

September 12, 2023

The Honorable Ron Wyden
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Mike Crapo
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Jason Smith
House Committee on Ways and Means
1139 Longworth House Office Building
Washington, DC 20515

The Honorable Richard Neal
House Committee on Ways and Means
1129 Longworth House Office Building
Washington, DC 20515

Dear Chairs Wyden and Smith and Ranking Members Crapo and Neal:

The undersigned organizations strongly support the Child and Dependent Care Tax Credit (CDCTC),ⁱ the Dependent Care Assistance Program (DCAP),ⁱⁱ and the Employer Provided Child Care Tax Credit (45F).ⁱⁱⁱ Lack of access to child care across the country affects businesses, parents, and our youngest children.

Solutions to this problem must address the needs of all three groups of stakeholders. When combined with existing sources of federal child care funding, these tax provisions have the potential to do just that: the CDCTC and DCAP help parents afford child care and 45F helps businesses provide it. All of this helps ensure that children receive the quality care that they deserve. We urge you to expand and better align these tax provisions for working families and businesses to improve access to quality, affordable child care.

All children deserve access to safe and enriching child care experiences. Yet, across the country, working parents struggle to access quality child care for their children while they work. Child care is unaffordable, with median annual prices ranging from \$5,357 to \$17,171 depending on child age, provider type, and region.^{iv} This amounts to 8-19% of median family income, and even more for low-income families.^v Even if parents could afford child care, supply is limited. Nearly one in three (31.7%) children with both parents in the workforce do not have access to formal child care.^{vi} The child care gap is in part due to the high cost of providing child care—in many regions, operating a child care business is just not financially feasible.^{vii} Too often, the places where people can least afford child care have the greatest need. In rural and small-town America, the child care gap is higher than the national average (35.1%).^{viii} Rural parents feel this difference acutely, with two in three rural parents (64%) saying that finding child care is difficult, compared to 47% of urban parents.^{ix}

Without access to quality child care, parents experience declines in productivity or are unable to work. Across just 35 states and the District of Columbia, the child care gap costs the economy at least \$142.5 billion in cumulative losses over 10 years.^x That is a cost to the economy of \$41,168 per missing child care slot. Even worse, many parents who do not have access to quality care may be forced to place children in lower-quality child care arrangements. Our current tax code provides some support to increase the affordability and supply of child care, but limitations in these tax provisions reduce their ability to help working parents access quality child care.

Child and Dependent Care Tax Credit (CDCTC) is the only tax credit that all working parents can access to offset the cost of child care necessary for work.^{xi} In practice, the CDCTC is disproportionately accessed

by middle- and high-income parents both because it is nonrefundable and low-income families typically cannot afford high child care expenses.^{xixiii} This nonrefundable credit allows taxpayers to claim up to \$3,000 for one dependent (\$6,000 for two or more) in qualifying child care expenses to calculate the credit. The maximum credit rate is 35% for the lowest-income taxpayers, and it phases-down as income increases until it reaches 20%. This means that the most a parent with one child can receive is \$1,050—a small fraction of the total cost of child care. We recommend Congress consider the following changes to the CDCTC:

- Make the credit fully refundable.
- Increase the credit rate for the lowest-earning families.
- Make the CDCTC advanceable so taxpayers have the ability to pay for the child care they actually need throughout the year.
- Index increases to CDCTC maximum eligible expenses to inflation.

The Dependent Care Assistance Program (DCAP) allows working parents to exclude up to \$5,000 in child care assistance provided by their employer from their gross income. Unlike the CDCTC, not all working parents can access DCAP benefits; only those with a sponsoring employer. Child care assistance may include direct payments by an employer for an employee's child care tuition and/or an employer-sponsored Flexible Spend Accounts (FSAs). The \$5,000 maximum is not sufficient to offset the cost of child care, and the limit does not increase as parents have more children. Moreover, contributions to a DCAP decreases maximum eligible expenses dollar-for-dollar with what a parent can claim on the CDCTC.^{xiv,xv} This means parents who max out their DCAP are unable to claim the CDCTC for additional out-of-pocket expenses. We recommend that Congress consider the following changes to the DCAP:

- Increase the exclusion maximum to better reflect the cost of child care.
- Decouple dependent care assistance program (DCAP) exclusions from CDCTC expenditures. This would allow taxpayers to claim the CDCTC up to the maximum allowable expenses for any out-of-pocket child care expenses, regardless of employer DCAP contribution.

