Bipartisan Policy Center

Time to Adjust the Child and Dependent Care Tax Credit for Inflation

By Emily Wielk and Brittany Walsh

For most working families, child care is an essential expense. The Child and Dependent Care Tax Credit (CDCTC) is the only tax credit designed to explicitly help parents offset child care expenses, but not all families benefit equally from the credit. To be eligible to receive the credit, filers must have eligible expenses *and* federal income tax liability. *Since the credit is* nonrefundable, taxpayers without federal income tax liability are unable to benefit from the credit, limiting its impact on families most in need. In fact, only 12% of taxpayers with eligible expenses successfully claim the credit, primarily middle- and higher-income working parents. The credit is long overdue for modernization and 2025 offers a crucial policy window to adjust the CDCTC's structure to better help parents afford child care.

Why the CDCTC is Not Curbing High Child Care Costs

The CDCTC was originally enacted in 1954 as a deduction for taxpayers with children and was transformed into a nonrefundable credit in 1976. It has subsequently been reformed multiple times, with several changes to the credit's structure that were meant to keep pace with the changing child care landscape but have fallen short in recent years.

Table 1: Historical Structure of the Credit

	1976	2001	2024	*Hypothetical* 2024
Maximum expenses	$2,000 (1 child)/ $4,000 (2+ children)	$3,000 (1 child)/ $6,000 (2+ children)	$3,000 (1 child)/ $6,000 (2+ children)	$5,284 (1 child)/ $10,568 (2+children)
Credit Rate	20%	35% to 20%	35% to 20%	35% to 20%
Maximum Credit	$800	$2,100	$2,100	$3,699

Inflation calculations done using Bureau of Labor Statistics' CPI Inflation Calculator.

Source: Committee on the Budget, United States Senate

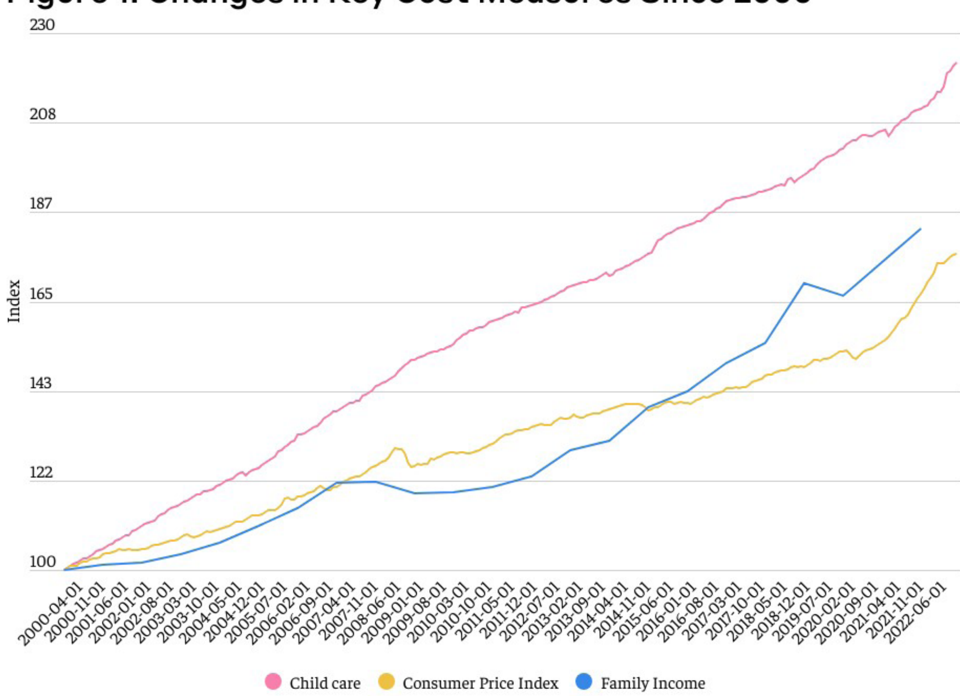
Between 2000, when the credit was last updated, and 2022, child care costs increased 223%, while family incomes did not rise at a comparable pace. Since the maximum expenses are not indexed to inflation, the credit does not meaningfully offset the costs of care (the average credit is between $500 and $600).

Table 2: Estimated Costs of Child Care by Delivery System						
County Size	Infant center-based	Toddler center-based	Preschool center-based	Infant home-based	Toddler home-based	Preschool home-based
Small (1-99,999)	$7,461	$6,760	$6,239	$5,824	$5,713	$5,541
Medium (100,000-499,999)	$10,194	$8,846	$8,400	$7,800	$7,362	$7,020
Large (500,000-999,999)	$13,420	$11,180	$10,078	$8,978	$8,436	$8,048
Very large (1,000,000+)	$15,417	$12,121	$11,050	$9,892	$9,100	$9,019

Source: Department of Labor

The credit has not been meaningfully changed in over two decades. Given how rapidly the costs of child care and living are growing, and the continued impact of inflation, families who can claim the credit are finding its impact less effective

