

HELP PAYING FOR CHILD CARE

Federal & State Tax Incentives for Families

Federal Tax Incentives

CHILD AND DEPENDENT CARE TAX CREDIT (CDCTC)

The federal Child and Dependent Care Tax Credit (CDCTC) allows families to take a tax credit for child care expenses related to dependent children under age 13 or expenses related to caring for individuals who are mentally or physically disabled (and who are claimed as a dependent). The maximum credit is \$1,050 for one child (35% of \$3,000 in expenses) and \$2,100 for two or more children (35% of \$6,000).



The following table shows the declining percentage of credit rates by income.

FEDERAL CHILD AND DEPENDENT CARE TAX CREDIT

| INCOME | RATE | CREDIT |
|---------------------|------|---------|
| Below \$15,000 | .35 | \$1,050 |
| \$17,000 - \$19,000 | .33 | \$990 |
| \$23,000 - \$25,000 | .30 | \$900 |
| \$27,000 - \$29,000 | .28 | \$840 |
| \$33,000 - \$35,000 | .25 | \$750 |
| \$43,000+ | .20 | \$600 |

EMPLOYER SPONSORED DEPENDENT CARE ASSISTANCE PLANS FOR CHILD CARE EXPENSES (DCAPS)

Under current federal tax law, employers can set up Dependent Care Assistance Plans, which are flexible spending accounts (Section 129 of the Internal Revenue Code). These are special accounts where employees can put up to \$5,000 of their salary before taxes to pay for dependent care. This means employees pay less in taxes and save money on child care. Employers also save money because the money put into these accounts doesn't count toward their payroll taxes.

Many employees with young children may already be paying for child care; the option for a flexible spending account reimburses parents at a tax savings for money that would be spent anyway.

To read more information about the CDCTC, check out IRS Form 2441 and related IRS instructions that describe how to calculate the credit.