July 2026

Federal Child Care Tax Credits

Child Care Means Business

About Us

Joseph O’Hern
Director
First Five Years Fund

First Five Years Fund is a national organization working to protect, prioritize, and build **bipartisan** support for quality **child care** and early learning programs at the **federal** level.

2025 Reconciliation Package (HR1)

Expanding Child Care Tax Provisions

Child and Dependent Care Tax Credit (CDCTC)

Expanded the CDCTC, the only tax credit that specifically helps working parents offset the cost of child care (last updated in 2001)

Employer-Provided Child Care Credit (45F)

Improved 45F, which supports businesses who want to locate or provide child care for their employees (last updated, 2001)

Dependent Care Assistance Plans (DCAP)

Grew DCAP, flexible spending accounts that allow working parents to set aside pre-tax dollars to pay for child care expenses (last updated in 1986). Grew from $5,000 to $7,500

Child Care Tax Credits: Very Popular

Voter support for **expanding CDCTC**

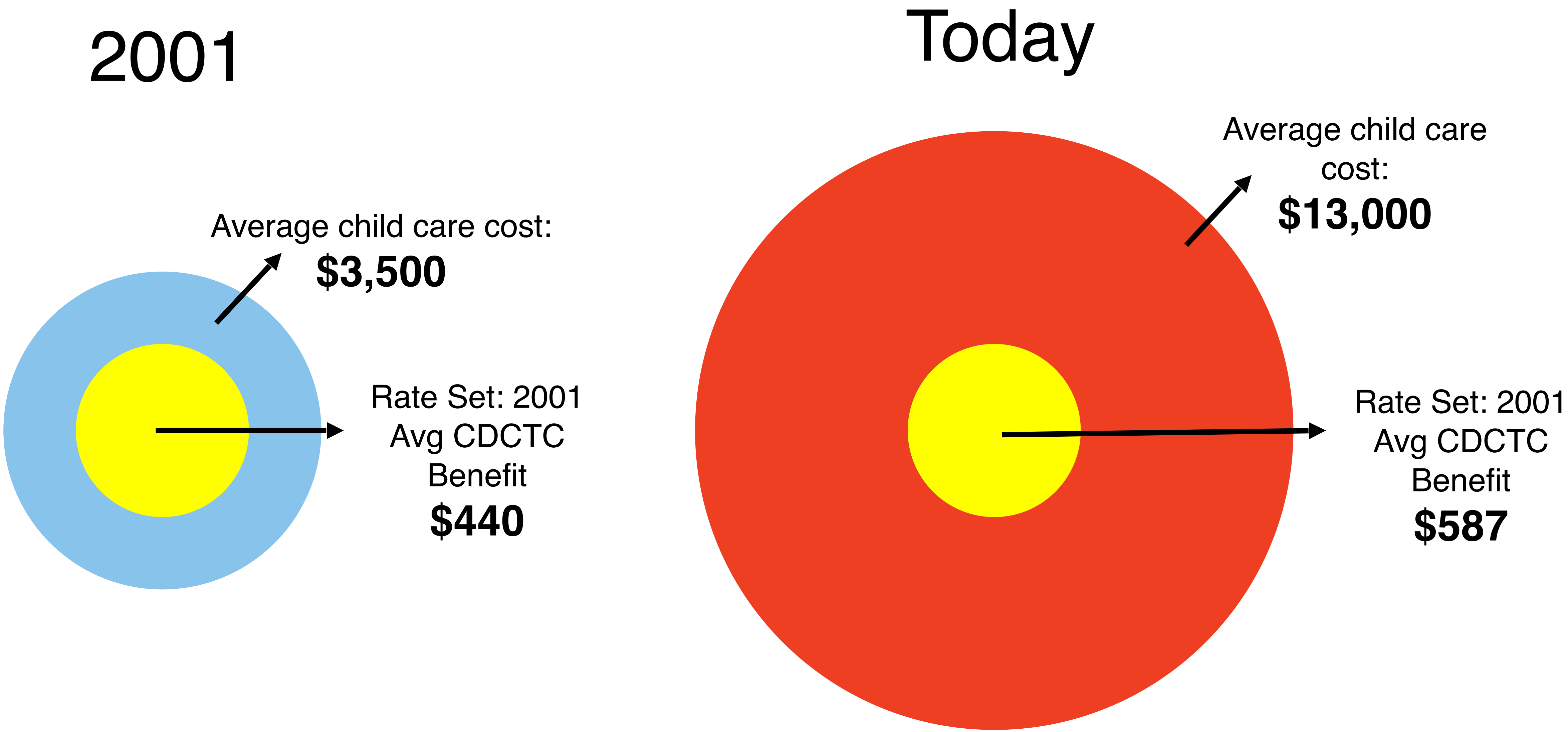
- 86% overall
- 83% Republicans
- 83% of Independents
- 91% of Democrats.

Voter support for **expanding 45F + DCAP**

- 84% overall
- 76% of Republicans
- 82% of Independents
- 93% of Democrats.

