CHILD CARE & EARLY LEARNING

CHILD CARE FOR ALL FAMILIES THAT NEED IT

The Child Care and Development Block Grant (CCDBG) and the Child and Dependent Care Tax Credit (CDCTC) are two important and complementary strategies designed to help families pay for child care. The National Women's Law Center recommends the following investments in CCDBG and improvements to the CDCTC as an important first step toward providing all families with the assistance they need to afford high-quality child care.

I. The Child Care and Development Block Grant: A Critical Support for Families

The Child Care and Development Block Grant (CCDBG), the primary federal child care assistance program, provides funding to states to help low- and moderate-income families afford child care. Families receiving CCDBG assistance have the choice of using care provided by relatives, neighborhood family child care homes, or child care centers. CCDBG also funds the critical infrastructure underpinning the nation's entire child care system—including inspections of child care settings to ensure children's health and safety, support to help teachers earn credentials, and basic equipment and supplies for family child care homes and child care centers. The program has a long history of bipartisan support—from its passage under President George W. Bush in 1990 with Senators Orrin Hatch and Chris Dodd as the legislation's chief co-sponsors, to Congress's overwhelming approval of its reauthorization in 2014.

Despite CCDBG's importance to families and its broad bipartisan backing, current funding is far from sufficient to serve all eligible families who need help, to support high-quality child care, or to ensure decent compensation for the child care providers who serve families receiving assistance. With the recommended steps discussed below, this essential program would be able to fulfill its promise and help meet families' need for affordable, high-quality child care that enables parents to work and encourages children's healthy growth and learning.

A. Increase federal funding for the Child Care and Development Block Grant so that child care assistance is available to all eligible low- and moderate-income families who need it.

- Under federal law, states may provide child care assistance to all families with incomes below 85 percent of the state median income ($40,715 to $76,711 a year for a family of three in 2016, depending on the state). But, because of insufficient funding, most states set their income eligibility limits for child care assistance below the maximum allowed under federal law. In 2016, a family with an income above 150 percent of poverty ($30,240 a year for a family of three) could not qualify for assistance in 17 states. A family with an income above 200 percent of poverty ($40,320 a year for a family of three) could not qualify for assistance in 39 states.[1]
- Even families who meet their state's income and other eligibility criteria for child care assistance may not receive it. Twenty states placed eligible families on waiting lists or froze intake (turned away eligible families without adding their names to a waiting list) for child care assistance in 2016.[2] In a number of states, these waiting lists are quite long—over 25,000 children in Florida, over 24,000 children in Massachusetts, and over 20,000 children in North Carolina, as of early 2016.[3] Studies show that many families on waiting lists struggle to pay for reliable, good-quality child care as well as other necessities, or must use low-cost—and frequently low-quality—care. Some families cannot afford any child care, which can prevent parents from working.[4]

- As a result of such barriers to families' accessing child care assistance, only one out of six children eligible for child care assistance under federal law receives it.[5]
- The number of children receiving child care assistance is declining despite continued need. Under 1.4 million children received CCDBG-funded child care in an average month in 2015—373,000 fewer children than in 2006, and the smallest number of children served since 1998, as a result of declining spending.[6]
- Without assistance, low- and moderate-income families have to spend a significant portion of their incomes on child care. Among families that pay for child care, families with incomes below 100 percent of poverty spend 30.1 percent of their income on care and families with incomes from 100 to 200 percent of poverty spend 17.9 percent of their income on care.[7]

B. Increase federal funding for the Child Care and Development Block Grant to enable states to raise payment rates for child care providers serving families receiving child care assistance, so that the base rate is at least equal to the federally recommended level, with higher rates for higher-quality care.

- CCDBG regulations recommend that states set payment rates for child care providers at the 75th percentile of current market rates (a rate designed to allow families access to 75 percent of the providers in their communities), but states determine where to set their rates. Because of insufficient funding, most states set very low payment rates. As of February 2016, just one state had provider payment rates that were at federally recommended levels.[8]
- Inadequate provider payment rates make it impossible to improve salaries for child care staff, who currently earn very low wages. The average salary for child care workers is just $10.72 per hour, or $22,310 per year.[9]
- Without adequate payment rates, child care programs lack the resources necessary to cover the costs of providing high-quality child care—including the costs to hire and retain well-qualified staff who can foster children's early learning, to purchase toys and books, and to maintain facilities.

