Bipartisan Policy Center

The Employer-Provided Child Care Credit (45F) Recommendations

The Employer-Provided Child Care Credit is a federal program designed to encourage businesses to invest in child care for their employees. Employers are eligible for a nonrefundable tax credit up to 25% of qualified child care expenditures and 10% of qualified child care resource and referral expenditures. The credit is capped at $150,000, meaning employers must spend $600,000 on child care expenditures to receive the full credit. Qualified expenditures include:

- Costs involved in constructing, acquiring, or renovating an on-site child care facility;
- The operating costs for an on-site child care facility;
- Costs involved in contracting with a provider for slots; and
- Child care resource and referral services.

Although this credit is often referred to as the Child Care Facilities Credit, **employers can also contract with licensed child care programs**, in addition to on-site child care facilities.

Take-up is low. The most recent year that data are available, less than 0.01% of businesses that filed for general business expense credits claimed this credit.

In February 2022, the U.S. Government Accountability Office (GAO) released a report[1] that explained the factors limiting wider use—cost and complexity of providing child care, employers' lack of awareness or understanding of the credit, and the credit design. These factors are more acute for small businesses, which often do not have the administrative and financial capacity to claim the credit.

GAO RECOMMENDATIONS

The GAO makes several recommendations to improve the credit take-up rates, including expanding maximum allowable expenses and credit, changing the definition of eligible services to include in-home care, and extending the credit to employers that do not have a federal tax liability, such as nonprofits.

BPC RECOMMENDATIONS

BPC supports all the recommendations in the GAO report and has three additional ones for Congress to improve the credit design:

- Make the tax credit fully refundable.
- Explore developing a tiered system with a greater credit rate and maximum credit for small employers, as defined by the IRS, to make it more financially feasible to claim the credit.
- Allow multiple employers to enter into a contract with a qualified child care provider to claim the credit.

Although these recommendations would make the credit more accessible to employers, Congress must also ensure that employer-provided child care does not create undue burdens on families. BPC recommends overlapping tax credits to delink them from employer-provided child care benefits:

- Congress should make all employer-provided child care benefits exempt from the gross income tax, similar to health care benefits, to ensure that employees maintain eligibility for the CTC and the EITC.
- Congress should allow employees to claim the Child and Dependent Care Tax Credit (CDCTC) up to the maximum allowable expenses for any out-of-pocket child care expenses, regardless of employer contribution.

Endnotes

1 United States Government Accountability Office, Employer-Provided Child Care Credit Estimates Claims and Factors Limiting Wider Use, February 2022. Available at: https://www.gao.gov/products/gao-22-105264.