

Employer Tax Incentives: Expanding the Availability & Affordability of Child Care

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Federal Tax Incentives to Promote Child Care Availability for Employees:

Tax Credits for Employers Providing Child Care and/or Resource and Referral Services to Parents

Businesses can receive a tax credit equal to 25% of qualified expenses for employee child care plus 10% of qualified expenses for child care resource and referral services. The maximum total credit that can be claimed by a business cannot exceed \$150,000 per taxable year. The credit is part of the general business credit and can be claimed any time within 3 years from the due date of the return. ([IRS Form 8882](#))

To be eligible for the credit:

- The primary use of the program must be for child care and the program must meet all applicable state and local laws.
- The child care program must be open to enrollment to the employees of the business.
- Enrollment cannot discriminate in favor of highly compensated employees.
- At least 30 percent of the children enrolled in the program must be dependents of employees of the business.

Qualified child care expenses include costs to:

- Acquire, construct, rehabilitate or expand property that is to be used for the child care program;
- Operate the program, including the costs of training and compensation for employees of the child care programs as well as scholarship programs;
- Under a contract with a qualified program to provide child care to employees of the program.

Child Care Resource and Referral expenditures:

Qualified child care resource and referral expenses are amounts paid or incurred under a contract to provide child care resource and referral services to the employees of the business. Activities must be provided in a way that does not discriminate in favor of highly compensated individuals.

Federal Tax Incentives to Promote Child Care Affordability for Employees:

Employer Sponsored Dependent Care Assistance Plans for Child Care Expenses (DCAPs)

Under current federal tax law, employers can set up Dependent Care Assistance Plans, which are flexible spending accounts ([Section 129 of the Internal Revenue Code](#)). If employers choose to offer such plans, employees can set aside up to \$5,000 in pre-tax salary for dependent care expenses.

Using pre-tax dollars means a tax savings to employees (potentially 20-40 percent of child care expenses depending upon the family's tax bracket and expenses incurred for child care) as well as a tax savings for employers (funds set aside through a flexible spending account reduce an employers' payroll – for example, these funds aren't subject to FICA or FUTA taxes). For many employees with young children, they may already be paying for child care, so the option for a flexible spending account reimburses them at a tax savings for money that would be spent anyway.

How do flexible spending plans work? An employer establishes a written plan (required by the IRS) and distributes a summary of the plan to all employees (required by the Department of Labor). Employees estimate how much they think they will spend on child care for the year. They can then choose to

have up to \$5,000 of their salary set aside tax-free into a flexible spending account through regular paychecks. As child care expenses are incurred, employees can submit for reimbursement from their flexible spending account (FSA). FSAs are capped at \$5,000. Expenses related to dependent children under age 13 or related to dependents who are mentally or physically incapable of caring for themselves (and who the employee claims as a dependent) are eligible for reimbursement through FSAs. Here's [a calculator](#) to help employees figure out tax savings by utilizing DCAP benefits. It's always a good idea to consult with a tax professional, but conceptually, there are savings to be realized through the tax code for employers who wish to assist their employees with child care affordability. You can read more about flexible spending accounts through Georgia's Employee Benefit Plan Council [summary](#).

Georgia Tax Incentives to Promote Child Care Availability for Employees:

Georgia Employer Credit for Purchasing Child Care Property. Employers who purchase qualified child care property will receive a credit totaling 100 percent of the cost of such property. The credit is claimed at the rate of 10 percent a year for 10 years. Any unused credit may be carried forward for three years and the credit is limited to 50 percent of the employer's Georgia income tax liability for the tax year.

Qualified child care property includes:

- Land acquisition, improvements, buildings, building improvements, furniture, fixtures and equipment purchased or acquired or placed in service after July 1, 1999 for use exclusively in the construction, expansion,

improvement, or operation of an employer provided child care facility.

- The facility must be licensed or commissioned by the Georgia Department of Early Care and Learning or approved by any successor agency having regulatory authority over child care services.
- 95 percent of the children who use the facility must be children of the employees of the business and other employers if the child care property is owned jointly by more than one employer.

Recapture provisions apply if the property is transferred or committed to a use other than child care within 14 years after the property is placed in service. This credit should be claimed on [Form IT-CCC100](#). For more information, refer to [O.C.G.A. §48-7-40.6](#).

Georgia Employer Credit for Providing or Sponsoring Child Care for Employees. Employers who provide or sponsor child care for employees are eligible for a tax credit of up to 75 percent of the employers' direct costs. The credit may not exceed 50 percent of the taxpayer's total state income tax liability for the taxable year.

- "Employer provided" child care refers to child care offered on the premises of the employer.
- "Employer sponsored" child care refers to a contractual arrangement with a child care program that is paid for by the employer.

Any credit claimed but not used in any taxable year may be carried forward for five years from the close of the taxable year in which the cost of the operation was incurred. This credit should be claimed on [Form IT-CCC75](#). For more information, refer to [O.C.G.A. §48-7-40.6](#).