C. Increase federal funding for the Child Care and Development Block Grant to provide states with the resources needed to implement the important reforms in the program's 2014 reauthorization.

- The CCDBG Act of 2014 included important improvements aimed at ensuring the health and safety of children in child care, increasing the quality and supply of care, and removing bureaucratic hurdles that could keep families from getting and keeping child care assistance.
- The widely supported reforms in the CCDBG Act of 2014 do entail new costs for states, including costs for implementing criminal background checks for all child care providers, annual inspections of providers, and health and safety training for providers. Without additional funding, states are faced with shifting their existing resources toward carrying out these essential reforms and away from other important priorities—and as a result, may reduce the number of children and families able to receive child care assistance.

II. Improving Child and Dependent Care Through the Tax Code

The best way to help women and their families meet their child and dependent care costs through the tax code is through the Child and Dependent Care Tax Credit (CDCTC), which is specifically designed to help pay for child and dependent care. Child and dependent care expenses can present a particular barrier to women's participation in the paid labor force because they consume a substantially larger share of the income of employed women than they do of family income overall.[10] By lessening barriers to women's participation in the workforce, this credit helps women support themselves and their families.

Paired with a significant additional investment in direct child care assistance through CCDBG, improvements to the CDCTC would help more families afford the high-quality child care they need.

A. The Child and Dependent Care Tax Credit (CDCTC): Addressing Care Expenses Incurred While Working

For over 60 years, Congress has recognized that the child and dependent care expenses parents incur in order to earn income should be acknowledged in the tax code.[11] Tax assistance to working parents with such expenses is structured as a tax credit, which is more equitable since tax deductions provide more benefits to higher income families than lower income families, because the higher a family's tax bracket (and therefore marginal tax rate), the higher the value of the deduction.[12] The CDCTC helps families meet their out-of-pocket, work-related child and dependent care expenses. The credit is distinct from the Earned Income Tax Credit (EITC), which helps offset the payroll taxes of low- and moderate-income workers, and the Child Tax Credit (CTC), which helps families with the cost of raising children more generally.[13] The CDCTC is the only federal tax credit that specifically addresses the additional care expenses that parents incur when they work, look for work, or (in some cases) go to school, as compared to workers who do not have children or dependents.

The CDCTC allows parents to claim a percentage of their work-related child and dependent care expenses—up to $3,000 for one child or dependent, and up to $6,000 for two or more children or dependents—toward the credit. The percentage of eligible expenses that a family may claim declines with income. Families with an Adjusted Gross Income (AGI) of $15,000 or less are eligible for a credit equal to 35 percent of eligible expenses. The rate decreases as AGI increases above $15,000 until it reaches 20 percent for families with AGIs above $43,000. The maximum value of the CDCTC is $1,050 (for families with one child or dependent) and $2,100 (for families with two or more children or dependents).

The CDCTC has not been improved since 2001, and improvements are sorely needed. The current CDCTC provides limited benefits to low- and moderate-income families because it is not refundable. In addition, the CDCTC does not offer enough assistance to middle-income families who still struggle to afford the child and dependent care they need in order to work because the expense limits do not reflect the high cost of care and because the percentage of expenses is insufficient. In addition, the CDCTC loses value over time as its parameters are not indexed for inflation.

B. Improving the CDCTC

There are several ways to improve the CDCTC to help families who struggle to pay for the child and dependent care they need to earn a living:

- **Make the CDCTC refundable.** This crucial reform would allow many more low-income working families to claim the credit and would increase the value of the credit for many moderate-income families. If the credit were made refundable, over a million additional families would receive tax assistance from the credit.[14]
- **Increase the percentage of expenses that low- and moderate-income families may claim.** Currently, families with AGI over $43,000 only receive 20 percent of their eligible care expenses, even though families at this income level struggle to meet the high cost of the care they need to work. Increasing the percentage of expenses that the lowest-income families can claim and raising the income level at which the phase-down begins would increase tax assistance to families. The percentage should be increased to 50 percent of eligible child and dependent care expenses for families with AGI up to $66,000, phasing down to 20 percent of expenses for families with AGI above $126,000.[15]
- **Increase the child and dependent care expense limits.** The current maximum amount of expenses that can be claimed—$3,000 for one child or dependent and $6,000 for two or more children or dependents—falls far short of the average cost of child care, which can range from $3,000 to $17,000 across the country.[16] The expense limits should be increased to $8,000 for one child or dependent and $16,000 for two or more children or dependents to better meet the actual costs of care.
- **Index the expense limits and income levels on the sliding scale for inflation.** This would prevent the value of the credit from eroding over time.
- **Allow families eligible for the CDCTC, EITC, and CTC to receive the full benefit of all three credits.** These improvements should be made in a way that allows families to fully benefit from the tax credits for which they are eligible.

