FIRST FIVE YEARS FUND

CHILD AND DEPENDENT CARE TAX CREDIT (CDCTC)

With the average annual cost exceeding **$13,000 per child**,[1] millions of American families struggle to afford quality child care. The **Child and Dependent Care Tax Credit (CDCTC)** provides some financial relief by allowing families to claim a portion of their child care expenses on their federal tax return. It is the only federal tax credit specifically created to help working families offset child care costs.[2]

The credit is available for costs associated with the care of children under 13 or adult dependents,[3] and the level of benefit is based on a combination of a family's income, number of children, filing status (single or joint), and the amount paid for care.

Importantly, the CDCTC gives parents flexibility in choosing the type of care that best suits their needs – whether that's a licensed child care center, a home-based provider, faith-based care, or even a nanny.

Roughly **5.7 million families benefit from the CDCTC each year**,[4] making it a critical support for working parents and a key component in the broader effort to improve access to affordable child care in the United States.

HOW THE CDCTC WORKS

Families can benefit from the CDCTC if they have child care expenses and a "tax liability," meaning they still owe taxes after taking any applicable deductions or applying the standard deduction. The amount of money a family still owes in taxes after taking deductions is called their "adjusted gross income," or AGI. Families can claim the CDCTC based on their AGI for expenses associated with care for children under 13 or for adult dependents, reducing their tax liability.

Working parents can claim up to $3,000 in child care expenses for one child or up to $6,000 for two or more children. They then receive a percentage of those claimed expenses back as a tax credit, which helps lower the amount of taxes they owe. That percentage is determined by a sliding scale–families with lower AGIs receive a larger credit.

THE UPDATED CDCTC

In 2025, the CDCTC was permanently expanded as part of the tax reconciliation package (H.R.1).

Under The Expansion

- Families with the lowest AGIs now qualify for a maximum credit of 50% of their claimed child care expenses (up from the previous rate of 35%).
- As a family's AGI rises, the percentage of the expenses they can claim gradually goes down. Under the previous law, families reached the lowest credit rate (20%) once they made $43,000. Under the new law, families reach the lowest credit rate (20%) at **$103K** for single filers or **$206K** for married couples filing jointly.
- As a result, nearly 4 million families could see an increased tax credit.[5]
- And some families could see an increase in their CDCTC of an additional $900.

THE CDCTC IN ACTION

A family's tax credit depends on four factors: income, number of children, filing status (single or joint), and child care expenses (families can claim up to $3,000 for one child and $6,000 for two or more children). Here are examples of how this works:

Families with the lowest AGI, **under $15,000 (both single and joint)**, will receive a maximum credit equal to 50% of their claimed child care expenses:

CLAIMED EXPENSES		CREDIT RATE		TAX CREDIT
$3000/$6000	+	50%	=	$1,500/$3,000

This phases down as AGI increases until it reaches 35% for families earning between **$43,000 - $75,000 (single)/ $43,000 - $150,000 (joint)**.

CLAIMED EXPENSES		CREDIT RATE		TAX CREDIT
$3000/$6000	+	35%	=	$1,050/$2,100

The credit rate continues to phase down until leveling off at a rate of 20% for families with AGI above $103,000 (single)/ $206,000 (joint).

CLAIMED EXPENSES		CREDIT RATE		TAX CREDIT
$3000/$6000	+	20%	=	$600/$1.200

Note: The CDCTC is "nonrefundable," meaning it will reduce the amount of tax families owe, but once that tax bill reaches zero, the balance is not paid to families as a refund.

Access to affordable, reliable child care is essential for working families. Without it, parents face limited or unaffordable options, leading to financial strain, reduced work hours, or leaving the workforce entirely. This also affects families as well as employers, costing the economy billions in lost wages and productivity each year.

THE BIGGER PICTURE

The three tax policies that specifically help working parents afford child care while engaging employers who are eager to help are the Child and Dependent Care Tax Credit (CDCTC), Employer-Provided Child Care Credit (45F), and Dependent Care Assistance Plans (DCAP). Ideally, these tax credits work **together** to ease the burden on parents and help employers attract and retain workers.

This is one part of the overall strategy to ensure families have a wide range of high quality, affordable options to meet their child care needs. This includes strengthening and prioritizing investments in trusted federal programs; enhancing tax provisions; bolstering efforts to expand the supply of child care; and ensuring more children have access to the quality care and early learning opportunities that will help them succeed.

LEARN MORE

TOPLINES: An overview of the changes to child care-related tax policies in the 2025 Tax Reconciliation Package (H.R. 1).

CDCTC BY INCOME LEVELS: A look at the tax credit amount working parents could receive depending on income, filing status, and number of children.

STATE-BY-STATE: How many families receive the CDCTC (as of 2022, the latest available data).

DEEP DIVES: One-pagers providing information about the three primary child care tax provisions, including: CDCTC, 45F, and DCAP.

1 Child Care Aware of America, "Child Care at a Standstill: Price and Landscape Analysis" (2024).
2 FFYF, "Federal Tax Provisions That Support Child Care" (2023).
3 An adult dependent is a person who isn't mentally or physically able to care for himself or herself and lives with the taxpayer for more than half the year
4 Internal Revenue Service (IRS), SOI tax stats - Historic Tables (2022)
5 Based on FFYF calculation from 2022 Internal Revenue Service filer data.

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