



Key Changes to the U.S. Tax Code that Support Child Care

Permanent changes to the U.S. federal tax code, enacted through the One Big Beautiful Bill Act (H.R. 1), offer expanded support for child care. These changes provide new opportunities for employers to invest in child care solutions, making quality care more accessible and affordable for working families.

Employer-Provided Child Care Credit (45F)

Employer-Provided Child Care Credit (45F) allows employers to claim a percentage of qualifying expenses from building, acquiring, and operating child care centers; amounts paid to contract with a licensed child care program (including home-based providers); and costs associated with contracting with a resource and referral service. Key policy changes:

- Credit percentage increases from 25% to 40% (50% for eligible small businesses).
- Maximum credit increases from \$150,000 to \$500,000 (\$600,000 for eligible small businesses).
- Expands qualified expenditures to include costs associated with contracting with a third-party intermediary that contracts with qualified child care facilities for services.
- Expands qualified child care facilities to include jointly owned or operated facilities.

Dependent Care Assistance Program (DCAP)

Dependent Care Assistance Program (DCAP) allows employers to set aside pre-tax income for eligible employees to cover caregiving expenses. Key policy changes:

- Contribution limits increase from \$5,000 to \$7,500 (individuals/joint filers) and from \$2,500 to \$3,750 (married filing separately).

Child and Dependent Tax Credit (CDCTC)

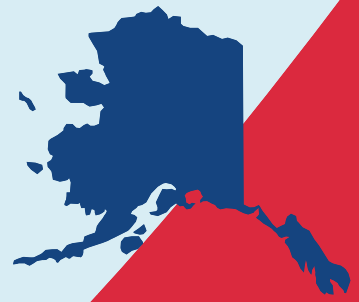
Child and Dependent Tax Credit (CDCTC) is a tax credit that helps parents and families pay for care for children 13 and younger and other dependents while they work, seek work, or go to school, with a cap of \$3,000 (one qualifying person) and \$6,000 (two or more qualifying people). Key policy changes:

- Starting in 2026, the maximum reimbursement rate for the lowest qualifying earners will increase from 35% to 50%. The percentage of reimbursement for qualifying expenses will continue to reduce on a sliding scale, as taxpayers earn more.

Impact on Businesses, Providers, and Families

The enhancement of 45F, DCAP, and CDCTC will expand access to affordable, high-quality child care for working families. These changes support both small and large businesses in attracting and retaining a skilled workforce, address longstanding child care cost and access barriers, and empower parents to thrive in their careers. By strengthening the child care infrastructure, H.R. 1 helps ensure employers can recruit and maintain top talent, contributing to a more resilient and stronger economy.

KEY ALASKA POLICY CHANGES TO SUPPORT CHILD CARE



SB96 Child Care Tax Credits:

- Allows qualifying businesses to claim education tax credits for the costs of operating a child care facility for employees.
- Applies across multiple state taxes (corporate income tax, fisheries business/landing, mining, and insurance premium taxes), using the existing education tax credit framework.
- Extends the credit to cash or equipment contributions made directly to licensed child care programs.
- Allows the credit for payments businesses make to help employees cover child care expenses.
- Sunsets in 2028, but if extended, will have an opportunity to review and possibly adjust the credit limits for inflation every five years, beginning in 2030.

SB95 Child Care Assistance and Grants:

- Families earning up to 105% of the state median income (adjusted for family size) now qualify for assistance, doubling the number of families who may benefit.
- Allows for tiered reimbursement so child care programs can be reimbursed more if they meet the highest quality standards.
- Allows the assistance amount to be based on a market rate and/or the true cost of care for each region.
- Creates a sliding scale so families can ease off assistance as their income goes up.

\$5.87M Child Care Operating Grants Budget Line Item:

- \$5.87M was added to the Child Care Benefits line item in the final Department of Health operating budget to provide operating financial support for child care programs. These funds are intended to strengthen the existing Child Care Grant program and help eligible programs with core operating costs. This money can be aligned with a tiered reimbursement approach outlined in SB95 and recommended by the Governor's Child Care Task Force.