

Affordable Child Care: Federal & State Tax Incentives for Families



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Federal Tax Incentives to Promote Affordability for Families:

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).

Eligible expenses are capped and only a percentage of the allowable expenses are used to calculate the credit. For example, the credit rate declines as income rises. Allowable child care expenses for a family with one child are limited to \$3,000 per year. Families with two children are allowed \$6,000 in expenses per year. Against the cap of allowable expenses is a percentage limitation that is applied against the cap, which declines as income rises.



Therefore, the maximum credit is \$1,050 for one child (35% of \$3,000 in expenses) and \$2,100 for two children (35% of \$6,000). The 35% credit rate is reduced, but not below 20%, by one percentage point for each \$2,000 of adjusted gross income above \$15,000. The credit rate for families with income over \$43,000 is 20%.

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

Federal Child and Dependent Care Tax Credit		
Income Range	Credit Rate Percentage	Dollar Value for One Child
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

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

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](#)). If employers choose to offer such plans, employees can set-aside up to \$5,000 in pre-tax salary for dependent care expenses.

Using pre-tax dollars means a tax savings to employees (potentially 20-40% of child care expenses depending upon the family's tax bracket and expenses incurred for child care) as well as a tax savings for employers (funds set aside through a flexible spending account reduce employer payroll – for example, these funds aren't subject to FICA or FUTA taxes).

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

How do flexible spending plans work? An employer establishes a written plan (required by the IRS) and distributes a summary of the plan to all employees (required by the Department of Labor).

Employees estimate how much they think they will spend on child care for the year. They can then choose to have up to \$5,000 of their salary per year set aside tax-free into a flexible spending account through regular paycheck deductions.

As child care expenses are incurred, employees can submit for reimbursement from their flexible spending account (FSA). FSAs are capped at \$5,000. Expenses related to dependent children under age 13 or related to dependents who are mentally or physically incapable of caring for themselves (and who the employee claims as a dependent) are eligible for reimbursement through FSAs.

Here's a [calculator](#) to help employees figure out tax savings by utilizing DCAP benefits. It's always a good idea to consult with a tax professional, but conceptually, there are savings to be realized through the tax code for employees who are able to participate in their employer's dependent care assistance plan.

New York State Tax Incentives to Promote Child Care Availability and Affordability for Parents

In New York, families may be eligible for 3 child care related tax credits: the federal Child and Dependent Care Tax Credit, a similar NY State Child and Dependent Care Tax Credit, and for NYC

parents, a local Child and Dependent Care Tax Credit.

NY State Child and Dependent Care Tax Credit.

Families are eligible for a [state tax credit](#) that is based on the federal law but is more generous. While the federal credit is capped at \$6,000 in expenses for 2 or more children, the NYS tax credit allows expenses of \$7,500 for 3 children, \$8,500 for 4 children, and \$9,000 for 5 children. The credit is phased down to 20% of the federal credit for families with income above \$150,000. If a family's tax credit is more than the taxes a family owes, then the family will receive a check (i.e., it's refundable). Families must have earned income to qualify.

To claim the NYS tax credit, file [Form IT-216](#) and read related [instructions](#) by the New York Department of Taxation and Finance.

NYC Child and Dependent Care Tax Credit. Parents in [New York City with income of \\$30,000 or less](#) and dependent care expenses for a child under age 4, can also take a tax credit. Expenses are limited to \$3,000 for 1 child and \$6,000 for 2 children.

The tax credit for NYC families with young children is located on the same form as the NYS tax credit, [Form IT-216](#).

Free Tax Preparation Help for NY Families.

Taxes can be complicated. If you need help, the [Volunteer Income Tax Assistance \(VITA\) program](#) offers free tax help to people who generally make \$64,000 or less, persons with disabilities and limited English speaking taxpayers who need assistance in preparing their own tax returns. IRS-certified volunteers provide free basic income tax return preparation with electronic filing to qualified individuals. In NYC, [free tax preparation](#) help is available for families with income of \$85,000 or less.

Resources

Federal	NY State & NYC
IRS Publication 503, Child and Dependent Care Expenses	NYS Child and Dependent Care Tax Credit Overview
IRS Form 2441, Child and Dependent Care Tax Credit	NYS & NYC Form IT-216, Child and Dependent Care Credit
IRS Form 2441, Instructions for the CDCTC	NYS & NYC Instructions for Form IT-216 Tax Credit
Dependent Care Assistance Plans (DCAPs) FAQs	NYC Child and Dependent Care Tax Credit Overview