Estimated Benefit from the Child and Dependent Care Credit and Dependent Care Flexible Spending Accounts

Taxable Year 2020

Taxpayers with child or dependent care expenses who are working or looking for work are eligible for a nonrefundable tax credit that partially offsets these expenses. Married couples are eligible only if they file a joint return and either both spouses are working or looking for work, or if one spouse is working or looking for work and the other is attending school full-time. To qualify for this benefit, the child and dependent care expenses must be for either (1) a child under age 13 when the care was provided or (2) a disabled dependent of any age with the same place of abode as the taxpayer. Any allowable credit is reduced by the aggregate amount excluded from income under a dependent care assistance program.

Eligible taxpayers may claim the credit for up to 35 percent of up to $3,000 in eligible expenses for one child or disabled dependent and up to $6,000 in eligible expenses for more than one child and/or disabled dependent (child) for a statutory maximum credit of $1,050 for taxpayers with one child and $2,100 for taxpayers with two or more children. The percentage of expenses for which a credit may be taken is reduced by 1 percentage point for each $2,000 by which the taxpayer’s adjusted gross income (AGI) exceeds $15,000 until the percentage of eligible expenses reaches 20 percent (at an AGI of $43,000). Thus, taxpayers with AGI of $43,000 or more may claim a maximum credit of $600 for one child and $1,200 for two or more children. The phase-down thresholds and the amount of expenses eligible for the credit are not indexed for inflation and have not changed since 2003.

Taxpayers may also be offered dependent care assistance through their employers. Up to $5,000 in employer assistance or employee contributions to a flexible spending account (FSA) may be excluded from employee wages for both income and payroll tax purposes.¹ The maximum amount of expenses that may be used to claim the CDCTC must be reduced by any amount of employer assistance that is excluded from wages.

This document presents three tables that show the support families receive from these provisions for 2020. The estimates do not include dependent filers, and they ignore changes in tax of less than $5. Benefits are estimated using Treasury’s Individual Tax Model (ITM). The ITM takes a stratified random sample of tax returns from a base year, forecasts the values of line items on the tax returns for 2021, and applies a very detailed tax calculator to analyze how changes in the tax system affect tax liability. The tables show the combined benefit from the CDCTC and the child and dependent care FSA, and then each of the benefits separately. Results are shown for tax units, which consist of all individuals on a given tax return. In some cases, membership is identical to the household or family, but in other cases membership will differ.

The tables answer the questions: “How many tax units benefit, what is the total amount of benefit, and what is the average benefit per return?” The provisions are explored individually and

¹ The CDCTC does not affect payroll tax liability. The child and dependent care FSA affects income tax liability and payroll tax liability.
in combination. The amount of benefit is calculated by comparing estimated tax liability to what estimated tax liability would be in absence of the provision(s) in question (but with the law otherwise unchanged). The tables present the effect on income and payroll tax liability. Tax units are classified based on current law adjusted gross income. A tax unit is considered to benefit if the increase to the sum of their income tax liability and their employee payroll tax liability exceeds $5 when the benefit (or combination of benefits) is repealed.

Because this analysis is about tax calculations and not about behavioral changes, we do not add back the employer portion of the payroll tax to individual wages. These amounts would show up on the returns of the employers and not the employees. So that all tax dollars are accounted for (subject to the $5 per return change), the employer portion is shown on a separate line on the bottom of the relevant tables.
### Table 1

#### Estimated Income and Payroll Tax Benefit from the Child and Dependent Care Tax Credit (CDCTC) and the Flexible Spending Account Exclusion (FSA)

**Tax Year 2020**

<table>
<thead>
<tr>
<th>Adjusted Gross Income ($)</th>
<th>Tax Units Benefitting³ (Thousands)</th>
<th>Total Benefit ($Millions)</th>
<th>Average Benefit ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 15,000</td>
<td>3</td>
<td>2</td>
<td>659</td>
</tr>
<tr>
<td>15,001 - 30,000</td>
<td>213</td>
<td>63</td>
<td>297</td>
</tr>
<tr>
<td>30,001 - 40,000</td>
<td>515</td>
<td>246</td>
<td>477</td>
</tr>
<tr>
<td>40,001 - 50,000</td>
<td>537</td>
<td>296</td>
<td>551</td>
</tr>
<tr>
<td>50,001 - 60,000</td>
<td>464</td>
<td>272</td>
<td>587</td>
</tr>
<tr>
<td>60,001 - 75,000</td>
<td>596</td>
<td>377</td>
<td>633</td>
</tr>
<tr>
<td>75,001 - 100,000</td>
<td>886</td>
<td>580</td>
<td>654</td>
</tr>
<tr>
<td>100,001 - 200,000</td>
<td>2,231</td>
<td>1,840</td>
<td>825</td>
</tr>
<tr>
<td>200,001 - 500,000</td>
<td>1,031</td>
<td>1,058</td>
<td>1,026</td>
</tr>
<tr>
<td>500,001 - 1,000,000</td>
<td>153</td>
<td>208</td>
<td>1,361</td>
</tr>
<tr>
<td>1,000,001 - 5,000,000</td>
<td>39</td>
<td>51</td>
<td>1,329</td>
</tr>
<tr>
<td>over 5,000,000</td>
<td>2</td>
<td>3</td>
<td>1,364</td>
</tr>
<tr>
<td><strong>Total²</strong></td>
<td><strong>6,672</strong></td>
<td><strong>4,996</strong></td>
<td><strong>749</strong></td>
</tr>
</tbody>
</table>

Total including the employer portion of payroll tax (excludes returns with a change of less than $5):

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>6,675</td>
<td>5,302</td>
<td>794</td>
</tr>
</tbody>
</table>

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Jan 14, 2020

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¹ The table includes the effect of the income tax and the employee portion of the payroll tax. The total, including the employer portion of the payroll tax, is included in the last line.

