Leveraging Enhanced 45F Incentives

Stephanie Ferguson Melhorn

Executive Director, Workforce & International Labor

U.S. Chamber of Commerce

Key Changes to the U.S. Tax Code

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

- 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 childcare facilities for services.
- Expands qualified childcare facilities to include jointly owned or operated facilities.

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

- 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) - 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).

- 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.

Benefitting Businesses

Scenario: Tech Corp

Industry: Technology **Employees:** 10,000

Action: Builds an on-site childcare center and contracts with a local provider for overflow care. Also offers resource and referral services.

Current 45F
(through Dec 31, 2025)

Qualified Expenses:

On-site facility:	$2,000,000
Contract provider:	$100,000
Resource & referral:	$50,000
Total:	**$2,150,000**
25% facility + 10% referral =	$525,000
Credit:	$150,000
Tax Liability: $10,000,000 - $150,000 =	$9,850,000

Enhanced I.R.C. § 45F Credit
(Jan 1, 2026)

Same Expenses:	$2,150,000 total
New Credit:	40% facility + 10% referral
Apply $500,000 cap:	**$500,000**
Tax Liability: $10,000,000 - $500,000 =	**$9,500,000**

Additional $350,000 in tax savings!

U.S. Chamber of Commerce

- The enhanced I.R.C. § 45F tax credit allows businesses to claim a credit of 40% of qualified expenses, capped at $500,000 annually.
- Eligible small businesses can claim a higher credit of 50% of qualified expenses, capped at $600,000 annually.
- To qualify as an eligible small business, gross receipts must be less than $31 million (adjusted for inflation as of 2026).
- *The credit encourages businesses to invest in childcare services for their employees.*

Pooling Resources

Scenario: Coastal Tourism Alliance

Location: Gulf Coast town in Florida

Participants: Seaside Grill (20 employees), Harbor Adventures (15 employees), Sunset Inn (25 employees)

Partner: Coastal Kids (licensed nonprofit network)

Form Consortium

Businesses sign joint agreement with nonprofit center to reserve slots for employees' children and fund extended evening care

Calculate Contributions

Each business contributes proportionally: $30,000 for slots + $3,000 for referral services = $33,000 per business

Claim Credits

50% credit rate for small businesses: $15,000 + $300 = **$15,300 tax credit per business**

- Starting in 2026, businesses can claim expenses paid to intermediaries for providing childcare services under the expanded eligibility.
- Businesses can pool resources to jointly own or operate childcare facilities while remaining eligible for the credit.
- *These enhancements aim to make it easier for businesses to invest in childcare solutions for their workforce.*

Introducing Intermediaries

Traditionally, intermediaries assist with a spectrum of supports, including:

Local Referrals
Connecting businesses with local providers and networks.

Capacity Information
Providing insights on existing providers, community capacity, and availability of services.

Licensing Guidance
Offering information on state licensing requirements for facilities.

Financial Assistance
Guiding businesses on where to find help paying for , including available subsidies and grants.

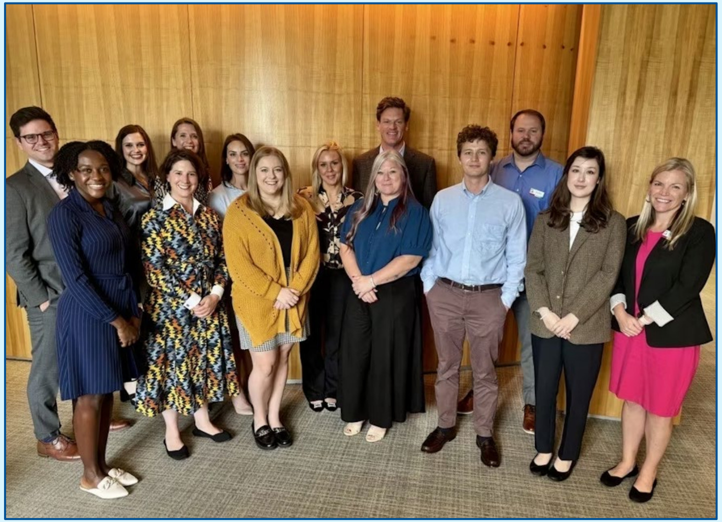
Specialized Supports
Furnishing information on specialized supports for children with disabilities, facilitating inclusive solutions.

Provide Childcare
An intermediary may play the role of one or more providers who actually provide the care or liaise with the employer and the providers of care.

- Fees paid to **third-party intermediaries** are now considered qualified childcare expenses for businesses of all sizes.
- Third-party intermediaries bring expertise in childcare community benefit distribution, types of childcare, and licensing requirements.
- *Hiring these experts can help businesses navigate and enhance their childcare support offerings.*

Taking the Issue on the Road

- The Chamber and U.S. Chamber Foundation launched a **national road show** to highlight the 45F tax credit and provide businesses with tools to address childcare challenges.
- The road show began in Kansas City, MO, showcasing successful collaborations between chambers, employers, and experts to enhance childcare options, and recently included a stop in Baton Rouge, LA.
- Events focus on providing a clear roadmap for utilizing the 45F credit, combining federal and state incentives, fostering small business collaboration, and achieving measurable ROI.



Kansas City, Missouri Child Care Road Show attendees.

Stephanie Ferguson Melhorn

Executive Director, Workforce & International Labor Policy

Sferguson@uschamber.com

Learn More @uschamber.com/workforce

U.S. Chamber of Commerce