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CHILD CARE SUBSIDIES: FEDERAL GRANTS AND TAX BENEFITS FOR WORKING FAMILIES

Thomas Gabe, Bob Lyke, and Karen Spar, Domestic Social Policy Division

Updated March 15, 1999

Abstract. To help working parents with child care expenses, Congress has authorized both federal grants and tax provisions. Grants are provided through a consolidated Child Care and Development Fund (CCDF), and the tax provisions are the child and dependent care tax credit (DCTC) and the dependent care assistance program (DCAP). The latter allows families to exclude from their gross income employer assistance for child care. This report describes these federal provisions, including their histories and policy justifications, and examines the subsidies that families might receive under the combination of the CCDF and DCTC (the more common tax benefit). The report concludes by identifying potential issues for further analysis.

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ABSTRACT

To help working parents with child care expenses, Congress has authorized both federal grants and tax provisions. Grants are provided through a consolidated Child Care and Development Fund (CCDF), and the tax provisions are the child and dependent care tax credit (DCTC) and the dependent care assistance program (DCAP). The latter allows families to exclude from their gross income employer assistance for child care. This report describes these federal provisions, including their histories and policy justifications, and examines the subsidies that families might receive under the combination of the CCDF and DCTC (the more common tax benefit). The report concludes by identifying potential issues for further analysis. This report will not be updated. For information on the current status of child care legislation, see CRS Report RL30021, *Child Care Issues in the 106th Congress*, regularly updated.

Child Care Subsidies: Federal Grants and Tax Benefits for Working Families

Summary

Most parents with minor children are employed, and for many child care is a significant but necessary expenditure. For poor families it can consume one-sixth of their income, while for middle income families it can sharply reduce the returns from working. Some parents do not use child care, arranging work schedules around the school day or leaving children home alone, while others rely on unpaid care by relatives. These arrangements sometimes reflect parental choice, but other times they indicate that paid child care is not affordable.

Congress has authorized both federal grants and tax benefits to help working families with child care expenses. However, these provisions were not explicitly designed to complement one another. The principal grants are made to states from the **Child Care and Development Fund (CCDF)**, a program that helps provide child care assistance to welfare and low-income working families through certificates (vouchers) or direct purchase. The principal tax benefit is the **child and dependent care tax credit (DCTC)**, which allows working families to claim a federal income tax credit for child care expenses. In addition, for families with participating employers, the **dependent care assistance program (DCAP)** allows working families to exclude from their gross income employer assistance for child care. Together, these provisions represent a federal budget commitment of more than $6 billion annually.

These child care subsidies are aimed at different populations, with the grant program primarily intended for low-income families and the tax provisions primarily benefitting middle and higher income families. There are gaps in coverage within states for lower middle income families, and instances in which slight differences in income can result in large differences in benefits. Moreover, because CCDF eligibility and cost-sharing rules vary from state to state, similar families may be treated very differently in one state versus another.

These patterns may suggest that the federal government lacks a cohesive policy of child care subsidies for working families. However, the CCDF and tax provisions were developed independently of one another and have been justified on different grounds: the grant program reflects public welfare arguments that welfare and low-income families need child care assistance to enter the workforce and remain employed, while the tax provisions reflect traditional tax principles regarding recognition of work-related expenses. Though an objective of the CCDF is to make *some* form of care affordable to low-income families to enable them to work, neither it nor the tax provisions are intended to make child care affordable for *all* families.

Recently, the Administration and Members of Congress have proposed legislation to expand both the CCDF and the DCTC. These proposals may offer an opportunity to consider the extent to which the subsidy gaps and inconsistencies should be eliminated. Congress might also wish to examine whether child care should be generally affordable and the relationship of subsidies to the supply and type of child care that families can actually obtain.

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Child Care Subsidies: Federal Grants and Tax Benefits for Working Families

Introduction

Child care is a familiar issue to most American families because a majority of parents with minor children — including parents with preschool children — are employed. In 1997, both parents worked in 65% of married couple families with children under age 18 and in 58% of married couple families with children under 6. Mothers worked in 69% of single-mother families with children under 18 and in 61% of those families with children under 6.[1]

For many of these parents, child care is a necessary expense of going to work. It can be a significant expenditure, particularly for lower income families. For example, the latest available data show that in 1993, poor families who purchased child care devoted 18% of their family income to such care, and non poor families devoted 7%.[2]

Not all working parents use or pay for child care. Some two-parent families arrange their work schedules so that at least one parent is home when the children need care. Some parents take their children to work, while others work at home. Some families rely on relatives, who typically are not paid, or on older siblings. In 1993, the most recent year for which data are available, only 51% of child care arrangements for preschool-aged children with working mothers actually required a cash payment.[3]

Although some families *choose* not to use or pay for child care, others *settle* for unpaid arrangements with friends or relatives because more formal child care is not affordable, sometimes leaving children in situations that are not desirable. For example, "latchkey" children may be left alone before or after school. Inability to afford child care may cause some parents to choose jobs primarily for convenience or because they can work part-time. Some decide not to work at all. Lack of affordable child care is frequently cited as an impediment for families receiving welfare to

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[1] Current Population Survey, Bureau of Labor Statistics. [http://www.bls.gov/news.release/famee.t04.htm]

[2] *What Does It Cost To Mind Our Preschoolers?* Current Population Reports, P70-52. U.S. Census Bureau. September 1995.

[3] Ibid.

become self-sufficient. Even for families with more income, the cost of child care may sharply reduce the returns from working.

In recognition of these problems, Congress has authorized federal grants and tax benefits to help working families with child care expenses. The principal grants, authorized under the Child Care and Development Block Grant and Section 418 of the Social Security Act, go into the **Child Care and Development Fund (CCDF)**, a program that helps states provide child care assistance through certificate (voucher) and direct purchase programs. The principal tax benefits are the **child and dependent care tax credit (DCTC)**, which allows working families to claim a federal income tax credit for child care expenses, and the **dependent care assistance program (DCAP)**, which allows working families to exclude from their gross income employer assistance for child care.

Together, the CCDF and the two tax benefits represent a substantial federal budget commitment that currently exceeds $6 billion annually. The federal government provides additional assistance for child care activities through the Temporary Assistance for Needy Families (TANF) block grant, Head Start, education and job training programs, nutrition and child welfare programs, military and employee benefit programs, among others, and there are other important tax provisions that generally benefit families with children.[4] But the CCDF and the two tax benefits comprise the core of direct federal child care assistance to working families. They are the principal source of public subsidies explicitly designed to assist families with child care expenses.

The CCDF and the two tax benefits are aimed at different populations. The former primarily assists poor and near-poor families, while the latter primarily benefit middle and higher income families. With different target populations, the CCDF and the two tax benefits generally do not overlap one another. But the CCDF is administered by states among which eligibility criteria and benefit levels vary widely, while the tax benefits are based on uniform standards that do not vary by place of residence. As a consequence, some families — lower middle income families generally — potentially could fall in both target populations, or in neither. Moreover, individual families are not *entitled* to assistance under the CCDF, so that families within the target population have no guarantee of help with their child care expenses.

This report examines the subsidies that families might receive under the CCDF and the DCTC (the more common of the tax benefits) and the subsequent out-of-pocket costs they might bear, depending on their income and the state in which they live. It looks to see if there are gaps in coverage for families in the same state and how differences in incomes might affect the level of benefits. It looks at how similar families are treated in one state versus another. It asks whether lower middle income families may find it difficult to afford the same types of child care that are subsidized for the poorest families under CCDF.

[4] For information about these other programs, see CRS Report 98-541, *Child Care: the Role of the Federal Government*, by Molly Forman and Karen Spar.

Most of the detailed analysis in this study focuses on one type of family, a single-parent with one child in full-time center-based child care, and it makes other assumptions that preclude its findings from being considered representative of all families with child care expenses. Moreover, the study is not an economic analysis: it does not attempt to estimate the actual effect of the subsidies on either the purchase of child care or the decision to go to work.

Nonetheless, the benefit patterns studied raise policy issues about the way in which the CCDF and the tax subsidies come together — or fail to come together — for families for whom child care may be a pressing need. Among these issues are the following:

- whether all working parents should receive some federal child care subsidy;
- whether federal child care subsidies should be equitable for similar families, both within and across states; and
- whether federal child care subsidies should have a goal of making child care affordable.

Congress may explore some of these issues as it continues to consider proposals to expand either or both of the CCDF and DCTC. In his FY2000 budget package, President Clinton again proposed a major child care initiative that would substantially expand these subsidies.[5] A similar initiative was offered in 1998; however, the Administration's current proposal would also allow families with an at-home spouse to benefit from the DCTC.

This report is divided into four sections. The first two describe the CCDF and the two tax provisions (the DCTC and DCAP), summarize their legislative histories, and discuss their policy justification. These sections show that the grant and tax policies developed largely apart from one another and serve different purposes. Included in the CCDF section is a detailed analysis of CCDF eligibility, payment rates, and benefit levels for each state. The third section shows the effect of state rules on a hypothetical family to determine how its share of child care costs might vary under both the CCDF and DCTC at different income levels and in different states. A short conclusion ties the discussion together and explores potential issues.

This report will not be updated. For current status of legislation, see CRS Report RL30021, *Child Care Issues in the 106th Congress*, by Karen Spar, regularly updated.

[5] Other components of the Administration's child care initiative include a new early learning grant program to states, a business tax credit for employer-sponsored child care, funding for activities to upgrade child care quality, and increased spending for Head Start and after-school activities.

