Center for American Progress

A New Vision for Child Care in the United States

A Proposed New Tax Credit to Expand High-Quality Child Care

By Katie Hamm and Carmel Martin

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Introduction and summary

More than 12 million children in the United States under age 5 attend child care each week.[1] Across the country, millions of working families struggle to find affordable, high-quality child care. For most of those families, child care is an economic necessity, as 65 percent of children under 6 years old have all of their available parents in the labor force.[2]

However, child care is quickly becoming unaffordable for the families who need it. The average annual price of a child care center exceeds $10,000, and this price is growing.[3] Over a 12-year period from 2000 to 2012, child care costs for a typical middle-class family grew by $2,300.[4] In 31 states and the District of Columbia, the cost of full-time, center-based child care trumps the average annual cost of tuition and fees for a public four-year university.[5] Existing programs designed to help families afford child care, including the Child Care and Development Block Grant and the Child and Dependent Care Tax Credit, reach only a small portion of families and do not reflect actual child care prices.

The United States has the third-highest child care costs for families, as measured by percentage of family income, compared with other Organisation for Economic Co-operation and Development, or OECD, countries.[6] At the same time, the United States spends comparatively less money than other countries when it comes to helping families afford child care.[7] Failing to invest in child care can have negative economic consequences, leading to lower earnings for families and less economic growth.

Now more than ever, the United States is in need of a child care system that supports working families and reflects the financial realities that they face. The Center for American Progress proposes a High-Quality Child Care Tax Credit available to help low-income and middle-class families afford child care. The tax credit would provide up to $14,000 per child to reflect the cost of high-quality child care paid directly to providers on a monthly basis to help families afford child care.

Families would contribute up to 12 percent of their income toward child care fees on a sliding scale. The new tax credit would support access to child care rated as high quality, which would be selected by parents. This proposal would complement CAP's call for universal, voluntary preschool for all 3- and 4-year-olds, thus creating access to high-quality early learning programs from birth to kindergarten entry. In addition to improving access to high-quality programs for children, the proposal would save families thousands of dollars per year and facilitate child care arrangements that support financial security for working families. In supporting the current workforce and preparing tomorrow's workforce for success, the proposal would help secure America's economic future.

The growing need for child care to support families

Many of the United States' current work-family policies stem from a time period when families had a full-time, stay-at-home caregiver, typically the mother. Today's labor force includes 67 million women, who hold nearly half of all jobs.[8] In 40 percent of American households, mothers are sole or primary breadwinners.[9] Another 25 percent are co-breadwinners.[10] Sixty-four percent of women with children under age 6 are in the labor force.[11]

Changes in family structure, as well as overall increases in cost of living—including everything from health care to housing—have placed enormous financial pressure on families and contributed to an increase in women's labor force participation.[12] Despite growing inequality and stagnant wages, family incomes have risen over the past few decades, mostly due to an increase in women in the workforce—which translates to both adults in the household working.[13] Most families now include dual earners, both full and part time, or a single-parent breadwinner; 62 percent of married-couple families, 71 percent of single mothers, and 83 percent of single fathers are in the workforce.[14]

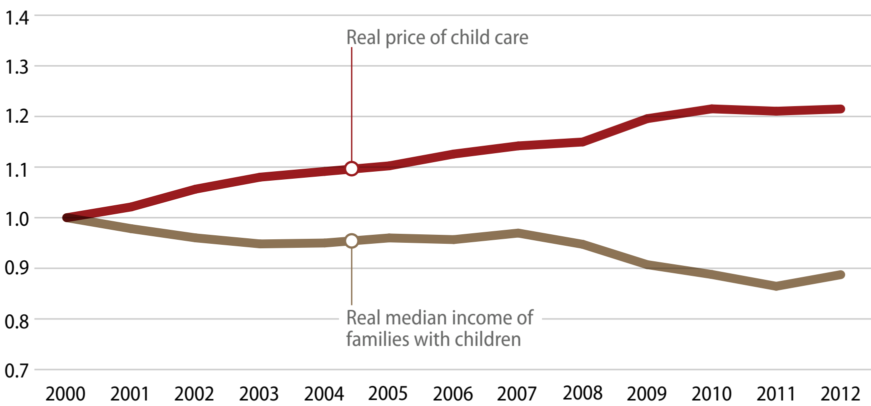
In addition to being an economic necessity, high-quality early learning programs have become an educational necessity for young children. Over the past several decades, research on brain development has documented the importance of the first five years of life.[15] From birth to age 5, approximately 90 percent of children's brain development occurs.[16] Likewise, several longitudinal studies have demonstrated that high-quality early education can have long-lasting positive impacts for young children.[17] Children who attend higher-quality child care have fewer behavioral issues and perform better in math in elementary school.[18] Understanding the advantages of high-quality child care, parents are no longer finding custodial child care—which is designed to keep children safe while their parents work—acceptable. Unfortunately, child care quality in the United States is mostly mediocre to poor.[19] Low- quality child care can negatively affect children's development into adolescence.[20] High-quality, affordable child care has thus become a necessity for families' economic security and children's educational success.

