



CHILD CARE TAX CREDITS

In today's dynamic business landscape, organizations are increasingly recognizing the pivotal role of well-being of their employees. One effective strategy to support this balance is by providing child care assistance, which not only boosts employee morale but can lead to substantial tax benefits. This resource aims to provide businesses with an understanding of the federal and Kansas tax credits available to businesses who offer child care benefits to their employees.

Why is providing child care benefits important to businesses and employees?

Productivity Enhancement: With access to dependable childcare, employees can concentrate better on their tasks, leading to increased productivity. Reduced distractions and fewer worries about childcare arrangements translate into a more focused and efficient workforce.

Retaining Female Leadership: Many working mothers, who often hold high-level positions, face the challenging decision of leaving their careers after having children. Employer-sponsored childcare can retain these valuable female leaders, preventing a talent drain and maintaining gender diversity in leadership roles.

Improved Work-Life Balance: Childcare benefits contribute to a healthier work-life balance for employees, enabling them to juggle their professional duties and family commitments more effectively. This equilibrium boosts morale, reduces absenteeism, and enhances overall job satisfaction.

Talent Management: Employer-sponsored childcare is a powerful tool for talent management. It not only attracts top talent but also fosters loyalty among existing employees. By investing in their employees' childcare needs, organizations can build a reputation as an employer that values its workforce.

WHY CREDITS MATTER

Let's look what differentiates a deduction from a credit. Below is a comparison of a basic tax computation with a \$10,000 deduction versus that same \$10,000 expense taken as a credit where you get 30% of expenditures as a credit.

	Scenario 1 (\$10k deduction)	Scenario 2 (\$10K credit)
Income	100,000	100,000
Child Care Deduction	10,000	-
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Taxable Income	90,000	100,000
Tax (5%)	4,500	5,000
Credits (30% of expenses)	-	3,000
Overall Paid Tax	4,500	2,000

Additional Savings 2,500

As you can see in this simplified, while both are beneficial to this business, the seemingly smaller credit reduced the overall tax paid more than the larger deduction. Credits are applied after tax is calculated while deductions are applied before tax is calculated. Simply put, credits reduce tax payable, and deductions reduce taxable income.



FEDERAL CREDIT

Qualifications and credit amounts

Businesses that provide child care facilities or services directly to their employees are eligible for this credit. An employer must only meet one of the following requirements to claim the full 25 percent credit:

1. Build, acquire, and then operate an in-house childcare center.
2. Contract with a licensed childcare program (including home-based providers).

A business also has the opportunity to claim a lesser credit of 10 percent if they don't meet the above requirements but meet the following:

1. Contract with a third-party referral service to find childcare for their employees.

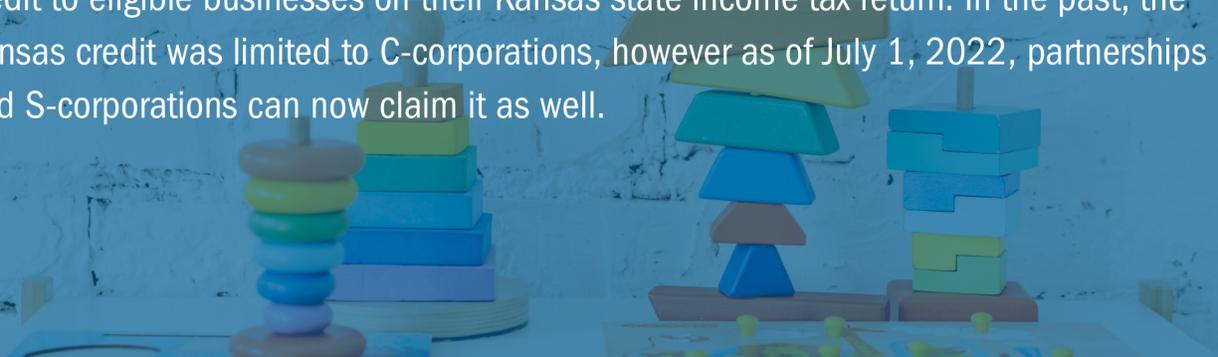
For both the 25% and 10% credit, the yearly limit is \$150,000, meaning a business will not be able to claim more than this amount, even if the credit they receive from their qualifying expenses is greater than this amount.