Child Care and Development Fund (CCDF)

Current Law

The Child Care and Development Fund (CCDF) is a single, unified program administered by the states and overseen at the federal level by the Department of Health and Services (HHS). The program receives funding from two sources: the Child Care and Development Block Grant (CCDBG) Act and Section 418 of the Social Security Act. The CCDBG Act authorizes discretionary funding for block grants to states to help subsidize the child care expenses of low-income families. These funds are provided annually through the appropriations process. In addition, Section 418 of the Social Security Act "pre-appropriated" 6 years' worth of entitlement funding for child care in 1996 as a component of welfare reform.

At the state level, funds provided under Section 418 of the Social Security Act are transferred to the lead agency that administers the CCDBG, and are spent in accordance with CCDBG rules. In FY1999, a total of $3.2 billion is available for the CCDF, of which $2.2 billion was appropriated directly by Section 418 of the Social Security Act and $1 billion was appropriated under the authority of the CCDBG Act.[6] Slightly more than half of such funds appropriated under the Social Security Act are allocated among states on the basis of historical state expenditures for previous welfare-related child care programs, and the balance of these funds are allocated according to each state's population of children under 13. Funds appropriated under the CCDBG Act are allocated among states generally according to each state's population of low-income children and children under 5.

States may use their CCDF funds to subsidize child care in one of two ways. All states must operate certificate programs, in which eligible families are offered certificates or vouchers to purchase child care from a provider of the family's choice, including for-profit and non-profit child care centers (including sectarian providers), family child care homes, and relatives. In addition, states may arrange directly with child care providers to purchase slots on behalf of eligible families. Families are then referred to these providers.

In either case, the state must establish **payment rates** for child care that are meant to approximate the actual cost of care available in the community. These payment rates are the amounts that participating child care providers will receive to serve eligible children. States must establish payment rates at levels that are sufficient to ensure that families receiving subsidies will have equal access to comparable child care services available to families who are not eligible for assistance. The states also must establish a **sliding fee scale** so that parents contribute to the cost of their child care on the basis of their income. The difference between the payment rate established by the state and the fee paid by the family represents the net child care subsidy provided under the CCDF program. Providers may choose not to accept children at the state-established payment rate, although parents also have the option

[6] The discretionary portion of the CCDF is forward-funded, so that $1 billion was appropriated in FY1998 for expenditure in FY1999. In FY1999, $1.2 billion has been appropriated for expenditure in FY2000.

of supplementing the payment rate if necessary to enroll their children with a particular provider.

Federal law establishes **eligibility parameters** for determining which children and families may receive CCDF subsidies; however, CCDF-funded child care is not an entitlement to individuals, and states are free to establish their own eligibility criteria within these parameters. Federal law generally limits eligibility to children under age 13, although regulations allow states to assist children up to age 19 who have special needs or are in protective care (including foster care). Federal law also provides that parents must be working or attending a job training or educational program in order to qualify for the program. In addition, federal law limits child care assistance under CCDF to families whose income does not exceed 85% of the state median income for a family of the same size.

States receiving block grant funds must establish child care licensing standards, although federal law does not dictate what these standards should be or what categories of providers should be covered by them. In addition, states must have health and safety requirements that apply to all providers receiving CCDF subsidies. These requirements must address prevention and control of infectious diseases, building and physical premises safety, and caregiver training. Again, however, federal law does not dictate the specific contents of these health and safety requirements. All providers receiving CCDF funds must comply with any standards or regulations that apply to them under state or local law.

Income Limits and Priorities. As mentioned, federal law limits child care assistance under CCDF to families whose income does not exceed 85% of the state median income (SMI) for a family of the same size. Subject to this **overall limit**, states may set their own restrictions, referred to in this report as their **basic income limits**. States are not required to aid all eligible applicant families; thus, those whose income qualifies them for a child care subsidy are not guaranteed to receive one.

State basic income limits vary considerably. **Figures 1** and **2** on pages 7 and 8 show the current limits for two types of families, a single parent with one child and a married couple with one child. The limits are derived from state CCDF plans and plan amendments on file at HHS on August 14, 1998. The state basic income limits are represented by the horizontal bars that extend to the right of each state name. As can be seen in **Figure 1**, the basic income limit for a single parent with one child is lowest in West Virginia (the state listed first) and highest in Massachusetts (fourth from the bottom).

The figures also show the overall federal limit (85% of SMI), represented by the heavy line sloping downward at the far right. The figures list states in order according to their overall limits. **Figure 1** shows that 10 states set their basic income limit for a single parent with one child equal to their overall limit (reading from the top, Mississippi, New Mexico, Oklahoma, etc.). **Figure 2** shows that nine states do so for a married couple with one child (Mississippi, Oklahoma, etc.) But most states set income eligibility for CCDF below the level allowed by federal law.

The state basic income limits in the figures reflect the income level up to which *applicant* families can be eligible for CCDF subsidies. Some states allow *recipient* families to rise above this limit and remain eligible for the program. In no case may a family be eligible if its income exceeds the state's overall limit.[7]

Federal law requires states to give priority for CCDF subsidies to "very low income families." The level for the **very low income limit** is left to the states to determine. In the two figures, the very low income limits chosen by the states are represented by the darkly shaded portion of the horizontal bars. In **Figure 1**, it can be seen that North Dakota and Delaware have the lowest limits for a single parent with one child, while North Carolina and Massachusetts have the highest. Both figures show that 18 states (among them Mississippi and Florida) set the very low income limit at or very near the federal poverty line,[8] indicated by the vertical line on the left, while 11 states (among them West Virginia and Montana) set their very low income eligibility limits well below the federal poverty line. All states set their basic income limits above the poverty line.

While not illustrated in the figures, states must also spend at least 70% of their mandatory child care funds (funds provided under Section 418 of the Social Security Act) on three groups of families: families receiving Temporary Assistance for Needy Families (TANF), families attempting to transition off of TANF through work activities, and families "at-risk" of welfare dependency. Federal law does not define "at-risk" families. Conceivably, they could have income up to the state's basic income limit if the state chose. Federal regulations also allow states to establish additional priorities for service.

Figures 1 and 2 include two additional vertical reference lines. Both refer to the dependent care tax credit (DCTC), which is discussed in detail later in this report. One line (the middle of the three vertical lines) marks the income threshold above which a family with qualified child care expenses could *effectively* begin to receive tax savings from the DCTC, while the other (the vertical line to the right) marks the income level at which the family could *effectively* receive the maximum tax savings from it.[9] **Figure 1** shows that the very low income limit for a single parent with one child reaches the DCTC lower income threshold in 10 states (among them, Oklahoma and Texas). **Figure 2** also shows that the very low income limit for a married couple with one child reaches the DCTC lower income threshold in 10 states (among them, Texas and North Carolina). In the remaining states, some families with incomes above the very low income limit would not be given priority for CCDF nor would

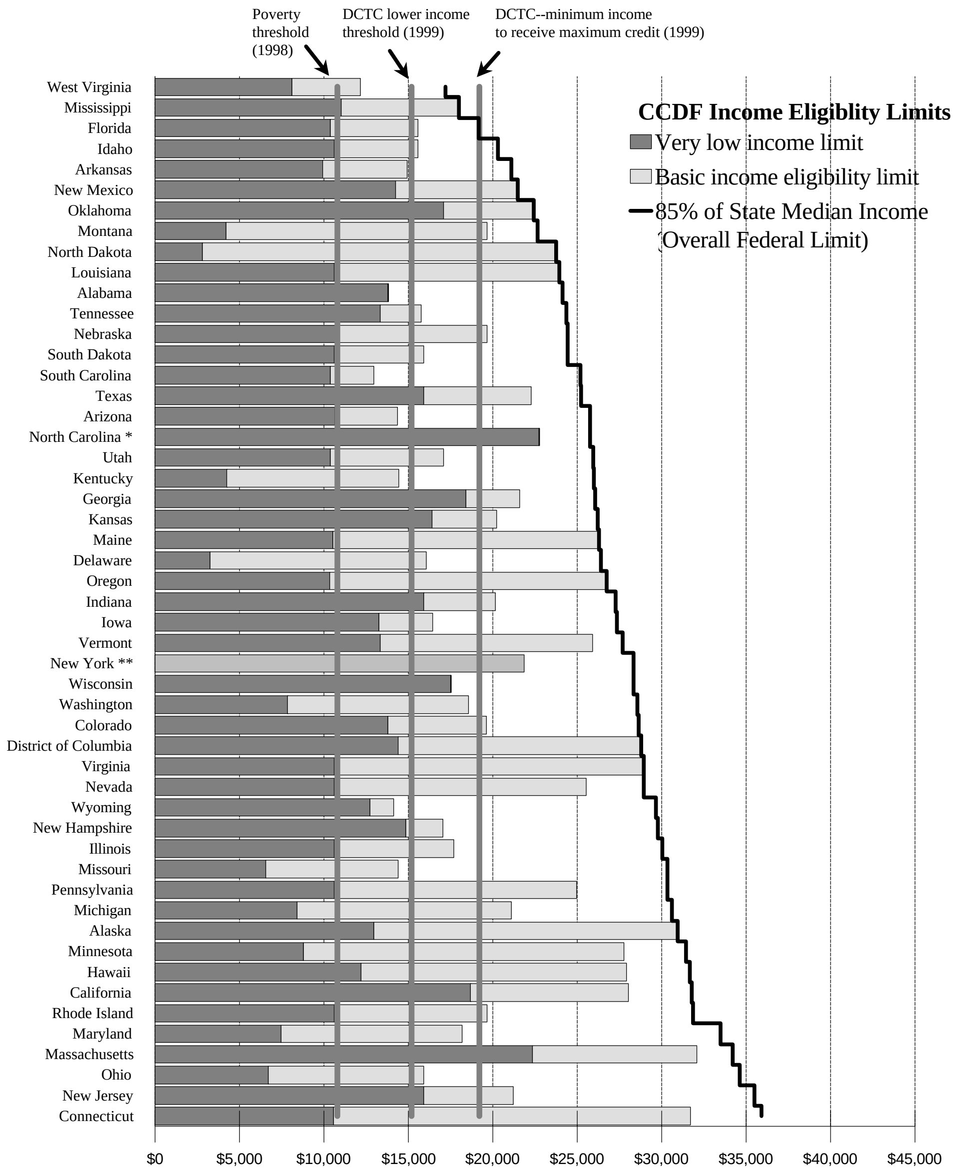
[7] For example, Kentucky sets initial income eligibility for CCDF at or below 133% of poverty. Once families receive assistance, their incomes can rise to 150% of poverty before losing eligibility. In addition, working parents in Kentucky who had their TANF grant discontinued within the last 12 months may receive assistance during the 12-month period as long as their income does not exceed the overall limit. After 12 months, they remain eligible as long as their income does not exceed 150% of poverty.

