

# Making Care Less Taxing: 2018 Legislative Changes to State Child and Dependent Care Tax Credits

Families across the country face rising costs for [child care](#) and [dependent care](#). A [limited number of eligible families](#) who need help paying for child care can access direct child care assistance through the Child Care and Development Block Grant.

While direct assistance remains the most effective way to help families access child care, tax provisions for child and dependent care expenses can provide some help to many families struggling to pay for the child care or dependent care they need in order to work and support their families. These tax provisions can reduce the amount of tax owed by families and, in some instances, provide or increase tax refunds.

The federal government and more than half of states have some type of [child and dependent care \(CADC\) tax provision](#).



**A family is in the 12% tax bracket and has \$100 in tax liability.**

• **A \$200 refundable tax credit would eliminate** their \$100 in tax liability and provide a \$100 refund.

• **A \$200 nonrefundable tax credit would wipe out** their \$100 tax liability. They would not receive a refund.

• **A \$200 tax deduction would reduce** their tax liability by \$24 ( $\$200 \times .012$ ), down to \$76.

In 2017, Congress and the Administration missed an opportunity to provide tax relief for families struggling to pay for child care when they failed to improve the federal Child and Dependent Care Tax Credit (CDCTC) as part of the Tax Cuts and Jobs Act (TCJA). This means that important [improvements to the CDCTC for low-income families](#), such as making it refundable so more low-income families could benefit, still need to be made at the federal level.

Every year, NWLC provides an update about legislative changes to state CADC provisions; this update covers changes made during 2018 state legislative sessions or changes from 2017 state legislative sessions.



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- **Refundable credits** lower the amount of taxes a family owes by a set amount and provide a payment (refund) if the credit amount exceeds the family's tax liability. Refundable tax credits provide the most benefit to low-income families.
- **Nonrefundable credits** lower a family's tax liability by a set amount but do not provide a refund. The amount of the credit the family receives cannot exceed the family's tax liability.
- **Deductions** lower a family's tax liability by reducing the income that is taxed. The value of tax deductions depends on the family's tax rate, making deductions worth more to higher-income than lower-income families.

Seven states have CADC provision changes effective for tax year 2018 (filed in 2019):

- **Colorado** [did not have enough revenue](#) to continue its refundable Low-Income Child Care Expense Credit for tax year 2017, so families were not able to claim it for expenses incurred in 2017. The credit became available again for tax years 2018, 2019, and 2020.<sup>1</sup>
- **Idaho** reduced its individual income tax rate,<sup>2</sup> slightly decreasing the value of its Tax Subtraction for Child and Dependent Care Expenses.
- **Kansas** reinstated a nonrefundable Credit for Child and Dependent Care that became effective for tax year 2018.<sup>3</sup>
- **Minnesota** adjusted its CADC credit income thresholds for inflation, increasing the maximum value of the credit for middle-class families.
- **New Jersey** created a CADC credit that became effective for tax year 2018.<sup>4</sup> The credit is not available to families with a federal AGI over \$60,000.
- **New York** increased the value of its CADC credit for families with New York Adjusted Gross Income (AGI) between \$50,000 and \$150,000, and increased the credit amount for larger families.<sup>5</sup>
- **Oregon** expanded access to the Working Family Household and Dependent Care credit, which was enacted in 2016, to unmarried taxpayers seeking employment or attending school and made technical corrections to the credit.<sup>6</sup> These provisions took effect starting in tax year 2018.<sup>7</sup>

Three states have CADC provision changes effective for tax year 2019 (filed in 2020):

- **Colorado** increased the value of the Child Care Expense Tax Credit for moderate-income families for tax year 2019 and beyond.<sup>8</sup>
- **Kansas** increased the value of its CADC credit for tax year 2019.<sup>9</sup>
- **Massachusetts** [reduced its individual income tax rate](#), slightly decreasing the value of its Tax Deduction for Child and Dependent Care Expenses.

