

Child care assistance credit available to employers

As an employer, you should be aware that many of the costs of providing employees with child care assistance are eligible for a tax credit.

Generally, the credit is available for (1) 25% of the costs of acquiring, constructing or improving a child care facility, (2) 25% of the costs of operating a child care facility or entering into a contract with a child care facility, and (3) 10% of certain child care resource and referral expenditures.

The overall limit on the credit per year is a relatively generous \$150,000. Let me stress that this is a limit on the credit, not on the costs for which the credit is available. For example, if you build a child care facility in Year X and incur \$600,000 of construction costs in that year, you, as an employer, can claim a \$150,000 credit ($\$600,000 \times 25\%$).

Another attractive feature of the credit is that, although the *deduction* for the cost of child care assistance provided to employees must be reduced if the credit is claimed, the reduction is only partial. This is because the deduction is reduced by the amount of the credit, rather than by the amount of the cost for which the deduction is claimed. For example, if Y, an employer in a 34% corporate tax bracket, spends \$100,000 on the operation of a child care facility for its employees, Y can receive both a credit worth \$25,000 ($\$100,000 \times 25\%$) and a deduction worth \$25,500 ($[\$100,000 \text{ minus } \$25,000] \times 34\%$). The total tax benefit is worth \$50,500, an amount that considerably exceeds the \$34,000 worth of tax benefit that would have resulted if the only tax benefit available to Y had been a \$100,000 deduction.

You should also be aware that all or part of the value of the child care assistance provided to your employees under the credit may be excludible from their gross incomes.

The above is a bare overview of the credit. The credit has a number of complexities and pitfalls. For example, certain events (such as no longer operating the facility as a child care facility) require that all or part of the tax savings resulting from the credit be given back.