

PLYMOUTH INSTITUTE FOR FREE ENTERPRISE

TAX CREDITS FOR CHILD AND DEPENDENT CARE

Preston Brashers, Research Fellow
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TOPLINE: The One Big Beautiful Bill (OB3) expanded: (1) The Employer-Provided Child Care Credit, (2) The Dependent Care Assistance Program (DCAP) exclusion, and (3) The Child and Dependent Care Tax Credit (CDCTC).

BACKGROUND: The Employer-Provided Child Care Credit offsets a portion of the expenses of *employers* who provide child care to their employees.

DCAPs are benefits that employers provide or pay for employees to assist with household and dependent care services that are necessary for employment. The exclusion allows employees to exclude DCAP benefits from income for tax purposes.

The CDCTC is a non-refundable tax credit for workers and job seekers that offsets expenses related to caring for children under 13 and dependents who are incapable of self-care. Qualifying services may include daycare, pre-school, after-school care, in-home care, and others. Before OB3, the credit was limited to \$3,000 of expenses for one qualifying child or individual or \$6,000 for two or more qualifying individuals.

What OB3 Did:

- Increased the Employer-Provided Child Care Credit from 25% to 40% for eligible expenses (50% for eligible small businesses), beginning in 2026.
- Increased the maximum DCAP exclusion amount from \$5,000 to \$7,500 in 2026.
- Made the CDCTC credit phase out at higher incomes. For married filers:
Pre-OB3 credit: 35% phasing down to 20% between \$15,000 - \$43,000 AGI;
Credit starting 2026: 50% phasing down to 35% between \$15,000 - \$43,000 AGI, then phasing down to 20% between incomes of \$150,000 & \$206,000.

Why It Matters?

- The federal government shouldn't subsidize formal child care over other arrangements like a stay-at-home parent, relatives or nannies caring for children.
- According to an IFS study, only 11% of parents of kids ages 0-4 report preferring full-time center-based childcare to other options.

Where Can I Find the Changes? OB3 Section [70401](#), [70404](#), [70405](#);
[26 U.S.C. § 45F](#), [§ 129\(a\)](#), [§ 21\(a\)](#).

BOTTOMLINE: When the government tries to help families, it usually does the opposite. Parents know better than government what arrangements are right for their children and their family.



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