FIRST FIVE YEARS FUND

The Child & Dependent Care Tax Credit and the Child Tax Credit

UNDERSTANDING THE DIFFERENCE

July 2026

OVERVIEW

- The **Child and Dependent Care Tax Credit (CDCTC)** helps working parents offset the cost of child care and gives them the flexibility to choose the type of care that best meets their needs.
- The **Child Tax Credit (CTC)** helps families cover a wide range of expenses associated with raising a child, including food, rent, clothes, medicine, diapers, etc. It plays an important role in helping to lift families out of poverty.
- In 2025, both the CDCTC and the CTC were **permanently expanded** as part of the tax reconciliation package (H.R. 1).
- As parents face rising costs for basic goods and services, including child care, **both credits are essential**. Together they support families and build pathways to long-term economic stability.

The Child and Dependent Care Tax Credit and the Child Tax Credit support families in different ways.

Families need both.

Child care is not a luxury for American families – it's a necessity. Yet the cost of quality child care is rising faster than most other expenses, including housing and higher education. For many families, this is simply untenable.

According to Child Care Aware of America, the national average annual price of child care in 2025 was **$13,184 per year**. Beyond cost, many parents also struggle to find care that meets their needs, including factors such as affordability, convenience, size, hours, setting, etc.

This widespread lack of access to affordable, quality child care undermines the economic security of families across the country.

The U.S. has long used the tax code to address real-world challenges and incentivize behaviors that drive economic growth. Just as tax credits help make retirement savings and homeownership more accessible, the tax code should also recognize that child care is essential to a parent's ability to work and represents one of the largest expenses in a family's budget.

Recent Changes to the CTC and CDCTC

There are two federal tax credits that aim to support families with young children.

The **Child and Dependent Care Tax Credit (CDCTC)** is targeted at helping working families offset the cost of child care at the provider of their choice.

The **Child Tax Credit (CTC)** supports families in managing the high costs of raising a child, and is most often used to cover everyday household expenses.[1]

CDCTC

- **$613:** Average benefit in tax year 2022
- **$2,099:** Average benefit in tax year 2021 when credit was temporarily expanded
- **Tax Year 2026:** Permanently expanded benefit under H.R. 1 takes effect

CTC

- **$2,000:** Previous average benefit (for a child age 5 and under)
- **$3,600:** Temporarily expanded benefit in tax year 2021
- **$2,200:** Permanently expanded benefit under H.R. 1 - effective tax year 2025 and will continue to adjust for inflation

Source: Internal Revenue Service, SOI Tax Stats - Historic table 2, 2019 and 2021 tax year data

The Child and Dependent Care Tax Credit (CDCTC)

The CDCTC is the only tax credit that directly helps working parents offset the cost of child care. It also supports parental choice, allowing families to claim the type of care that best meets their needs, whether center-based, faith-based, or with a family child care provider.

The CDCTC enables taxpayers to offset child care expenses for children under the age of 13, as well as care for adult dependents, by claiming the credit on their annual tax return. The credit a family receives is calculated by multiplying the amount of expenses by the appropriate credit rate.

The 2025 expansion increased the generosity of these credit rates. **Starting in tax year 2026, the maximum amount of child or dependent care expenses a taxpayer can claim is $3,000 for one dependent and $6,000 for two or more.**

HOW DO FAMILIES USE THE CDCTC & The CTC?

CDCTC

- The **CDCTC** is the only tax credit specifically for child care expenses.
- **100%** of parents who claim the credit use it to offset child care costs.

CTC

- The CTC can be used to cover a wide range of expenses associated with raising a child.
- When the CTC was temporarily increased in 2021, only **16%** of parents used it to offset child care costs.

Parents were more likely to use the tax credit for other essentials including:

- Food (52%)
- Utilities (52%)
- Rent/Mortgage (45%)
- Clothes (44%)
- Education costs (40%)
- Vehicle Payments (19%)
- Debts (19%)
- Child Care (16%)

Source: Center on Budget and Policy Priorities analysis of U.S. Census Bureau Data

How The CDCTC Works

The CDCTC credit rate is highest for lower-income families and gradually decreases as income rises

- Families whose earnings after taxes (called adjusted gross income or AGI) are **less than $15,000** can claim 50% of eligible expenses.
- Families with an AGI **between $15,000 and $105,000 (single filers) and $210,000 (joint filers)** claim a credit rate that phases down from 50% to 20%.
- Families with AGIs **above $210,000** can claim 20% of eligible expenses.

