Questions and Answers about Dependent Care Tax Assistance:
A Sloan Work and Family Research Network Fact Sheet

Introduction

The Sloan Work and Family Research Network has prepared Fact Sheets that provide statistical answers to some important questions about work–family and work–life issues. This Fact Sheet includes statistics about Dependent Care: Tax Assistance. (Last updated: August 2008)

How expensive is child care?

Fact 1 “For families with employed mothers and children under five, the U.S. Census Bureau (2005) reports that those at less than 100% of the poverty threshold paid 33.95% of their monthly income on child care. In contrast, higher income families, despite spending more than the national average on child care, allocate a much smaller percentage of their income for the service (6.6%)” (U.S. Census Bureau (as cited in Forry & Anderson, 2006)).

Why do employers offer Dependent Care Assistance Programs?

Fact 1 According to the 2008 NSE, “the main reason cited by employers for developing workplace flexibility, care giving leaves and dependent care initiatives is the retention of employees in general (37%), with fewer mentioning the retention of highly-skilled employees (5%)” (Galinsky, Bond & Sakai, 2008, p. 32).

Fact 2 According to the 2005 NSE, "employers are more likely to provide low- or no-cost child care options—such as Dependent Care Assistance Plans (45%) and Child Care Resource and Referral (34%)—than those that are more costly [i.e., child care at or near the worksite (7%), payment for child care with vouchers (3%), or back up or emergency care (6%)]" (Bond, Galinsky, Kim, & Brownfield, 2005, p. 14–15).

Do employees have access to Dependent Care Assistance Programs?

Fact 1 “Seventeen states have earned income tax credits and twenty–seven states provide dependent care credits” (Beamer, 2005, p. 385).

Fact 2 “Organizations were over 25 times as likely to add expense accounts in the period 1985–97, as compared to the reference period, 1965–80” (Kelly, 2003, p. 638).
What types of employers offer Dependent Care Assistance Programs?

Fact 1  According to the 2008 NSE, “those most likely to provide child and elder care assistance are employers that: are larger; are nonprofits; are in finance and in professional services sectors; are in more than one location; have been in business longer; have more women in their workforces; have more employees likely to retire in the next five years; have more women and minorities in top positions or who report directly to those in top positions; and are upsizing” (Galinsky, Bond & Sakai, 2008, p. 8).

Fact 2  “Organizations that reported using human resources consultants are about 40% more likely to adopt expense accounts. Additionally, organizations with their own benefits departments are about 56% more likely to adopt this new program” (Kelly, 2003, p. 639).

Fact 3  According to the 2008 NSE, “76 percent of large employers offer DCAPs compared with 37 percent of small employers” (Galinsky, Bond & Sakai, 2008, p. 20).

What does the Earned Income Tax Credit offer to families?

Fact 1  “The average EITC (Earned Income Tax Credit) credit among households with children is $1,784” (Beamer, 2005, p. 386).

Fact 2  “For families with incomes in excess of $13,730, the EITC declines by sixteen cents and twenty-one cents per dollar of additional earnings for families with one child, and two or more children, respectively. The EITC phases out completely for families with incomes above $33,692” (Beamer, 2005, p. 387).

Fact 3  “New York’s EITC provides families with cash rebates of up to $1,290 annually. At the other end of the spectrum, Iowa’s EITC offsets family tax burdens by a maximum of $252. In terms of improving family well-being, state EITCs increase family income-to-needs ratios by a minimum of 0.2% in Maine to a maximum of 9% in Minnesota” (National Center for Children in Poverty (as cited in Beamer, 2005)).

Who benefits most from the Earned Income Tax Credit?

Fact 1  “Among states with earned income tax credits, child poverty rates average 17.4% compared to an average child poverty rate of 19.1% in states without earned income tax credits” (Beamer, 2005, p. 391).

Fact 2  “Of the dollars paid out by the CDCTC (Child and Dependent Care Tax Credit) in 2002, less than 1% went to taxpayers in the bottom decile income bracket and more than 17% went to taxpayers in the top decile bracket” (Forry & Anderson, 2006, p. 169).

