

Employer-Provided Childcare Credit

The Employer-Provided Child Care Tax Credit (45F) is designed to encourage businesses to support their employees' child care needs. This tax incentive offers benefits to both employers and employees, helping to create a more supportive and family-friendly work environment.

KEY BENEFITS



Employers receive a tax credit for a portion of qualified child care expenses, reducing overall costs.

Employees benefit from reduced child care expenses, alleviating financial stress.



FINANCIAL RELIEF

FAMILY FRIENDLY ENVIRONMENT



Encourages the establishment or expansion of child care facilities on-site or nearby, fostering a supportive work culture.

Offering child care benefits helps companies attract & retain skilled employees, particularly working parents.



TALENT RECRUITMENT & RETENTION

ECONOMIC IMPACT



Increases workforce participation among parents, contributing positively to the overall economy.



EMPLOYER PROVIDED CHILDCARE CREDIT (45 F)

1. WHAT IS THE EMPLOYER-PROVIDED CHILDCARE TAX CREDIT?

The Employer-Provided Childcare Tax Credit, under Internal Revenue Code Section 45F, is a federal tax incentive designed to encourage businesses to invest in child care for their employees. Employers can receive a nonrefundable tax credit of up to 25% of qualified child care expenditures and 10% of qualified child care resource and referral expenditures, with a maximum credit of \$150,000.

2. WHAT QUALIFIES AS CHILD CARE EXPENDITURES?

- Costs associated with acquiring, constructing, rehabilitating, or expanding property to be used as a qualified child care facility.
- Operating costs for running a child care facility.
- Expenses incurred from contracting with a qualified child care facility to provide services to employees.

3. WHAT ARE QUALIFIED RESOURCE AND REFERRAL EXPENDITURES?

These are costs related to providing child care resource and referral services directly to employees or through a contracted service provider.

4. CAN EMPLOYERS CLAIM BOTH THE TAX CREDIT AND A BUSINESS EXPENSE DEDUCTION

Yes, employers claiming the tax credit can also deduct business expenses. The deduction is calculated by subtracting the total tax credit from the amount of qualified expenditures.

5. IS THE EMPLOYER-PROVIDED CHILDCARE TAX CREDIT REFUNDABLE?

No, this credit is nonrefundable. It can reduce a company's tax liability to zero, but any credit amount exceeding the tax liability cannot be refunded.

6. WHY SHOULD BUSINESSES CONSIDER UTILIZING THE EMPLOYER-PROVIDED CHILDCARE TAX CREDIT?

This credit helps offset the significant costs associated with providing child care facilities or services, making it easier for businesses to support their employees' child care needs. This can be particularly beneficial in areas with limited child care options, ensuring stable funding and support for maintaining child care supply.

7. WHAT ARE THE COMMON BARRIERS TO UTILIZING THIS TAX CREDIT?

Barriers include the complexity and costs of setting up child care facilities, a lack of awareness or understanding of the credit among employers, and design limitations of the credit itself. These issues are especially challenging for small businesses with limited staff and resources.

8. WHAT RECOMMENDATIONS HAVE BEEN MADE TO IMPROVE THE UTILIZATION OF THE EMPLOYER-PROVIDED CHILDCARE TAX CREDIT?

Recommendations include:

- Expanding the maximum allowable expenses and credit.
- Broadening the definition of eligible services.
- Extending the credit to employers without federal tax liability.
- Allowing multiple employers to jointly establish or operate a qualified child care facility.
- Increasing dissemination of information on how the tax credit works and how employers can benefit from it.

9. ARE THERE ADDITIONAL SUGGESTIONS FOR IMPROVING THE TAX CREDIT FOR SMALL BUSINESSES?

Yes, the Bipartisan Policy Center suggests:

- Making the tax credit fully refundable.
- Developing a tiered system offering higher credit rates and maximum credits for small employers.
- Permitting multiple employers to collaboratively contract with a qualified child care provider to claim the credit.

10. ARE THERE ANY ONGOING EFFORTS TO IMPROVE THE TAX CREDIT FOR SMALL BUSINESSES?

Yes, there are ongoing efforts to enhance the tax credit's effectiveness for small businesses. For instance, US Senator Jeanne Shaheen has introduced a bill, the “Right Start Child Care and Education Act of 2024”, that includes several provisions aimed at improving the tax credit.

Key Highlights of the bill are:

- Increase in credible percentage of childcare expenditures
- Increase in credible percentage of resource and referral expenditures
- Increase in maximum credit from \$150k to \$500k
- Inclusion of non-profit businesses

TO FIND MORE INFORMATION ABOUT THE EMPLOYER-PROVIDED CHILDCARE TAX CREDIT VISIT [IRS.GOV](https://www.irs.gov) OR SCAN THE QR CODE :



Sources:
Smith, L., Osborn, C., & Walsh, B. (2022, November). The Employer-Provided Child Tax Credit (45F). Bipartisan Policy Center.