



CHILD CARE & EARLY LEARNING

## IMPROVING THE CHILD AND DEPENDENT CARE TAX CREDIT WOULD HELP WORKING FAMILIES WITH THE HIGH COST OF CHILD CARE

**Child care is fundamental to the economic security of women and families, but it is out of reach for too many.**

The high cost of child care creates barriers to work for parents, and especially women. When parents cannot afford the high-quality, reliable child care they need to work, they may then face challenges getting and keeping a job. Lack of access to affordable child care is especially difficult for women, who are often paid less than men, and who are more likely to work part-time jobs and be single parents.

- *The high cost of child care puts it out of reach for many families.* The average annual cost of full-time care for one child ranges from nearly \$3,000 to over \$23,000, depending on the age of the child, the type of care, and where the family lives.<sup>1</sup>
- *Low-income families spend a substantially larger share — four times more — of their income on child care than higher-income families.* Among families that pay for child care, families with incomes below the poverty line spend almost one-third of their income (30.1 percent) on care. Compare this to families with incomes at or above 200 percent of the poverty line, who spend an average of just 6.9 percent of their incomes on child care.<sup>2</sup>
- *Child care expenses may discourage women's full participation in the workforce.* Women are more likely than men to leave a job or take a significant amount of time off work to care for a child or other family member.<sup>3</sup> This may be because child care costs consume

a substantial portion of women's income from work. In families who pay for child care for children under the age of 5, child care costs are, on average, equal to 43 percent of mothers' income, in families with incomes below the poverty level. For families with incomes at or above 200 percent of the poverty level, these child care costs equal, on average, 21 percent of mothers' incomes.<sup>4</sup>

- *The majority of women with young children are working.* Nearly two-thirds (65.1 percent) of women with children under age six, including 58.5 percent of women with children under age one, are in the labor force.<sup>5</sup>
- *These working mothers' incomes are critical to the support of their families.* More than two out of five mothers (42 percent) were sole or primary breadwinners, bringing in at least half of their family's earnings, and another 22 percent were co-breadwinners, bringing in between 25 and 49 percent of earnings.<sup>6</sup>

**For over 60 years, Congress has recognized that the child care expenses parents incur in order to work should be acknowledged in the tax code.<sup>7</sup>**

This tax credit reduces families' federal income tax liability (the amount of taxes owed).<sup>8</sup> The federal Child and Dependent Care Tax Credit (CDCTC) helps families meet their out-of-pocket, work-related child and dependent care expenses. The CDCTC 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.<sup>9</sup> 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.

