FIRST FIVE YEARS FUND

EMPLOYER-PROVIDED CHILD CARE CREDIT (45F)

With the average annual cost exceeding **$13,000 per child**,[1] millions of American families struggle to afford quality child care.

This struggle doesn't just affect families - it also creates a ripple effect for businesses, making it harder to attract and retain talent while reducing overall productivity.

The **Employer-Provided Child Care Credit, also known as 45F**, is one way to address the needs of both working parents and employers. Under 45F, employers receive a tax credit for helping employees access child care. Participating businesses can provide child care onsite or contract with local child care facilities; they can also work with third-party "intermediaries" to contract with one or more qualified child care facilities or providers. In this way, more employers taking advantage of 45F may help to increase the number of child care slots available in their communities.

The Employer-Provided Child Care Credit (45F) **encourages employers to take part in child care solutions by reimbursing a portion of expenses i**ncurred when they build or arrange childcare for employees.

HOW 45F WORKS

The Employer-Provided Child Care Credit (45F) supports businesses ability to provide child care to their employees by offering a tax credit to help cover some of the associated costs:

- Costs associated with acquiring, constructing, rehabilitating, or expanding property used for a qualified child care facility.
- Operating costs of a qualified child care facility.
- Costs incurred under a contract with a qualified child care facility to provide child care services to employees.
- Payments made through third-party intermediaries contracting with qualified child care providers.
- Qualified resource and referral expenditures, which are the costs incurred to help employees find child care services (the credit for these expenses is 10%.)
- Employers can use IRS Form 8882 to claim the credit.

THE UPDATED 45F

In 2025, 45F was permanently expanded as part of the tax reconciliation package (H.R. 1).

- **Increased Credit Percentage:** The credit percentage has risen to 40% (previously 25%) for most employers and 50% for eligible small businesses.
- **Higher Credit Cap**: The maximum annual credit has been increased from $150,000 to $500,000, and up to $600,000 for eligible small businesses.
- **Expanded Eligibility:** The credit can now be claimed for payments made through third-party intermediaries who contract with qualified child care providers. The credit also explicitly permits its use for jointly owned or operated child care facilities.
- **NOTE:** These limits are subject to annual inflation adjustments starting in 2026.

Under the Employer-Provided Child Care Credit (45F), **providers may enter into contracts with employers to provide child care for their employees**, which can provide more certainty and stability to their business models.

45F IN ACTION

45F allows employers to claim a nonrefundable tax credit of up to $500,000 per year for larger businesses and $600,000 per year for small businesses.

A business can operate an on-site child care facility or contract with a qualified child care facility to provide child care for its employees. Qualified small businesses may pool resources with one another to jointly provide child care services.

The business incurs $1,200,000 in child care expenses. A larger business can then apply $500,000 of those expenses to 45F, and a smaller business can apply $600,000.

$1,250,000	**X**	**40%**	**=**	**$500,000 TAX SAVINGS**
$1,250,000	**X**	**50%**	**=**	**$600,000 TAX SAVINGS**

ABOUT FIRST FIVE YEARS FUND

The first five years last forever. At First Five Years Fund, we work to protect, prioritize, and build bipartisan support for quality child care and early learning programs at the federal level. Reliable, affordable, and high-quality early learning and child care can be transformative, not only enhancing a child's prospects for a brighter future but also bolstering working parents and fostering economic stability nationwide. Join us at www.ffyf.org.

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 (HR-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] The IRS's definition of a "small business" for tax purposes is not a single, universally applied standard. Instead, it varies depending on the specific tax law or regulation in question. Regulatory guidance on what constitutes a "small business" under 45F should be forthcoming.