

Tax Credits: Child and Dependent Care

Definition

Child and Dependent Care Tax Credit is the number and percent of federal tax filers who filed for a credit to deduct part of the cost of child care and/or dependent care.

Data in context

The Child and Dependent Care Tax Credit offers a nonrefundable federal tax credit to working families to deduct some of the cost of care from their taxes, thereby reducing the amount of income taxes owed. Eligible expenses include employment-related child care for children under the age of 13, as well as dependent care for disabled adults and the elderly.¹ According to the latest *Tax Expenditure Analysis* from the Office of the State Budget Director, Kentucky families will claim an estimated \$7.6 million in 2008 for the tax credit.²

The credit encourages work by helping to offset employment-related expenses, particularly for low-income workers who necessarily pay a disproportionate amount of their take-home pay for dependent care when compared to those with higher incomes.³ Families can claim up to \$3,000 annually in expenses for one dependent and \$6,000 for two or more dependents.⁴ Families then deduct from their taxes a percent of their eligible expenses depending on their level of income. The lowest income families receive the greatest portion of their eligible expenses as a credit.⁵ For example, a family who makes less than \$15,000 a year can claim 35 percent of their child care expenses whereas a family who makes more than \$43,001 annually can claim only 20 percent of their care-related expenses.⁶

Currently, twenty-eight states offer some form of child and dependent care tax credit or deduction in addition to the federal credit.⁷ Seventeen states, including Kentucky, provide a credit or deduction as a percentage of the federal credit, with credits ranging from a low of 20 percent to a high of 110 percent of the federal credit.⁸ Thirteen states who offer a child care credit also make the credit refundable.⁹

Kentucky allows working families to deduct 20 percent of the federal credit, up to a maximum of \$210 for one dependent and \$420 for two or more dependents.¹⁰ The



credit is nonrefundable, and state eligibility requirements match the federal eligibility requirements.¹¹

A nonrefundable credit means families who do not owe income taxes because their incomes are too low also do not receive any benefit from the Child and Dependent Care Tax Credit.¹² Kentucky's tax structure exempts single-headed families of three with incomes at or below \$16,600 from paying state income taxes.¹³ Similarly, two-parent families of four are exempt from income taxes with incomes below \$19,900.¹⁴ These families are not able to receive a portion of expenses back for employment-related expenses through the credit and, consequently, are not provided an additional incentive to work.

In Kentucky, the number of tax filers claiming the Child and Dependent Care Tax Credit is relatively low at 78,400 filers, with only a 3 percent change in the number of filers from 2003 to 2005. Carlisle, Floyd, Jackson, Martin, Menifee, and Robertson counties had the biggest negative change in participation rates while Adair, Cumberland, Harlan, McCreary, Morgan, Scott, Todd, and Wolfe counties saw the biggest growth in participation rates.

Making the credit fully refundable, meaning families with employment-related care expenses could claim the credit without regard to their federal income tax liability, would strengthen support for working families, especially those earning low wages. This would provide additional assistance to 1.6 million U.S. families, most with incomes below \$30,000.¹⁵

Data Source: The Brookings Institution, EITC Interactive website.

Data Note: Data includes filers eligible due to care for disabled adults or the elderly.

Rate Calculation: (number of filers claiming CDCTC in 2003 / total number of federal tax filers in 2003)
(number of filers claiming CDCTC in 2005 / total number of federal tax filers in 2005)

- 1 Tax Policy Center (2007). *Reforming the Child and Dependent Care Tax Credit*. Available at <http://www.urban.org>. Accessed September 2008.
- 2 Office of the State Budget Director (2008). *Tax Expenditure Analysis: Fiscal Years 2008-2010*. Available at <http://osbd.ky.gov>. Accessed September 2008.
- 3 National Women's Law Center (2008). *The Expanded Child and Dependent Care Tax Credit in the Family Tax Relief Act of 2008 Would Help Make Child Care More Affordable for Millions of Families*. Available at <http://www.nwlc.org>. Accessed September 2008.
- 4 Internal Revenue Service (2008). *Claiming the Child and Dependent Care Credit*. Available at <http://www.irs.gov>. Accessed September 2008.
- 5 National Women's Law Center (2008). *The Expanded Child and Dependent Care Tax Credit in the Family Tax Relief Act of 2008 Would Help Make Child Care More Affordable for Millions of Families*. Available at <http://www.nwlc.org>. Accessed September 2008.
- 6 Ibid.
- 7 Center on Budget and Policy Priorities (2008). *Facts: About Tax Credits for Working Families—the Earned Income Credit and Child Tax Credit*. Available at <http://www.cbpp.org>. Accessed September 2008.
- 8 Center on Budget and Policy Priorities (2000). *TANF Funds May Be Used to Create or Expand Refundable State Child Care Tax Credits*. Available at <http://www.cbpp.org>. Accessed September 2008.
- 9 National Women's Law Center (2008). *The Expanded Child and Dependent Care Tax Credit in the Family Tax Relief Act of 2008 Would Help Make Child Care More Affordable for Millions of Families*. Available at <http://www.nwlc.org>. Accessed September 2008.
- 10 Ibid.
- 11 Ibid.
- 12 Ibid.
- 13 Kentucky Department of Revenue (2008). *Individual Income Tax Changes: Personal Income Taxes: Filing Estimated Tax Procedures Revised*. Available at <http://www.revenue.ky.gov>. Accessed September 2008.
- 14 Ibid.
- 15 National Women's Law Center (2008). *Working Family Tax Credits*. Available at <http://www.fairtaxes4all.org>. Accessed September 2008.

