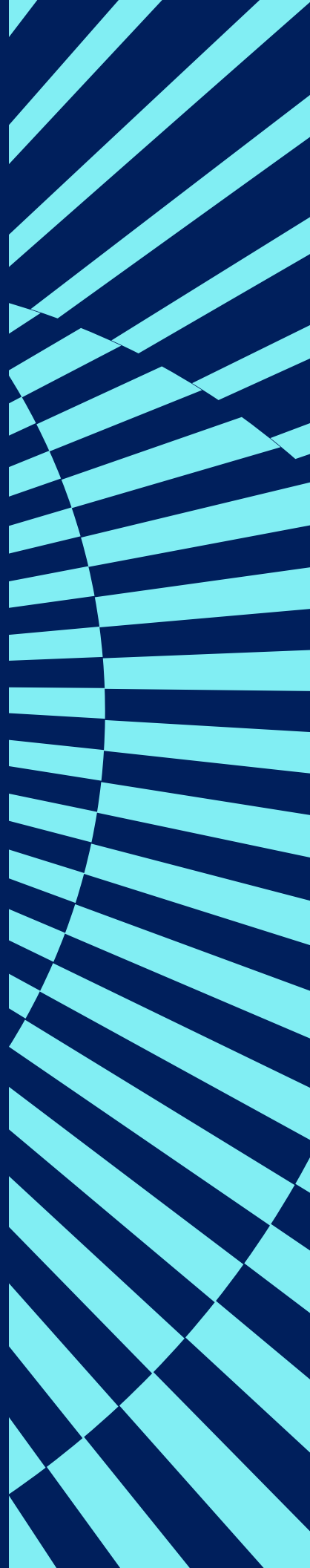




U.S. Chamber of Commerce

Employer Guide to Childcare Assistance and Tax Credits





Four Things Employers Can Do to Help Their Employees with Childcare

Childcare is a critical component of alleviating the worker shortage crisis. Below are four things employers can do right now to help their employees access childcare. Pages 2–5 provide more detailed information on relevant tax credits and benefits options.

1. Research existing childcare options in the community and provide a childcare directory for employees.

Many states have existing childcare networks or associations for the education of young children. Contact the organizations who specialize in childcare in your state to help identify different types of quality care in your community. Be sure to include traditional childcare centers and childcare homes, non-profit and faith-based providers, and Head Start and Early Head Start programs for eligible families.

2. Contract with a third party company to assist employees in connecting with childcare providers.

A third party company can facilitate an array of services that will bolster benefits packages and provide substantive assistance to employees in addressing dependent care needs.

A third party company can:

- Provide direct guidance and service to employees to help them find the type of childcare that meets their needs.
- Facilitate a “back-up care” program where a business establishes a relationship with a specific provider that will be able to provide care should a working parent’s usual childcare arrangement be disrupted.

- Set up and manage an employer subsidy program where employers help defray the cost of care for employees by providing vouchers.
- Manage partnerships with childcare providers. For example, arranging access to a certain number of spots reserved at a childcare provider specifically for that employer, oftentimes at negotiated special rates.

Examples of third party intermediaries include [KinderCare](#), [Care.com](#), [TOOTRiS](#) and [WeeCare](#).

Did you know? Employers can recoup some of the costs of third party intermediaries through a tax credit. Learn more about the Employee-Provided Child Care Tax Credit on page 2.

3. Offer a Dependent Care Flexible Spending Account (DCFSA).

Employers can offer a Dependent Care Flexible Spending Account (DCFSA)—a pre-tax benefit account used to pay for eligible dependent care services. More on this on page 4.

4. Educate employees about their tax options.

Do your employees know that parents can reduce their tax burden by claiming childcare expenses? One example—the Child & Dependent Care Tax Credit (CDCTC)—is highlighted on page 5.



Employer Guide to the Employer-Provided Child Care Credit

The Employer-Provided Child Care Credit can save employers with eligible expenses more in taxes than using a deduction alone, and employees can exclude some childcare benefits from their taxable wages. For employers, the credit can offset actual federal income tax liability.

What are the parameters?

Any size employer or type of company can claim this credit.

The Employer-Provided Childcare Tax Credit allows employers to claim 25% of qualifying expenses, including:

- When a business builds or acquires, and then operates an in-house childcare center
- Amounts paid to contract with a licensed childcare program (including home-based providers)

Employers can also claim a 10% credit for costs associated with contracting with a third party referral service.



Source: GAO-22-105264

The credit is capped at \$150,000.



Employer Guide to the Employer-Provided Child Care Credit (Continued)

How do I claim this credit?

To receive the tax credit, employers must complete a short, half-page form (Form 8882). The credit is part of the general business credit and an employer can claim the credit any time within three years of the due date of your return on either an original or amended return.

