Big Boost for Employer Child Care Tax Credit in the House-Passed Bill

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As workforce challenges evolve and employee benefits become more critical to recruitment and retention, Congress is taking a significant step toward encouraging business investment in child care infrastructure. The House version of the "One Big Beautiful Bill Act" includes a major expansion of the employer-provided child care tax credit under Internal Revenue Code Section 45F. This enhancement could make offering child care benefits far more attractive and financially viable for a wide range of businesses.

What Does Section 45F Currently Provide?

Under current law, Section 45F offers employers a nonrefundable tax credit of up to $150,000 per year. The credit equals:

- 25 percent of qualified child care expenditures (such as costs to operate or contract with a child care facility), and
- 10 percent of qualified resource and referral expenditures (like employee assistance programs that help workers find child care).

The credit is designed to reward businesses that provide real, tangible support for working families. However, its current structure has limited its practical impact, especially for small and midsize businesses facing high start-up costs or administrative burdens.

What Changes Are Coming?

The House-passed bill proposes a permanent expansion of the Section 45F credit. It significantly increases both the maximum annual credit and the percentage of expenses covered. The key changes include:

- Raising the maximum credit from $150,000 to $500,000 per year

- Increasing the percentage of qualified child care expenses covered from 25 percent to 40 percent
- Indexing the $500,000 cap for inflation so the benefit grows over time

These enhancements would allow more businesses, particularly those with larger workforces or multiple sites, to make substantial investments in on-site or contracted child care solutions and still receive a meaningful tax benefit in return.

Special Incentives for Small Businesses

Perhaps the most innovative feature of the bill is a separate, more generous credit structure specifically designed for qualified small businesses. Under the proposed legislation, a "qualified small business" is defined as one that satisfies the gross receipts test under Section 448(c) over a five-year period. For 2025, this means a business with annual gross receipts under approximately $31 million (adjusted for inflation).
For these businesses, the expanded Section 45F credit would:

- Increase the maximum allowable credit to $600,000, and
- Raise the percentage of qualified child care expenses covered to 50 percent

This is a powerful incentive aimed at leveling the playing field for smaller firms. Many of these businesses have previously struggled to offer child care benefits due to cost, scale, or compliance limitations.

Flexibility Through Resource Pooling and Third-Party Providers

In recognition of the fact that many small and mid-size businesses cannot realistically operate their own child care facilities, the bill includes important provisions for flexibility and collaboration:

- Qualified small businesses may pool resources with one another to jointly provide child care services to their employees.
- Businesses of any size may use third-party intermediaries to coordinate child care services with one or more qualified providers.
- The definition of “qualified child care facility” is expanded to include facilities jointly owned or operated by multiple taxpayers or entities.

These updates reflect a modern understanding of how businesses structure employee benefits and provide more practical options to meet workforce needs.

Expanded Definitions Create New Opportunities

Beyond simply increasing the dollar limits and percentages, the bill also expands the definition of qualified child care expenditures to make the credit more accessible. Under the new language, expenditures would now include payments made under a contract with a third-party that, in turn, contracts with one or more qualified child care facilities.

This change provides clarity and security for businesses that want to outsource or coordinate services without directly operating a facility. Combined with the expanded facility definitions, the revised law would help a much broader segment of employers qualify for the credit. This is true whether they choose to build on-site centers, contract with local providers, or partner with regional networks

What This Means for Employers

The expanded Section 45F credit represents a strategic opportunity for employers to:

- Invest in employee satisfaction and retention
- Offset child care benefit costs with significant federal tax credits
- Collaborate with other businesses or providers to build scalable solutions
- Enhance recruiting by offering family-friendly workplace policies

As with any tax credit, planning and documentation will be essential. Businesses should begin evaluating:

- Whether they currently qualify as a "qualified small business"
- What types of child care support they already provide or could offer
- Opportunities to partner with others or use intermediaries to meet requirements

Next Steps

If enacted, these changes could take effect as early as the 2025 tax year. Businesses that begin planning now will be better positioned to take full advantage of the credit, structure their benefits programs for compliance, and demonstrate their commitment to supporting working families.

At Strategic Tax Planning, we help businesses assess their eligibility and design tax-efficient employee benefit strategies. Whether you're already offering child care support or considering it for the first time, our team can guide you through the planning, implementation, and credit calculation process.

Contact us today to discuss how your business can benefit from the new child care credit and position itself as an employer of choice in a competitive labor market.