Bipartisan Policy Center Action

July 23, 2024

The Honorable Ron Wyden
Chairman
U.S. Senate Committee on Finance
Dirksen Senate Office Building
Washington, DC 20510

The Honorable Mike Crapo
Ranking Member
U.S. Senate Committee on Finance
Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Wyden and Ranking Member Crapo,

On behalf of the Bipartisan Policy Center's Early Childhood Initiative (ECI), I submit this letter for the record regarding the Senate Finance Committee hearing, *Examining the State of Child Care: How Federal Policy Solutions Can Support Families, Close Existing Gaps, and Strengthen Economic Growth*, on July 9.

The Bipartisan Policy Center (BPC)—founded in 2007 by former Senate majority leaders Howard Baker, Tom Daschle, Bob Dole, and George Mitchell—is DC's leading organization focused on supporting policymakers as they work across party lines to craft bipartisan solutions to our nation's biggest challenges along with its advocacy arm, BPC Action.

Access to affordable, high-quality child care remains a challenge for working parents. A BPC-Artemis survey[i] of non-working Americans found one in three cited caring for children as the main reason why they are not in the labor force.

When a lack of child care constrains parents' ability to work, it creates ripples in our broader economy. Not only are individual households affected, but businesses and tax revenues suffer.

- Businesses lose productivity and incur costs associated with recruiting and training new staff.
- Families lose income and their overall spending capacity is reduced.
- Federal and state governments lose tax revenue.

Meanwhile, lost income for families reduces discretionary spending that stimulates the economy, and lost tax revenues impact the federal government's ability to invest in the infrastructure and the child care workforce needed to increase supply and choice and keep our country competitive in the global economy.

BPC Action recommends Congress modernize tax incentives that support business and enable parents to enter or remain in the workforce:

1) Employer-Provided Child Care Tax Credit (45F)

2) Employer Credit for Paid Family and Medical Leave (45S)
3) Child and Dependent Care Tax Credit (CDCTC)
4) Dependent Care Assistance Plans (DCAPs)

The Employer-Provided Child Care Credit (45F)[ii] allows businesses to reduce their tax liability by up to 25% of annual qualified child care expenditures and 10% of qualified child care resource and referral expenditures. This incentivizes employers to provide child care for their workers through constructing and operating a child care facility or entering into a contract with a licensed provider.

The 45F credit is nonrefundable and capped at $150,000. To claim the full credit, businesses must have approximately $600,000 in eligible annual expenses, making the credit difficult for small businesses to access. For example, for a small business with a low tax liability, a nonrefundable credit offers little incentive; and for a nonprofit with no tax liability, 45F offers no incentive or support at all. Operating or contracting child care services is complex and expensive, and to do so, small employers require more robust financial incentives such as an enhanced credit rate. **BPC Action urges Congress to make 45F fully refundable and to develop a tiered system for the credit's administration, with a greater credit rate and maximum credit for small businesses.**

Much like 45F, the Employer Credit for Paid Family and Medical Leave (45S)[iii] offsets employers' cost of providing eligible paid family and medical leave benefits. Employee access to programs like paid family leave may prove to be a critical short-term option to mitigate the impact of caregiving for newborns. Employer-provided paid leave enables parents of infants to temporarily care for their children while maintaining job protection. **The 2017 tax law established this credit on a temporary basis, and Congress should make it permanent ahead of its expiration at the end of 2025.**

The Child and Dependent Care Tax Credit (CDCTC)[iv] helps offset the cost of child care for working parents. The CDCTC allows parents to claim up to $3,000 in child care expenses against their tax liability for one child and $6,000 for two or more. Unfortunately, the CDCTC is nonrefundable. Therefore, a large majority[v] of low-income families with children and no tax liability are not eligible to receive the credit, regardless of what eligible expenses they may have in a given tax year. Additionally, the credit has not seen any meaningful enhancements in more than two decades. Given the steep rise of inflation and the rising cost of care, the impact of the CDCTC on working families has lessened. **Congress should make the CDCTC refundable so that it is accessible to low-income families, indexed to inflation to align with increased cost, and enhanced to better serve families of varying incomes.**

Dependent Care Assistance Plans (DCAPs) are often established by businesses as Flexible Spending Accounts that allow pre-tax income to be used for caregiving purposes. As it pertains to child care, employees can 4contribute up to $5,000 of their income, to be used for child care purposes. DCAPs are excellent at helping working families' dollars stretch further. Unfortunately, parents must decrease the maximum eligible expenses they can claim on the CDCTC dollar-for-dollar with employer contributions to child care through a DCAP[vi]. **Congress should decouple parents' CDCTC maximum eligible expenses from their DCAPs.**

Taken together, the federal government's existing efforts (45F, 45S, the CDCTC, and DCAPs) can reduce the financial burden of child care on working parents and businesses if they are modified. Enacting BPC's recommendations would increase the impact of these tax provisions on working families, the broader American workforce, and the productivity of our entire economy.

Thank you for your leadership in finding bipartisan solutions to address the child care gap. We look forward to working with you to enhance federal supports that benefit working families and stimulate our economy. Should you have any questions, please do not hesitate to contact BPC Early Childhood Initiative Senior Associate Director, Brittany Walsh, at bwalsh@bipartisanpolicy.org.

Sincerely,

Michele Stockwell
President, Bipartisan Policy Center Action

CC: Members of the Senate Finance Committee

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[i] Linda Smith, Caroline Osborn, and Brittany Walsh, "The Employer-Provided Tax Credit (45F)," Bipartisan Policy Center, November 2022. Available at: bipartisanpolicy.org/download/?file=/wp-content/uploads/2022/11/WEB_BPC_ECI-45F-Explainer_R01.pdf

[ii] Linda Smith, Caroline Osborn, and Brittany Walsh, "The Employer-Provided Tax Credit (45F)," Bipartisan Policy Center, November 2022. Available at: https://bipartisanpolicy.org/download/?file=/wp-content/uploads/2022/11/WEB_BPC_ECI-45F-Explainer_R01.pdf

[iii] Ben Gitis, "Menu of Options to Enhance the 45S Employer Credit," Bipartisan Policy Center, October 14, 2022. Available at: https://bipartisanpolicy.org/blog/options-enhance-45s-employer-credit/

[iv] Caroline Osborn, "Interactions between the CDCTC, DCAP, and 45F," Bipartisan Policy Center, July 12, 2023. Available at: https://bipartisanpolicy.org/download/?file=/wp-content/uploads/2023/07/Interactions-Between-the-CDCTC-DCAP-and-45F.pdf

[v] Margot L Crandall-Hollick, Gene Falk, and Jameson A. Carter, "The Impact of the Federal Income Tax Code on Poverty," Congressional Research Service, October 19, 2020. Available at: https://crsreports.congress.gov/product/pdf/R/R45971

[vi] Caroline Osborn, "Interactions between the CDCTC, DCAP, and 45F," Bipartisan Policy Center, July 12, 2023. Available at: https://bipartisanpolicy.org/download/?file=/wp-content/uploads/2023/07/Interactions-Between-the-CDCTC-DCAP-and-45F.pdf