Feb. 2025 National Poll

CDCTC: Then vs. Now



CDCTC Update

- Allows working parents to claim $3,000/$6,000 of their child care expenses. Families with the lowest incomes will now receive a maximum credit of 50% of their claimed child care expenses. That percentage gradually decreases as incomes rise.
- Could result in nearly 4 million families* – including dual-income households earning up to $206K and single-income households earning up to $103K – seeing an increased tax credit.

DETAILS	PREVIOUSLY		THE NEW LAW		THE DIFFERENCE
Married Filing Jointly Adjusted Gross income:	% of claimed expense:	Max. credit for two children:	% of claimed expense:	Max. credit for two children:	Increase:
$33-$35K	25%	$1,500	40%	$2,400	**$900**
$43-$150K	20%	$1,200	35%	$2,100	**$900**
$182-$186K	20%	$1,200	26%	$1,560	**$360**
$206K +	20%	$1,200	20%	$1,200	**SAME**

**Based on FFYF calculation from 2022 Internal Revenue Service filer data.*

The Power of the CDCTC

In 2021, the CDCTC was temporarily strengthened for **one year**, with a larger credit and reaching more families.

In 2022, the credit reverted to previous levels.

2020	2021
5.1 million families helped	**6.3 million** families helped
* with a *	* with a *
$500-600 average credit	**$2,100** average credit

Employer Provided Child Care Tax Credit – 45F

45F: Employer-Provided Child Care Tax Credit

45F was created to help **increase the supply** of child care by allowing employers to claim a tax credit for:

- A percentage of qualifying expenses from **building, acquiring,** and **operating child care centers**;
- Amounts paid to **contract with a licensed child care program** (including home-based providers);
- And costs associated with **contracting with a resource and referral service**.

45F: How It Works

How Employers Qualify

- Contracting with Child Care Providers or Intermediaries
- Referral Services
- Onsite Care for Employees

Key Rules

- Open Access for all Employees
- 30% Rule
- Reporting, Tracking and Documentation

45F: Recent Updates and Expansion

- Increased the maximum credit and credit rate; and indexes the credit to inflation - providing more incentive for businesses to participate.
- Grew the credit rate and maximum credit specifically for small businesses.
- Simplified the process for multiple employers to jointly contract with a qualified child care provider.
- Allows for the use of intermediaries to help facilitate child care for employers.

DETAILS	PREVIOUSLY	THE NEW LAW
% of child care expenses covered	25%	40% for larger businesses 50% for small businesses
Maximum Credit	$150,000	$500,000 for larger businesses $600,000 for small businesses
Allows small businesses to pool resources to contract with a qualified child care provider	No	Yes

45F: Why Should Employers and Providers Care

For employers: child care support becomes a real financial incentive, not just a nice-to-have. It strengthens recruitment, improves retention, and shows employees that the organization is serious about family-friendly benefits.

For providers and networks: funding becomes available to invest in slots, quality improvements, and partnerships. The credit can also help provide a sustainable, predictable source of revenue

Intermediary

Intermediaries

What is an Intermediary

The updated 45F credit allows employers to work through an intermediary – a third party such as a Child Care Resource and Referral agency (CCR&R) or other similar service – rather than managing everything themselves.

This is still new

Few working examples exist so far, and the U.S. Department of the Treasury has not yet issued rules on how these arrangements should operate – including any limits on the fees intermediaries typically charge. Until that guidance arrives, employers and providers should review fee structures carefully.

Think of an intermediary like a real estate agent for child care – someone who brings the two sides together and handles the details in between by:

- **Connecting employers with vetted child care providers**
- **Calculating the expected return and making the business case**
- **Managing contracts and payments**
- **Handling tax documentation and reporting**
- **Matching and enrolling families**

45F In Use

45F: Examples in Use

Large Employer contracting with existing provider:

- Child Care Contract: $50,000 with Happy Apple Child Care (40% credit = $20,000)
- Referral Services: $10,000 with a local CCR&R agency (10% credit = $1,000)
- **Total Tax Credit: $21,000**

Small Business building onsite care:

- Construction Costs: $200,000 for building and outfitting the facility (eligible expense = $200,000)
- Staff Salaries: $120,000 for child care employees (eligible expense = $120,000)
- Annual Operational Costs: $80,000 for supplies, utilities, and maintenance (eligible expense = $80,000)
- Total Eligible Expenses: $400,000
- Tax Credit Calculation: $400,000 × 50% = $200,000
- **Total Tax Credit: $200,000**

45F – Real World Examples

Hudl and Primrose School Partnership Lincoln Nebraska

Hudl, a Nebraska based company that provides tools for coaches and athletes, used the 45F credit to partner with Primrose School to open an early education center at its headquarters in Lincoln. The center provides care for 37 Hudl employees at a reduced tuition rate and the rest of the slots are

FM Bank and Trust in Blytheville, Arkansas

A steel town with a competitive local workforce—launched a child care support program in January 2025, offering up to $5,000 per employee directly to licensed child care providers in the area. The program was introduced at one branch, where five employees enrolled in the initial offering, directly benefiting both the employees and their young children.

Dive Deeper Below

Additional Resources

FFYF

Chamber

45F Explainer and FFYF Tax Resources

Chamber of Commerce Playbook

Questions?