**The CDCTC helps offset child care costs, but only provides limited benefits to low- and moderate-income families.**

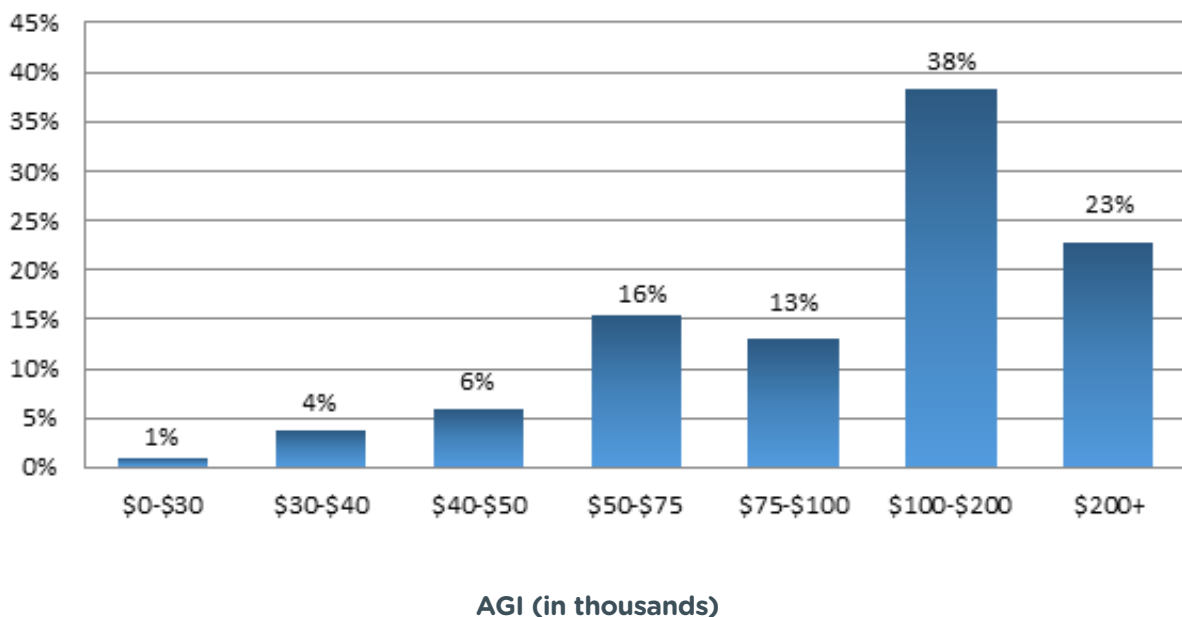


The CDCTC is a nonrefundable tax credit that families claim on their federal tax returns. The CDCTC allows families to claim up to \$3,000 of their work-related child and dependent care expenses for one child or dependent, and up to \$6,000 for two or more children or dependents. The credit is calculated as a percentage of those expenses. The percentage of eligible expenses that a family may claim is based on a sliding scale that 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. Thus, in theory, families with two or more children or dependents with AGI of \$15,000 or less are eligible for a maximum CDCTC of \$2,100—while families with two ore

more children or dependents with incomes above \$43,000 are eligible for a maximum credit of \$1,200 (for families with one child or dependent, the maximum credit amounts would be \$1,050 and \$600, at the same income levels).

In 2017, the CDCTC was estimated to provide almost \$3.5 billion in child care assistance to nearly 6.3 million families.<sup>10</sup> However, low- and moderate-income families receive a smaller share of tax benefits from the CDCTC than higher-income families. Indeed, almost 75 percent of benefits were estimated to accrue to families with AGIs above \$75,000 in 2018.<sup>11</sup> This is likely because families with lower income have lower federal tax liability, and receive less assistance from the nonrefundable CDCTC.

**Estimated Distribution of Benefits from the CDCTC by AGI for Tax Year 2018**



Source: [Urban-Brookings Tax Policy center Microsimulation Model \(version 0718-1\)](#)



## **The federal CDCTC should be improved to help the families who need it most.**

Congress has not changed the CDCTC since 2001, and improvements are sorely needed. In fact, after the 2017 Tax Cuts and Jobs Act, low- and moderate- income families will receive even less benefit from the CDCTC.<sup>12</sup> The CDCTC should be improved in several critical ways in order to better help families who struggle to pay for the child care they need to earn a living:

- *Make the CDCTC refundable to provide more benefit to low- and moderate-income families.* Because the CDCTC is not refundable, low-income families with little or no federal tax liability get limited benefit from the credit.

Making the CDCTC refundable would allow many low-income working families to receive the full value of the credit and would increase the value of the credit for many moderate-income families.<sup>13</sup>

- *Increase the percentage of expenses and the income level for the maximum percentage to help low- and moderate-income families.* 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. Expanding the sliding scale would increase tax assistance to families who most need help paying for child care.
- *Increase the child care expense limits to reflect the rising costs of child care.* The amount of child care expenses that can be claimed for the CDCTC is currently \$3,000 for one child or dependent and \$6,000 for two or more children or dependents. But the average annual costs of child care, which equal the cost of in-state college tuition in many states,<sup>14</sup> far exceed those expense limits. As a result, the tax benefits that families can claim do little to offset the child care costs that they actually incur. Increasing the child care expense limits would reflect the high cost of child care and help families at all income levels whose expenses exceed the current limits.

- *Index the expense limits and income levels on the sliding scale for inflation, to prevent the CDCTC from losing value over time.* Because the income limits for the CDCTC are not indexed for inflation, the maximum value of the credit starts shrinking when family income is well below the federal poverty level for a family of three in 2018,<sup>15</sup> and provides a diminished tax benefit to moderate-income families who may not be eligible for any other type of child care assistance.<sup>16</sup> Indexing the expense limits and income levels on the sliding scale for inflation would prevent the value of the credit from eroding over time.

## **Improving the CDCTC would lessen barriers to women's participation in the workforce and help families with their child care costs.**

Women, especially single parents, continue to bear the bulk of responsibility for care of children and dependents, and are paid less than men, on average. Improving the federal CDCTC would lessen barriers to women's participation in the workforce, helping them support themselves and their families. In addition, many states offer child and dependent care tax credits based on the federal CDCTC, so that improvements to the federal credit would automatically boost the value of state credits.<sup>17</sup>

Paired with a significant additional investment in direct child care assistance through the Child Care and Development Block Grant (CCDBG), an improved Child and Dependent Care Tax Credit would help more families afford the child care they need.