[8] The poverty line is based upon U.S. Bureau of the Census poverty income thresholds. In 1998, the poverty thresholds were $11,235 for single parent with one child, and $13,120 for a married couple with one child.

[9] Effective DCTC benefits are the additional tax savings that families with qualified child care expenses can obtain in addition to tax savings from the child credit. See **Appendix A** for further discussion of the assumptions used to calculate families' tax liabilities.

they be eligible for DCTC savings. These families have incomes that are too high for federal child care grant subsidies but too low for federal child care tax subsidies. It should be remembered that families whose incomes make them *eligible* for child care grants within a state, still may receive no subsidy from the program.

Figure 1. Income Eligibility Under CCDF--Single Parent Family with 1 Child (States Ranked by State Median Income)

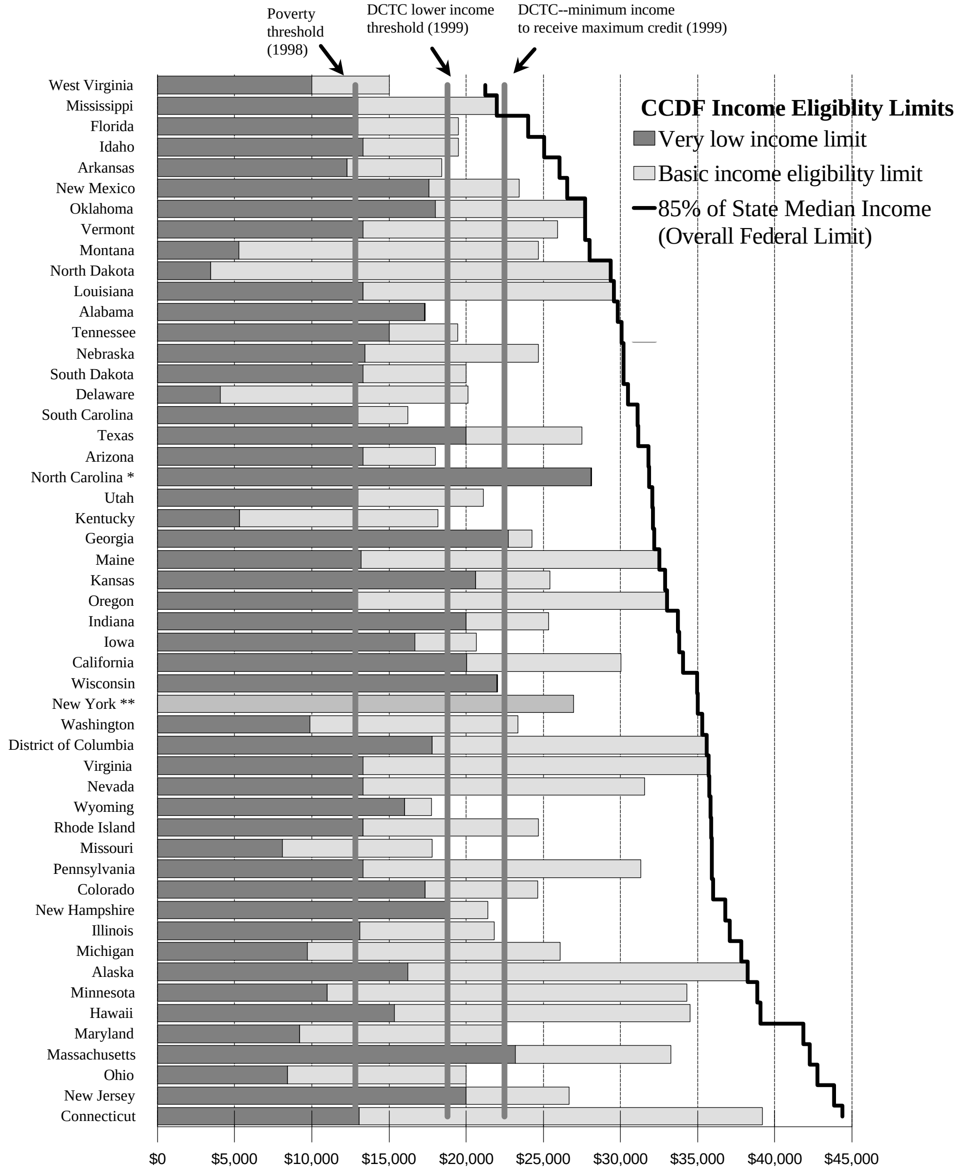


Source: Figure prepared by the Congressional Research Service (CRS) based on states' CCDF plans on file with HHS as of August 14, 1998.

* Very low income limit and basic income eligiblity limit are the same.

** Very low income limit not shown. Very low income limit varies within state.

Figure 2. Income Eligibility Under CCDF--Married Couple with One Child (States Ranked by State Median Income)



Source: Figure prepared by the Congressional Research Service (CRS) based on states' CCDF plans on file with HHS as of August 14, 1998.

* Very low income limit and basic income eligiblity limit are the same.

** Very low income limit not shown. Very low income limit varies within state.

Payment Rates. As stated earlier, federal law requires states to establish payment rates that will be paid to participating providers, which approximate the actual cost of child care in the community. Final HHS regulations stipulate that payment rates are to be based on local market surveys conducted every 2 years to reflect current market conditions.[10] Payment rates vary according to the child's age (e.g., infant, toddler, preschooler), the length of time that care is provided during the day (e.g., full-day, half-day, hourly), the type of child care setting (e.g., center-based care, a home other than the child's), and whether care is provided for a second or additional child. Payment rates typically vary among areas within a state.

HHS regulations *suggest* that states set child care payment rates at the 75th percentile, based on the market survey. The 75th percentile marks the payment level at which 75% of child care providers charge less. It is assumed that this payment rate will give participating families access to a reasonable range of child care providers in the community. However, states are not required to use the 75th percentile as the minimum payment standard; rather, it is intended to serve as a benchmark to assess whether families eligible for CCDF subsidies have the same access to care as families that are not eligible, as required under the federal law. Based on state plans and plan amendments on file at HHS on August 14, 1998, 30 states indicated that they use the 75th percentile as the basis for establishing their CCDF payment rate. Most of the remaining states (all but three) did not indicate in their state plans how they established their payment rates. Although the CCDF regulations require states to update their payment rates every 2 years, some states had not yet done so. For example, two states (Arizona and Missouri) had not updated their child care payment rates since 1990, according to plans on file with HHS in August 1998.

As an example, **Figure 3** on the following page shows state annual payment rates for a 3-year old child in center-based care on a full-time basis. Because payment rates may differ across areas in a state, the rates for the most populated area of each state were selected. The figure shows that this particular payment rate ranges from a high of $10,500 per year in Alaska (Anchorage) to $2,868 in West Virginia (the statewide rate). The median for this rate is $4,432, or what the rate is in Arizona. This means that half of the states pay child care providers less than $4,432 per year for a 3-year old in full-time center-based care, and half pay more. Payment rates tend to be higher for infants than those shown in the figure, and less for children in settings other than center-based care (e.g., family day care). Although **Figure 3** shows the rate which state and local agencies will pay providers for a specific type of child care, the extent to which child care is actually available at that rate is not known.

