

Family, Home, and Job: Tax-Smart Day-Care Choices

Filing Guide

Figure the credit on [Form 2441](#) and carry it to [Form 1040](#).
IRS Publication 503:
[Child and Dependent Care Expenses](#)

Day care costs you pay on behalf of your dependent children or adults so that you can work or look for work may qualify for the Dependent Care Credit or for pre-tax reimbursement through a dependent care Flexible Spending Account (FSA):

- "Qualified dependents" include children under age 13, incapacitated spouses, or any other incapacitated dependent.
- "Qualified costs" *outside* the home include day-care centers, day camps, nursery schools, or care in the home of a babysitter. "Qualified costs" *inside* the home include domestic services such as laundry, cleaning, and cooking plus Social Security, Medicare, and unemployment taxes (the "nanny tax") you pay on household employees.
- You can't hire your spouse, child, or other dependent as your day-care provider.

The credit itself ranges from 20% to 35% of qualified costs up to a base of \$3,000 (one dependent) or \$6,000 (two or more dependents). If you're married and one spouse's income is below the base, the base equals that spouse's income:

Child and Dependent Care Credit			
Income	Credit	Income	Credit
\$0 - 15,000	35%	\$29,001 - 31,000	27%
\$15,001 - 17,000	34%	\$31,001 - 33,000	26%
\$17,001 - 19,000	33%	\$33,001 - 35,000	25%
\$19,001 - 21,000	32%	\$35,001 - 37,000	24%
\$21,001 - 23,000	31%	\$37,001 - 39,000	23%
\$23,001 - 25,000	30%	\$39,001 - 41,000	22%
\$25,001 - 27,000	29%	\$41,001 - 43,000	21%
\$27,001 - 29,000	28%	\$43,001+	20%

If your job offers a dependent care FSA, reimbursements you claim from the account cut your \$3,000 or \$6,000 base amount. If you have a choice, simply figure which strategy saves you more. Generally, as your tax bracket rises, the FSA grows more valuable.

For 2021 only, the American Recovery Plan Act increased the eligible expense amount up to \$8,000/dependent or \$16,000/family. It expanded eligibility up to 50% of qualifying expenses. And it made the credit fully refundable (for 2021 only). That meant the maximum credit jumped from \$2,100 all the way up to \$8,000 per family. The credit also phased out completely by one percentage point for every \$2,000 of AGI over \$400,000.