Child care costs are out of reach for many American families

Even though child care is an economic necessity for families across the earnings spectrum, it is out of reach for many low-income and middle-class families. Between 2000 and 2012, child care costs for a typical middle-class family of four earning $80,000 per year grew by $2,300, while wages remained stagnant. (see Figure 1) Full-time care can cost families up to $16,000 per year in some areas.[21] For a typical family with an infant and a preschooler in a child care center, the average child care costs exceed median rent prices in every state.[22] Moreover, the average cost of a child care center exceeds tuition and fees for a public four-year college in 31 states and the District of Columbia.[23]

FIGURE 1

The real median income of families with children versus the real price of child care



Source: CAP analysis using Bureau of the Census, *Table F-10: Presence of Children Under 18 Years Old All Families by Median and Mean Income: 1974 to 2013,* (U.S. Department of Commerce, 2014), available at http://www.census.gov/hhes/www/income/data/historical/-families/; Bureau of Labor Statistics, "Consumer Price Index Child Care & Nursery School Component–CUUR0000SEEB03," available at http://download.bls.gov/pub/time.series/cu/cu.data.17.USEducationAndCommunication (last accessed July 2015). Both prices were deflated using the Consumer Price Index for All Urban Consumers Research Series, or CPI-U-RS.

Child care expenses are particularly daunting for low-income families. (see Table 1) Among families with children under age 5 who incur child care expenses, child care accounts for 9 percent of total family income.[24] However, families living below the federal poverty line, or $24,250 in annual income for a family of four, spend 36 percent of their income on child care.[25]

TABLE 1

Average weekly child care expenditures of families with children younger than age 5 and employed mothers who make payments

	Average weekly child care costs	Average monthly family income	Percentage of family's monthly income spent on child care	Mother's average monthly income	Percentage of mother's monthly income spent on child care
All families with children younger than age 5	$181	$8,783	9%	$3,477	23%
All families below the poverty level	$103	$1,239	36%	$1,044	43%
All families at or above poverty level	$188	$9,488	9%	$3,705	22%
100–199 percent of poverty level	$129	$2,751	20%	$1,667	33%
200-plus percent of poverty level	$203	$11,157	8%	$4,209	21%

Note: Poverty levels defined by the Office of the Assistant Secretary for Planning and Evaluation, "2015 Poverty Guidelines," available at http://aspe.hhs.gov/poverty/15poverty.cfm (last accessed July 2015).

Source: Bureau of the Census, Who's Minding the Kids? Child Care Arrangements: 2011 (U.S. Department of Commerce, 2013), Tables 6 and 5, available at http://www.census.gov/programs-surveys/sipp/data/tables/2008-panel/2011-tables.html.

Infants and toddlers particularly need high-quality child care

Families with young children under age 3 face considerable obstacles to finding affordable, high-quality child care. The cost of infant child care is extremely high, ranging from about $5,500 per year in Mississippi to $16,500 per year in Massachusetts.[26] The average hourly cost of infant child care is almost 30 percent higher than care for a 4-year-old. For full-time, year-round care, this amounts to an additional $4,000 per year.[27] Children under age 3, especially infants in the first year of life, are expensive to care for because adult-to-child ratios must be low to provide quality child care.[28] Young children may also require smaller group sizes—and hence, more classrooms—as well as costly equipment, such as cribs.

A national survey of child care centers found the average cost for infants under 12 months old to be $18,000 per year, based on a 45-hour week for 52 weeks per year—which is more than the annual income of a parent earning the minimum wage for the same amount of time.[29] Moreover, this expense comes at a time when families have fewer overall resources due to the birth of a child, including lower wages because of time away from work, increased health care expenses, and the costs of purchasing equipment to care for a newborn.

Unfortunately, there are few options for affordable, high-quality infant and toddler care available. The Early Head Start program—which serves poor infants, toddlers, and pregnant women—represents the gold standard in quality but reaches less than 5 percent of eligible children.[30] Other public programs are scarce. A national survey of child care centers found that among programs that are free to all parents, less than 9 percent serve children under age 1.[31] Sixty-five percent of centers do not serve children 1-year-old or younger,[32] and 44 percent do not serve children under age 3 at all.[33] By comparison, 29 percent of center-based programs serving 4-year-olds provide a free program.[34] America needs a robust investment in very young children to ensure that children have access to high-quality programs starting at birth.