Fact 3  “Data from the IRS on tax credits filed in 2002 reveal that the majority of persons claiming the CDCTC (57.1%) and the majority of the country’s revenue paid out by the credit (54%) goes to families with
combined incomes of $50,000 or more, families to whom the tax credit is not nominally targeted (U.S. Internal Revenue Service [USIRS], 2004a)” (U.S. Internal Revenue Service (as cited in Forry & Anderson, 2006)).

Fact 4  “Families with incomes under $15,000, the group to whom this program is nominally targeted, filed only 1.4% of CDCTCs and received only 0.4% of the dollars paid out by this program in 2002 (USIRS, 2004a)” (U.S. Internal Revenue Service (as cited in Forry & Anderson, 2006)).

How has the Earned Income Tax Credit changed over the years?

Fact 1  “In 1975, 6.2 million families claimed the EITC (Earned Income Tax Credit) and the federal government provided $1.25 billion in tax relief, 75% of which took the form of refundable tax credits. Families received an average tax credit of $201 ($708 in 2004 dollars). By 2003, more than 19 million families claimed the EITC. The overall costs of the credit have risen to $34.4 billion, and nearly 90% of the costs are cash refunds to recipients, while the remaining 10% represents reduced tax payments” (Beamer, 2005, p. 386).

Fact 2  “For families in the lowest quintile, EITC benefits grew seven-fold from $119 in 1991 to $819 in 2001” (Beamer, 2005, p. 387).

The Network has additional resources related to this topic.

1. Visit a topic page on Dependent Care: Tax Assistance at: http://wfnetwork.bc.edu/topic.php?id=8
   Topic pages provide resources/information including statistics, definitions, overviews & briefs, bills & statutes, interviews, teaching resources, audio/video, suggested readings and links.

2. Visit our database of academic literature with citations and annotations of literature related to the issue of Dependent Care: Tax Assistance. You can connect to this database at: http://library.bc.edu/F?func=find-b-0&local_base=BCL_WF

References


“This article outlines the work incentives and income support provided by the federal Earned Income Tax Credit (EITC) and illustrates how state earned income and dependent care credits assist working poor families” (Beamer, 2005, p.385).


This study was designed to build on the 1998 Business Work-Life Study and therefore provides data on changes that have occurred over the last 7 years. "The 2005 NSE sample included 1,092 employers with 50 or more employees– 66 percent are for-profit companies and 34 percent are
nonprofit organizations; 44 percent operate at only one location, while 56 percent have operations at more than one location. (The survey was conducted) using telephone interviews with human resource directors. Harris Interactive staff conducted the interviews from September 23, 2004 to April 5, 2005. Employers were selected from Dun & Bradstreet lists, using a stratified random sampling procedure in which selection was proportional to the number of people employed by each company to ensure a large enough sample of large organizations. The response rate was 38 percent, based on the percentage of all companies on the call-list that completed interviews.” (Bond, Galinsky, Kim, & Brownfield, 2005, p. 1)


“The Child and Dependent Care Tax Credit (CDCTC) is a federal program designed to facilitate the employment of persons with dependents. This article uses incremental theory as a framework for outlining the legislative process through which the CDCTC was developed and alterations the tax credit has endured from 1954 to the present” (Forry & Anderson, 2006, p. 159).


“Frank Dobbin and I designed the survey, which was conducted by telephone interviewers at the University of Maryland Survey Research Center and funded by the Alfred P. Sloan Foundation and the National Science Foundation. The respondents were 389 managers—human resources managers where possible, general managers otherwise—from...food manufacturing, chemicals manufacturing, transportation equipment manufacturing, computer equipment manufacturing, trucking and transport services, wholesale trade, banking, business services, nonprofit social services, and local government agencies” (p. 632).


2008 NSE sample includes 1,100 employers with 50 or more employees—77 percent are for profit employers and 23 percent are nonprofit organizations; 40 percent operate at only one location, while 60 percent have operations at more than one location. Interviews were conducted on behalf of Families and Work Institute by Harris Interactive, Inc.