Parents will do more good with an effective Child and Dependent Care Tax Credit.

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As Congress contemplates a major tax overhaul, it has the opportunity to generate revenue and a healthier national economy by helping parents with the costs of quality early childhood education and care. One important tax credit strategy comes to the forefront as an effective solution: increasing the Child and Dependent Care Tax Credit (CDCTC) to better reflect the cost of care and education and making it refundable for low- and middle-income taxpayers.

The stated goal of many tax reformers is to simplify the tax code in ways that will spur greater economic growth. One effective way to do this is to provide relief to families with young children who have disproportionately high childcare and education expenses at a time when they are struggling to build their careers and incomes. For many single-parent families, the earnings of the mother are essential for family income. Quality childcare costs are staggering and often make work unprofitable, especially for low-wage parents. Low-quality childcare has been shown to harm child development, so that is not an attractive option.

Increasing the CDCTC helps parents afford the early childhood education that will provide their children with a foundation for success in school and life—and provide society with a return on investment in the form of greater productivity.

Created in 1976, the CDCTC was intended to help parents afford work-related childcare expenses. While Congress has increased the credit over the years, the costs of early care and education have outstripped the benefits. Today, the maximum credit for working parents with two or more children is $2,100. That is 10% of the average annual cost of care for two children, and, more importantly, those most in need cannot access this important resource.

Making the CDCTC refundable will make sure the benefit goes to those who are most in need.

Unfortunately, the majority of low- and middle-income taxpayers with qualified expenses cannot take advantage of the existing CDCTC because its value can’t exceed a family’s tax liability. As a result, higher-income families benefit from the CDCTC when low- and middle-income families need it most. According to the Tax Policy Center, families earning $100,000 or more claim nearly 40% of the tax credit. Almost no families in the lowest-income quintile access the credit—because they can’t.

The present tax code does not encourage low-wage parents with children to work. Congress would be wise to address this pressing issue to grow the economy and restore incentives for the poor to work. Access to affordable, high-quality early care and education is a vital ingredient for social mobility among low- and middle-income families. Research shows that many low- and middle-income children begin life at a disadvantage because their parents don’t have adequate resources to invest in their early development. As a result, the achievement gap
opens early and children arrive at kindergarten already far behind their more affluent peers. Promoting greater access to early childhood education promotes greater equality, achievement and productivity.

Helping parents afford quality early childhood education as part of a childcare package is not a subsidy – it is an investment. It increases economic productivity by helping parents work, build careers and income, reduce absenteeism on the job and be a part of a capable and stable workforce. At the same time, it builds essential skills in young children that have significant, beneficial short- and long-term effects on education, health, social behavior and lifetime employment and income.

Tax reform is an opportunity to support families that are struggling financially to do right by their children and drive greater prosperity for the nation. Increase the Child and Dependent Care Tax Credit and make it refundable. Anything short of that will be a missed opportunity to spur economic growth for generations to come.