The United States is falling behind its competitors

The United States is one of the few developed countries that has yet to substantially invest in early childhood education and care.[35] The cost of U.S. child care is comparatively high relative to other developed countries, while public spending remains lower by international standards.[36] Of the OECD countries for which data are available, the United States has the third-highest cost of child care as measured by percentage of family income. (see Table 2)[37] The United States currently spends less than half of 1 percent of its federal budget on child care.[38] By comparison, other OECD countries spend anywhere from 2 percent to 7 percent.[39]

Child care in Germany

Over the past few years, Germany has emerged as one of the strongest economies in the eurozone. In the first half of 2015, while other European neighboring countries were struggling to avoid financial disaster, Germany posted the lowest unemployment numbers the country had seen since reunification.[40] An important component of Germany's long-term economic strategy is safeguarding and developing its workforce.[41] As a result, in recent years, Germany has taken important steps to develop a more robust early childhood landscape.

In the mid-1990s, the government created its first framework for a part-time public child care system for children ages 3 to 6, followed by one for public infant and toddler care in 2004.[42] The following year, the government invested the equivalent of about $1.7 million U.S. dollars to expand the supply of child care slots.[43] In an effort to create basic quality standards, the bill also provided state support for the training and regulation of providers, as well as health and safety inspections of child care settings.[44] Then, in 2013, when many peer countries were still rebuilding from the global financial crisis, Germany gave its citizens the right to child care for children over age 1.[45] In the five-year period preceding this law, the government took steps to create 750,000 new child care spaces to help meet the growing need.[46]

The United States stands to lose economic ground to its global competitors absent policy to address child care. High-quality child care is an important tool to increase the size of the workforce by helping families maintain employment, and it supports the future workforce by preparing children for school. Unfortunately, current child care policy in the United States represents a missed opportunity when it comes to reaching these goals.

Current child care policies fall short

The United States subsidizes the cost of child care for families through two programs: the Child Care and Development Block Grant, or CCDBG, and the Child and Dependent Care Tax Credit, or CDCTC. The former provides vouchers to some low-income families, and the latter is a tax credit that largely targets higher-income families. Both programs fall short when it comes to helping families afford high-quality child care.

The CCDBG provides $5.3 billion in state block grants to subsidize the cost of care and to make investments in quality, which states must partially match with their own funds.[47] States, and even communities, have different policies to distribute child care subsidies, but most states provide vouchers to low-income parents to help them afford a child care provider of their choosing. However, the CCDBG only reaches one in six of all eligible children, or about 1.5 million children, and that number is declining.[48] In 2013, the CCDBG served its fewest number of children since 1998.[49] Even if a family does receive a child care subsidy, the amount is typically too low to allow them to purchase high-quality child care. In 2013, the average subsidy for center-based child care was approximately $4,900 per year—less than half of the average cost.[50]

For higher-income families, the CDCTC allows families to take a tax credit of up to $1,050 for one child and $2,100 for two children.[51] The tax credit is not refundable, which means that families that owe little or nothing in taxes cannot take full advantage of the credit. Families that earn between $100,000 and $200,000 per year receive the largest benefits from the tax credit.[52] The tax credit also does not benefit families until the following year when they file their tax returns, which means that families who cannot afford the expense upfront cannot benefit from the tax credit. Like the child care subsidy, the tax credit reaches too few families and provides insufficient assistance to help families afford child care.

TABLE 2

Child care costs across OECD countries

Country	Cost of child care as a percentage of net family income*
United Kingdom	33.80
New Zealand	28.97
United States	28.72
Ireland	27.40
Netherlands	19.88
Slovak Republic	16.90
Luxembourg	16.89
Finland	16.76
Australia	15.73
Japan	15.26
OECD average	12.57
Czech Republic	11.60
Norway	11.16
Israel	11.08
Denmark	10.68
Belgium	10.24
France	9.71
Germany	9.69
Slovenia	9.04
Spain	5.64
Iceland	5.48
Poland	5.45
Estonia	5.00
Sweden	4.35
Portugal	4.23
Hungary	3.95
Austria	2.71

* Net income is the amount of money that a household earns, or gains, each year after taxes and transfers. It represents the money available to a household for spending on goods or services.

Source: Organisation for Economic Co-operation and Development Directorate of Employment, Labour and Social Affairs, "PF3.4: Childcare support" (2014), available at http://www.oecd.org/els/soc/PF_3_4_Childcare_support_May2014.pdf.

A new approach to child care

The United States needs a new approach to make high-quality, affordable child care a reality for families. In order to effectively address the numerous barriers that millions of families face when searching for child care, the solution must give parents a choice of high-quality providers, support them in affording the cost, and be widely available to parents with young children—especially those with children under age 3, who face the biggest challenges.

To address these issues in the child care market, CAP proposes a High-Quality Child Care Tax Credit to help low-income and middle-class families afford child care. The tax credit would be targeted to high-quality providers, driving the child care market to improve and creating a true choice among quality child care providers for the very first time. To support families that struggle to afford ever-increasing child care costs, among other household expenses, the tax credit—worth up to $14,000 per child—would be advanced to families throughout the year on a monthly basis and paid directly to a child care provider that the parent chooses. The proposal would serve more than 6 million children under age 5, increasing the current service level by more than fourfold.

