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Double the Child Care Tax Credit

By Anne Kim, Tess Stovall, and Mark Donnell

Child care costs are a major burden for modern families. On average, families with young children spend about \$7,200 a year on child care—almost the price of one year’s in-state college tuition. Families now spend more on child care than they do on gas and groceries. Doubling the child care tax credit can make child care more affordable for young families working to juggle career and family.

THE PROBLEM

Child care that costs almost as much as college

Quality child care is expensive.

Quality child care can easily top \$10,000. The average cost of full-time day care for an infant ranges from about \$4,500 to almost \$16,000 nationwide.¹ Families with children under the age of five spend an average of \$140 a week on child care—or \$7,280 over the course of a year.² This is almost the cost of one year’s tuition at a state university,³ more than what the average family spends on groceries and gas.⁴ In addition, child care costs have been rising. In 1985, weekly child care costs averaged just \$76 per week in 2008 dollars.⁵

Child care is a must for most families with children.

A generation ago, a working mother with young children was unusual. Today, it is the norm. A total of 63% of mothers with children under the age of six worked outside the home in 2008,⁶ compared with 39% in 1975.⁷ Nine out of ten children under the age of five who have a working mom are in a regular child care arrangement.⁸ While some of these children are cared for by grandparents or other relatives, half of middle-class working moms with children under the age of five rely on day care centers or other paid care.⁹ Nationwide, on any given day, almost 4 million children under the age of five are in child care outside the home.¹⁰

The tax code as it pertains to child care is stingy and out of date.

Surveys find that parents worry about the high cost of child care. In one poll, parents rated cost to be their top child care concern after quality.¹¹ An earlier poll found that for 75% of parents, making child care more affordable would be the most important or one of the most important ways to help working families.¹² The tax code, however, only provides middle-class families a paltry tax break for child care expenses. The maximum benefit of \$1,200 for families with more than \$43,000 in household income is an amount that hasn't changed in years and has failed to account for inflation or rising costs.¹³ As a result of income loss and job loss created by the economic downturn, middle-class families are struggling even more to afford quality child care, and are often forced to turn to relatives or pursue other alternatives as costs become unsustainable.¹⁴

THE SOLUTION

Double the tax break for child care costs by eliminating the middle class tax credit penalty

The current child care tax credit allows families with more than \$43,000 in household income to take a credit against only 20% of their child care costs. This means that a middle-class family must spend at least \$6,000 on child care to get the maximum benefit of \$1,200.¹⁵ For families with less than \$43,000 in household income, however, the credit may equal as much as 35% of child care costs, resulting in a maximum benefit of \$2,100.

A simple change in tax law would allow middle-class families to get a bigger tax break to cover the rising cost and necessity of child care. Having a single 35% tax credit rate for all families would eliminate the disparities in the tax credit and nearly double the maximum allowable credit from \$1,200 to \$2,100 to help account for the increased cost for child care.¹⁶

THE ROLLOUT

Ideas for launching and publicizing an increased child care tax cut

- **Press conference/speech** at a local child care center with working parents and their kids.
- **Issue a report** on the increasing costs of child care in your state.

CRITIQUES & RESPONSES

Doubling the Child Care Tax Credit

It's too expensive.

So is child care for the 4.6 million American families¹⁷ who pay for it. This proposal would cost \$2.1 billion a year.¹⁸ It's a small price to pay for better enabling American families to cope with high child care costs. Two-thirds of working-age households are two-earner households—that is the reality of the modern economy.¹⁹

Shouldn't we also have a policy that supports stay-at-home moms?

Absolutely. This proposal is designed to be in addition to, not in lieu of, policies to help stay at home moms. It used to be that most mothers stayed at home; today most mothers work outside the home. It could be because they want to, or it could be because they have to. Whatever the reason, the reality is that it is now very expensive for both parents to work because child care is so high-priced. This proposal is designed to help people keep more of what they earn so they can get ahead.

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■ ENDNOTES

1 National Association of Child Care Resource and Referral Agencies, "2008 Price of Child Care," available at http://www.naccrra.org/randd/docs/2008_Price_of_Child_Care.pdf.

2 U.S. Census Bureau, Survey of Income and Program Participation, "Who's Minding the Kids? Table 6, Average Weekly Child Care Expenditures of Families with Employed Mothers that Make Payments, by Age Groups and Selected Characteristics: Summer 2006," available at <http://www.census.gov/population/www/socdemo/child/tables-2006.html>.

