

The American Rescue Plan Made Over 9.1 Million Families Eligible for the Child and Dependent Care Tax Credit in 2021

As part of the American Rescue Plan, President Biden and Democrats in Congress significantly increased the value of the Child and Dependent Care Tax Credit (CDCTC) to help lower- and middle-income families cover child care expenses in the 2021 tax year. By making the full tax credit refundable for the first time, more low-income families benefit from it. The expansion also significantly increased the credit amount, lowering costs for more families.

The American Rescue Plan made 9.1 million families eligible for the Child and Dependent Care Tax Credit in 2021 and significantly increased the average credit amount

According to estimates from the Joint Economic Committee, more than 9.1 million families were eligible for the expanded Child and Dependent Care Tax Credit in 2021 and could claim the credit as part of their tax return. Before the expansion, just 6.5 million families claimed the credit.

The expansion also greatly increased the size of the credit. Nationally, families were eligible for an average credit of \$2,244, reimbursing 39% of child care expenses thanks to the Rescue Plan. In contrast, the average credit claimed in 2019 was only \$587. The average credit amount varied significantly by state due to the wide range of child care costs nationwide and varying income distributions. The Joint Economic Committee estimated for each state the number of eligible families, the average credit amount and the average share of families' child care expenses reimbursed thanks to the expanded tax credit (see table below).

The American Rescue Plan increased the maximum Child and Dependent Care Tax Credit for 2021 by nearly sevenfold

The American Rescue Plan's reforms to the Child and Dependent Care Tax Credit increased the maximum credit amount to up to \$4,000 for a family with one child and up to \$8,000 for a family with two or more children for the 2021 tax year. Families caring for adult dependents, such as elderly parents or family members with disabilities, also benefited from this increase.

- First, the Rescue Plan increased the maximum credit rate allowing the tax credit to cover up to 50% of child care costs for a child under age 13 or other dependent not able to care for themselves. Before enactment of the Rescue plan, the credit could cover up to 35% of childcare expenses.
- Second, the Rescue Plan raised the cap on qualifying child care expenses to \$8,000 each for the first two children or dependents, up from \$3,000 before enactment.
- Third, the Rescue Plan made the full tax credit refundable, helping low-income families who previously could not receive the tax credit benefit from this provision.

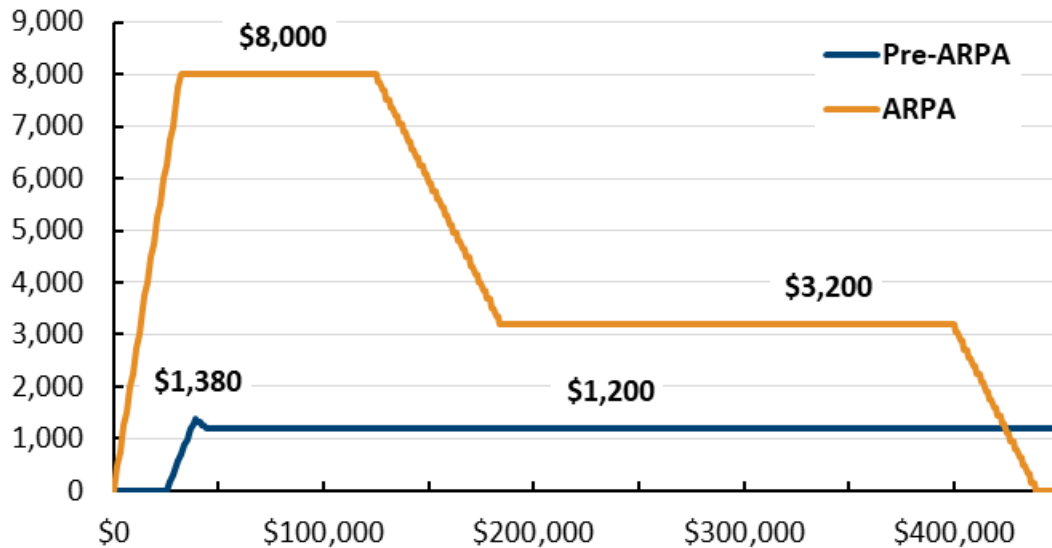
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Together, these changes significantly increase the average credit amount. While the average credit claimed was less than \$600 before the American Rescue Plan, families were eligible for an average of over \$2,200 for tax year 2021.

To illustrate the impact of the CDCTC, take a married couple with an infant and a toddler, where both parents work full time as a home health aide and as a retail salesperson and together earn about \$58,600 per year. Both children require full-time child care, costing them \$18,200 per year. Before the American Rescue Plan, a family such as this was eligible for a Child and Dependent Care Credit of \$1,200, which reimbursed them less than 7% of their child care expenses. Under the American Rescue Plan and the expanded CDCTC, this family will receive an \$8,000 credit, reimbursing them for 44% of their child care expenses.

The American Rescue Plan Significantly Expanded the CDCTC

Credit amount for a married couple with two children in full-time child care



Source: JEC Calculations



The American Rescue Plan made the full Child and Dependent Care Tax Credit refundable for 2021

The American Rescue Plan made the previously nonrefundable Child and Dependent Care Tax Credit completely refundable for 2021 for the first time. As a result, if the tax credit exceeds a household’s tax liability, they will receive the difference as a tax refund. Previously, a family with two or more children earning under \$26,000 would not receive the credit regardless of how much they spent on child care expenses. Making the full tax credit refundable enables many more low-income households to be eligible for the credit.