Helping families afford child care

The majority of parents in the United States need child care in order to maintain employment and provide for their families. However, rising child care costs can eat up a substantial and growing portion of families' incomes, forcing parents to choose between working and obtaining child care that might not be safe or reliable and not working at all. In some instances, because high-quality, affordable child care is simply not available, some parents leave the workforce, which jeopardizes their families' short- and long-term economic security.

The High-Quality Child Care Tax Credit would recognize that families across the income spectrum struggle with child care costs, and it would be available to most low-income and middle-class families. Eligibility would extend to up to 400 percent of the federal poverty line, or about $97,000 in annual income for a family of four. The tax credit would use a sliding scale to determine the family's share of the costs, ranging from 2 percent of total income for families living near the poverty line to 12 percent for families earning above 250 percent of the poverty line. (see Table 3) The family contribution for families with multiple young children may need to be adjusted to ensure that accessing the tax credit remains affordable.

TABLE 3

High-quality Child Care Tax Credit amounts at different family income levels for children younger than age 3

Income as a percentage of FPL	Upper bound income for family of four	High-quality Child Care Tax Credit*	Family payment as a percentage of income	Family contribution**
Up to 133 percent	$32,253	$13,340	2%	$660
133–150 percent	$36,375	$11,840	6%	$2,160
150–200 percent	$48,500	$10,080	8%	$3,920
200–250 percent	$60,625	$7,900	10%	$6,100
250–300 percent	$72,750	$5,240	12%	$8,760
300–400 percent	$97,000	$2,360	12%	$11,640

*Tax credit for family at the upper bound of each poverty level.

**Family contribution based on family of four at upper bound of each poverty level.

Source: Poverty levels based on Office of the Assistant Secretary for Planning and Evaluation, 2015 Poverty Guidelines (U.S. Department of Health and Human Services, 2015), available at http://aspe.hhs.gov/poverty/15poverty.cfm.

The proposed tax credit compliments a previous CAP proposal that calls for making universal, voluntary preschool available to all children ages 3 and 4.[53] CAP's preschool proposal would extend high-quality early education to all 3- and 4-year-old children and provide a benefit worth $10,000 per child—a benefit that is comparable to the High-Quality Child Care Tax Credit proposal. However, preschool operates on an academic schedule, ending in the afternoon and closing for the summer months. Working families may need additional child care to accommodate their work schedules. Thus, the High-Quality Child Care Tax Credit would provide a smaller child care benefit of up to $5,000 for supplemental child care. This benefit would extend to families earning up to 200 percent of the poverty line, or $48,500 for a family of four, who might not be able to access preschool without child care to cover work hours during the evening or summer. (see Table 4) This income eligibility threshold provides parity with the High-Quality Child Care Tax Credit available to families with younger children when coupled with CAP's proposed preschool program.

TABLE 4

High-quality Child Care Tax Credit levels at different income levels for children ages 3 and 4

Income as a percentage of FPL	Upper bound income for family of four	High-quality Child Care Tax Credit*	Family payment as a percentage of income	Family payment**
Up to 133 percent	$32,253	$4,340	2%	$660
133-150 percent	$36,375	$2,840	6%	$2,160
150-200 percent	$48,500	$1,080	8%	$3,920

*Tax credit for family at the upper bound of each poverty level.

**Family contribution based on family of four at upper bound of each poverty level.

Source: Poverty levels based on Office of the Assistant Secretary for Planning and Evaluation, 2015 Poverty Guidelines (U.S. Department of Health and Human Services, 2015), available at http://aspe.hhs.gov/poverty/15poverty.cfm.

While a handful of states have made significant progress toward serving most 4-year-olds in state preschool, the vast majority of states are not close to reaching the majority of 4-year-olds, and no states are reaching the majority of 3-year-olds.[54] States will need time to scale up preschool even if the federal government provides funding. This being the case, the High-Quality Child Care Tax Credit might need to start out larger for preschoolers to account for the fact that not all families will have access to it and scale down as more children are enrolled in state programs.

As mentioned above, the tax credit would be advanced to families throughout the tax year. A traditional tax credit that provides a benefit to families after the tax year has ended is not feasible for many low-income families, as it requires them to pay child care expenses that are not reimbursed for up to a year. An advanced credit requires families to pay only their family contribution to the provider, while the Internal Revenue Service, or IRS, pays the remainder directly to the provider. The direct provider payment from the IRS will also help avoid fraud. Since the family will receive a tax credit before the end of the year, eligibility will be based on prior-year income to avoid a situation where a taxpayer underestimates income and owes money back at the end of the year. Once a family was deemed eligible for the tax credit based on prior-year income, it would remain eligible for a full calendar year. If a parent were not employed in the prior year but became employed in the current year, he or she would have the option of estimating earned income in the current year to qualify for the High Quality Child Care Tax Credit. In these cases, the amount of the family contribution would need to be reconciled at the end of the tax year. The tax credit is limited to families in which both married parents who claim or a single parent who claims the child as a dependent earned income in the previous tax year.