The expanded structure is designed to smooth this phase-down, so middle-income families are not hit with sharp drop-offs in benefits as their income rises, helping maintain consistent support across the income scale.

Additionally, if a taxpayer's employer contributes to their care expenses, through a dependent care assistance plan, or if they take advantage of an employer-sponsored care facility, families need to adjust the amount of child care expenses incurred accordingly[3]. Prior to 2025, families claiming the CDCTC received an average credit of about $600. While the full impact of the expansion is not yet known, estimates suggest that nearly four million families could receive a larger credit, with some seeing increases of up to $900[4].

A Note: The CDCTC is not "refundable," meaning it can only reduce a family's income tax liability to zero. Any remaining value beyond what is owed is forfeited rather than paid out to the family. Before 2025, the CDCTC had not been updated since 2001 and was neither adjusted for inflation nor aligned with the rising cost of child care. In tax year 2021, COVID-19 relief legislation temporarily made the credit refundable and expanded key parameters, including the maximum credit rate, phaseout thresholds, and eligible expenses, raising the average credit to more than $2,000 and providing significant support to working families.

The Child Tax Credit (CTC)

The CTC helps eligible parents with children under age 17 offset the costs of raising a child.

TAX YEAR 2026: The 2025 expansion increased the maximum credit **from $2,000 to $2,200** per qualifying child for families with a modified adjusted gross income (MAGI)[5] of $400,000 or less (married filing jointly) or $200,000 or less (all other filers). The credit will be indexed to inflation beginning in 2026.

TAX YEAR 2021: Like the CDCTC, the CTC is not refundable. It was temporarily expanded for one year (tax year 2021) under the American Rescue Plan.

- As part of this expansion, the maximum annual credit increased to $3,000 per child for children ages 6-17 and $3,600 per child for children under age 6.
- The credit was also made fully refundable, and families could receive up to half of their total credit in monthly installments.

According to the Census Bureau, the temporary expansion of the CTC helped reduce child poverty to a record low of 5.2%[6].

LEARN MORE

- Overview: Child and Dependent Care Tax Credit (CDCTC)
- FFYF Capsule Collection: Resources, Polling, and Statements RE Federal Tax Policy and Child Care
- State-By-State: A Look At How Many Families Receive the Child and Dependent Care Tax Credit (CDCTC)
- Benefits Across Income-Levels: Child and Dependent Care Tax Credit (CDCTC): Maximum Credit Amounts for Families
- Additional Resources: Available by scanning below or visiting www.ffyf.org/policy-priorities/tax-policy-and-child-care/

NOTES AND RESOURCES

[1] The Annie E. Casey Foundation, "Most Common Uses of 2021 Child Tax Credit Payments: Food, Utilities, Housing, Clothes."
[2] AGI is gross income, minus adjustments to that income for certain types of payments, such as student loan interest, alimony, retirement contributions, or health savings account contributions, an individual has made during the year.
[3] Congressional Research Service, "Child and Dependent Care Tax Benefits: How They Work and Who Receives Them" (2021).
[4] Based on FFYF calculation from 2022 Internal Revenue Service filer data.
[5] MAGI is adjusted gross income (AGI) plus these, if any: untaxed foreign income, non-taxable Social Security benefits, and tax-exempt interest. MAGI doesn't include Supplemental Security Income (SSI) interest. For many people, MAGI is identical or very close to adjusted gross income. If a taxpayer's MAGI exceeds the above limits, their credit gets reduced by $50 for each $1,000 that their income exceeds the threshold.
[6] U.S. Census Bureau, "2024: ACS 5-Year Estimates, B23008."
[7] Center on Budget and Policy Priorities "The Child Tax Credit."

Families need both the CTC and the CDCTC.

The CTC plays an essential role in helping families manage the costs of raising children and in reducing poverty. Available for each qualifying child under age 17, it reflects that families with children face higher expenses and less disposable income[7]. Parents can use this credit to cover a wide range of needs.

In contrast, the CDCTC specifically offsets the cost of child care, an expense many parents must incur in order to work. Just as businesses deduct the costs of earning income, working parents should receive tax relief for the child care expenses required to earn their wages. The CDCTC provides that support, enabling families to work, strengthening the labor force, and expanding access to high-quality early learning opportunities.

As families face rising costs of basic goods and services, including child care, both credits are critical to supporting parents' ability to provide for their families. The recent expansion of these credits is an important step, but additional action is needed to ensure all working families can access quality child care.

Congress can do more to support families by making the CDCTC fully refundable, increasing the credit for the lowest-income families, and indexing maximum eligible expenses to inflation.

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