Tax Benefits for Employer-Provided Child Care

As it becomes increasingly difficult for companies to find workers in a tight labor market, many employers are looking to boost the corporate benefits offerings available to their employees. One of the most significant benefits that a company can provide to its employees is access to high-quality child care. Employer-provided child care (EPCC) increases employee productivity, promotes loyalty and retention and creates a better workplace environment. In addition to the improvements in these areas, EPCC can also provide businesses and their owners with substantial tax savings.

Employers that provide or sponsor child care for their employees can claim a federal credit of 25% of qualifying expenditures, up to a maximum credit amount of $150,000 per year (however, any amount taken as a credit cannot also be deducted from federal taxable income). In addition, state tax credits for EPCC are available in 18 states, including a credit for businesses located in Georgia of up to 75% of direct costs. The Georgia credit can offset up to 50% of the taxpayer's income tax liability for the year, and any excess amounts can be carried forward up to five years. Qualifying expenditures include the cost of acquiring and operating an on-site facility, or amounts paid to contract with a licensed child care program (including home-based providers). The federal and state credits, coupled with the tax savings from deducting a portion of the child care expenditures, can yield an after-tax cash surplus – that is, the tax savings can more than offset the cost of providing the child care.

Example

ABC, LLC, a Georgia partnership, is planning to provide child care to its employees at an on-site facility. The company estimates the annual cost to be approximately $400,000. ABC, LLC's partners all pay taxes at the highest federal income tax rate of 37% and the highest Georgia income tax rate of 5.75%. Each of the partners is eligible for the full 20% qualified business income deduction from federal taxable income on their share of partnership profits and has sufficient Georgia tax liability to be able to utilize the full amount of the state credit. The potential tax savings from the $400,000 of annual child care expenses is as follows:

Federal Credit ($400,000 * 25%)	$100,000
Tax Benefit from Federal Deduction ($300,000 * 37% * 80%)	$88,800
Georgia Credit ($400,000 * 75%)	$300,000
Tax Benefit from Georgia Deduction ($400,000 * 5.75%)	$23,000
Gross Tax Benefit	$511,800
Less: Cost for Child Care	(400,000)
After-Tax Cash Surplus	**$111,800**

In addition to the savings at the employer level, employees receiving this benefit can exclude up to $5,000 of qualifying employer-provided dependent care assistance from their taxable wages. This amount was temporarily increased to $10,500 for tax year 2021 but will revert to $5,000 in 2022 and future years.

Navigating the tax regulations related to employer-provided child care credits can be complex, as there are limitations at the employer level as well as implications for the employee receiving the benefit. If structured properly, however, and with appropriate tax planning, the tax savings available from implementing an EPCC program can be substantial.

Contact Us

For additional guidance on the tax implications of EPCC and whether offering this benefit might be right for your business, please contact your Bennett Thrasher Tax advisor by calling 770.396.2200.