Child and Dependent Care Tax Credit returns (number & percent of all filers)

	2000		2005	
	Total CDCTC returns	Percent of all filers	Total CDCTC returns	Percent of all filers
Kentucky	76,453	4	78,400	5
Adair	197	3	246	4
Allen	265	4	283	4
Anderson	569	7	581	6
Ballard	124	4	142	4
Barren	715	4	745	4
Bath	192	4	195	4
Bell	129	1	128	1
Boone	2,794	6	3,037	6
Bourbon	418	5	394	5
Boyd	593	3	612	3
Boyle	478	4	439	4
Bracken	171	5	143	4
Breathitt	254	3	29	1
Breckinridge	25	1	292	4
Bullitt	1,772	6	1,900	6
Butler	139	3	149	3
Caldwell	198	4	212	4
Calloway	606	4	612	4
Campbell	1,715	4	1,668	4
Carlisle	45	2	36	2
Carroll	81	2	95	2
Carter	207	2	206	2
Casey	133	2	120	2
Christian	1,830	6	1,824	6
Clark	706	5	732	5
Clay	51	1	54	1
Clinton	99	3	102	3
Crittenden	118	3	116	3
Cumberland	56	2	66	3
Daviess	2,101	5	2,151	5
Edmonson	164	4	161	3
Elliott	29	2	33	2
Estill	113	2	96	2
Fayette	6,823	6	6,963	6
Fleming	212	4	213	4
Floyd	268	2	208	1
Franklin	1,319	6	1,260	6
Fulton	51	2	49	2
Gallatin	105	3	106	3
Garrard	252	4	241	4

	2000		2005	
	Total CDCTC returns	Percent of all filers	Total CDCTC returns	Percent of all filers
Grant	403	4	384	4
Graves	569	4	545	4
Grayson	358	4	364	4
Green	174	4	186	4
Greenup	412	3	430	3
Hancock	108	3	96	3
Hardin	2,403	6	2,390	6
Harlan	52	1	66	1
Harrison	357	4	359	4
Hart	158	2	160	2
Henderson	1,057	5	976	5
Henry	298	4	284	4
Hickman	74	4	63	4
Hopkins	549	3	569	3
Jackson	118	3	80	2
Jefferson	16,769	5	17,071	5
Jessamine	975	6	984	5
Johnson	158	2	177	2
Kenton	3,451	5	3,561	5
Knott	30	1	31	1
Knox	291	3	284	2
LaRue	247	4	265	5
Laurel	625	3	674	3
Lawrence	71	1	69	1
Lee	48	2	47	2
Leslie	44	1	48	1
Letcher	41	1	41	1
Lewis	98	2	103	2
Lincoln	213	2	225	2
Livingston	90	2	90	2
Logan	362	3	323	3
Lyon	100	3	96	3
McCracken	1,217	4	1,333	5
McCreary	82	2	97	2
McLean	151	4	141	4
Madison	1,307	4	1,367	4
Magoffin	48	1	48	1
Marion	286	4	309	4
Marshall	450	3	502	4
Martin	24	1	19	1
Mason	260	4	225	3

	2000		2005	
	Total CDCTC returns	Percent of all filers	Total CDCTC returns	Percent of all filers
Meade	598	5	539	5
Menifee	63	3	45	2
Mercer	406	4	400	4
Metcalfe	124	3	110	3
Monroe	165	4	169	4
Montgomery	534	5	548	5
Morgan	90	2	107	2
Muhlenberg	362	3	392	3
Nelson	832	5	917	5
Nicholas	117	4	112	4
Ohio	217	2	250	3
Oldham	1,697	8	1,799	8
Owen	134	4	134	4
Owsley	0	0	0	0
Pendleton	264	4	266	4
Perry	230	2	261	2
Pike	309	1	281	1
Powell	133	3	142	3
Pulaski	1,006	4	1,064	4
Robertson	27	4	12	2
Rockcastle	101	2	109	2
Rowan	313	4	298	4
Russell	236	4	268	4
Scott	1,052	7	1,257	7
Shelby	913	6	1,027	6
Simpson	325	5	350	5
Spencer	352	6	401	7
Taylor	386	4	393	4
Todd	148	3	178	4
Trigg	281	5	255	5
Trimble	127	4	127	3
Union	221	4	197	3
Warren	2,529	6	2,696	6
Washington	191	4	188	4
Wayne	277	4	278	4
Webster	115	2	123	2
Whitley	304	3	320	3
Wolfe	20	1	32	1
Woodford	609	6	634	6