- <sup>1</sup> CHILD CARE AWARE OF AM., THE U.S. AND THE HIGH COST OF CHILD CARE: APPENDICES (2018), *available at* <http://usa.childcareaware.org/wp-content/uploads/2018/10/appendices18.pdf>.
- <sup>2</sup> LYNDIA LAUGHLIN, U.S. CENSUS BUREAU, WHO'S MINDING THE KIDS? CHILD CARE ARRANGEMENTS: SPRING 2011, at 3, 9 (2013), *available at* <https://www.census.gov/prod/2013pubs/p70-135.pdf>.
- <sup>3</sup> See, e.g., PEW RESEARCH CTR., ON PAY GAP, MILLENIAL WOMEN NEAR PARITY – FOR NOW 58-60 (2013), [http://www.pewsocialtrends.org/files/2013/12/gender-and-work\\_final.pdf](http://www.pewsocialtrends.org/files/2013/12/gender-and-work_final.pdf).
- <sup>4</sup> U.S. CENSUS BUREAU, WHO'S MINDING THE KIDS? CHILD CARE ARRANGEMENTS: 2011 – DETAILED TABLES, tbl. 6, *available at* <https://www.census.gov/data/tables/2008/demo/2011-tables.html>.
- <sup>5</sup> U.S. DEP'T OF LABOR, BUREAU OF LABOR STATISTICS, EMPLOYMENT CHARACTERISTICS OF FAMILIES – 2017, at 11-13, tbls. 5 & 6 (2018), *available at* <http://www.bls.gov/news.release/pdf/famee.pdf>. Labor force participants include those working or looking for work.
- <sup>6</sup> SARAH JANE GLYNN, CTR. FOR AM. PROGRESS, BREADWINNING MOTHERS ARE INCREASINGLY THE U.S. NORM 1 (2016), *available at* <http://cdn.americanprogress.org/content/uploads/2016/12/19065819/Breadwinners-report.pdf>.
- <sup>7</sup> 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.
- <sup>8</sup> In contrast, 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. See *generally* NAT'L WOMEN'S LAW CTR., 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>.
- <sup>9</sup> The CTC does not address child care costs at all. See 26 U.S.C.A. § 24 (2016).
- <sup>10</sup> U.S. DEP'T OF THE TREASURY, OFFICE OF TAX ANALYSIS, TAX SUPPORT FOR FAMILIES WITH CHILDREN: KEY TAX BENEFITS, THEIR IMPACT ON MARGINAL AND AVERAGE TAX RATES, AND AN APPROACH TO SIMPLIFICATION 2017 LAW: (2016), at 21, tbl. 5 (2016), *available at* <https://www.treasury.gov/resource-center/tax-policy/tax-analysis/Documents/WP-112.pdf>.
- <sup>11</sup> NWLC calculations based on TAX POL'Y CTR., TABLE T18-0198 - TAX BENEFIT OF THE CHILD AND DEPENDENT CARE CREDIT, BASELINE: CURRENT LAW, DISTRIBUTION OF FEDERAL TAX CHANGE BY EXPANDED CASH INCOME LEVEL, 2018 (Oct. 16, 2018), <https://www.taxpolicycenter.org/model-estimates/individual-income-tax-expenditures-october-2018/t18-0198-tax-benefit-child-and>.
- <sup>12</sup> ELAINE MAAG, HOW THE TAX CUTS AND JOBS ACT REDUCED THE VALUE OF THE CHILD CARE CREDIT, FORBES (Nov. 27, 2018), <https://www.forbes.com/sites/elainemaag/2018/11/27/how-the-tax-cuts-and-jobs-act-reduced-the-value-of-the-child-care-credit/#3aa5470d6a6e>.
- <sup>13</sup> JEFFREY ROHALY, TAX POL'Y CTR., REFORMING THE CHILD AND DEPENDENT CARE TAX CREDIT 2 (2007), *available at* <http://www.taxpolicycenter.org/publications/reforming-child-and-dependent-care-tax-credit/full>.
- <sup>14</sup> CHILD CARE AWARE OF AM., THE U.S. AND THE HIGH COST OF CHILD CARE 36 (2018), [https://cdn2.hubspot.net/hubfs/3957809/COCreport2018\\_1.pdf](https://cdn2.hubspot.net/hubfs/3957809/COCreport2018_1.pdf).
- <sup>15</sup> Annual Update of the HHS Federal Poverty Guidelines, 83 Fed. Reg. 2642 (Jan. 18, 2018), *available at* <https://www.federalregister.gov/documents/2018/01/18/2018-00814/annual-update-of-the-hhs-poverty-guidelines> (listing poverty threshold for a family of three as \$20,780 and for a family of four as \$25,100).
- <sup>16</sup> See KAREN SCHULMAN, OVERDUE FOR INVESTMENT: STATE CHILD CARE ASSISTANCE POLICIES 2018 (Oct. 2018), *available at* <https://nwlc-ciw49tixgw5l1bab.stackpathdns.com/wp-content/uploads/2018/11/NWLC-State-Child-Care-Assistance-Policies-2018.pdf>.
- <sup>17</sup> See *generally* SARAH HASSMER & AMY MATSUI, NAT'L WOMEN'S LAW CTR., MAKING CARE LESS TAXING: STATE CHILD AND DEPENDENT CARE TAX PROVISIONS (Dec. 2018), *available at* <https://nwlc.org/resources/2018-making-care-less-taxing>.