How to Claim

In order to receive the credit, qualifying employers must complete Form 8882. This form is a short, half a page form that is easy to fill out. An employer can claim the credit at any time within three years of the due date of their return, either original or amended.

KANSAS CREDIT

Similar to the federal credit, the Kansas Child Day Care Assistance Credit provides a credit to eligible businesses on their Kansas state income tax return. In the past, the Kansas credit was limited to C-corporations, however as of July 1, 2022, partnerships and S-corporations can now claim it as well.



KANSAS CREDIT

Qualifications and credit amount

The state of Kansas has several criteria a business can meet to be eligible for the credit. A business must be an income tax or privilege taxpayer and either:

1. Pay for child day care services for its employees, OR
2. Locate child day care services for its employees, OR
3. Provide facilities and necessary equipment for child day care services to its employees, OR
4. Provide access to available child day care services for its employees.

In addition to the above requirements, the childcare facility must be registered or licensed by the Kansas Department of Health and Environment. The childcare facility must also be primarily used by dependent children of the business's employees.

For taxpayers who provide the facility and the equipment: During the First year (Initial Year), if the business provides the facility and the necessary equipment for child day care services and the facility is used primarily by the dependent children of its employees, the business receives a credit of 50 percent of the net amount spent. In subsequent years, the business receives a credit of 30 percent of the net amount spent.

In the initial year the credit cannot exceed \$45,000. In subsequent taxable years the credit cannot exceed \$30,000.

For taxpayers who pay for child day care services or who assist in locating child day care services: The credit is 30 percent of the net amount spent for locating or providing child day care services for its employees' children. The credit cannot exceed \$30,000 for any business during any taxable year.

For taxpayers who provide payments to an organization providing access to available childcare services: The credit is 50% of the payments made to an organization providing access to available child day care services for the taxpayer's employees. The credit cannot exceed \$45,000 for any taxpayer during any taxable year.

HOW TO CLAIM KANSAS CREDIT

Qualifying business fill out Schedule K-56 and submit it with their income tax or privilege tax return. The form may be downloaded on the Kansas Department of Revenue website. If the Child Day Care Assistance Credit exceeds the tax liability for the taxable year, the excess of the credit will be refunded to the business. If the business is a flow-through entity like a partnership or S-corporation, the credit will be allocated to each owner and can be taken on the individual owner's personal Kansas tax return.

EXAMPLE 1

A business spends \$300,000 contracting with a licensed child care program to provide child care services for it's employees. This business has a total income before these expenses of \$2,000,000. Below are the credits they would receive -

Federal credit - $\$300,000 \times 25\% = \$75,000$, no limitation

State credit - $\$300,000 \times 50\% = \$150,000$, limited to \$30,000

Federal income tax

$\$2,000,000 \times 35\%$ tax rate = 700,000 less credit of 75,000 = \$625,000 tax due

State income tax

$\$1,910,000 \times 5\%$ tax rate = 95,500 less credit of \$30,000 = \$65,500

The business will still get a deduction for the expenses not used for the credit since the credit is limited.

EXAMPLE 2

A business spends \$20,000 to provide a child care location service to its employees. This business has a total income before these expenses of \$400,000. Below are the credits they would receive -

Federal credit - $\$20,000 \times 10\% = \$2,000$, no limitation

State credit - $\$20,000 \times 30\% = \$6,000$, no limitation

Federal income tax

$\$400,000 \times 35\%$ tax rate = 140,000 less credit of 2,000 = \$138,000 tax due

State income tax

$\$400,000 \times 5\%$ tax rate = \$20,000 less credit of \$6,000 = \$14,000



For more information regarding child care tax credits visit raisingwyco.org or contact raisingwyco@thefamilyconservancy.org.



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