NATIONAL WOMEN'S LAW CENTER
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IMPROVING THE CHILD AND DEPENDENT CARE TAX CREDIT WOULD HELP MORE WORKING FAMILIES WITH THE HIGH COST OF CHILD CARE

Child care is unaffordable for many families—and the Child and Dependent Care Tax Credit can provide some help to some families.

Today, many families cannot afford the high-quality, reliable child care they need to work and support their families and build their long-term financial security. 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.

In 2020, the average national cost of child care for one child was $10,174, though prices vary widely between states.[1] The average couple with children would need to spend more than 10 percent of their household income to cover this average cost—well above the Department of Health and Human Services' recommendation that child care costs constitute no more than 7 percent of household income.[2] This burden is even higher for low-income families, who spend more than a third of their income on care.[3]

We need greatly expanded investments in the child care system and significantly increased direct child care assistance to tackle the child care crisis in this country. But the Child and Dependent Care Tax Credit (CDCTC) can help some families with the high cost of child care.

The Child and Dependent Care Tax Credit provides tax assistance to parents who pay out-of-pocket child or dependent care expenses in order to work.

The federal 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. The CDCTC is the only federal tax credit that specifically addresses the additional care expenses that families incur when they work, look for work, or (in some cases) go to school.

The CDCTC allows families to claim a percentage of their work-related child and dependent care expenses, up to a specific limit. The expense limits are $3,000 for one child or dependent, and $6,000 for two or more children or dependents. The credit covers expenses for child or dependent care that allows the parent or guardian (or parents/guardians if filing jointly) to work or look for work. Such expenses may include the cost of an in-home babysitter or nanny, family, friend, or neighbor (FFN) care, home-based child care, child care centers, as well as before- or after-school care.[4]

The credit is calculated as a percentage of expenses. The percentage of eligible expenses that a family may claim is based on a sliding scale that declines with income. The percentage ranges from 35 percent (for families with Adjusted Gross Income or AGI, of $15,000 or less) to 20 percent (for families with AGI of $43,000 and above).[5]

The CDCTC is nonrefundable, and theoretically worth a maximum of $2,100, for a family with AGI under $15,000 who had spent $6,000 on child or dependent care. In reality, because the credit is not refundable, most low-income families generally received little or no benefit from it. Indeed, a 2018 analysis from the Tax Policy Center showed that only 1 percent of the benefits from the CDCTC went to families with AGI of $30,000 or less.[6]

Illustrative Example of How the CDCTC Works

A single mother with two children who is paid $14,500 per year and spends $2,000 on child care expenses would be theoretically eligible to receive a $700 credit (35 percent of $2,000). However, because she would only owe $195 in federal income taxes, she would not get the full value of this credit—she would lose out on $405 in tax assistance.
(This assumes that only the CDCTC is applied against tax liability, and does not take the CTC, EITC, or any other tax credits into account.)

Temporary improvements to the CDCTC helped millions of women and families meet their child care costs in 2021.

The American Rescue Plan Act (ARPA) expanded and improved the CDCTC for tax year 2021. Under the ARPA, the CDCTC was worth a maximum of $4,000 for one child or dependent, and $8,000 for two or more children or dependents.[7] The Act also made the credit refundable, meaning that more low- and moderate-income families were able to benefit from the credit. In fact, some families struggling with child care costs were able to claim the CDCTC for the first time.

In 2022, nearly 6.5 million families received the expanded CDCTC when they filed their tax returns for the 2021 Tax Year.[8] This was 288,000 more families than received the CDCTC in 2020, before the ARPA expansions.[9] In addition, many families benefited from expanded state tax benefits, because the improvements to the federal credit automatically boosted the value of many state credits.[10]

The CDCTC should be made fully refundable so that low- and moderate-income families can benefit.