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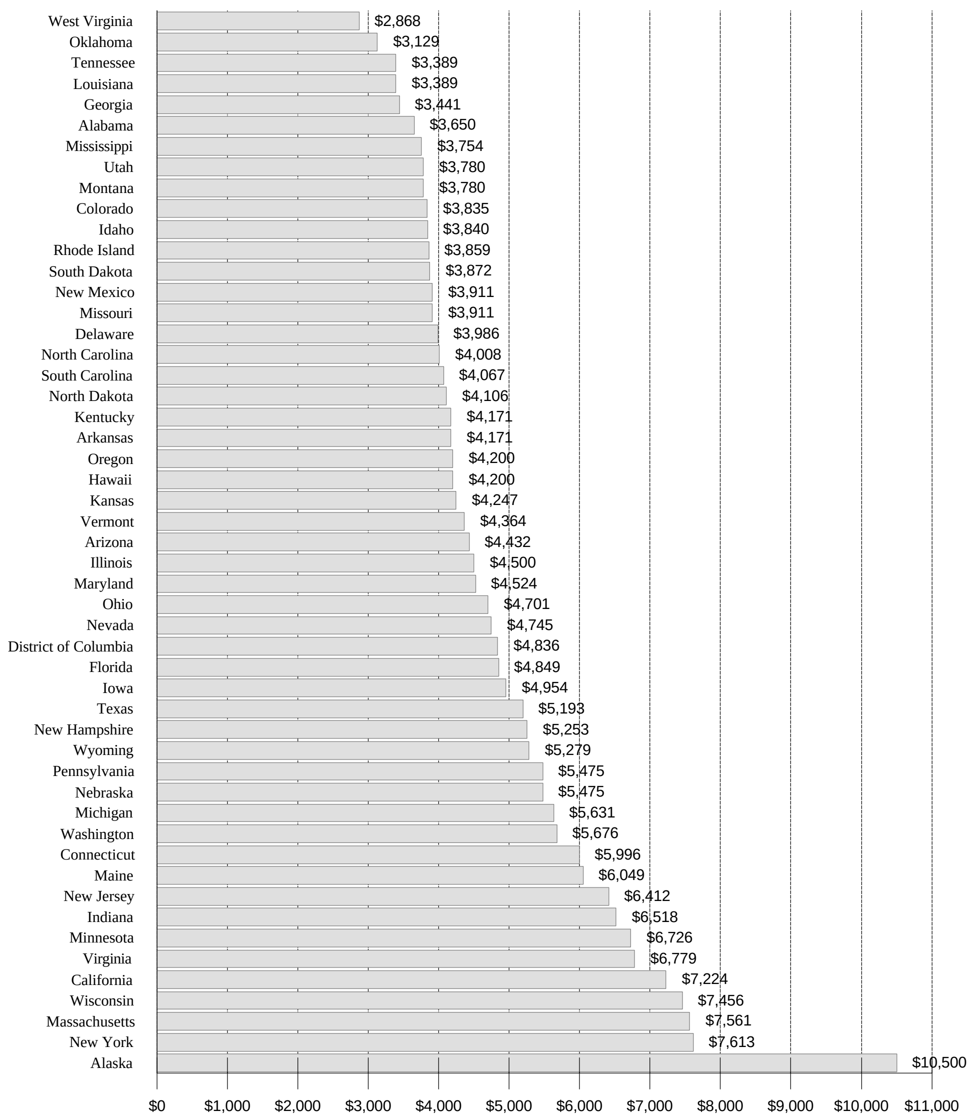
[10] The payment rate data shown in this report reflect state plans on file with HHS as of August 14, 1998. The first set of plans was to be submitted to HHS by July 1997, covering the 2-year period beginning on September 30, 1997; therefore, many states submitted their CCDF plans before the final rules took effect on August 24, 1998. For a full discussion of state child care plans under CCDF, see: CRS Report 98-875, *Child Care: State Programs Under the Child Care and Development Fund*, by Evelyne Parizek, Gene Falk and Karen Spar.

Sliding Fee Schedules. In addition to setting income eligibility limits and payment rates, states must establish sliding fee schedules which determine the share of child care costs (i.e., the share of the payment rate) that eligible families are expected to pay out of their own pocket. The difference between the payment rate and this fee reflects the net government child care subsidy to the family. As explained earlier, providers may refuse to accept a child at the state-established payment rate, and the parents may supplement the amount paid to the provider by paying more than the sliding fee schedule would require.

Figure 3. Child Care Payment Rates to Providers Under the Child Care Development Fund Annual Payment for a 3-Year Old Child in Full-Time Center-Based Care



Source: Figure prepared by the Congressional Research Service (CRS) based on states' CCDF plans on file with HHS as of August 14, 1998.

HHS *suggests* that states set their sliding fee scales for child care so that a low-income family would not be required to pay more than 10% of its income for child care;[11] however, this is not mandatory. Additionally, HHS encourages states to structure their fee scales so that a small wage increase does not trigger a large increase in copayments.

States establish their sliding fee schedules in different ways. In some states, the schedules reflect the *percentage of child care costs* that participating families with different income levels are expected to assume. In other states, the schedules reflect the *percentage of income* that families with different income levels are expected to pay. Elsewhere, sliding fee scales simply reflect a *copayment* amount that families with a child in a particular type of care are required to pay. Some states require families to make a *minimal payment* for child care, regardless of their income, while other states don't require families to pay for child care until their income exceeds a specified level. All states' sliding fee schedules are progressive, with higher income families paying more for child care than lower income families. However, they are based on a variety of different philosophies regarding the appropriate way in which government should help low-income families pay for their child care, and the way in which parents should eventually assume full responsibility for these costs as their incomes increase.

Legislative History

The CCDBG Act was enacted as a component of the Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508) and authorized through FY1995. The law's passage culminated 4 years of debate over what role, if any, the federal government should play in addressing the adequacy, affordability, and quality of the nation's child care supply. Congress had hotly debated these issues periodically during the 1960s and 1970s, although no consensus was reached and no comprehensive child care grant program existed prior to the 1990 law.[12]

The CCDBG authorized child care subsidies for low-income working families, which could include families receiving welfare at the state's option. In addition, the 1990 law created another grant program for states, to provide child care assistance specifically for very low-income families who were at risk of becoming dependent on cash welfare, in the absence of subsidized child care. This program was known as "At-Risk Child Care" and was authorized under Title IV-A of the Social Security Act. At that time, Title IV-A also authorized Aid to Families with Dependent Children (AFDC), the federal government's primary cash welfare program for poor families with children. AFDC recipients and former AFDC recipients (for up to 12 months

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[11] Child Care and Development Fund; Final Rule. *Federal Register*. v. 633, no. 142. July 24, 1998, p. 39960.

[12] The federal government supported child care programs during the Depression and during World War II, first as job-creation efforts to alleviate unemployment and then to care for the children of women who entered the work force while their husbands went to war. However, these programs ended after World War II. In 1971, Congress passed a comprehensive child care program as part of the Economic Opportunity Amendments, which were vetoed by President Nixon, primarily because of the child care provisions.

after leaving the program) were entitled to child care assistance under provisions enacted in 1988 (P.L. 100-485). (These programs were referred to as "AFDC Child Care" and "Transitional Child Care" for former AFDC recipients.)

In 1996, Congress passed welfare reform legislation that amended and reauthorized the CCDBG through FY2002, and repealed the legislative authority for the three AFDC-related child care programs then existing under Title IV-A of the Social Security Act (i.e., At-Risk Child Care, AFDC Child Care, and Transitional Child Care). This action ended the individual entitlement to child care assistance for current and former welfare recipients. The 1996 legislation, the Personal Responsibility and Work Opportunity Reconciliation Act (P.L. 104-193), repealed and replaced the entire AFDC program with a block grant to states, called Temporary Assistance for Needy Families (TANF). The statutory location for TANF is Title IV-A of the Social Security Act.

The 1996 welfare reform law also "pre-appropriated" 6 years worth of child care funding, intended to replace the amounts that had previously been available to states under the three AFDC-related child care programs. As stated earlier, these child care funds (which are authorized by Section 418 of the Social Security Act) are transferred at the state level to the lead agency that administers the CCDBG and spent in accordance with CCDBG rules. Thus, while the 1996 welfare reform law established two funding streams for child care assistance for low-income and welfare families, the law also provided that a single set of federal rules would apply to these consolidated funds.[13]

Justifications for Current Law

The CCDBG legislation enacted in 1990 reflected a series of compromises between those who wanted a strong federal role in determining the adequacy, affordability, and quality of child care, and those who advocated local flexibility and parental choice. The consolidated CCDF, as created in 1996, continues the multiple goals of the original 1990 program.

The foremost goal of the original CCDBG was to make child care more affordable for low-income families to enable them to work, while allowing parents to select their own child care to the maximum extent possible. In addition, the program was structured as a block grant, consistent with the goal of providing flexibility to the states in designing their own systems. Upgrading the quality of child care was also an aim of lawmakers, but Congress decided against the establishment of mandatory federal quality standards, instead requiring the states to develop their own licensing provisions.

In a compromise designed to balance the competing goals of upgrading quality and providing state flexibility, Congress established three health and safety areas in

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[13] This program is often described as actually having three funding streams, because appropriations under Section 418 are divided into two components: "guaranteed" funds provided to states without matching or maintenance-of-effort requirements, and "matching" funds that are subject to state matching and maintenance-of-effort rules.

which states were mandated to develop requirements applicable to all child care providers. However, the federal law did not dictate the specific content of these requirements. Finally, while the majority of CCDBG funding was intended for the direct provision of child care subsidies, consistent with the program's primary purpose, the law also required each state to use a portion of its block grant funds for activities to improve the quality of child care and to increase the availability of specific services, such as child care for school-aged children.

It is noteworthy that the original CCDBG was enacted at the same time that certain families with children, i.e., current and former welfare recipients, were individually entitled to child care assistance under separate federal programs. In addition, Congress created the At-Risk Child Care program as a capped entitlement to states, to ensure that very low-income families also would have a separate source of child care funding. Thus, at the time the CCDBG was enacted, it was not seen as a "safety net" program for the populations most in need, but rather an additional source of funding for states to expand child care services to low-income working families who were not necessarily connected to the welfare system.

During the debate that resulted in the 1996 welfare reform law, Congress saw child care as an essential component of the effort to promote self-sufficiency through work. However, separate from the context of welfare reform, the 1996 child care provisions were also intended to address concerns about the effectiveness and efficiency of the existing programs. Specifically, lawmakers hoped to create a "seamless" child care system to replace the fragmentation that had resulted from having four separate federal programs (i.e., CCDBG, At-Risk Child Care, AFDC Child Care, and Transitional Child Care). These four programs had all come into existence in either 1988 or 1990, and had different rules regarding eligibility, time limits on the receipt of assistance, and work requirements. Consistent with other block grant proposals considered in the 104th Congress, including TANF, the child care provisions in welfare reform were intended to streamline the federal role, reduce the number of federal programs and conflicting rules, and increase the flexibility provided to states.

