

- Only 17 percent of the 14.3 million children eligible for federal child care assistance received it in 2011 (the most recent year for which data are available).[5]
- The average number of children receiving federal child care assistance each month in 2014—1.41 million—was at the lowest level since at least 1998.[6]
- Many families with incomes too low to afford child care are not eligible to receive child care assistance under their states' restrictive eligibility limits. In 2015, a family with an income above 150 percent of poverty ($30,135 a year for a family of three in 2015) could not qualify for assistance in 17 states. A family with an income above 200 percent of poverty ($40,180 a year for a family of three in 2015) could not qualify for assistance in 39 states.[7]
- Even families eligible for child care assistance may not receive it. Twenty-one states had waiting lists or frozen intake (meaning that they turned away eligible families without adding their names to a waiting list) for assistance in 2015.[8] In a number of states, these waiting lists are quite long—over 25,000 children in Massachusetts, over 31,000 children in North Carolina, over 51,000 children in Florida as of early 2015.[9]

- Families who receive child care assistance may still incur substantial child care expenses. In 17 states in 2015, a family of three at the poverty line ($20,090) is expected to pay 7 percent or more of their income in copayments.[10] In 29 states, a family at 150 percent of the poverty line ($30,135 for a family of three) is required to make copayments equal to 7 percent or more of their income.[11] That is a larger share of their income than families with incomes above 200 percent of poverty spent on average on child care for children under age 15—6.3 percent.[12]

Estimated Distribution of Benefit from the CDCTC by AGI for Tax Year 2016



Source: Treasury Office of Tax Analysis

Low-income families receive little help from the Child and Dependent Care Tax Credit because it is not refundable.

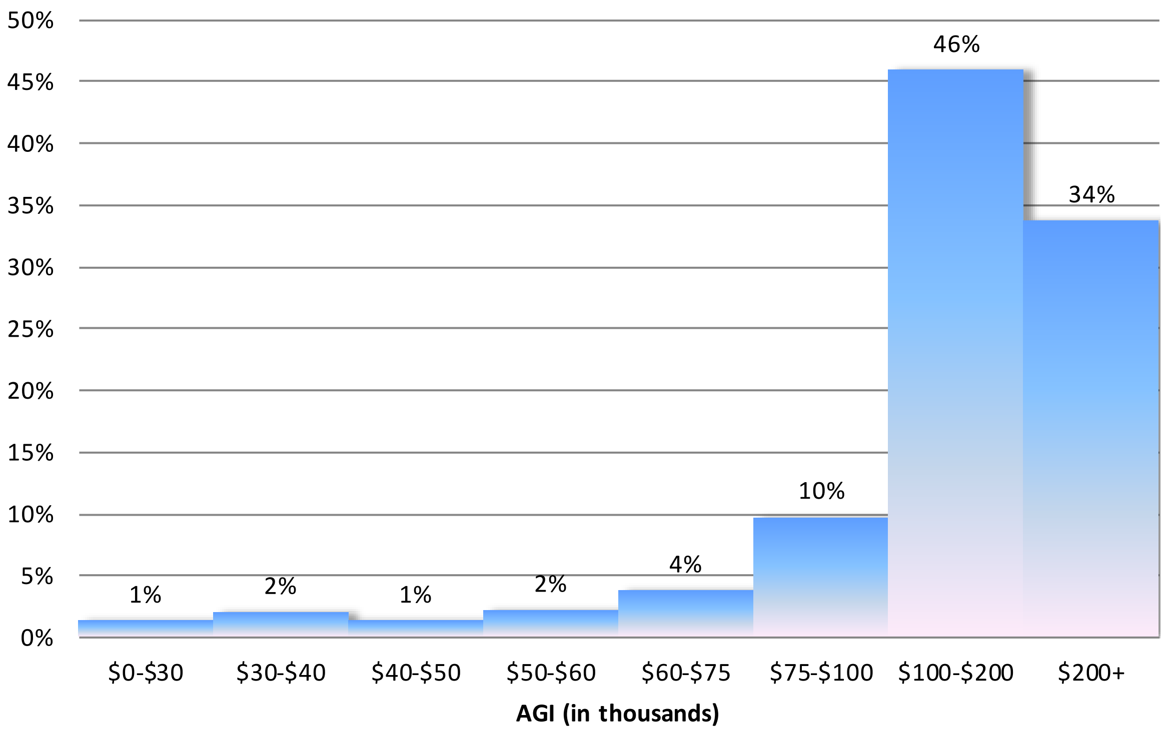
- The CDCTC allows parents to claim a tax credit for part of their work-related child or dependent care expenses. The credit is equal to between 20 and 35 percent of allowable expenses: up to $3,000 for one child or dependent and up to $6,000 for two or more children or dependents. Families with an Adjusted Gross Income (AGI) of $15,000 or less can claim 35 percent of allowable expenses. The percentage of allowable expenses that can be claimed declines as family income rises, to 20 percent for families with AGI above $43,000.