C. Examples

- A single mother has two children, an AGI of $21,000, and $6,000 in child care expenses. *Under current law*, she is theoretically entitled to a CDCTC of $1,920 (32% of $6,000). However, her federal income tax liability, before credits, is zero, so she would not receive any benefit. *Under the improved credit*, she would be eligible for a CDCTC of $3,000 (50% of $6,000).
- A married couple has two children, an AGI of $65,000, and child care expenses of $6,000. *Under current law*, the family would be eligible for a CDCTC of $1,200 (20% of $6,000). *Under the improved credit*, this family would receive a CDCTC of $3,000 (50% of $6,000).
- A married couple has two children, an AGI of $86,000, and child care expenses of $10,000. *Under current law*, this family would be eligible for a CDCTC of $1,200 (20% of $6,000). *Under the improved credit,* this family would receive a CDCTC of $4,000 (40% of $10,000).

1 Karen Schulman and Helen Blank, Nat'l Women's Law Ctr., Red Light Green Light: State Child Care Assistance Policies 2016 at 6 (2016), *available at* http://nwlc.org/wp-content/uploads/2016/10/NWLC-State-Child-Care-Assistance-Policies-2016-final.pdf. The report analyzes data on policies as of February 2016.

2 *Id.* at 7.

3 *Id.* at 31.

4 *See, e.g.*, Karen Schulman and Helen Blank, Nat'l Women's Law Ctr., In Their Own Voices: Parents and Providers Struggling with Child Care Cuts 10 (2005), *available at* http://nwlc.org/wp-content/uploads/2015/08/childcarevoicesreport_september2005.pdf. *See generally* Children's Action All., The Real Reality of Arizona's Working Families—Child Care Survey Highlights (2004), *available at* http://www.azchildren.org/MyFiles/PDF/CAARealityWorkingFamily.pdf; Deborah Schlick, Mary Daly, & Lee Bradford, Ramsey Cty. Human Serv., Faces on the Waiting List: Waiting for Child Care Assistance in Ramsey County (1999), *available at* https://ia800206.us.archive.org/27/items/ERIC_ED437206/ERIC_ED437206.pdf (survey conducted by the Minnesota Center for Survey Research at the University of Minnesota); Philip Coltoff, Myrna Torres, & Natasha Lifton, Children's Aid Soc'y, The Human Cost of Waiting for Child Care: A Study (1999), *available at* http://files.eric.ed.gov/fulltext/ED438046.pdf; Jennifer Gulley & Ann Hilbig, Neighborhood Ctrs., Inc., Waiting List Survey: Gulf Coast Workforce Development Area (1999); Jeffrey D. Lyons, Susan D. Russell, Christina Gilgor, & Amy H. Staples, Day Care Serv. Ass'n, Child Care Subsidy: The Costs of Waiting (1998); Casey Coonerty & Tamsin Levy, Pol'y Analysis for California Educ., Waiting for Child Care: How Do Parents Adjust to Scarce Options in Santa Clara County? (1998); Philadelphia Citizens for Children and Youth, et al., Use of Subsidized Child Care by Philadelphia Families (1997); Greater Minneapolis Day Care Ass'n, Valuing Families: The High Cost of Waiting for Child Care Sliding Fee Assistance (1995).

5 Nina Chien, U.S. Dept. of Health and Human Serv., Office of Human Serv. Pol'y, Office of the Assistant Sec'y for Planning and Evaluation, Estimates of Child Care Eligibility and Receipt for Fiscal Year 2012 at 1 (2015), *available at* https://aspe.hhs.gov/sites/default/files/pdf/153591/ChildEligibility.pdf.