Both the Child Care and Development Block Grant and the Child and Dependent Care Tax Credit serve children up to age 13. The new tax credit as envisioned would be limited to children who have not yet entered kindergarten, reflecting the fact that child care expenses are most burdensome for families during this time period and that developmentally, children need high-quality early childhood programs early in life. However, most working families need child care for older children in the afternoon and during the summer months. Therefore, CAP has also proposed expanding 21st Century Community Learning Centers, which fund academic and nonacademic programming during nonschool hours for children in high-poverty schools. Through an expansion of this program, schools can add to the school day and year to provide students with more time for learning and enrichment activities.[55]

Ensuring that families have access to high-quality child care

The High-Quality Child Care Tax Credit is designed to ensure that families can purchase high-quality child care programs. When families are forced to accept lower-quality child care, both the parents' employment and the child's well-being are put in jeopardy. Custodial care, which is typically mediocre at best and does not focus on providing a quality learning environment, does not prepare children for school and can affect parents' employment if it is unreliable or if the parent is distracted by worries for the child's safety and development.

To help families access high-quality child care, the proposed tax credit is calibrated to reflect the actual cost of that child care and to give parents a choice of providers who can offer the child care and school-readiness experience that most families seek. The combined value of the tax credit and family contribution totals $14,000 for children under age 3 and $5,000 for extended-day and summer child care for preschoolers. This amount is based on CAP analysis of estimates from the Department of Health and Human Services of the cost of high-quality child care,[56] including lower adult-to-student ratios, credentialed staff, a research-based curriculum, and wage increases for staff. To ensure that the tax credit continues to allow families to access quality child care over time, the tax credit will be indexed to the Consumer Price Index for All Urban Consumers, or CPI-U,[57] to keep pace with inflation.

In addition to paying to support high-quality child care, public funds should phase out payments to low-quality child care providers and ultimately only fund providers rated as high quality. This approach will create demand for high-quality child care from parents, which will incentivize existing providers to improve the quality of their service and may also induce new providers of high-quality care to enter the market. In the current system, many providers cannot afford to improve their quality because child care subsidy rates are low, limiting both funding to invest in quality and potential returns on improvements. However, child care providers that receive the tax credit will receive a payment calibrated to the cost of providing high-quality child care.

To identify high-quality child care providers, the tax credit will rely heavily on state Quality Rating and Improvement Systems, or QRIS. Over the past decade, most states have developed a statewide QRIS or pilot program to rate child care providers based on a set of indicators. (see text box) States typically rate providers into three, four, or five tiers.[58] After a phase-in period, which allows states with less mature QRIS to build out these systems and allows providers to improve quality, the High-Quality Child Care Tax Credit should only be available to providers rated in the top level of a three-tier system or the top two levels of a four- or five-tier system. States will need to provide the federal government with a list of eligible providers, and parents can select any child care provider that meets the quality threshold. The goal is to use federal funding as an incentive to increase the supply of high-quality child care, especially in low-income areas that are currently service deserts, which provide little to no options for high-quality child care. In order to prevent system gaming in states—that is to say, prevent states from setting the quality threshold artificially low in the top tiers of the QRIS to maximize eligibility—the federal government will need to establish some parameters for the top tier. This could include a QRIS that has been validated using observational tools or equating the top tiers with national accreditation or Head Start standards.

States should take steps to ensure that family child care providers—which are regulated and where children are cared for in the homes of licensed providers—have the opportunity to participate in QRIS and reach the top tiers of quality. These providers can provide high-quality care equivalent to what children receive in a child care center. In rural areas and communities that lack infrastructure to support child care centers, families often rely on smaller family child care providers to meet their needs. These providers are also more likely to provide care during the evenings and weekends—or on a flexible schedule—to help parents with nontraditional or unpredictable work schedules.[59] A key focus during the phase-in period for states should be to help family child care providers improve their quality to meet standards for the top tiers of their individual state QRIS.

What are Quality Rating and Improvement Systems?

QRIS are a state tool to assess, improve, and communicate the level of quality in child care and early education. These policies ensure that parents and guardians are equipped with accurate information regarding the quality of child care in their area. An effective QRIS provides consumers with standards and guidelines for choosing a child care provider, favoring programs that are committed to continuous improvement, family involvement, developmental screening, low teacher-child ratios, quality instruction, and effective program administration.[60] At the same time, a well-designed QRIS encourages providers to improve quality because consumers have more and better information by which to assess providers' quality.[61] For the early child care professional, a QRIS can provide increased supports that include a better-articulated career ladder and financial incentives, along with professional development and technical assistance grounded in the science of child development.[62]

Most states have established or are planning to establish a QRIS.[63] Most commonly, states have placed their departments of family or human services in charge of the design phases, implementation, and monitoring of these systems.[64] Since the introduction of the Race to the Top-Early Learning Challenge grant competition in 2011, 20 states have received additional federal support from the U.S. Department of Education and Department of Health and Human Services.[65] These systems protect the integrity of early childhood programs and move the needle toward integrating evidence-based practice into the early child care and education space.