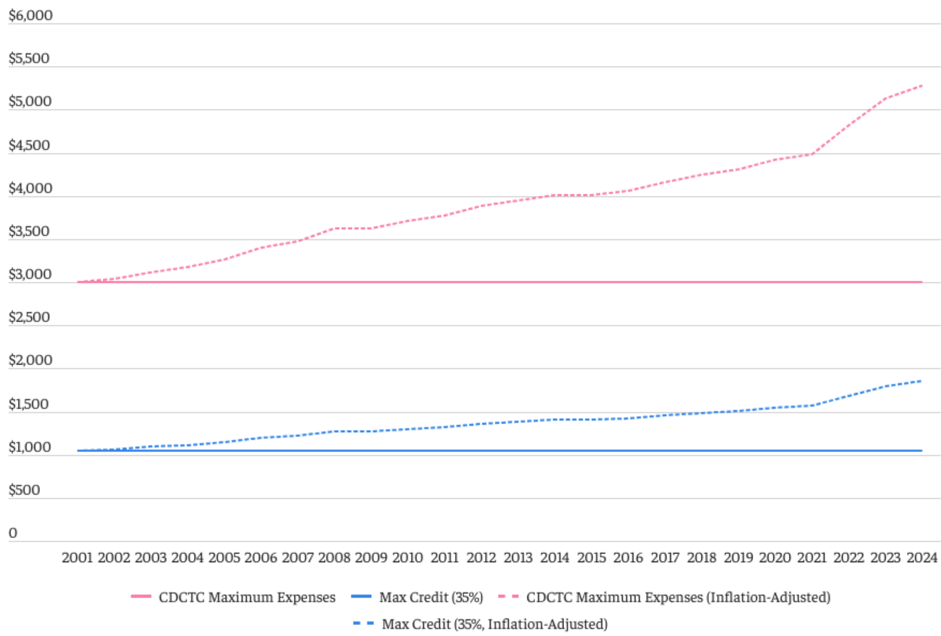
Figure 1: Changes in Key Cost Measures Since 2000[1]



Sources: Bureau of Labor Statistics, U.S. Census Bureau retrieved from FRED

The underlying credit has effectively remained ***unchanged*** since its 2001 expansion that was made permanent in 2012 (see **Table 1**). In 2001 the average child care costs for a family with one child were approximately $3,500 a year. Families could claim a credit between $600 and $1,050 depending on income against $3,000 of maximum qualified expenses. The CDCTC's purchasing power is much smaller today. Estimates suggest that, had these expenses been indexed to inflation over the past 22 years, they would be valued at nearly $5,300 (with the maximum credit possible increasing to $1,850 for one child).

Figure 2: CDCTC Maximum Expenses in 2024 if Adjusted for Inflation Since 2001



Note: The maximum credit (35%) refers to the maximum credit amount a qualifying family with one child (based on income) would receive.
Source: Bureau of Labor Statistics CPI Inflation Calculator

Even adjusted for inflation, the CDCTC is not sufficient to help families defray the costs of child care. As shown in **Figure 1,** the growth in child care costs well outpaced median family income and inflation. In 2023, the average annual price of child care for one child was $11,582, while maximum expenses remain $3,000.

In 2021, the CDCTC was temporarily expanded under the American Rescue Plan Act to help parents weather the social and economic upheaval of the COVID-19 pandemic. **Table 3** compares the CDCTC's design under permanent law and the ARP's expansion**.**

Table 3: CDCTC Structure under Permanent Law and 2021 Expansion

	Permanent Law	American Rescue Plan (2021)
Maximum Qualifying Expenses	$3,000 (one child)/$6,000 (two or more children)	$8,000 (one child)/$16,000 (two or more children)
Credit Rate	35% for taxpayers with AGI between $0 and $15,000; 20% to 35% for taxpayers with AGI between $15,000 and $43,000*; and 20% for taxpayers with AGI over $43,000	50% for taxpayers with AGI between $0 and $125,000; 20% to 50% for taxpayers with an AGI over $125,000 with the rate gradually decreasing until AGI of $183,000; 20% for taxpayers with AGI between $183,000 and $400,000; and Phases out gradually until AGI of $438,000.
Refundability	Nonrefundable	Fully Refundable
Income Phaseout	No income phaseout	Phases out gradually at incomes over $400,000

*For taxpayers with AGI over $15,000, the credit rate decreases by 1% for approximately every $2,000 of increased income up to $43,000.

Adjustments to the maximum qualifying expenses increased the average credit per family in 2021 to $2,244, helping families who claimed the CDCTC offset a greater portion of their child care expenses. By making the credit fully refundable, lower income families benefitted from the credit.

Leveraging the 2025 Policy Window

Caregiving responsibilities continue to constrain families and the broader economy. A BPC-Artemis poll found that 33% of prime age adults (aged 20-54), are currently out of the labor force because they are caring for a child. Among those adults not looking for work, 72% with a child under the age of 18 said that access to high-quality, affordable child care is important when considering whether to enter or return to the workforce. Moreover, a poll from the First Five Years Fund found that voters (89%) overwhelmingly favor policies that provide additional support for high-quality child care, cutting across party lines, with 76% of voters—Republicans (62%), Independents (74%), and Democrats (92%)—supporting an increase to the CDCTC.

The Tax Cuts and Jobs Act (TCJA) expires at the end of 2025, kicking off tax debates in Congress. This is a critical window of opportunity to advance much-needed reforms that help families afford child care and remain in the workforce. Among other changes, BPC recommends that policymakers make the CDCTC refundable, indexed to inflation, and phased out for higher-income families.

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1 The child care index comes from the Bureau of Labor Statistics Consumer Price Index series titled "day care and preschool in U.S. city average, all urban consumers, seasonally adjusted. BLS defines day care and preschool as charges for the care of pre-elementary school children, including pre-K, but does not include short-term occasional child care such as babysitting or nannies. Median family income data from the Census Bureau was used to approximate the rate at which family incomes have also changed over time, allowing the best approximate estimate of households with children compared to median household or personal income data.

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