

Helping Working Families Afford Child Care Act of 2015

Our economy has changed over the last few decades, and more and more families depend on access to high quality, affordable child care simply to be able to go to work and keep their families out of poverty. So as we work to build an economy that works for all families, not just the wealthiest few—we need to make sure our tax code is helping workers afford child care so they can work hard, support their families, and boost the economy.

The problem

For many families, access to affordable child care is the difference between achieving economic security and just struggling to get by. In many parts of the country, full-time day care costs for young children exceeds \$10,000 per year. On average, child care expenses consume roughly one-third of the incomes of families below the poverty level.

The inability of parents to find affordable child care hurts businesses and our economy through increased employee absenteeism and reduced productivity. It also acts as a major barrier to women's participation in the labor force because, after factoring in child care costs and marriage penalties in our tax code, mothers often find they cannot earn enough to justify a return to work.

The Child and Dependent Care Tax Credit (CDCTC), originally enacted in 1976, was intended to defray the cost of child care for working families. But the current credit is far too small and does not reflect the costs of care faced by today's parents. It also is poorly targeted, providing zero benefit to millions of low-income families struggling to work their way up the economic ladder.

The solution: Helping Working Families Afford Child Care Act of 2015

The Helping Working Families Afford Child Care Act would support work and expand opportunity for millions of Americans by updating our tax code to make child care more affordable. The legislation would:

Increase the size of credit. Currently, working families are eligible for a CDCTC equal to between 20 and 35 percent of child care expenses up to \$3,000 for one child and \$6,000 for two or more children. Because the 20 percent credit rate applies to families with income over just \$43,000, most families are eligible for a maximum credit of only \$600 per child. These expense thresholds are not indexed for inflation and, in fact, have not been increased since 2001, even though the cost of child care has risen considerably.

The bill would boost the amount of expenses eligible for the credit to amounts commensurate with the child care costs faced by today's parents – \$8,000 for one child and \$16,000 for two or more children. It would also move the income threshold for the maximum credit rate up to \$110,000, making the maximum credit available to many more middle-income families.

Under the bill, in 2016, low- and middle-income families would be eligible for maximum credits of \$2,800 or \$5,600, depending on how many children for whom they incur qualifying expenses. The legislation also would index the new expense thresholds for inflation to ensure the reformed credit does not lose value over time.

Make the credit fully refundable. Under current law, struggling families who do not owe federal income tax – because their income is too low – are ineligible for the CDCTC. As a result, those parents whose workforce participation is most likely to be encouraged by the credit get no benefit at all.

The Helping Working Families Afford Child Care Act would fix this problem by making the credit fully refundable, enabling millions of low-income working parents to better afford the child care they need to boost their productivity on the job and support their families.

Phase-out the credit for high-income families. Presently, high-income families – even millionaires – can claim a \$600 or \$1,200 child care credit even though they clearly do not need the assistance. This bill would better target the credit, and make it more efficient, by gradually phasing it out. Families making up to about \$250,000 would see no reduction in their credit relative to current law.