TABLE 5

Number of States with a Quality Rating and Improvement Sytem, or QRIS

	Number of states
Statewide QRIS	39
County, local, and regional QRIS	3
QRIS planning phase	6
Pilot/other	2

Source: QRIS National Learning Network, "QRIS State Contacts & Map," available at http://qrisnetwork.org/qris-state-contacts-map (last accessed June 2015).

Central to the definition of high-quality child care is the ability of child care providers to earn livable wages. Currently, average wages for child care workers fall below the poverty line, and most staff members do not receive basic benefits such as health insurance.[66] Research shows that the most important indicator of quality in early learning environments is the interaction between children and their caregivers.[67] When caregivers provide a warm, nurturing, and language-rich environment that structures learning and exploration in a developmentally appropriate way, children thrive. Child care workers cannot be expected to provide quality interaction over the long term if they themselves live in poverty and encounter the stress that accompanies economic insecurity. Providers who do not know how they will feed, clothe, and shelter their own children are unlikely to have the emotional bandwidth to provide high-quality child care for other children.

Chronically low wages are perhaps the biggest obstacle to high-quality child care in our current system. The average child care worker earns $21,000 per year—nearly $3,000 below the poverty line for a family of four.[68] The High-Quality Child Care Tax Credit would address this problem by supporting an average annual full-time salary of $34,000. This translates to an hourly wage of about $16 per hour and would include a benefits package. States would also be required to incorporate wages into their QRIS, with input from a broad range of stakeholders, including child care workers. This average is not intended to be a cap; staff members with higher credentials, more experience, and greater competency should earn progressively higher wages. Moreover, child care providers would agree to pay staff an annual salary, not on an hourly basis. This approach prevents unpredictable earnings among staff members who might be sent home without pay on days when child attendance is low. To promote staff stability and retention, with the ultimate goal of supporting positive relationships with young children, child care workers need a reliable and livable income.

How tax credits can support child care: The Louisiana School Readiness Tax Credit

In 2007, Louisiana created a tax credit to support access to higher-quality child care and grow the state's economy.[69] Louisiana's School Readiness Tax Credit, or SRTC, was initiated in part due to research indicating that for every $1 spent in the child care sector, $1.72 was returned to the state economy, and that for each new child care job created, 1.27 jobs were created in the larger Louisiana economy.[70] By using the tax code to deliver these financial incentives, this spending would not be subject to annual state budgeting and could grow with increases in program participation.

The component of the SRTC that is specifically targeted at families increases the amount of Louisiana's existing CDCTC for children under age 6 by between 50 percent and 200 percent depending on the child care provider's quality rating. Child care providers are rated by the state's quality rating and improvement system, Quality Start Louisiana, on a five-tiered scale. Families receive a tax credit that ranges from $575 to $3,150 annually depending on the quality rating.[71] All families are eligible to receive the tax credit as a reduction in their tax liability, and the tax credit is refundable for families earning less than $25,000 per year.[72]

Program participation among families in Louisiana increased threefold between 2008 and 2012.[73] During this same time period, the number of child care directors and staff members credentialed at the two highest levels increased from 168 to 1,102.[74]

TABLE 6

Percentage of Child Care Tax Credit based on Quality Rating

Louisiana quality rating	Percent increase to Child Care Tax Credit
Five-star	200%
Four-star	150%
Three-star	100%
Two-star	50%
One-star/not participating in QRIS	0%

Source: Nancy Duff Campbell and others, "Extra Credit: How Louisiana is Improving Child Care" (Washington: National Women's Law Center, 2015), available at http://www.nwlc.org/sites/default/files/pdfs/final_nwlc_louisianataxcreditsreport.pdf.

Building the supply of high-quality child care

In addition to helping families afford child care, a new approach to child care must include provisions to increase child care availability. Across the country, families face a shortage of child care slots for young children under age 3. The United States does not regularly collect information on child care supply and demand, but available evidence suggests that families across the country are struggling to find quality child care even if they can afford it. Media reports from locations as diverse as Atlanta, Georgia, to Petersburg, Alaska, document long waiting lists—especially for parents seeking infant care.[75,76] Nationally representative data show that child care centers have the capacity to serve just 10 percent of all children under age 1 and 25 percent of all children under age 3.[77] In addition to shortages of care for infants and toddlers, certain geographic areas are prone to child care service deserts. In many rural areas, communities lack the infrastructure to build a supply of high-quality child care and families report relying on unlicensed child care at higher rates than in urban areas.[78]

The High-Quality Child Care Tax Credit will address lack of supply in two ways. First, the tax credit is designed to create a market for high-quality child care that will incentivize child care programs to improve quality and expand to cover a broader market, especially for children under age 3. Second, the tax credit will be complemented by redirecting existing funding for the CCDBG to build the supply of high-quality programs.