Policymakers should make the CDCTC fully refundable on a permanent basis, so that all families with out-of-pocket child care expenses can access the credit. Making the credit fully refundable would help reduce child poverty by 9.2 percent over ten years, according to an analysis by First Focus.[11]

However, women and families still need robust public investments in child care to address many of the other urgent concerns the child care system faces, including health and safety, provider supports, a well-trained and fairly compensated workforce with the ability to join a union, adequate child care supply, or virtual services.[12] In addition, while a tax credit can help reimburse families for expenses paid during the year, because child care costs are ongoing and generally a large share of their monthly expenses, families struggle to "float" until filing their annual taxes,[13] and direct assistance may better meet these families' needs.

For all of these reasons, a permanent expanded tax credit is a complementary—not a primary—tool for improving the child care system and ensuring that all families have can afford to high-quality, reliable child care.

1 ChildCare Aware, "Demanding Change: Repairing our Child Care System" (2022), https://info.childcareaware.org/media/child-care-now-costs-more-than-10000-per-year-on-average-heres-why-thats-a-problem, 41.

2 *Id*.

3 Rasheed Malik, Ctr. for Am. Progress, "60 Percent of Families Are Spending More than Twice as Much on Child Care as What the U.S. Government Considers Affordable" (June 2019), https://www.americanprogress.org/issues/early-childhood/reports/2019/06/20/471141/working-families-spending-big-money-child-care/, 3.

4 Congressional Research Service, "Child and Dependent Care Tax Benefits: How They Work and Who Receives Them" (February 1, 2021), https://fas.org/sgp/crs/misc/R44993.pdf, 2-3.

5 Tax Policy Center, "How does the tax system subsidize child care expenses?" (May 2020), https://www.taxpolicycenter.org/briefing-book/how-does-tax-system-subsidize-child-care-expenses.

6 *Id*.

7 Congressional Research Service, "The American Rescue Plan Act of 2021 (ARPA; P.L. 117-2): Title IX, Subtitle G—Tax Provisions Related to Promoting Economic Security" (March 2021), https://crsreports.congress.gov/product/pdf/R/R46680, 8-9.

8 National Women's Law Center calculations based on U.S. Congress, Joint Committee on Taxation, "Estimates of Federal Tax Expenditures for Fiscal Years 2022-2026" (December 22, 2022), https://www.jct.gov/publications/2022/jcx-22-22/, 48 (Table 3).

9 National Women's Law Center calculations based on U.S. Congress, Joint Committee on Taxation, "Estimates of Federal Tax Expenditures for Fiscal Years 2020-2024" (November 5, 2020), https://www.jct.gov/getattachment/ec4fb616-771b-4708-8d16-f774d5158469/x-23-20.pdf, 40 (Table 3).

10 *See* Kathryn Menefee, National Women's Law Center, "How States Are Making Care Less Taxing in Tax Year 2020," (March 5, 2021), https://nwlc.org/blog/how-states-are-making-care-less-taxing-in-tax-year-2020/.

11 First Focus Campaign for Children, "Implementing A Roadmap to Reducing Child Poverty" (June 2019), https://static1.squarespace.com/static/5783bb3f46c3c42c527e1a41/t/5e1c911b691cc5088359f9a8/1578930461192/FF_NASEM_AnalysisFINAL.pdf, 11.

12 Katherine Gallagher Robbins, Melissa Boteach, and Julie Kashen, Center for Law and Social Policy, National Women's Law Center, "Why Child Care Needs Direct Spending, Not Just Tax Credits, During COVID and Beyond" (January 2021), https://www.clasp.org/sites/default/files/publications/2021/01/childcareneedsspending_01282021_ final.pdf.

13 Melissa Boteach, et al., National Women's Law Center, "A Tax Code for the Rest of Us: A Framework & Recommendations for Advancing Gender & Racial Equity Through Tax Credits"(November 2019), https://nwlc.org/resources/a-tax-code-for-the-rest-of-us-a-framework-recommendations-for-advancing-gender-racial-equity-through-tax-credits/, 33.