W.E. UPJOHN INSTITUTE FOR EMPLOYMENT RESEARCH

Expected Effects of Child and Dependent Care Credit Policy Options

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- 40% of mothers of young children who were not working in late March to early April reported child care issues as primary barrier to employment (U.S. Census Bureau 2022)
- Child and Dependent Care Credit (CDCC) is active labor market policy that decreases out-of-pocket cost of child care for working families

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- About half of states supplement federal credit with their own state child care credits

American Rescue Plan Act of 2021 Temporarily Expanded Benefits

	2003-2020	2021
Max expenses	\$3,000 per child	\$8,000 per child
Max credit	1 child: \$1,050 2+ children: \$2,100	1 child: \$4,000 2+ children: \$8,000
Refundable?	No	Yes

Benefit increases set to expire in 2022

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  - Increases in child care workers' wages could bolster supply side of child care market
  - Increases in nonrefundable CDCC generosity could increase prices for low-income families, who would not benefit and already spend higher proportion of income on child care (Herbst 2018)

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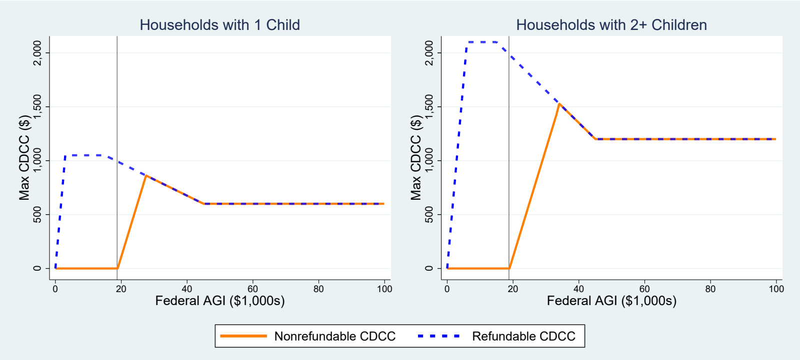

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- Average increases in mtrs among moderate-income taxpayers (0.02) are relatively small
- Evidence suggests that making CDCC permanently refundable would increase work and child care spending among low-income parents

  (Eissa and Liebman 1996; Hoynes and Patel 2018; Keane and Moffitt 1998; Meyer and Rosenbaum 2001; Michelmore and Pilkauskas 2021; Miller and Mumford 2015; Pepin 2020)

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- Tying benefit amounts to state-administered provider quality ratings could help to ensure any increases in benefits do not compromise child care quality; LA and VT do this for their state credits