More information about these changes is provided below.

## State CADC Provision Changes Effective in Tax Year 2018

### Colorado

The Colorado Child Care Expense Tax Credit has been calculated as a specified percentage of the federal CDCTC based on the family's federal AGI. Because some low-income families with child care expenses do not have sufficient tax liability to claim the federal CDCTC, they do not benefit from the Colorado Child Care Expense Tax Credit. To help these families, Colorado created the Low-Income Child Care Expense Credit in 2014.<sup>10</sup> This credit was effective for tax years 2014-2016.<sup>11</sup>

The Low-Income Child Care Expense tax credit expired at the end of 2016. Colorado did not extend this credit for tax year 2017 because there was insufficient revenue in [Colorado's Fiscal Year \(FY\) 2016-2017 General Fund](#) to do so. The credit is available again for tax years 2018 through 2020.<sup>12</sup>

### Idaho

In 2018, the Idaho legislature made numerous changes to its tax code in response to the 2017 TCJA changes to the federal tax code. These changes included [reducing each individual income tax rate by 0.475%](#) for tax year 2018. The top tax rate was reduced to 6.925%. This change to the tax rates impacts the value of the Idaho Tax Subtraction for Child and Dependent Care Expenses. The maximum value of the deduction for tax year 2018 is \$208 for one child/dependent (compared to \$222 for tax year 2017) and \$416 for two more children or dependents (compared to \$444 for tax year 2017).

### Kansas

In 2017, Kansas reinstated a nonrefundable Credit for Child and Dependent Care that became effective for tax year 2018.<sup>13</sup> For Kansas residents who claim the federal CDCTC on their 2018 taxes (filed in 2019), they can then claim Kansas's nonrefundable CADC credit that equals 12.5 percent of the amount received from the federal CDCTC.<sup>14</sup>

In order to claim the Kansas CADC credit, the individual, the individual's spouse (if applicable), and every dependent must have a valid Social Security Number (SSN).<sup>15</sup> (Immigrant workers who do not have a SSN must still pay taxes and use an Individual Tax Identification Number (ITIN), but would not be eligible to claim the credit.)

### Colorado Low-Income Child Care Expense Credit

- **Calculation:** 25 percent of eligible child care expenses
- **Maximum Value**
  - One Child/Dependent: \$500
  - Two or More Children/Dependents: \$1,000
- **Income Cutoff:** \$25,001

### Idaho Tax Subtraction for Child and Dependent Care Expenses

- **Calculation:** The amount of expenses claimed under the federal CDCTC is subtracted from income, before deductions are taken. The amount of tax savings is worth the amount of expenses multiplied by the taxpayer's Idaho income tax rate.
- **Maximum Value**
  - One Child/Dependent: \$208
  - Two or More Children/Dependents: \$416
- **Income Cutoff:** none

### Kansas Credit for Child and Dependent Care

- **TY 2018 Calculation:** 12.5% of the federal CDCTC received
- **Maximum Value**
  - One Child/Dependent: \$131
  - Two or More Children/Dependents: \$263
- **Income Cutoff:** none

## Minnesota

Minnesota [adjusts its income thresholds for inflation](#), so the 2018 phase out of the credit begins at a Minnesota Adjusted Gross Income (AGI) of \$50,990 (an increase from the threshold of above \$50,000 for tax year 2017). The credit fully phases out at Minnesota AGI exceeding \$62,990 for 1 child or dependent and \$74,990 for two or more children or dependents (an increase from Minnesota AGI exceeding \$62,000 and \$74,000, respectively, for tax year 2017).