Families with incomes up to \$125,000 received the highest credit rate under the expansion

Because of the Rescue Plan, lower- and middle-income families will receive more of the credit, reimbursing them for a larger portion of their child care costs for the 2021 tax year. Families

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with incomes below \$125,000 now qualify for the highest Child and Dependent Care Tax Credit rate of 50% for 2021, or a credit of up to \$4,000 for a family with one child and \$8,000 for a family with two or more children. In previous years, almost all families had a credit rate of 20%, for a maximum credit of \$600 for a family with one child or \$1,200 for a family with two or more children. The expanded tax credit phases out for families with qualifying child care expenses and adjusted gross incomes between \$125,000 and \$438,000.

The Rescue Plan made the tax credit better targeted by allowing all low- and middle-income families to receive the maximum credit rate of 50% and making the highest-income families ineligible for the credit. Previously, only families making up to \$15,000 were eligible for the highest credit rate of 35%. However, because the full credit was not refundable, most of those families were unable to receive the credit, even as *all* high-income families were able to receive the maximum benefit. This effectively shouldered lower- and middle-incomes families with a higher burden for child care.

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State	Eligible Families Under Expansion	Average Credit Under Expansion	Average Share of Costs Reimbursed	Families Receiving Before Expansion	Average Pre-Expansion Credit Received
National	9,139,000	\$2,244	39%	6,450,430	\$587
Alabama	112,000	\$2,228	43%	98,430	\$576
Alaska	14,000	\$2,310	37%	12,570	\$639
Arizona	242,000	\$1,758	41%	116,290	\$569
Arkansas	64,000	\$2,383	45%	50,870	\$589
California	936,000	\$2,219	36%	685,560	\$608
Colorado	186,000	\$2,081	36%	104,460	\$558
Connecticut	105,000	\$2,505	38%	80,440	\$568
Delaware	31,000	\$2,886	42%	23,380	\$592
District of Columbia	24,000	\$2,033	28%	17,250	\$574
Florida	493,000	\$2,203	42%	452,090	\$598
Georgia	275,000	\$2,061	39%	230,360	\$585
Hawaii	28,000	\$2,182	38%	26,370	\$546
Idaho	41,000	\$1,880	43%	29,990	\$546
Illinois	373,000	\$2,063	38%	255,250	\$583
Indiana	205,000	\$2,445	42%	122,780	\$558
Iowa	107,000	\$2,708	42%	80,300	\$553
Kansas	104,000	\$1,856	42%	59,080	\$568
Kentucky	114,000	\$2,131	43%	69,350	\$561
Louisiana	147,000	\$2,194	43%	97,790	\$588
Maine	38,000	\$2,406	44%	27,960	\$594
Maryland	205,000	\$2,138	35%	171,260	\$624
Massachusetts	209,000	\$2,723	33%	165,260	\$570
Michigan	340,000	\$2,099	40%	157,830	\$545
Minnesota	292,000	\$2,167	36%	150,300	\$525
Mississippi	78,000	\$2,007	48%	58,690	\$614
Missouri	202,000	\$1,980	41%	121,560	\$565
Montana	30,000	\$1,916	42%	18,700	\$525
Nebraska	82,000	\$2,519	39%	54,140	\$564
Nevada	63,000	\$2,159	46%	53,880	\$618
New Hampshire	49,000	\$2,546	37%	31,100	\$573
New Jersey	174,000	\$2,338	35%	234,210	\$613
New Mexico	37,000	\$1,975	45%	24,340	\$522
New York	457,000	\$2,370	34%	415,160	\$616
North Carolina	340,000	\$2,170	44%	212,550	\$555
North Dakota	25,000	\$2,956	40%	21,450	\$589
Ohio	309,000	\$2,185	42%	168,450	\$560
Oklahoma	88,000	\$2,245	41%	55,660	\$561
Oregon	156,000	\$2,208	43%	73,190	\$538
Pennsylvania	397,000	\$2,151	41%	239,400	\$583
Rhode Island	28,000	\$2,120	40%	19,030	\$569
South Carolina	133,000	\$2,456	41%	109,300	\$592
South Dakota	37,000	\$2,246	43%	25,060	\$599
Tennessee	146,000	\$2,378	43%	124,750	\$582
Texas	729,000	\$2,332	42%	572,750	\$622
Utah	81,000	\$2,457	38%	37,970	\$573
Vermont	21,000	\$2,432	41%	13,190	\$547
Virginia	279,000	\$2,728	35%	197,650	\$598
Washington	211,000	\$2,358	37%	130,870	\$584
West Virginia	27,000	\$1,845	46%	16,300	\$531
Wisconsin	253,000	\$2,284	39%	109,560	\$521
Wyoming	20,000	\$2,295	42%	10,670	\$581

Source: JEC Democratic staff calculations using March 2019 CPS ASEC, IPUMS-CPS, University of Minnesota, www.ipums.org
 Note: Data refer to the total number of families eligible for the expanded CDCTC in tax year 2021. Adult dependents are not included in these calculations. The number of tax units with dependent children is based on Urban-Brooking Tax Policy Center estimates.