Example

Example of Tax Effect for Employer with Qualifying Child Care Resource and Referral Expenditures

	Employer-Provided Child Care Credit (taken with Business Expense Deduction)	Business Expense Deduction Only (taken without credit)
Annual expenses paid or incurred under a contract to provide child care resource and referral services to employees	\$235,000	\$235,000
Employer-Provided Child Care Credit rate for resource and referral expenditures	10 percent	N/A
Tax Credit (10 percent rate applied)	\$23,500	N/A
Actual Employer-Provided Child Care Credit claimed (limit of \$150,000 per tax year)	\$23,500	N/A
Annual expenses without regard to credit	\$235,000	\$235,000
Less actual Employer-Provided Child Care Credit claimed	\$23,500	N/A
Amount deductible for federal income tax purposes	\$211,500	\$235,000
Corporate tax rate	21 percent	21 percent
Business expense tax deduction (21 percent rate applied)	\$44,415	\$49,350
Total tax benefit (child care credit claim plus deduction)	\$67,915	\$49,350
After-tax cost to employer (original expenses less total tax benefit)	\$167,085	\$185,650

Source: GAO-22-105264

Learn more and see examples of how the tax credit works here.

In addition, state tax credits for employer-provided child care are available in 18 states. Find out more here.



Employer Guide to Dependent Care Flexible Spending Accounts

A Dependent Care Flexible Spending Account (DCFSA) is a pre-tax benefit account used to pay for an employee's eligible dependent care services.

What expenses are eligible?



Daycare



Nursery School



Preschool



Summer Day Camp



Before or After School Programs



Elder Day Care

A complete list of eligible expenses can be viewed [here](#).

How does it work?

Like a Flexible Spending Account for healthcare, with a DCFSA, funds are withdrawn from an employee's paycheck before taxes are deducted, which reduces an employee's overall tax burden. At the end of the year, employees who contributed to a DCFSA can submit receipts and be reimbursed for those eligible expenses. Employees can contribute up to \$5,000 a year filing as individuals or with a joint tax return, or, \$2,500 for married couples filing separately.

Only certain expenses can be reimbursed, and they must be directly related to professional caregiving services that allow an employee to work, look for work, or attend school full-time. Employees pay out-of-pocket for caregiving expenses and get reimbursed through the DCFSA plan. DCFSA funds are use it or lose it, meaning funds that haven't been spent at the end of the year don't roll over to use the following year.

Some plans allow for some unused funds to rollover at the end of the year. Employers may elect one of two ways for account holders to let unused funds rollover:

1. Account holders can carry over up to \$550 from one plan year to the next.
2. The grace period option, which allows unlimited funds to be carried over to be spent in the first two and a half months of the next plan year. At the end of that period, all unspent carried-over funds are forfeited.

Note: If an employer plans to file for the child care tax credit, they must subtract any expenses paid through an FSA. If an employer provides money to pay childcare expenses, or if money is withheld from an employee's paycheck on a pre-tax basis, those dollars received must be subtracted from allowable expenses when applying for the CDCTC.



Employee Guide to Child & Dependent Care Tax Credit

The Child and Dependent Care Credit (CDCTC) is a tax credit that helps parents and families pay for the care of their children and other dependents while they work, are looking for work, or are going to school.

If you are eligible for the Child and Dependent Care Tax Credit, the credit will lower the amount of federal income taxes you are required to pay.

Who is eligible?

Families can claim a child care tax deduction as long as they meet the following requirements:

- The care must be for a child under the age of 13.
- The family must need child care because both caregivers work, are looking for work, or are full-time students.
- The family must have qualifying child or dependent care-related expenses.

What are the parameters?

For 2022, the maximum amount of care expenses that can be claimed is \$3,000 if there is one qualifying person, and \$6,000 if there are two or more qualifying persons. For taxpayers with adjusted gross income (AGI) above \$43,000 the maximum credit is \$600 (for one child and expenses of at least \$3,000) and \$1,200 (for two or more children and expenses of at least \$6,000). For those making less than \$43,000, the credit can be greater, though not more than \$1,050 for one child and \$2,100 for more than one child.

How do I claim this credit?

To claim the credit, you will need to complete Form 2441 (note this form could change for tax year 2022), and include the form when you file your federal income tax return. You must identify all persons or organizations that provide care for your child or dependent.

In addition, state Dependent Care Tax Credits are available in 25 states. Find out more here.

Note: As a result of legislation enacted during the pandemic, the amount of the child and dependent care tax credit was substantially larger for expenses in calendar year 2021. The increased credit expired on December 31, 2021, and has not been renewed by Congress.



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