### Minnesota Child and Dependent Care Credit

- **Calculation:** A percentage, based on Minnesota AGI, of the allowable federal CDCTC, regardless of whether the family had federal tax liability

Sample Household Minnesota AGI	Percentage of Federal Credit	Maximum Value: 1 Child/Dependent	Maximum Value: 2+ Children/Dependents
Less than \$50,990	100%	\$1,050	\$2,100
\$55,000	100%	\$400*	\$1,000*
\$60,000	100%	\$150*	\$750*
\$63,000	100%	\$0*	\$600*
Over \$74,990	0%	\$0	\$0

\*Families with a Minnesota AGI between \$50,990 and \$62,990 receive a credit that is the lesser of (a) 100 percent of the federal CDCTC received or (b) \$600 minus five percent of Minnesota AGI in excess of \$50,990 for taxpayers with one qualifying child or dependent, or \$1,200 minus five percent of Minnesota AGI in excess of \$50,990 for taxpayers with two or more qualifying children or dependents.

- **Maximum Value**

- One Child/Dependent: \$1,050
- Two or More Children/Dependents: \$2,100

- **Income Cutoff:** more than \$74,990

## New Jersey

In 2018, the New Jersey legislature created a nonrefundable Child and Dependent Care Credit, which took effect for tax year 2018.

### New Jersey Child and Dependent Care Credit

- **Calculation:** A percentage, based on federal AGI, of the federal CDCTC received, up to \$500 for one child or dependent and \$1,000 for two or more children or dependents

Household Federal AGI	Percentage of Federal Credit	Maximum Value: 1 Child/Dependent	Maximum Value: 2+ Children/Dependents
\$20,000 or less	50%*	\$500	\$1,000
\$20,001 - \$30,000	40%	\$384	\$768
\$30,001 - \$40,000	30%	\$243	\$486
\$40,001 - \$50,000	20%	\$132	\$264
\$50,001 - \$60,000	10%	\$60	\$120
Over \$60,000	0%	\$0	\$0

\*50% of the federal CDCTC would exceed the maximum state credit for some low-income families.

- **Maximum Value**
  - One Child/Dependent: \$500
  - Two or More Children/Dependents: \$1,000
- **Income Cutoff:** over \$60,000

## New York

New York increased the value of its refundable CADC credit for middle-class families by adding a special calculation for incomes between \$50,000 and \$150,000 that increases the credit's value for these families compared to previous tax years.<sup>16</sup> This special calculation is effective starting in tax year 2018.<sup>17</sup> In addition, the amended CADC credit increases the value of the credit for larger families by increasing the child care expenses cap. The new expense limits are \$7,500 for three qualifying individuals, \$8,500 for four qualifying individuals, and \$9,000 for five or more qualifying individuals.<sup>18</sup>

### New York Child and Dependent Care Tax Credit

- **Calculation:** A percentage, based on New York AGI, of the allowable federal CDCTC, regardless of whether the family had federal tax liability

Sample Household New York AGI Ranges*	Percentage of Federal Credit**	Maximum Value: 1 Child/Dependent**	Maximum Value: 2 Children/Dependents**
\$25,000 or less	110%	\$1,155	\$2,310
\$29,801 - \$30,000	106.7%	\$864	\$1,729
\$35,001 - \$35,200	103.3%	\$744	\$1,488
\$40,001 - \$41,000	100.0%	\$660	\$1,320
\$43,001 - \$50,000	100.0%	\$600	\$1,200
\$50,001 - \$50,200	116.2%	\$697	\$1,394
\$55,001 - \$55,200	92.7%	\$556	\$1,112
\$59,801 - \$60,000	60.1%	\$361	\$721
\$60,001 - \$60,200	107.0%	\$642	\$1,284
\$65,001 - \$150,000	60.0%	\$360	\$720
Over \$150,000	20%	\$120	\$240

\* See [https://www.tax.ny.gov/pdf/current\\_forms/it/it216i.pdf](https://www.tax.ny.gov/pdf/current_forms/it/it216i.pdf) for the full ranges.

\*\* Calculations assume that the New York AGI is the same as the federal AGI. This will not always be the case because of differences between the federal tax code and New York tax code.

