

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.

HOW DO FLEXIBLE SPENDING PLANS WORK?

1. **Employer Sets Up Plan:** The employer creates a written plan (required by the IRS) and shares it with all employees (required by the Department of Labor).
2. **Estimate and Deduct:** Employees figure out how much they'll spend on child care for the year. They can then choose to put up to \$5,000 of their salary into a flexible spending account (FSA) before taxes through regular paycheck deductions.
3. **Get Reimbursed:** As child care expenses are incurred, employees can submit for reimbursement from their FSA, which 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.
4. **Calculate Savings:** Use a calculator to see how much you could save on taxes. It's a good idea to talk to a tax expert to understand how much you could save with your employer's dependent care assistance plan.



NEW YORK STATE TAX INCENTIVES

In New York, families may be eligible for 2 other child care-related tax credits: a 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 better than the federal one. While the federal credit covers up to \$6,000 in expenses for 2 or more children. In New York State, the credit covers more: \$7,500 for 3 kids, \$8,500 for 4 kids, and \$9,000 for 5 kids. If a family makes more than \$150,000, the credit goes down to 20% of the federal amount. If the credit is more than the taxes the family owes, they'll get a check for the difference. To qualify, families need to have earned income.

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 difficult. If you need help, the Volunteer Income Tax Assistance (VITA) program offers free help. This is for people who usually make \$64,000 or less, people with disabilities, and those who speak limited English and need help with their tax returns.

IRS-trained volunteers can help with basic tax returns and file them electronically for free. In New York City, free tax preparation is available for families who make \$85,000 or less.