By consolidating federal funding for child care under a single state-administered umbrella, Congress transferred important decisions to the state level. States now must grapple with questions of coverage and equity in distributing child care benefits among welfare families who are trying to achieve self-sufficiency, and low-income working families who have never been connected to the welfare system. While federal law contains some provisions intended to ensure a balance of services between these two populations, Congress intended that the bulk of the decision making rest with the states.

Specifically, states must define the population eligible for child care subsidies within the federal parameters, and determine whether any subgroups (e.g., welfare recipients, former welfare recipients, families with very low incomes, etc.) will receive a guarantee or a priority for services. Further, states must establish payment rates and sliding fee scales that provide access to the same quality of services available to the general population, but these decisions are also affected by the total amount of resources available to the state, the state's eligibility criteria, and the state's goals regarding the number or percentage of eligible families it hopes to serve. Finally, states must consider the impact of their licensing and other regulatory requirements on the costs of providing child care in the open market, which ultimately affects the payment rate established for subsidized care.

Tax Allowances for Child Care [14]

Current Law

Current law includes two tax allowances explicitly targeted for child care: the dependent care tax credit and the dependent care assistance program. Savings from other family tax allowances, such as the recently-enacted child credit and the earned income tax credit, might also be used for this purpose though they were enacted for different reasons. Ability to pay for child care is also influenced by tax provisions affecting families generally, such as the amount of the standard deduction and dependent exemption, the level of the statutory tax rates, and the width of the statutory tax brackets.

For the discussion that follows, some readers may wish to refer to the federal income tax formula that is included in **Appendix A**.

The **dependent care tax credit** (DCTC) is available to individual taxpayers for employment-related expenses incurred for the care of a dependent child under age 13 or of a spouse or dependent who is physically or mentally incapacitated. The taxpayer must keep up a home in which both the taxpayer and the qualifying individual live. The *stated* maximum credit is 30% of qualifying expenses up to $2,400 for one individual (i.e., $720) and $4,800 for two or more individuals (i.e., $1,440). The credit rate is reduced by 1 percentage point for each $2,000 of adjusted gross income (AGI) or fraction thereof above $10,000 until it reaches 20% for taxpayers with AGIs over $28,000:

[14] This section discusses federal tax provisions. However, most states with income taxes also allow an exclusion for employer dependent care assistance programs, and 25 states and the District of Columbia (as of 1995) also have some form of tax credit or deduction for child care expenses. For a list of state tax provisions, see *Financing Child Care in the United States*, Pew Charitable Trusts, Philadelphia, Pa., 1997, p. 33. The varying tax treatment, among the states, of low-income families also is not discussed in this report. For a recent analysis of these issues, see *State Income Tax Burdens on Low-Income Families in 1998*, Center on Budget and Policy Priorities, Washington, D.C., March 1999.

Table 1. Dependent Care Tax Credit Schedule

Adjusted Gross Income		Applicable Credit Rate	Maximum Credit Amount Based on Number of Qualifying Individuals	
Over	**But Not Over**		**One**	**Two or More**
$0	$10,000	30%	$720	$1,440
$10,000	$12,000	29%	$696	$1,392
$12,000	$14,000	28%	$672	$1,344
$14,000	$16,000	27%	$648	$1,296
$16,000	$18,000	26%	$624	$1,248
$18,000	$20,000	25%	$600	$1,200
$20,000	$22,000	24%	$576	$1,152
$22,000	$24,000	23%	$552	$1,104
$24,000	$26,000	22%	$528	$1,056
$26,000	$28,000	21%	$504	$1,008
$28,000	No limit	20%	$480	$960

Source: Table prepared by the Congressional Research Service (CRS).

As the DCTC is not refundable, taxpayers whose entire tax liability is eliminated by their standard deduction and their personal and dependent exemptions do not benefit from it. In 1999, a single parent with one child having income up to $11,850 would have no tax liability due to these factors; the largest credit a single parent with one child could technically claim, $624 (i.e., $2,400 x 26% credit rate), would be available if his or her income were at least $16,010 but not over $18,000.[15] Similarly, taxes on the first $18,200 of income for a married couple with two children would be offset by these factors; the largest credit they could technically claim, $1,056 (i.e., $4,800 x 22% credit rate), would be available if their income were at least $25,240 but not over $26,000.

The *effective* benefit of the DCTC can be even less than just described. For families with one or two qualifying children, the DCTC may reduce the amount of the new child credit (described below) that they otherwise would be entitled to receive. Since the sum of these two credits (and any other nonrefundable personal credits) cannot exceed the taxpayer's tax liability, a larger DCTC sometimes results in a smaller child credit. A dollar of one supplants a dollar of the other.[16] As a practical matter, families with one or two children do not gain additional tax savings from the DCTC until their income exceeds the sum of their standard deduction, their personal

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[15] With an income of $16,010, the single parent's regular tax liability would be $624 (i.e., ($16,010 - $11,850) x 15%), which would be completely offset by the credit. With less income, the tax liability would be lower and so would the credit. With income over $18,000, the credit rate would be less than 26%.

[16] The offset occurs only in the case of one or two children, since the child credit may be partly refundable in the case of three or more children. The refundable portion is called the additional child credit.

and dependent exemptions, and income that would be shielded by the maximum child credit ($500 for each child under age 17) divided by the family's marginal tax rate. In 1999, a single parent with one child having income up to $15,184 would have no tax liability due to these factors; the largest effective DCTC benefit for this taxpayer, $600 (i.e., $2,400 x 25% credit rate), would be available if his or her income were at least $19,184 but not over $20,000. Similarly, taxes on the first $24,867 of income for a married couple with two children would be offset by these factors; their largest effective DCTC benefit, $960 (i.e., $4,800 x 20% credit rate), would be available if their income were $31,267 or higher.

Eligibility for the DCTC has no income ceiling, though the credit for some middle and higher income taxpayers may be limited by their tentative minimum tax.[17] Qualifying expenses cannot exceed the earned income of the taxpayer or, in the case of married couples, the earned income of the lesser-earning spouse. If the latter is a full-time student or incapacitated, he or she is deemed to have some earned income for purposes of this rule. The Joint Committee on Taxation (JCT) tax expenditure estimate for the DCTC for FY1999 is $2.5 billion.[18]

The **dependent care assistance program** (DCAP) allows individual taxpayers to exclude from gross income up to $5,000 a year in employer dependent care assistance (up to $2,500 for married individuals filing separate returns) when determining their income tax liability. Excluded amounts are also not subject to employment taxes of either the employer or the employee. The exclusion applies not only to care provided by employers but also to arrangements that reimburse employees for their own qualifying expenses, which are more common. Frequently both are funded through salary-reduction agreements that allow employees to make dependent care expenditures on a pre-tax basis. As with the DCTC, a dependent child must be under age 13. Similarly, the exclusion cannot exceed the earned income of the taxpayer or, in the case of married couples, the earned income of the lesser-earning spouse (unless the latter is a full-time student or incapacitated, in which case there is deemed income). The JCT tax expenditure estimate for the DCAP for FY1999 is $0.4 billion.

[17] Under Section 26 of the Internal Revenue Code, the limit on nonrefundable personal tax credits is the excess of the regular tax liability over the tentative minimum tax. The tentative minimum tax generally is zero for taxpayers with incomes less than the alternative minimum tax exemption amount ($33,750 for single taxpayers (including heads of household), $45,000 for married taxpayers filing jointly, and $22,500 for married taxpayers filing separately); thus, for these families the limit on nonrefundable credits usually is their regular tax liability. However, families with incomes above these thresholds are likely to have a positive tentative minimum tax, and in some cases the difference between their regular tax liability and their tentative minimum tax may exceed their total credits. Nonrefundable personal credits were exempted from the tentative minimum tax limitation in 1998, and President Clinton has proposed extending the exemption to 1999 and 2000.

[18] United States Congress. Joint Committee on Taxation. *JCT Staff Estimates of Federal Tax Expenditures for FY 1999-2003*. (JCS-7-98) December, 1998. Table 1. Other tax expenditure estimates cited in this report are also from this table.

For families with one child, the DCAP can yield substantially larger income tax savings than the DCTC since the limit on qualifying expenditures is $5,000 rather than $2,400. Higher income families also benefit since the value of the exclusion, which is determined by the taxpayer's marginal tax rate, is greater than a 20% tax credit for families in the 28% or higher tax brackets. For lower income families in the 15% tax bracket, whether the DCAP yields greater tax savings (including reductions in employment taxes) depends upon the level of their child care expenses. For a single parent with one child and an income of $19,184 — the lowest income for obtaining the largest DCTC — the DCAP would result in more tax savings once child care expenses exceed $2,649.

Families may benefit from both the DCTC and the DCAP in the same year; however, the ceiling on qualified expenses that can be taken into account for the former ($2,400 or $4,800) is reduced by the amount of the DCAP exclusion.

Families might also use savings from **other tax provisions** to help pay child care costs. The five identified below were not explicitly designed to offset child care expenses, but they can help families meet basic living costs which often include those expenses. Together, the allowances can provide substantial savings to families that fully qualify for them. For further analysis of the interaction of these provisions, see CRS Report 98-655, *The Marriage Penalty and Other Family Tax Issues*, by Jane Gravelle.