- **Maximum Value**

- One Child/Dependent: \$1,155
- Two or More Children/Dependents: \$2,310

- **Income Cutoff:** none

## Oregon

In 2016, Oregon replaced two separate CADC tax credits with a single Working Family Household and Dependent Care (WFHADC) credit. In the 2017 legislative session, Oregon amended the refundable WFHADC credit so that unmarried taxpayers seeking employment or attending school can claim the credit, starting in tax year 2018.<sup>19</sup>

In addition, Oregon passed several technical modifications to the WFHADC credit for tax years in 2018 and beyond. One change clarifies that child or dependent care expenditures made with pre-tax dollars, such as from a dependent care Flexible Spending Account (FSA), cannot count towards the credit.<sup>20</sup> Another clarifies that in order to claim the credit, families must have earned income taxable by Oregon, and that qualifying expenses are limited to the amount of income earned in Oregon (similar to federal CDCTC requirements).<sup>21</sup> The 2017 legislative changes also prohibit interest from accruing on the credit's refundable portion.<sup>22</sup>

### Oregon WFHDC Credit

- **Calculation:** A percentage, based on federal AGI, household size, and age of children, of eligible child or dependent care expenses (limited to \$12,000 for one child or dependent and \$24,000 for two or more children or dependents)

Sample Federal AGI	Household Size: 2 (1 Child/Dependent)		Household Size: 4 (2 Children/Dependents)	
	Percentage of Expenses	Maximum Value	Percentage of Expenses	Maximum Value
\$2,000	20%	\$2,400	10%	\$2,400
\$10,000	60%	\$7,200	40%	\$9,600
\$15,000	75%	\$9,000	55%	\$13,200
\$25,000	50%	\$6,000	75%	\$18,000
\$40,000	20%	\$2,400	50%	\$12,000
\$55,000	0%	\$0	40%	\$9,600
\$76,000	0%	\$0	0%	\$0

NWLC calculations for Tax Year 2018 using Oregon Revenue Online WFHDC Calculator, <https://revenueonline.dor.oregon.gov/tap/> (follow "WFHDC Calculator" hyperlink) (last visited April 22, 2019). The youngest child for each family example is an infant born on December 31, 2017.

- **Maximum Value**

- One Child/Dependent: \$9,000
- Two or More Children/Dependents: \$18,000

- **Income Cutoff:** over 300% of the Federal Poverty Level

## State CADC Provision Changes Effective in Tax Year 2019

### Colorado

In 2018, the Colorado legislature increased the value of the Child Care Expense Tax Credit for moderate-income families. Previously, only families with a federal AGI of \$25,000 or less received a state credit worth 50% of the federal CDCTC. Families with a federal AGI of \$25,001 - \$35,000 received a state credit worth 30% of their federal credit, and families with a federal AGI of \$35,001 - \$60,000 received a state credit worth 10% of their federal credit. Starting in tax year 2019, the Child Care Expense Tax Credit will be 50% of the federal CDCTC for families with a federal AGI of \$60,000 or less.<sup>23</sup> Families with a federal AGI over \$60,000 are still ineligible for this credit.<sup>24</sup>

### Kansas

The Kansas Credit for Child and Dependent Care will increase to 18.75% of the federal CDCTC amount for tax year 2019 and then to 25% for tax year 2020 and beyond.<sup>25</sup> The tax year 2019 percentage change translates to a \$66 increase in the maximum credit for a family with one child or dependent and a \$131 increase in the maximum credit for a family with two or more children or dependents.

### Massachusetts

In 2018, the Massachusetts Department of Revenue [announced](#) that the individual income tax rate would drop from 5.1% to 5.05% for tax year 2019 based on the legal mechanism to lower the rates created in a 2002 law.<sup>26</sup> This change to the tax rates impacts the value of the Massachusetts Tax Deduction for Child and Dependent Care Expenses. The maximum value of the deduction for tax year 2019 is \$242 for one child/dependent (compared to \$245 for tax year 2018) and \$485 for two more children or dependents (compared to \$490 for tax year 2018). If there are sufficient revenues in 2019, the income tax rate would [drop to 5% for tax year 2020](#).