- On paper, the lowest-income families are eligible for the largest credit. The credit can be worth up to $2,100 for a family with AGI of $15,000 or less (35 percent of $6,000) compared to a maximum of $1,200 for a family with AGI above $43,000 (20 percent of $6,000). However, because the CDCTC is not refundable—it can only be used to offset federal income tax liability—many low-income families receive little or no benefit from the credit because they have little or no federal income tax liability.

    - A single mother with two children must have an AGI above $21,250 to have any federal income tax liability, assuming she claims the standard deduction and appropriate personal exemptions. With an AGI below $21,250 she would not qualify for any benefit from the credit.

- Many low- and moderate-income families face a gap where they make too much money to qualify for child care assistance but too little money to take full advantage of the credit for which they are eligible.
    - A single mother with two children must have an AGI above $35,230 to have sufficient tax liability to take full advantage of the $1,440 credit for which she is theoretically eligible. However, in more than half the states, a family of three at that income level would be ineligible for child care assistance.[13]
- Estimates from the U.S. Department of the Treasury show that families making less than $30,000 will receive a smaller share of the tax benefits from the CDCTC (8 percent) than families making over $200,000 (9 percent), for tax year 2016. Families with AGI of less than $50,000 will receive a smaller share of the tax benefits (29 percent) than families making over $100,000 (38 percent).[14]
- Reforms to the CDCTC that would make it more valuable to low- and moderate-income families include: making it refundable; increasing the percentage of expenses that low- and moderate-income families can claim; increasing the child care expense limits; and indexing the expense limits and income levels on the sliding scale.[15]

Estimated Distribution of Benefit from the Exclusion of Dependent Care Benefits by AGI for Tax Year 2016



Source: Treasury Office of Tax Analysis

Low-income families receive even less help from Dependent Care Flexible Spending Accounts than from the CDCTC.

- The Dependent Care FSA allows employees whose employers offer these accounts to set aside up to $5,000 of pre-tax income for work-related child and dependent care expenses. The income set aside to pay for these expenses is not subject to payroll or income taxes.
- Estimates from the U.S. Department of the Treasury show that low- and moderate-income families will receive only a tiny share of the tax benefits of Dependent Care FSAs. Families with AGI below $75,000 will receive less than 11 percent of the tax benefits, one-third the share that goes to families with incomes above $200,000, who receive 34 percent of the benefits, for tax year 2016.[16]

- There are several reasons why low-income families receive so few benefits from Dependent Care FSAs:
  - o The income tax benefit from an exclusion of income is greater for people in higher tax brackets. A family that sets aside $5,000 in an FSA in the 35 percent tax bracket receives a $1,750 income tax break, 3.5 times as much as a family in the 10 percent bracket ($500).
  - o Low-wage workers are far less likely to have access to a Dependent Care FSA at work. Only 16 percent of private industry workers whose average wage is in the bottom 25 percent had access to dependent care reimbursement accounts in 2014. In contrast, 61 percent of private industry workers whose wages were in the top 25 percent had access to these FSAs.[17]
  - o Even if they do have access, low-wage workers with unstable and unpredictable earnings and child care needs may be reluctant to set aside part of their paycheck into a "use it or lose it" account.