- As mentioned above, the maximum **child credit** in 1999 is $500 times the number of qualifying children under age 17. It is refundable for taxpayers with three or more qualifying children, depending on the social security taxes they pay and the EITC they receive. It is phased out for families with modified AGI starting at $110,000 for married joint filers, $55,000 for married separate filers, and $75,000 for others;
- The maximum **earned income tax credit** (EITC) in 1999 is $2,312 for taxpayers with one qualifying child under age 19 and $3,816 for taxpayers with two or more qualifying children. The credit is proportionally reduced as earned income falls below $6,800 (in the case of one child) and $9,540 (for two or more children). It is also proportionally phased out starting at AGI of $12,460 and is completely eliminated for AGIs at or above $26,928 (for one child) and $30,580 (for two or more children). It is refundable;
- Taxpayers are allowed itemized or a standard deduction, whichever is greater. The **standard deduction** depends on filing status: for 1999, it is $7,200 for married joint filers, $6,350 for heads of household, $4,300 for singles, and $3,600 for married separate filers;[19]
- Taxpayers are allowed a **dependent exemption** for individuals for whom they provide more than half support and who meet certain other tests. In 1999, the dependent exemption is $2,750 times the number of qualifying dependents;
- Taxpayers' regular tax liability is determined by multiplying their taxable income (determined after exclusions, exemptions, and deductions) by their

[19] An additional standard deduction is allowed taxpayers who are legally blind or age 65 or older; a reduced standard deduction applies in the case of taxpayers who can be claimed as a dependent on another's tax return.

> **statutory tax rate**. There currently are five statutory rates for ordinary income, ranging from 15% to 39.6%. In 1999, the 15% rate applies to taxable incomes up to $43,050 for married couples filing joint returns, while the next lowest rate (28%) applies to taxable incomes of $43,051 up to $104,050. For a single parent filing as head of household, the 15% rate applies to taxable incomes up to $34,550, while the 28% rate applies to taxable incomes of $34,551 to $89,150.

The figures on page 19 show how these benefits come together for two hypothetical families, a single parent with one child (**Figure 4**) and a married couple with two children, filing jointly (**Figure 5**). Both figures show the tax benefits from the EITC and the child credit (the bottom of the three more-or-less horizontal lines) as well as the combined tax benefits from those two credits and either the maximum DCTC (the middle line) or the maximum DCAP (the top line). The assumptions used to prepare these figures are described in **Appendix A**.

In both figures, asterisks mark the families' **tax entry points** — the income levels above which the taxpayers would incur a tax liability if they claimed no tax credits. For example, in the case of the single parent one tax entry point occurs once earnings exceed $11,850 (the sum of $6,350 for the standard deduction and $5,500 for the personal and dependent exemptions), while the other occurs once earnings exceed $16,850 (the sum of the standard deduction, personal and dependent exemptions, and the excluded income from participating in the DCAP).

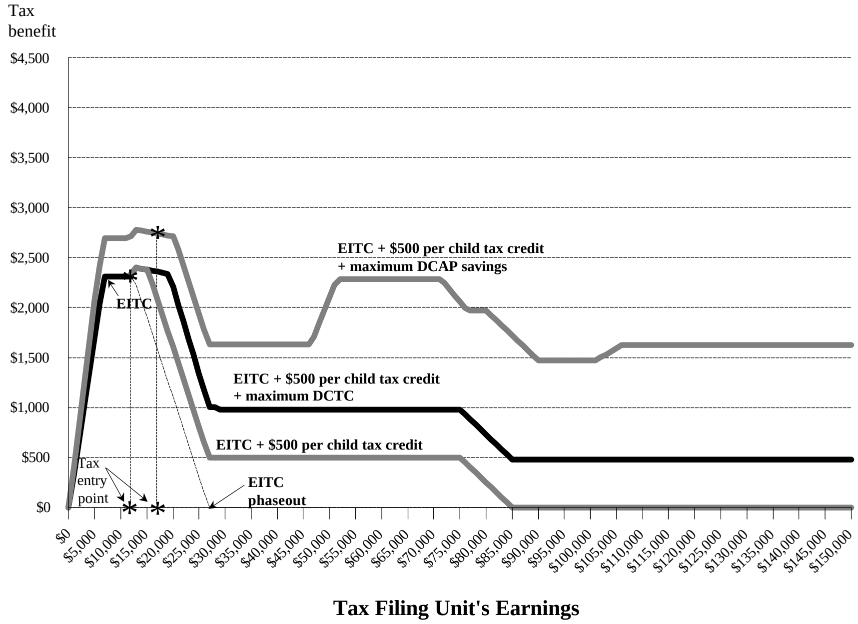
The figures show that EITC provides tax benefits below the tax entry points since it is a refundable credit. The maximum EITC is $2,312 for a single parent with one child, and $3,816 for the married couple with two children. The dotted lines sloping sharply downward show the EITC phasing out as earnings increase from $12,460 to $26,928 for the single parent with one child and from $12,460 to $30,580 for the married couple with two children.

Families with incomes just above the tax entry points are eligible for the $500 per child credit in addition to the EITC. The combined benefits are shown in the bottom of the three lines. Beyond the point where the EITC phases out, families may continue to receive the child tax credit alone until it too phases out over the $75,000 to $85,000 earnings range for the single parent with one child, and over the $110,000 to $130,000 earnings range for the married couple with two children.

Families with qualified child care expenses might claim the DCTC in addition to the EITC and child credit. The combined benefits (assuming the families have the maximum qualified expenses) are shown in the middle of the three lines. In both figures, the line declines sharply as the EITC phases out; then it is horizontal until the child credit phases out; and then it continues level across higher levels of income, reflecting the fact that the 20% DCTC rate has no income ceiling.

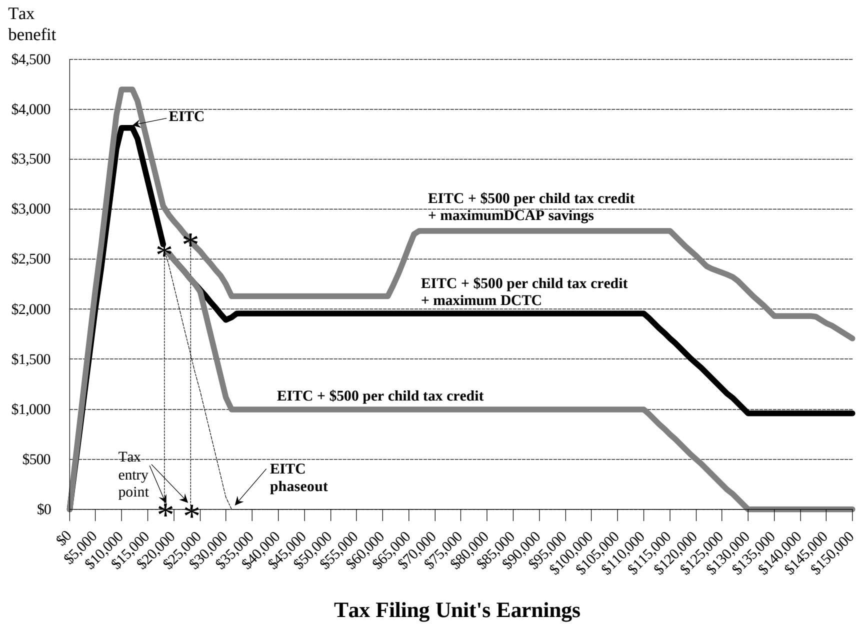
If families instead participate in an employer sponsored DCAP, they would receive tax savings from the income exclusion. The combined benefits for them (assuming they have maximum qualified expenses) are shown in the top of the three lines and include both income and FICA tax savings. In both figures, the line declines sharply as the EITC phases out; then it is horizontal while taxable income remains in

Figure 4. Federal Tax Benefits to Families Under Selected 1999 Tax Provisions For a Single Parent with One Child Filing as a Head of Household



* Tax entry point = standard deduction + personal and dependent exemptions + income exclusion (under DCAP).
Source: Figure prepared by the Congressional Research Service.

Figure 5. Federal Tax Benefits to Families Under Selected 1999 Tax Provisions For a Married Couple with Two Children Filing Jointly



* Tax entry point = standard deduction + personal and dependent exemptions + income exclusion (under DCAP).
Source: Figure prepared by the Congressional Research Service.

the 15% tax bracket; and then it increases, reflecting increased savings from the change to the 28% tax bracket. Subsequent declines for higher income taxpayers reflect the phase-out of the child credit and the earnings threshold above which the social security tax does not apply. In combination with the EITC and the child credit, the maximum DCAP is more generous than the maximum DCTC over the entire earnings range shown. Even at lower income levels where families have no federal income tax liability, the DCAP results in FICA tax savings.

Legislative History

Statutory tax allowances for child and dependent care were first authorized in 1954 when Congress enacted a comprehensive revision of the Internal Revenue Code. A number of revisions were made in the 1960s and 1970s, including adoption of the credit in 1976, but few significant changes have occurred since 1981.

The Internal Revenue Code of 1954 (P.L. 591 of the 83rd Congress) allowed an itemized deduction for child and dependent care expenses that enable the taxpayer to be gainfully employed. The deduction was originally limited to $600 a year and restricted to women, widowers, and men who were divorced or legally separated. In the case of a working wife, a joint return had to be filed and the deduction was phased out dollar for dollar for AGIs over $4,500 (except if the husband were incapable of self-support). Qualifying children (other than older dependents unable to care for themselves) had to be under 12 years of age.

The deduction limit was increased to $900 a year by the Revenue Act of 1964 (P.L. 88-272) in the case of two or more qualifying dependents. This legislation also raised to $6,000 the income level above which the deduction was phased out in the case of a working wife. Husbands were allowed the deduction in the case of an incapacitated or institutionalized wife. The age limit for qualifying children was raised to under 13 years.