### Colorado Child Care Expense Credit

- **Calculation:** 50 percent of the federal CDCTC received for child care expenses
- **Maximum Value**
  - One Child/Dependent: \$525
  - Two or More Children/Dependents: \$1,050
- **Income Cutoff:** \$60,001

### Kansas Credit for Child and Dependent Care

- **TY 2019 Calculation:** 18.75% of the federal CDCTC received
- **Maximum Value**
  - One Child/Dependent: \$197
  - Two or More Children/Dependents: \$394
- **Income Cutoff:** none

### Massachusetts Tax Deduction for Child and Dependent Care Expenses

- **Calculation:** Families who claim the federal CDCTC may subtract up to \$4,800 (for one child or dependent) or up to \$9,600 (for two or more children or dependents) in expenses from Massachusetts income. The amount of tax savings is worth the amount of expenses multiplied by the taxpayer's Massachusetts income tax rate.
- **Maximum Value**
  - One Child/Dependent: \$242
  - Two or More Children/Dependents: \$485
- **Income Cutoff:** none



## Conclusion

Families need all the help they can get affording child and dependent care, and CADC tax provisions are one important strategy for making care more affordable. Advocates can help enact new CADC provisions or improve existing provisions. Best practices for CADC tax provisions include making these provisions:

- Refundable;
- With generous expense limits;
- More generous for lower-income families; and
- With credit amounts and parameters indexed for inflation

Advocates can also inform families about these and other federal and state tax provisions that can help them meet their child or dependent care expenses. Learn more about best practices for CADC credits and summaries of each available state CADC provision at <https://nwlc.org/resources/mclt/>.

We are eager to help you establish or expand a child and dependent care tax provision in your state - including by making policy recommendations, drafting or reviewing legislative language, or conducting a conference call or webinar for advocates in your state. Please contact Amy Matsui at [amatsui@nwlc.org](mailto:amatsui@nwlc.org) for more information.

1 Colo. Rev. Stat. § 39-22-119.5(3)(a.5).

2 Idaho Code Ann. § 63-3024(a).

3 Kan. Stat. Ann. § 79-32,111c.

4 N.J. Stat. Ann. § 54A:4-17.

5 N.Y. Tax Law § 606(c).

6 Or. Rev. Stat. § 315.264.

7 2017 Or. Laws Ch. 638, § 3 (S.B. 162) (to be codified at Or. Rev. Stat. Ann. § 315.264).

8 Colo. Rev. Stat. § 39-22-119(1.7).

9 Kan. Stat. Ann. § 79-32,111c.

10 Colo. Rev. Stat. § 39-22-119.5.

11 *Id.*

12 Colo. Rev. Stat. § 39-22-119.5(3)(a.5).

13 Kan. Stat. Ann. § 79-32,111c.

14 Kan. Stat. Ann. § 79-32,111c (a).

15 Kan. Stat. Ann. § 79-32,111c (c).

16 N.Y. Tax Law § 606(c)(1-a).

17 *Id.*

18 N.Y. Tax Law § 606(c)(1-b).

19 2017 Or. Laws Ch. 638 (S.B. 162) (to be codified at Or. Rev. Stat. Ann. § 315.264).

20 Or. Rev. Stat. § 315.264(1)(d).

21 Or. Rev. Stat. § 315.264.

22 Or. Rev. Stat. § 315.264(12).

23 Colo. Rev. Stat. § 39-22-119(1.7).

24 *Id.*

25 Kan. Stat. Ann. § 79-32,111c.

26 Mass. Gen. Laws Ann. ch. 62, § 4.