The first approach requires a phase-in of the tax credit that gives providers the time and financial incentive to improve quality and move up in QRIS. Initially, the new tax credit should be limited to licensed and regulated child care providers. While licensed providers not participating in QRIS or in the lower tiers can receive the tax credit, they should be working to improve quality to avoid losing eligibility after a two-year phase-in period. After two years, the tax credit should only be available to child care providers in the second tier or above. Lower tiers should be eliminated from eligibility every two years thereafter, until only those child care providers in the top tier—of three-tiered systems—or top two tiers—of four- or five-tiered systems—are eligible to receive the tax credit. States will also need this time to build out their QRIS so they can provide this information to the federal government on a regular basis.

The second approach includes direct investment in communities to help build supply of high-quality child care for young children. Many low-income families reside in communities that lack child care infrastructure, such as high-quality child care centers and family child care programs. States should redirect the existing $5 billion in the CCDBG to fund communities that lack high-quality child care. Depending on the market dynamics in a particular community, funds should be used to identify space for child care programs, improve the quality of existing providers, expand the capacity of high-quality providers, and encourage high-quality providers in nearby geographic areas to expand to low-income neighborhoods. Over time, funding for infrastructure can be phased down, but some funds should remain to support quality improvement and state systems, such as professional development and training. States should also maintain their collective $2.2 billion in maintenance of effort and matching funds to invest in their child care systems. This spending will be indexed using the CPI-U, just like the tax credit, to ensure that the investment in quality child care does not erode over time.

Promoting parent choice

Parents should also have the option of selecting the best child care for their children, and in some cases, parents might prefer a relative rather than a licensed provider. These families should continue to receive child care assistance provided by current programs to support their choice. The CDCTC is currently available to relative providers and should continue to provide this benefit of up to $1,050 for one child and $2,100 for two or more children.[79] To ensure that this option is available to all families across the income spectrum, it should be refundable for lower-income families. In the CCDBG, relatives comprise less than 10 percent of child care providers and number approximately 110,000 nationwide.[80] The CCDBG will continue to support families who currently rely on relatives for child care, but children should transition to the High-Quality Child Care Tax Credit over time.

In addition, states and communities will need to address the supply of child care providers that can meet the needs of families who have irregular or nontraditional work schedules during the phase-in period. Until the supply is sufficient, families unable to find high-quality child care that is open when they need to work could select a licensed child care provider that meets health and safety standards.

Families who need off-hours child care would be able to get a small tax credit to cover child care programs that are licensed and that meet health and safety standards. The tax credit would be smaller for these providers, since the cost of care is lower if they are not required to meet high-quality standards. In addition, parents would pay for a larger share of the child care costs to encourage them to use higher-quality child care whenever possible.

An investment in America's future

Investment in child care benefits both families and the economy. CAP expects that the total annual cost of this proposal is approximately $40 billion per year, which will yield benefits to families from higher employment and earnings to early learning for their children. Many working mothers today face a so-called motherhood penalty that reduces mothers' earnings, especially when they have to take time out of the labor force.[81] Child care, combined with other policies such as paid family leave and sick leave, can help parents stay in the labor force. This means that families earn more money and can save more for retirement, which compounds over time and contributes to economic security over their lifetimes. The economy as a whole benefits from policies that help working families. As an example, the Canadian province of Quebec developed a nearly universal child care assistance program, and economists at the University of Quebec and the University of Sherbrooke estimate that the program boosted women's labor force participation by nearly 4 percentage points, which in turn boosted GDP by 1.7 percentage points.[82]

The High-Quality Child Care Tax Credit would mean more money in the pockets of working families feeling the squeeze as the cost of everything from child care to housing rises while wages remain stagnant. For example, a low-income family earning $40,000 per year would now be able to access a high-quality child care program for a much lower cost than current market rates, spending $3,200 annually for an infant under the proposal.[83] Depending on the current average child care costs in the state where the family resides, a family would see annual savings of $2,000 to $19,000 per year if they were using a child care center. (see Appendix 1)

For families living in poverty but trying to reach the middle class, the savings are even greater. In many cases, these families are not using the formal, regulated child care market due to the high cost and erratic, unpredictable work schedules common among the low-wage workforce. Even families using the unregulated child care market are still likely to see a dramatic decrease in costs. For example, a family of four living in poverty and earning $24,000 per year currently pays, on average, more than $8,700 per year for child care.[84] Assuming this family has two children in child care, their costs would drop to $1,320 under the High-Quality Child Care Tax Credit, and the quality of child care would likely be better than that of their current arrangement.