² Returns with negative income are excluded from the lowest income class but included in the total line. Dependent returns are excluded from the calculations. Returns with a tax change of at least $5 are included in the calculations.

³ A small number of returns with qualified dependents over the age of 13 are included. Disabled children and relatives are not subject to the age limitation.
Table 2
Estimated Income Tax Benefit from
the Child and Dependent Care Tax Credit (CDCTC)

Tax Year 2020

<table>
<thead>
<tr>
<th>Adjusted Gross Income ($)</th>
<th>Tax Units Benefitting$1,$2 (Thousands)</th>
<th>Total Benefit ($Millions)</th>
<th>Average Benefit ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 15,000</td>
<td>0</td>
<td>0</td>
<td>757</td>
</tr>
<tr>
<td>15,001 - 30,000</td>
<td>183</td>
<td>55</td>
<td>300</td>
</tr>
<tr>
<td>30,001 - 40,000</td>
<td>483</td>
<td>233</td>
<td>482</td>
</tr>
<tr>
<td>40,001 - 50,000</td>
<td>506</td>
<td>279</td>
<td>551</td>
</tr>
<tr>
<td>50,001 - 60,000</td>
<td>434</td>
<td>247</td>
<td>569</td>
</tr>
<tr>
<td>60,001 - 75,000</td>
<td>547</td>
<td>323</td>
<td>591</td>
</tr>
<tr>
<td>75,001 - 100,000</td>
<td>816</td>
<td>470</td>
<td>576</td>
</tr>
<tr>
<td>100,001 - 200,000</td>
<td>1,931</td>
<td>1,136</td>
<td>589</td>
</tr>
<tr>
<td>200,001 - 500,000</td>
<td>814</td>
<td>462</td>
<td>567</td>
</tr>
<tr>
<td>500,001 - 1,000,000</td>
<td>115</td>
<td>67</td>
<td>583</td>
</tr>
<tr>
<td>1,000,001 - 5,000,000</td>
<td>29</td>
<td>19</td>
<td>647</td>
</tr>
<tr>
<td>over 5,000,000</td>
<td>2</td>
<td>1</td>
<td>708</td>
</tr>
<tr>
<td>Total</td>
<td>5,859</td>
<td>3,292</td>
<td>562</td>
</tr>
</tbody>
</table>

Office of Tax Analysis
Jan 14, 2020

$1 The table includes only the income tax effect because there is no interaction of the CDCTC and the payroll tax.

$2 A small number of returns with qualified dependents over the age of 13 are included. Disabled children and relatives are not subject to the age limitation.

$3 Returns with negative income are excluded from the lowest income class but included in the total line. Dependent returns are excluded from the calculations. Returns with a tax change of at least $5 are included in the calculations.
# Table 3
Estimated Income and Payroll Tax Benefit from the Child and Dependent Care Flexible Spending Account (FSA)\(^1\)

### Tax Year 2020

<table>
<thead>
<tr>
<th>Adjusted Gross Income ($)</th>
<th>Tax Units Benefitting(^3) (Thousands)</th>
<th>Total Benefit ($Millions)</th>
<th>Average Benefit ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 15,000</td>
<td>3</td>
<td>2</td>
<td>658</td>
</tr>
<tr>
<td>15,001 - 30,000</td>
<td>30</td>
<td>8</td>
<td>257</td>
</tr>
<tr>
<td>30,001 - 40,000</td>
<td>36</td>
<td>10</td>
<td>290</td>
</tr>
<tr>
<td>40,001 - 50,000</td>
<td>40</td>
<td>10</td>
<td>238</td>
</tr>
<tr>
<td>50,001 - 60,000</td>
<td>37</td>
<td>9</td>
<td>252</td>
</tr>
<tr>
<td>60,001 - 75,000</td>
<td>67</td>
<td>24</td>
<td>359</td>
</tr>
<tr>
<td>75,001 - 100,000</td>
<td>122</td>
<td>48</td>
<td>393</td>
</tr>
<tr>
<td>100,001 - 200,000</td>
<td>639</td>
<td>387</td>
<td>606</td>
</tr>
<tr>
<td>200,001 - 500,000</td>
<td>491</td>
<td>324</td>
<td>660</td>
</tr>
<tr>
<td>500,001 - 1,000,000</td>
<td>86</td>
<td>91</td>
<td>1,061</td>
</tr>
<tr>
<td>1,000,001 - 5,000,000</td>
<td>20</td>
<td>23</td>
<td>1,128</td>
</tr>
<tr>
<td>over 5,000,000</td>
<td>1</td>
<td>2</td>
<td>1,289</td>
</tr>
<tr>
<td><strong>Total</strong>(^2)</td>
<td><strong>1,575</strong></td>
<td><strong>938</strong></td>
<td><strong>596</strong></td>
</tr>
</tbody>
</table>

Total including the employer portion of payroll tax (excludes returns with a change of less than $5):

<table>
<thead>
<tr>
<th>Adjusted Gross Income ($)</th>
<th>Total Benefit ($Millions)</th>
<th>Average Benefit ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,666</td>
<td>1,243</td>
</tr>
</tbody>
</table>

Office of Tax Analysis  Jan 14, 2020

\(^1\) The table includes the effect of the income tax and the employee portion of the payroll tax. The total, including the employer portion of the payroll tax, is included in the last line.

\(^2\) Returns with negative income are excluded from the lowest income class but included in the total line. Dependent returns are excluded from the calculations. Returns with a tax change of at least $5 are included in the calculations.

\(^3\) A small number of returns with qualified dependents over the age of 13 are included. Disabled children and relatives are not subject to the age limitation.