Expected Effects of Child and Dependent Care Credit Policy Options

Gabrielle Pepin

May 13, 2022
Introduction

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- Child and Dependent Care Credit (CDCC) is active labor market policy that decreases out-of-pocket cost of child care for working families
Federal tax credit based on income and child care expenses
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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

<table>
<thead>
<tr>
<th></th>
<th>2003-2020</th>
<th>2021</th>
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<tbody>
<tr>
<td>Max expenses</td>
<td>$3,000 per child</td>
<td>$8,000 per child</td>
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<tr>
<td>Max credit</td>
<td>1 child: $1,050</td>
<td>1 child: $4,000</td>
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<tr>
<td></td>
<td>2+ children: $2,100</td>
<td>2+ children: $8,000</td>
</tr>
<tr>
<td>Refundable?</td>
<td>No</td>
<td>Yes</td>
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Benefit increases set to expire in 2022
Expected Effects of Benefit Increases

I use differential increases in generosity across states and family sizes generated by 2003 expansion to estimate effects of CDCC generosity on paid child care use and labor supply.

Small increases in benefits increase paid child care use and increase work among married mothers.

Increases in work among mothers of very young children → benefits could generate long-run earnings gains.

While increased generosity likely would increase work, large benefit increases could substantially increase prices.

Rodgers (2018) shows that over half of every CDCC dollar is passed through to providers in form of higher prices and wages.

Increases in child care workers’ wages could bolster supply side of child care market.

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Expected Effects of Refundability

Households with 1 Child

Households with 2+ Children

Nonrefundable CDCC

Refundable CDCC
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Evidence suggests that making CDCC permanently refundable would increase work and child care spending among low-income parents.

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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.