The deduction limit was further changed to $400 a month by the Revenue Act of 1971 (P.L. 92-178) provided the expenses were for services within the taxpayer's household. Expenses outside the household could be taken into account only for qualifying children (for whom the age limit was further raised to under 15 years) and the deduction was limited to $200 a month for one child, $300 a month for two children, and $400 a month for three or more children. The deduction was phased out for taxpayers generally (not just households with a working wife) with AGIs over $18,000. This amount was raised to $35,000 by the Tax Reduction Act of 1975 (P.L. 94-12).

The itemized deduction was replaced by the dependent care tax credit by the Tax Reform Act of 1976 (P.L. 94-455). This nonrefundable credit was originally equal to 20% of expenses that enable the taxpayer to be gainfully employed. Up to $2,000 in expenses could be taken into account for one qualifying individual (thus, a maximum credit of $400) and up to $4,000 for two or more (thus a maximum credit of $800). A new rule was that qualifying expenses taken into account could not exceed the earned income of the taxpayer or, in the case of married couples, the earned income of the lesser-earning spouse. If the spouse was a full-time student or incapacitated, he or she was deemed to have earned income of $166 a month for one qualifying individual ($333 a month for two or more) for purposes of this rule. The credit was not phased out for higher income taxpayers.

The change from an itemized deduction to a credit was explained by the House report on the legislation:

> Treating child care expenses as itemized deductions denies any beneficial tax recognition of such expenses to taxpayers who elect the standard deduction. Your committee believes that such expenses should be viewed as a cost of earning income for which all working taxpayers may make a claim. One method ... would be to replace the itemized deduction with a credit against income tax liability for a percentage of qualified expenses. While deductions favor taxpayers in the higher marginal tax brackets, a tax credit provides more help for taxpayers in the lower brackets.[20]

The Economic Recovery Tax Act of 1981 (P.L. 97-34) changed the credit rate. In place of the flat 20% rate, it established the current schedule that provides higher rates to taxpayers with AGIs of $28,000 or less. The limit on expenses that could be taken into account was increased to $2,400 for one qualifying individual and $4,800 for two or more. Deemed income for a spouse who is a full-time student or incapacitated was increased to $200 and $400 a month, respectively. Dependent care centers serving six or more individuals must meet state legal requirements in order for taxpayers to take expenditures at them into account.

The Economic Recovery Tax Act of 1981 also authorized the DCAP exclusion. Initially there was no dollar limit on the exclusion, but the Tax Reform Act of 1986 (P.L. 99-514) capped it at $5,000.

The age limit for qualifying children was reduced from 15 to 13 years for both the DCTC and the DCAP by the Family Support Act of 1988 (P.L. 100-485).

Justifications for Current Law

Over time, both the DCTC and the DCAP have been designed to meet conflicting objectives. They strike a balance between allowing taxpayers to recognize a cost of earning income in determining their tax liability, but not recognizing a personal expense; they give equity to taxpayers who do not benefit from the exclusion of imputed income of at-home parents; and they provide a subsidy to lower income taxpayers. Both provisions reflect compromises, in part for administrative simplicity, that can be criticized from the standpoint of one objective but that may be an appropriate integration of several.[21]

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[20] United States Congress. House. Committee on Ways and Means. Tax Reform Act of 1975. Report to Accompany H.R. 10612. H.Rept. 94-658, November 12, 1975. p. 147.

[21] In addition to the justifications discussed here, committee reports have off and on advanced other reasons for the DCTC and DCAP, such as encouraging the hiring of domestic workers and encouraging the care of incapacitated persons at home rather than institutions. The design of the tax benefits does not always reflect these ancillary justifications.

The principal argument for both the DCTC and the DCAP is that child care is **a cost of earning income** that taxpayers should be allowed to recognize. Both provisions in fact restrict qualifying expenses to those incurred so the taxpayer can work or look for work; expenses when the taxpayer is home ill or on vacation generally cannot be taken into account. The work must be gainful employment; volunteer work, even for a nominal wage, does not qualify. As previously mentioned, the first statutory provision regarding child care made expenses deductible, as are employment expenses generally.

If child care were *solely* an **employment expense**, the proper treatment under an income tax generally would be a deduction, not a credit, since deductions usually result in more accurate measurement of net income.[22] (Net income, the sum upon which taxes are levied, is determined by reducing gross income by the costs incurred in earning it.) In contrast, tax credits typically reduce tax liability without close regard to the costs of earning income. A 20% tax credit, for example, would overcompensate taxpayers for these costs if they were in the 15% bracket (it would reduce their final tax liability by more than the tax increase they would incur if the expense were not recognized) and undercompensate them if they were in the 28% or higher brackets.

But child care is also widely considered to be a **personal expense.** This view was the basis for a 1939 Board of Tax Appeals' ruling, prior to the enactment of the statutory deduction, that child care expenses are nondeductible in their entirety.[23] In disallowing a deduction for nursemaid costs claimed by a married couple, both of whom were employed, the Board said that "we are not prepared to say that the care of children, like similar aspects of family and household life, is other than a personal concern." The Board admitted that some expenses normally classified as personal may become deductible when there is an intimate connection with an occupation carried on for profit, citing entertainment, traveling expenses, and the cost of an actor's wardrobe. But for other expenses the relationship is only "indirect and tenuous" and so the Board reasoned that a deduction is not warranted.

The underlying issue here is how to reconcile two tax principles, one that *allows* deductions for the cost of earning income and one that *disallows* deductions for personal expenses. Many expenses associated with employment have both characteristics: in addition to child care, employed people often incur extra costs for commuting, meals, clothing, travel, moving their households, and so on. The Internal Revenue Code does not treat these mixed expenses in a consistent manner: some are largely deductible (e.g., moving expenses), some are deductible only in fixed part (e.g., meals, for which only 50% of the cost can be taken into account), and some are largely not deductible (e.g., commuting expenses). Since it is difficult to distinguish expenses that are essentially costs of earning income from expenses that are essentially personal, at least by objective criteria, the Code falls back on compromise rules that are administratively feasible.

[22] If child care were solely an employment expense, it might also be argued that the deduction should not be limited by a dollar cap, provided the expenses were reasonable. In addition, income ceilings on taxpayer eligibility, which some have proposed, might be questioned.

[23] *Smith v. Commissioner*, 40 B.T.A. 1038.

For child care, the Code strikes a middle ground between the two principles: it allows some expenses to be recognized as a cost of earning income, but expenses beyond a certain point cannot be taken into account even if incurred because of employment. (As noted above, the present limits on recognized expenses for the DCTC are $2,400 for one child and $4,800 for two, while for the DCAP it is $5,000.) Uniform limits may not be appropriate for some families. If employed parents would not otherwise choose child care, they might not derive much personal benefit from it; arguably, they should be allowed to recognize most of its cost, even beyond the current limits. Alternatively, if parents would willingly choose child care, even if they were not employed, then arguably they should not recognize any of its cost. However, uniform limits might be justified on the grounds of administrative simplicity even if they penalize some families and reward others on the basis of this standard.

Some aspects of the current limits on recognized expenses might be questioned. For one thing, the limits have not been increased in 17 years; as a result, the economic value of the maximum credit and exclusion has fallen by over 40%. If these ceilings were appropriate in 1981, they arguably cannot be so today. Second, for the DCTC, taxpayers can take $2,400 of expenses into account if they have one child and $4,800 if they have two, but the limit is not increased for additional children. Larger families thus might not get benefits that are proportional to their costs. Allowing a larger credit for families with three or more children would not be very complicated, though it could be challenged by those opposed to subsidizing larger families.[24] Third, for the DCAP, qualified expenses do not vary by the number of children at all. For parents with a single child, the exclusion can provide substantially more tax savings than the credit. If the parents were in the 28% tax bracket, the exclusion could be worth up to $1,400 in income tax savings alone (i.e., the $5,000 ceiling on qualified expenses x 28%) while the maximum credit would be worth only $480 (i.e., $2,400 x 20%).[25] Some would argue that it seems inequitable that parents could have such different benefits simply because some work for employers with a DCAP while the others must use the credit. The inequity is likely heightened when parents arrange and pay for child care on their own and simply use the DCAP as a way of receiving tax benefits.

Tax theorists sometimes justify child care tax allowances by noting that parents who stay at home are not taxed on the **imputed income** from child care that they

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[24] As noted previously, the Revenue Act of 1971 allowed a deduction for expenses of child care outside the household of $200 a month for one child, $300 for two children, and $400 for three or more children. However, it should be noted that the current qualifying expense limit of $4,800 in the case of two or more qualifying individuals does not have to be divided equally among them. A family apparently could have qualifying expenses of $4,500 for one child and $300 for another, which might be seen as inequitable by a family with only one child. Allowing a larger credit for three of more children might increase this disparity unless a limit of $2,400 were applied to each child; the latter ceiling, however, would add complexity and might be difficult to enforce.

[25] In 1999, married couples filing a joint return would generally pay 28% on taxable income over $43,050 but not over $104,050. A person filing as head of household generally would pay 28% on taxable income over $34,550 but not over 89,150.

provide themselves.[26] This exclusion gives them a tax benefit that working parents who pay for child care with after-tax dollars do not have. To provide equity, it is argued that employed parents ought to be allowed a tax allowance for expenses they incur so they can work. A deduction, for example, would allow employed parents to escape taxation on the income they earn to obtain child care, just as stay-at-home parents are exempt from tax on the income they implicitly receive in providing child care. A deduction would remove any tax penalty for parents who choose to work at activities in the marketplace rather than in the house.[27]

It is not clear, however, why consideration of imputed income should be restricted to child care expenses. Taxpayers generally must choose between taxable employment income and other work (housecleaning and yard work, for example) which is exempt from taxation if done themselves but for which others must be paid. Some might argue that it would be easier and more equitable if all employed taxpayers were allowed a limited deduction to offset the expenses they pay with after-tax income because they do not have as much time for chores.[28] On the other hand, current public policy gives child care expenses special treatment: it is more important that children have good care when their parents are at work than it is for houses to be vacuumed and lawns mowed.

