



Promoting Affordable Child Care for Everyone (PACE) Act of 2017



The cost of child care in every state rivals a family's annual expenditures on housing, transportation, and the cost of tuition at a public university. In most states, the cost of infant care exceeds 10 percent of a state's median income for families. Parents rely on these Federal tax credits to help pay for child care, however, many have not kept pace with inflation and provide benefits that are well short of average child care costs.

Introduced in January 2017 by Senators Richard Burr (R-NC) and Angus King (I-ME), the PACE Act (S. 208) would reform two significant tax benefits that help families offset their child care costs, the Child and Dependent Care Tax Credit (CDCTC) and Dependent Care Flexible Spending Accounts (FSAs). The primary goal of this legislation is to make these tax programs more generous to parents and provide them with more financial options as they seek quality care for their children.

Child and Dependent Care Tax Credit

S. 208 would make modifications to the Child and Dependent Care Tax Credit (CDCTC) by making it refundable in an effort to reach more low-income working parents. In addition, this bill would raise the credit rate for all families, regardless of income, to 50 percent that would eventually phase down to 35 percent for higher-income families. S. 208 would also index the credit to inflation to keep pace with rising child care costs.

Dependent Care Flexible Spending Accounts

The Burr/King bill would reform Dependent Care FSAs by increasing the amount of annual pre-tax dollars families may contribute by \$2,500 (\$5,000 to \$7,500), which will help families save money on both income and FICA taxes. Like CDCTC, this bill indexes the FSA cap to inflation.

The Child and Dependent Care Tax Credit (CDCTC) allows taxpayers with work-related child and dependent care expenses for their children under age 13 to reduce the amount of their tax liability by claiming up to \$3,000 of dependent care expenses for one child/dependent and \$6,000 for two or more dependent children per year. The credit is worth between 20 percent and 35 percent of these expenses, depending on a family's income. While the CDCTC tax credit is targeted to lower income families (it phases down at higher income levels), it, unlike the Earned Income Tax Credit and the Child Tax Credit, is not refundable. This means that if a family does not earn enough money to owe federal income taxes, it cannot benefit from the credit. Currently, 24 states have enacted state CDCTCs and of those, eight are at least partially refundable.