To help increase child care supply, the Employer-Provided Child Care Tax Credit (45F) incentivizes businesses to help their employees locate child care and increase the number of child care slots available in their community. Current law provides employers a nonrefundable tax credit of up to 25% of qualified child care expenditures and 10% of qualified child care resource and referral expenditures. The credit maximum is \$150,000, meaning businesses must spend \$600,000 to receive the full credit. The low credit rate is especially prohibitive for small businesses that often do not have the profit margins to make significant investments in child care.^{xvi} Because the credit is nonrefundable, non-profits and other businesses without federal tax liability are not eligible to claim the credit. The GAO found that the credit has a low take-up rate, in part due to the limited financial incentive the credit offers businesses.^{xvii} To make the credit more accessible to employers, we recommend Congress consider the following changes to 45F:

- Make the tax credit fully refundable.
- Increase the maximum credit and credit rate.
- Develop a tiered system with a greater credit rate and maximum credit for small employers and employers in rural areas to make it more financially feasible to claim the credit.

- Simplify the process for multiple employers to jointly enter a contract with a qualified child care provider for child care services to claim the credit.

It is critical that Congress expand these tax provisions that support businesses and parents simultaneously. Increasing supports that help parents afford child care without concurrently increasing supply will not increase access, as the marginal increase in a parent's budget is not enough to offset the cost to providers to increase their capacity or open a new business. This would result in parents with more dollars to spend on quality child care, but nowhere to spend them. Tax code supports designed to directly increase the number of available child care slots, like 45F, will ensure that boosts in parent demand through the CDCTC and DCAP are met with the needed supply. Without intervention, child care will continue to be unaffordable and inaccessible for working parents.

Thank you for your time and consideration. We look forward to working with you to strengthen our America's child care system and better support children and parents alike.

Sincerely,

National Organizations

Bipartisan Policy Center
Council for a Strong America
Early Care and Education Consortium
First Five Years Fund
KinderCare Learning Companies
Save the Children
U.S. Chamber of Commerce
Agape Global Ministries
Association of Maternal & Child Health Programs
Child Care Aware of America
Educare Learning Network
Engage: Promoting Women's Economic Security
First Focus on Children
Goldman Sachs 10,000 Small Businesses Voices
Independent Restaurant Coalition
Kaplan Early Learning Company
National Association of Counties
National Head Start Association
ReadyNation
Safari Kid Global, Inc.
SHRM
Small Business For America's Future
Start Early
Teachstone Inc.
Teaching Strategies
The Nest Schools
TOOTRiS Child Care On-Demand

State and Local Chambers of Commerce

Alaska Chamber

Arizona Chamber of Commerce & Industry
Cabarrus Economic Development
Cadillac Area Chamber of Commerce
Christian County Chamber of Commerce
Greater Kansas City Chamber of Commerce
Greater San Antonio Chamber of Commerce
Greater Shreveport Chamber
Huntsville/Madison County Chamber
Idaho Association of Commerce and Industry
Indiana Chamber of Commerce
Indy Chamber
Kentucky Chamber of Commerce
Metro Atlanta Chamber
Michigan Chamber of Commerce
Missouri Chamber of Commerce and Industry
Montana Chamber of Commerce
NC Chamber
Southwest Michigan Regional Chamber
The Chamber, Leading Business in Cabarrus
The Salt Lake Chamber

State Business and Nonprofits

Ben Mynatt Family of Dealerships
Cabarrus Brewing Company
Central Montana Works!
Chamber Board Member, Natasha Lipscomb
Charlotte Motor Speedway
Colorado Executives Partnering to Invest in Children (EPIC)
Early Matters San Antonio
eXp Commercial
GATE Pregnancy Resource Centers
Harrisburg Security Inc.
Hilbish Ford
Johnny Roger's BBQ & Burgers
Minnesota Child Care Association
Mortice Commercial Real Estate
Ohio Association of Child Care Providers
PHX East Valley Partnership
RIZON Air Technologies
Rowan-Cabarrus Community College
Sublmnl Design, LLC
Synergy Realty Group
Texas Association of Business
Town of Harrisburg
Zutado Soul

Local Child Care Providers

Academy Closet

Big Blue Marble Academy
Busy Bees North America
Child Development Schools, Inc.
Help Me Grow National Center
Horizon Education Centers
Kiddie Academy
Lightbridge Academy
New Horizon Academy
Primrose Schools
The Gardner School
The Malvern School
The Sunshine House Inc.