This proposal also has the potential to improve healthy development and school readiness for young children. The funding level and quality standards are comparable to the Early Head Start program, which has produced cognitive and socioemotional gains for children years after completion. Moreover, research from Early Head Start shows that children who attend the program followed by a center-based preschool program see the most positive gains. Coupled with CAP's preschool proposal, the High-Quality Child Care Tax Credit would put children on the path to improve cognitive skills, behavior, and high school graduation.

When combined with other policies such as paid family leave and sick days, child care can help parents who might otherwise drop out of the paid labor force maintain employment. Research comparing the motherhood earnings penalty among advanced economies has found that work-family policies—especially child care—are associated with a lower motherhood penalty, which gives a raise to squeezed families. Higher earnings produce long-term benefits, as mothers' earning potential compounds over time when they stay in the labor force. Retirement savings also accrue to parents who stay in the workforce, which also compounds over time and provides long-term financial security.[85]

Conclusion

The high cost of child care is squeezing many middle-class families and preventing low-income families from reaching the middle class. A lack of affordable, high-quality child care also hampers economic growth, as it means that fewer parents can participate in the workforce. Our future workforce—today's children—suffers when children are in low-quality, unstable child care. It's time for the United States to follow the lead of other countries that have invested in child care to grow their economies and supports families with young children. The High-Quality Child Care Tax Credit will do just that.

Appendix 1: Child care cost burden reduction for a family earning $40,000 per year

APPENDIX 1

Child care cost burden reduction for a family earning $40,000 per year

State	Current average annual child care costs*	Average annual savings over current costs
Alabama	$5,547	$2,347
Alaska	$10,280	$7,080
Arizona	$9,166	$5,966
Arkansas	$5,933	$2,733
California	$11,628	$8,428
Colorado	$13,143	$9,943
Connecticut	$13,241	$10,041
Delaware	$9,058	$5,858
District of Columbia	$21,948	$18,748
Florida	$8,376	$5,176
Georgia	$7,025	$3,825
Hawaii	$11,748	$8,548
Idaho	$6,483	$3,283
Illinois	$12,568	$9,368
Indiana	$8,281	$5,081
Iowa	$9,185	$5,985
Kansas	$10,787	$7,587
Kentucky	$6,194	$2,994
Louisiana	$5,655	$2,455
Maine	$9,360	$6,160
Maryland	$13,897	$10,697
Massachusetts	$16,549	$13,349
Michigan	$9,724	$6,524
Minnesota	$13,993	$10,793
Mississippi	$5,496	$2,296
Missouri	$8,736	$5,536
Montana	$8,858	$5,658
Nebraska	$9,100	$5,900
Nevada	$10,095	$6,895
New Hampshire	$11,901	$8,701
New Jersey	$11,534	$8,334
New Mexico	$7,523	$4,323
New York	$14,508	$11,308
North Carolina	$9,107	$5,907
North Dakota	$7,871	$4,671
Ohio	$7,771	$4,571
Oklahoma	$7,741	$4,541
Oregon	$11,078	$7,878
Pennsylvania	$10,470	$7,270
Rhode Island	$12,662	$9,462
South Carolina	$6,372	$3,172
South Dakota	$5,571	$2,371
Tennessee	$5,857	$2,657
Texas	$8,619	$5,419
Utah	$8,052	$4,852
Vermont	$10,103	$6,903
Virginia	$10,028	$6,828
Washington	$12,332	$9,132
West Virginia	$7,800	$4,600
Wisconsin	$11,342	$8,142
Wyoming	$9,233	$6,033

*Based on the average full-time cost of an infant in a child care center.

Author's note: Calculations reflect a $10,800 High-Quality Child Care Tax Credit benefit and a $3,200 family payment.

Source: 2013 state child care costs based on Child Care Aware of America, "Parents and the High Cost of Child Care" (2014), available at http://www.usa.childcareaware.org/advocacy/reports-research/costofcare/.

About the authors

Katie Hamm *is the Director of Early Childhood Policy at the Center for American Progress.*

Carmel Martin *is the Executive Vice President for Policy at the Center.*

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Our Values

As progressives, we believe America should be a land of boundless opportunity, where people can climb the ladder of economic mobility. We believe we owe it to future generations to protect the planet and promote peace and shared global prosperity.

And we believe an effective government can earn the trust of the American people, champion the common good over narrow self-interest, and harness the strength of our diversity.

Our Approach

We develop new policy ideas, challenge the media to cover the issues that truly matter, and shape the national debate. With policy teams in major issue areas, American Progress can think creatively at the cross-section of traditional boundaries to develop ideas for policymakers that lead to real change. By employing an extensive communications and outreach effort that we adapt to a rapidly changing media landscape, we move our ideas aggressively in the national policy debate.

Center for American Progress

1333 H STREET, NW, 10TH FLOOR, WASHINGTON, DC 20005 • TEL: 202-682-1611 • FAX: 202-682-1867 • WWW.AMERICANPROGRESS.ORG