Increasing investments in CCDBG and making the CDCTC refundable and expanding it are key strategies for helping low- and moderate-income families meet their child care expenses.

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2 Median hourly wages for occupations are determined using the Bureau of Labor Statistics Occupational Employment Statistics data from May 2014 (http://www.bls.gov/oes/current/oes_nat.htm). Data are NWLC calculations based on Current Population Survey 2014 using Miriam King et al., Integrated Public Use Microdata Series,Current Population Survey: Version 3.0 [Machine-readable database] (Minneapolis: University of Minnesota, 2010).
3 U.S. Census Bureau, Who's Minding the Kids? Child Care Arrangements: 2011, Detailed Tables, Table 6: Average Weekly Child Care Expenditures of Families with Employed Mothers that Make Payments, by Age Groups and Selected Characteristics: Spring 2011 (2013), *available at* https://www.census.gov/data/tables/2008/demo/2011-tables.html.
4 *Id.*
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6 U.S. Department of Health and Human Services, Administration for Children and Families, Office of Child Care, FY 2014 CCDF Data Tables (Preliminary), Table 1 - Average Monthly Adjusted Number of Families and Children Served, *available at* http://www.acf.hhs.gov/programs/occ/resource/fy-2014-preliminary-data-table-1; Stephanie Schmit and Rhiannon Reeves, Child Care Assistance in 2013 (Washington, DC: CLASP, 2015), *available at* http://www.clasp.org/resources-and-publications/publication-1/Spending-and-Participation-Final.pdf.
7 Karen Schulman and Helen Blank, Building Blocks: State Child Care Assistance Policies 2015 (Washington, DC: National Women's Law Center, 2015), 8, *available at* http://www.nwlc.org/sites/default/files/pdfs/final_nwlc_2015_statechildcareassistancereport_2.pdf.
8 *Id* at 9.
9 *Id* at 26.
10 *Id* at 29.
11 *Id* at 28.
12 U.S. Census Bureau, *supra* note 3.
13 Building Blocks, *supra* note 7 at 22.
14 NWLC calculations based on U.S. Department of Treasury, Office of Tax Analysis, Child Care Tax Benefits in 2016, Table 3: Families Benefiting and Amount of Benefit from the Child and Dependent Care Tax Credit: Tax Year 2016, *available at* http://www.treasury.gov/resource-center/tax-policy/Documents/OTAR-Child-Care-Tax-Benefits-in-2016.pdf.
15 Joan Entmacher, Katherine Gallagher Robbins, and Amy Matsui, Improving the Child and Dependent Care Tax Credit Would Help Working Families and Promote Tax Fairness for Women (March 2015), *availble at* http://www.nwlc.org/sites/default/files/pdfs/dctcfactsheetmar2015.pdf.
16 NWLC calculations based on U.S. Department of Treasury, Office of Tax Analysis, Child Care Tax Benefits in 2016, Table 2: Families Benefiting and Amount of Benefit from the Exclusion of Dependent Care Benefits: Tax Year 2016, *available at* http://www.treasury.gov/resource-center/tax-policy/Documents/OTAR-Child-Care-Tax-Benefits-in-2016.pdf.
17 Eli R. Stoltzfus, Access to dependent care reimbursement accounts and workplace-funded childcare, Bureau of Labor Statistics (January 2015), http://www.bls.gov/opub/btn/volume-4/access-to-dependent-care-reimbursement-accounts-and-workplace-funded-childcare.htm.