



Pennsylvania Child and Dependent Care Enhancement Tax Credit

- Enacted as part of Act 53 of 2022 – The Tax Reform Code
- Mirrors the federal Child and Dependent Care Tax Credit in 26 U.S.C. § 21.
- Limits the benefit to 30% of the federal tax credit as structured in the current Internal Revenue Code.
- The benefit is between \$180 and \$630 per household depending on income level and the number of dependents.
- An eligible applicant would receive the lesser of 30% of:
 - \$3,000 for one qualifying individual multiplied by the applicable percent* for the current tax year; or
 - \$6,000 for two or more qualifying individuals multiplied by the applicable percent* for the current tax year

* Applicable percentage rate is 35% at a \$15,000 income reduced by 1% for every \$2,000 of income over \$15,000.

Federal Child Tax Credit and Federal Child and Dependent Care Tax Credit

	Child Tax Credit	The Child and Dependent Care Tax Credit
Purpose	Offset the cost of raising children (basic essentials)	Offset the cost of dependent care
Eligibility	<ul style="list-style-type: none"> • Earnings over \$2,500 and have children • \$200,000 (single filer) • \$400,000 (joint) 	<ul style="list-style-type: none"> • Paid expenses for the care of a qualifying individual to enable filer (and spouse, if filing a joint return) to work or actively look for work • Qualifying child or dependent care including care at a center, group child care home, or family child care home or a church, vacation day camps, or care provided by a neighbor or a relative (except if provided by a spouse, a dependent, or a child of the tax filer under 19)
Benefit	\$2,000 per dependent under 17	<ul style="list-style-type: none"> • Adjusted Gross Income (AGI) of \$15,000 can claim 35 percent of expenses for a maximum credit of \$2,100 for two children • \$43,000 or more reach the minimum claim rate of 20 percent qualifying for a maximum credit of \$1,200 for two children • For one child, the credit drops to \$1,050 and \$600, respectively
Phaseout	Reduced by 5% after AGI reaches \$200,000 for single parents and \$400,000 for married couples	Reduced by 1% for every \$2,000 of income over \$15,000
Refundable	Partially – Up to \$1,400 of the credit is refundable as the Additional Child Tax Credit	No
Additional Credit	\$500 non-refundable credit for non-child tax credit dependents	N/A

Supply-Side Versus Demand-Side Policy Solutions for Child Care

Supply-side solutions provide child care providers with tools necessary to address “supply” issues such as underpaid staff leading to workforce shortages, waiting lists, and other issues that cause classroom closures and wait lists, impacting working families’ access to child care.

Demand-side solutions assist families with the affordability and accessibility of child care, but do not address supply-side issues such as workforce shortages.

Demand-side Solutions	Supply-side Solutions
Child and dependent care tax credit enhancements	Funding to increase child care teacher and staff wages
Child care subsidy eligibility enhancements	Funding for programs serving subsidized children that have reached a STAR 2, 3 or 4 rating, thereby incentivizing programs to achieve higher levels of quality and sustaining those that have met the high-quality standards by compensating providers closer to the actual cost of providing these services.

The current child care crisis in Pennsylvania is a result of supply-side challenges resulting from an underpaid child care workforce leaving the field for higher-paying jobs (average child care teacher wage in PA is less than \$12.50/hr.).

Without addressing supply-side solutions, such as teacher wages, programs will continue to have closed classrooms and growing wait lists. Tax credits will not help families access child care if they remain on wait lists because there are not enough teachers to serve their children.