3 The average total tuition and fees at four-year public colleges and universities in 2009-10 is \$7,020. College Board, "Economic Challenges Lead to Lower Non-tuition Revenues and Higher Prices at Colleges and Universities: Public Four-Year Tuition Continues to Rise at Faster Rate than Private Four-Year Tuition," October 20, 2009, available at <http://www.collegeboard.com/press/releases/208962.html>.

4 On average, child care costs for families using child care for children under five account for over 10% of total monthly income. By comparison, families spent about 7% of their monthly income on groceries in 2006, and approximately 4% of their income on gas. U.S. Bureau of Labor Statistics, "Table 3. Age of Reference Person: Average annual expenditures and characteristics," Consumer Expenditure Survey, 2008, available at <http://www.bls.gov/cex/2008/Standard/age.pdf>.

5 Inflation adjusted. U.S. Census Bureau, Survey of Income and Program Participation, "Who's Minding the Kids? Weekly Child Care Costs 1985-2005," available at <http://www.census.gov/population/www/socdemo/childcare.html>.

6 Bureau of Labor Statistics, Employment Characteristics of Families: 2008, "Table 4. Families with own children: Employment status of parents by age of youngest child and family type, 2007-2008 averages," May 2009, available at <http://www.bls.gov/news.release/famee.t04.htm>.

7 Bureau of Labor Statistics, "Labor Force Participation Rate of Mothers, 1975-2007," January 2009, available at <http://www.bls.gov/opub/ted/2009/jan/wk1/art04.htm>.

8 U.S. Census Bureau, Survey of Income and Program Participation, "Who's Minding the Kids? Table 2B, Primary Child Care Arrangements of Preschoolers Under 5 Years Old Living with Employed Mothers by Selected Characteristics: Spring 2005 (Percentages)," available at <http://www.census.gov/population/www/socdemo/child/ppl-2005.html>.

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11 National Association of Child Care Resource and Referral Agencies, "Parents' Perceptions of Child Care in the United States," January 2009, available at <http://www.naccrra.org/publications/naccrra-publications/parents-perceptions-of-child-care>.

12 National Association of Child Care Resource and Referral Agencies, "Parents' Perceptions of Child Care in the United States," May 2006, available at <http://www.naccrra.org/policy/docs/PollReport.pdf>.

13 See IRS Publication 503: Child and Dependent Care Expenses, available at <http://www.irs.gov/pub/irs-pdf/p503.pdf>.

14 Annie Pleshette Murphy and Laura Lacy, "More Parents Face a Child Care Crisis," ABC News.go.com, January 23, 2009, available at <http://abcnews.go.com/GMA/story?id=6711684&page=1>.

15 See IRS Publication 503: Child and Dependent Care Expenses, available at <http://www.irs.gov/pub/irs-pdf/p503.pdf>.

16 The Child and Dependent Care Credit is currently calculated as a percentage of qualifying child care expenses, up to a maximum of \$3,000 per child (and \$6,000 per family). For families with incomes of \$15,000 or less, the credit is equal to 35% of qualified expenses, and for families earning between \$15,000 and \$43,000, the credit is phased down gradually from 35% to 20%. For families earning more than \$43,000 the credit is equal to only 20% of qualified expenses. This proposal would allow all families to get the same 35% credit, thereby increasing the maximum allowable credit from \$1,200 per family to \$2,100. See IRS Publication 503: Child and Dependent Care Expenses, available at <http://www.irs.gov/pub/irs-pdf/p503.pdf>.

17 U.S. Census Bureau, Survey of Income and Program Participation, "Who's Minding the Kids? Table 5, Families with Employed Mothers that Make Child Care Payments, by Age Groups and Selected Characteristics: Spring 2005 (Numbers and Percentages)," available at <http://www.census.gov/population/www/socdemo/child/ppl-2005.html>.

18 Third Way calculation based on the take-up rate of the existing tax credit, number of households eligible, and their estimated tax liability.

19 Anne Kim, et al, "The New Rules Economy: A Policy Framework for the 21st Century," Third Way, February 2007, available at http://content.thirdway.org/publications/57/Third_Way_Report_-_The_New_Rules_Economy_-_A_Policy_Framework_for_the_21st_Century.pdf.