ⁱ 26 USC § 21. Available at: <https://www.law.cornell.edu/uscode/text/26/21>.

ⁱⁱ 26 USC § 129. Available at: <https://www.law.cornell.edu/uscode/text/26/129>.

ⁱⁱⁱ 26 USC § 45F. Available at: <https://www.law.cornell.edu/uscode/text/26/45F>.

^{iv} Liana Christin Landivar, Nikki L. Graf, and Giorleny Altamirano Rayo, *Childcare Prices in Local Areas: Initial Findings from the National Database of Childcare Prices*, Issue Brief, U.S. Department of Labor, January 2023. Available at: https://www.dol.gov/sites/dolgov/files/WB/NDCP/508_WB_IssueBrief-NDCP-20230213.pdf.

^v Liana Christin Landivar, Nikki L. Graf, and Giorleny Altamirano Rayo, *Childcare Prices in Local Areas: Initial Findings from the National Database of Childcare Prices*, Issue Brief, U.S. Department of Labor, January 2023. Available at: https://www.dol.gov/sites/dolgov/files/WB/NDCP/508_WB_IssueBrief-NDCP-20230213.pdf.

^{vi} Linda Smith, Anubhav Bagley, and Ben Wolters, *Child Care in 35 States: What we know and don't know*, Bipartisan Policy Center, October 26, 2020. Available at: <https://bipartisanpolicy.org/report/child-care-gap/>.

^{vii} Sam Aigner-Treworgy, Caroline Osborn, and Linda Smith, *Charting the Path Forward for Child Care: Using Cost Modeling to Design New Solutions*, Bipartisan Policy Center, November 2022. Available at: <https://bipartisanpolicy.org/explainer/cost-modeling-solutions-child-care/>.

^{viii} Anne Straith and Linda Smith, "Rural Communities Feel Lack of Child Care Options More Acutely," Bipartisan Policy Center, February 9, 2022. Available at: <https://bipartisanpolicy.org/blog/rural-communities-feel-lack-of-child-care-options-more-acutely/>.

^{ix} Bipartisan Policy Center, "Nationwide Child Care Poll: Child Care Costs Impact Families' Employment, Savings, and Future Planning," November 6, 2019. Available at: <https://bipartisanpolicy.org/blog/child-care-poll/>.

^x Ben Wolters, Anubhav Bagley, Daniel Jerrett, and Linda Smith. *The Economic Impact of America's Child Care Gap*, The Bipartisan Policy Center, November 2021. Available at: <https://bipartisanpolicy.org/report/the-economic-impact-of-americas-child-care-gap/>.

^{xi} Amanda Guarino, "Understanding the Difference Between the Child Tax Credit and the Child Care Tax Credit—and Why We Need Both," First Five Years Fund, August 15, 2021. Available at: <https://www.ffyf.org/understanding-the-difference-between-the-child-tax-credit-and-the-child-care-tax-credit/>.

^{xii} Ben Wolters, Linda Smith, and Kathlyn McHenry, *The Effects of the Child and Dependent Care Tax Credit on Child Care Affordability*, Bipartisan Policy Center, April 19, 2021. Available at: <https://bipartisanpolicy.org/report/the-effects-of-the-child-and-dependent-care-tax-credit-on-child-care-affordability/>.

^{xiii} M.L. Crandall-Hollick, "The Child and Dependent Care Tax Credit (CDCTC): Temporary Expansion for 2021 Under the American Rescue Plan Act of 2021 (ARPA; P.L. 117-2)," *Congressional Research Service*, May 10, 2021. Available at: <https://crsreports.congress.gov/product/pdf/IN/IN11645>.

^{xiv} 26 USC § 21(c)(2).

^{xv} IRS, Publication 503: Child and Dependent Care Expenses, December 20, 2021. Available at: <https://www.irs.gov/pub/irs-pdf/p503.pdf>.

^{xvi} Linda Smith, Caroline Osborn, and Brittany Walsh, *The Employer-Provided Child Tax Credit (45F)*, Bipartisan Policy Center, November 2022. Available at: <https://bipartisanpolicy.org/explainer/employer-provided-child-care-credit/>.

^{xvii} U.S. 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>.