

Tax Credit for Employer-Provided Child Care Facilities and Services



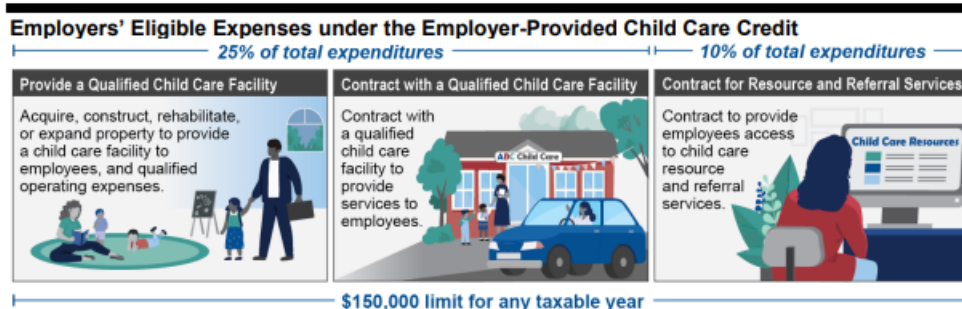
DECAL
Thriving Child Care
Business Academy

Offering child care as a benefit for your employees can help your business – and it may get you money back at tax time.

We know that access to quality child care is vitally important to all types of businesses. Child care is necessary for a parent to get to work and to keep their job. The economic impacts of child care are clear. At the same time, a lack of child care has negative impacts on employees and employers alike, ranging from lost productivity to an employee having to leave work all together.

With today’s staffing crunch, offering child care is more important than ever for employers who want to attract and retain the best talent, including employees with young children. Businesses that offer child care as a benefit see many positive outcomes, including increases in employee productivity, engagement, trust, autonomy, and empowerment.

For 20 years, the federal government has offered a tax credit to encourage businesses to offer child care benefits to their employees. The Employer-Provided Child Care Facilities and Services credit allows businesses to receive a valuable tax credit of 25% of related child care expenses and 10% of their resource and referral expenses, up to a total of \$150,000.



Source: GAO analysis of 26 U.S.C. § 45F and NTL studio/olgache/stock.adobe.com. | GAO-22-105264

Rules and Restrictions

There are three ways which employers can offer child care services that qualify for the Employer-Provided Child Care Facilities and Services credit:

1. **Providing On-Site Care for Employees.** This includes expenses to acquire, construct, rehabilitate, or expand a property to provide child care to employees, as well as qualified operating expenses for such child care services.
2. **Contract with a Child Care Program.** Expenses in this category include those needed to contract with a qualified child care facility that will provide child care services to the children of employees.
3. **Contracting for Research and Referral.** This includes costs to contract with an entity who will provide research and referral services, to help employees find child care.

If the employer seeks to receive a tax credit for offering child care as an employee benefit, enrollment in the child care program must be open to all employees and cannot favor any group of employees, such as those who are highly compensated.

If a child care business seeks to claim this tax credit for service offered to its own employees, at least 30% of enrolled children must be employees' dependents. For example, if your child care program has 20 enrolled children, at least six children (30%) must be dependents of your employees for your business to be eligible to claim the credit.

Claiming Your Credit

The Employer-Provided Child Care Facilities and Services credit offers 25% of child care expenses plus 10% of resource and referral expenditures, up to \$150,000 per year, back to you when you file your business taxes. The credit, which is generally reported as part of the general business credit, can offset actual federal income tax liability and is not refundable in the current tax year. It reduces the amount of taxes owed by the employer.

Businesses can claim the credit on [IRS Form 8882](#), which is simple and straightforward. Employers can claim the total amount of qualified child care expenditures, which includes operating expenses of a facility, regardless of the facility's location (in-house or off-site) or whether it is run by another contracted entity. Moreover, businesses should include costs for operating the facility, if applicable, including training and paying child care employees.

Costs related to constructing, expanding, or rehabilitating a property that is used for the child care facility can also be included, but only when facilities are located at a site other than the principal residence of the taxpayer seeking to claim the benefit. Businesses

seeking to offer child care to their employees and claim this credit should not be impacted by this provision, as it would most likely impact home-based child care programs seeking to receive this credit.

It is important to note that the total of the expenses included cannot exceed the fair market value of the child care facility.

In summary, if you have an on-site facility or a contract with an off-site facility to provide child care services to your employees, you can recoup up to 25% of your expenditures as a tax credit, with an upper limit of \$150,000. If you're providing resource and referral services, you recoup up to 10% of those costs as a tax credit, built into the same credit limit. These funds are provided as a tax credit for the business taxes you owe. If you file as an S corporation or a partnership, this deduction goes right on your Schedule K and flows onto your personal tax return.

Let's consider examples of how two employers calculated their total qualified expenses.

- **Example 1:** Gidgets & Gizmos Corporation has a \$50,000 annual contract with Happy Apple Child Care, an off-site child care program. Total qualified expenses for the Corporation will amount to the total incurred cost of their contract with Happy Apple Child Care: \$50,000

Additionally, Gidgets & Gizmos contracts with a local Child Care Resource & Referral agency (CCR&R) to connect employees to other options for child care programs in addition to Happy Apple Child Care. The Corporation's annual contract with their local CCR&R is \$10,000.

Gidgets & Gizmos incurred \$50,000 in qualified child care services expenses, therefore the business would receive a tax credit of up to \$12,500. ($\$50,000 \times 0.25 = \$12,500$)

Additionally, since 10% of resource and referral expenditures can be claimed, Gidgets & Gizmos can claim \$1,000 ($\$10,000 \times 0.1 = \$1,000$) as a tax credit for their CCR&R contract.

In total, Gidgets & Gizmos can claim \$13,500 as an annual tax credit.

- **Example 2:** Goodman LLC contracts with child care provider Little Learners to offer child care services at the Goodman LLC office building. Total qualified expenses for Goodman LLC can include costs of the on-site facility *and* the total incurred cost of Goodman LLC contract with Little Learners.

Where can I learn more?

You can learn more about Form 8882, [Credit for Employer-Provided Child Care Facilities and Services](#) on the IRS website.

This explainer is not meant to provide tax, legal, or accounting advice. Please consult with your attorney or tax preparer for more information and guidance pertaining to your particular circumstances.

Additional Resources

If you have questions or need help, assistance is available.

[GaPDS Website](#)

[DECAL Thriving Child Care Business Academy Website](#)

[Georgia Licensing Rules and Regulations](#)

To Find Other Study Guides: Click on [Resources](#) on the Academy home page

To Find Training: Click on [Trainings](#) on the Academy home page

To Register for Training: Click on [Schedules & Registration](#) on the Academy home page

To Sign Up for Study Groups: Fill out the [Intake Assessment](#)

For questions about coaching or study groups: Email GAcoaching@civstrat.com

To Find Other ECE Resources: Visit the [DECAL Website](#)

For General Questions about the Academy: Email thriving@decals.ga.gov

For More Information:

[Family Child Care Learning Home Rules and Regulations](#)

[Child Care Learning Center Rules and Regulations](#)