6 Christina Walker and Hannah Matthews, Ctr. for Law & Social Pol'y, CCDBG Participation Drops to Historic Low 1 (2017), *available at* http://www.clasp.org/resources-and-publications/publication-1/CCDBG-Participation-2015.pdf. This decline did not occur because the number of eligible children declined. The number of children under age six in low-income families (families with incomes below 200 percent of poverty) increased from 10.3 million in 2006 to 10.5 million in 2015. *See* Sophia Addy, Will Engelhardt, & Curtis Skinner, Nat'l Ctr. for Children in Poverty, Basic Facts about Low-Income Children: Children Under 6 Years, 2011 2 fig. 2 (2013), *available at* http://www.nccp.org/publications/pdf/text_1076.pdf; *see also* Yang Jiang, Maribel R. Granja, & Heather Koball, Nat'l Ctr. for Children in Poverty, Basic Facts about Low-Income Children: Children Under 6 Years, 2015 at 2 fig. 2 (2017), *available at* http://www.nccp.org/publications/pdf/text_1172.pdf.

7 Lynda Laughlin, U.S. Census Bureau, Who's Minding the Kids? Child Care Arrangements: Spring 2011 (Current Population Reports, P70-135) 15 (2013), *available at* https://www.census.gov/prod/2013pubs/p70-135.pdf.

8 Red Light Green Light, *supra note* 1, at 9.

9 U.S. Department of Labor, Bureau of Labor Statistics, May 2015 National Occupational Employment and Wage Estimates, http://www.bls.gov/oes/current/oes_nat.htm (last visited Feb. 28, 2017).

10 *See, e.g.,* Who's Minding the Kids? Child Care Arrangements: Spring 2011, *supra note* 7, at 15, tbl. 6.

11 In 1954, the tax code provided a deduction for certain work-related child care expenses; the deduction was converted to a credit in 1976 and increased in 1981 and 2001.

12 *See, e.g.*, National Women's Law Center, Child Care Tax Deductions Favor High Income Families (2016), *available at* http://nwlc.org/wp-content/uploads/2016/08/Child-Care-Deductions-Favor-High-Income-Families.pdf.

13 The CTC does not address child care costs at all. 26 U.S.C.A. § 24 (2016). See also Sens. Mike Lee & Marco Rubio, Economic Growth and Family Fairness Tax Reform Plan 19 (2014), *available at* http://www.rubio.senate.gov/public/_cache/files/2d839ff1-f995-427a-86e9-267365609942/4B239D28A4487E61FF5E26CC07C5EEF1.3.3.2015-tax-plan.pdf (child tax credit proposal).

14 Jeffrey Rohaly, Tax Pol'y Ctr., Reforming the Child and Dependent Care Tax Credit 2 (June 2007), *available at* http://www.taxpolicycenter.org/sites/default/files/alfresco/publication-pdfs/411474-Reforming-the-Child-and-Dependent-Care-Tax-Credit.PDF.

15 Median family income in 2015 for families with children was $66,557. U.S. Census Bureau, 2016 Current Population Survey, tbl. FINC-03, *available at* https://www.census.gov/data/tables/time-series/demo/income-poverty/cps-finc.html. Under the CDCTC's sliding scale, the percentage of expenses decreases one percentage point for every additional $2,000 in a family's AGI. 26 U.S.C.A. § 21(a)(2) (2016).

16 *See generally* Child Care Aware of Am., Parents and the High Cost of Child Care: 2016 Appendices (2016), http://usa.childcareaware.org/wp-content/uploads/2016/12/CCA_High_Cost_Appendices_2016.pdf. The average costs of child care vary depending on the state of residence, age of the child, and child care setting. The expense limits likewise fall short of the average fee for full-day adult day care, which was over $16,000 per year in 2010. MetLife Mature Mkt. Inst., Nat'l Adult Day Servs. Ass'n (NADSA) & The Ohio State Univ. Coll. of Soc. Work, The MetLife National Study of Adult Day Services: Providing Support to Individuals and Their Family Caregivers 15 (2010), *available at* http://www.nadsa.org/assets/library/600_mmiadultdayservices.pdf (annual cost calculated by the National Women's Law Center from daily cost assuming care is used five days a week for fifty-two weeks a year). Adult day care programs generally provide health, social, and personal care, and related support services for functionally or mentally impaired adults.