

*Child care
tax credit*

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Subject: CDCTC explanation

We just discussed this -- but in case you want it on paper . . .

The Child and Dependent Care Tax Credit (CDCTC) is equal to a percentage of the taxpayer's employment-related expenditures for child or dependent care, with the amount of the credit depending on the taxpayer's income. Our base CDCTC proposal modifies the credit by raising the top rate and moving the phase-out range. We raise the top rate from 30 percent (current law) to 50 percent and move the phase-out range from \$10,000-\$28,000 (current law) to \$30,000-\$59,000, indexed for inflation thereafter. Presently, the CDCTC phases down from a high of 30 percent at \$10,000 or less of income to 20 percent at more than \$28,000 of income (a phase out rate of one percentage point per \$2,000 of income). Under our proposal, the credit would phase-out at a rate of one percentage point per \$1,000 of income, from a high of 50 percent at \$30,000 or less of income to 20 percent at more than \$59,000. Our proposal also increases the amount of allowable expenses to \$2,400 for one child and \$4,800 for two children.

By making the CDCTC refundable, we enable low-income families to get money back if they don't have enough (or any) tax liability to claim the full credit. So, if a family making under \$30,000 has two children and child care expenses of \$4,800 and zero tax liability, they would get back \$2,400 -- 50 percent of their total expenses. If they had \$100 of tax liability, they would get a credit for the \$100 and get back \$2,300. As long as the family makes \$30,000 or under, they get 50 percent of up to the max of their child care expenses back. If they make \$32,000, they get 48 percent back (2 percentage points less for every \$1,000 more they make, up to \$60,000); if they make \$40,000, they would get 40 percent of up to the max of their child care expenses back, etc. If families don't have sufficient tax liability to claim their full allowed credit, they get it back as a refund.

Child Care -
Tax Credits

THE CHILD AND DEPENDENT CARE TAX CREDIT AND REFUNDABILITY

December 20, 1999

- Currently, the Child and Dependent Care Tax Credit (CDCTC) is not refundable, meaning that only families with incomes high enough to have a tax liability can benefit from it. For a single parent with 2 children, that would be \$14,000. However, because of interactions with other refundable or partially-refundable tax credits (e.g. the EITC and the Child Tax Credit, which are claimed first), families do not actually benefit from the CDCTC unless they make roughly \$21,000.
- While subsidies for child care are the most effective mechanism to help families with child care costs, we know that the Child Care and Development Block Grant (CCDBG) serves a fraction of the need. In 1998, the CCDBG served 1.5 of the 15 million children who are eligible under federal law. And, states set eligibility levels far below what is allowed by federal law.
- Therefore, there is a real gap in assisting working families with the high costs of child care. The CCDBG today effectively provides subsidies to the very lowest end of the income ladder. And, the CDCTC serves moderate to higher income families. Families between 100-200 percent of poverty, however, can receive no assistance with child care costs through either mechanism. Making the CDCTC refundable could help to close that gap and ensure that these working families can stay afloat and out of poverty.