The change from an itemized deduction to a credit in the Tax Reform Act of 1976 provided an **additional subsidy** to lower-income families. (See the House report language quoted previously.) Congress could have taken a different approach. An alternative would have been to allow a deduction for child care expenses in determining adjusted gross income (AGI), which would not have been restricted to itemizers.[29] Some employment expenses, such as moving expenses, in fact are deductions for AGI. And while deductions result in larger tax savings to taxpayers in higher marginal tax brackets, this is simply a consequence of progressive tax rates;

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[26] Imputed income generally is non-cash income or income in kind. For families, it typically arises outside of ordinary economic markets. Imputed income is included in comprehensive definitions of income that are used to assess the equity and efficiency of statutory tax provisions. For one discussion, see Edward J. MCCaffery, *Taxing Women*. University of Chicago Press (Chicago, 1997), p. 120-126.

[27] Thus a deduction for child care costs of employed parents would make the income tax neutral with respect to whether parents should stay home or work. Whether the income tax *should* be neutral on this issue of course is debatable, and arguments can be advanced for either side. However, from the standpoint of a comprehensive definition of income, it would appear to be equitable to provide a deduction or credit for employed parents but not stay-at-home parents.

[28] Thus, tax theorists might note that parents who stay at home have more available time than parents who are employed, and that it would be equitable for the tax system to recognize the importance of this difference by allowing the latter an offsetting deduction.

[29] This is sometimes called an “above-the-line” deduction. The prior law restriction to itemizers might have been justified under the view that nonitemizers receive even larger tax savings from the standard deduction.

to recognize costs of earning income accurately, a deduction should reflect marginal rates.[30]

The deduction provided no benefit to families otherwise without a tax liability, even if they could itemize their deductions. But the credit, since it is not refundable, also does not help these families. As shown on page 15, the credit gives no benefit to individuals who offset all their income with the standard deduction and personal and dependent exemptions (which are all indexed for inflation, unlike the credit) or to some others who are eligible for the new child credit. For lower income taxpayers who can benefit, the maximum credit rates no longer are as generous. For the single taxpayer with one child, the maximum rate is 25%, not 30%; for married couples with two children, the maximum rate is 20%, the same as for higher income taxpayers.

Tax credits, particularly if refundable, often are used to provide subsidies to families for personal expenses that would not otherwise be recognized under an income tax. In this respect, they are analogous to public subsidies that are generally available to all taxpayers. Nonetheless, some might question whether there should be no income limit on subsidies for privately-made decisions about child care. Some might also question whether public subsidies for personal expenses (as opposed to employment expenses) should be denied taxpayers who choose not to be employed.

The DCTC can be considered progressive except for low-income families (who do not benefit because it is nonrefundable) since the tax savings it generates generally decline as a proportion of income. Nonetheless, higher middle-income families receive a disproportionate share of these savings. The Joint Committee on Taxation (JCT) estimates that about 51% of returns claiming the credit have incomes over $50,000; they receive 55% of the total credit dollars. About 22% have incomes under $30,000; they receive 20% of total credit dollars.[31]

Analysis of Combined CCDF and DCTC Subsidies

This section examines combined CCDF and DCTC benefits in order to illustrate the variation in subsidies families might receive and the out-of-pocket costs they might bear depending on their income and state of residence. Specifically, it shows that there are significant differences in the amount of child care subsidies, in child care subsidies as a percent of costs, in net out-of-pocket child care expenses, and in out-of-pocket child care expenses as a percent of net after-tax income.

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[30] A deduction that reflects marginal tax rates exempts from taxation the income that is necessary to pay the expense in question. If the deduction exempted a lesser amount — for example, if taxpayers with a 36% marginal tax rate were allowed only a 15% deduction for the cost of earning income — they would be taxed on more than their net income from the activity.

[31] United States Congress. Joint Committee on Taxation. *JCT Staff Estimates of Federal Tax Expenditures for FY 1999-2003*. (JCS-7-98) December, 1998. Table 3. For this table, the measure of income is AGI plus various types of excluded income such as tax exempt interest and employer contributions to health plans.

Considered separately, CCDF and DCTC subsidies generally are progressive with respect to family income, but in combination their progressivity is less evident. Our analysis identifies gaps in coverage: in some states, a family's income may be too high to qualify for CCDF benefits but too low to reap any DCTC tax savings. In some cases, a one-dollar difference in family income may result in a large difference in the amount of child care subsidy a family may be eligible to receive, resulting in large inequities between families of similar income. Moreover, while the analysis focuses on the subsidy that families might be *eligible* to receive under the CCDF, it does not address the fact that subsidies are not necessarily *guaranteed*. This report does not address the extent to which eligible families actually receive subsidies under this program. According to HHS, the program served an average of 1.25 million children monthly in FY1998, compared to an estimated 10 million children who were eligible.[32]

The section also raises the question of what constitutes "affordable child care," though the answer is not explored in this report. Our analysis suggests that some lower income families may find it difficult to afford the same types of child care that are subsidized for to the poorest families under CCDF. Most states' CCDF programs conform to the 10% of family income guideline suggested by HHS as the maximum amount poor families should be expected to pay for child care. (See the earlier discussion on page 11.) However, to purchase the same type of child care that is subsidized for poor families under CCDF, some families with incomes just above poverty would be required to spend substantially greater shares of their income.

Our analysis is based on the CCDF and DCTC rules explained earlier as they apply to a single parent working full-time with a 3-year-old child in center-based care. The findings should not be considered representative of all families with child care expenses. Nonetheless, the findings do illustrate how there can be wide variations in the combined subsidies as a result of state decisions regarding CCDF income eligibility rules, payment rates, and sliding fee schedules.

The analysis assumes that the single parent's sole source of income is from employment and that the parent claims only the standard deduction and personal and dependent exemptions in determining taxable income. Tax liability and credits are calculated for tax year 1999 assuming current law as of January 1, 1999. However, the analysis is based on *effective* DCTC benefits, as discussed on page 15. (For more detail on tax assumptions, see Appendix A.) It also assumes that the actual cost of child care purchased by the family is equal to the CCDF payment rate for full-time center-based care for a 3-year-old child. (The rates for each state are shown in **Figure 3**, on page 10) CCDF income eligibility thresholds are applied as if the family were a new applicant. As noted earlier, states may treat *recipient* families differently than *applicant* families. Finally, the state's sliding fee schedule rules are applied to the family to determine the out-of-pocket child care costs the family might bear and

[32] The Administration's figure of 10 million is actually the number of children under age 13 whose family income is less than 200% of poverty. This is intended as a proxy for the number of children who would be eligible in each state under the federal threshold of 85% of state median income, although most states set their eligibility thresholds at a lower level.

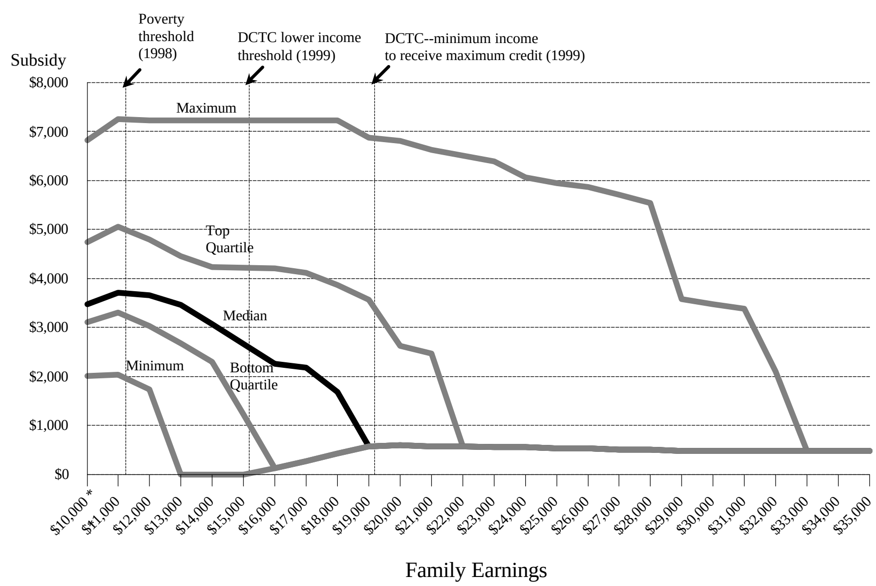
the amount of the child care subsidy the family might receive for the given child care arrangement.

Child Care Subsidy Amounts by Family Income

Figure 6 shows the distribution of combined CCDF and DCTC annual subsidies for the single parent one-child family at various earnings levels. The figure presents summary measures (i.e., minimum, bottom quartile, median, top quartile, maximum) relating to child care subsidies across the states. Tables providing detailed estimates for each state are included in the appendix.

Figure 6 shows that a parent working full-time and earning $11,000 per year, would be eligible for a child care subsidy of at least $3,702 in half of the states (median value). In the top quarter of all states, the family would be eligible for a child care subsidy of at least $5,061 (top quartile), while in the bottom quarter of states the family would be eligible for a subsidy of $3,301 at most (bottom quartile). At the $11,000 annual earnings level, the parent would be earning about $5.29 per hour (assuming 2,080 hours of work per year, 40 hours per week x 52 weeks), just slightly above the current $5.15 per hour minimum wage and just slightly below the 1998 poverty threshold for a single parent with one child ($11,235). **Figure 6** shows that child care subsidies tend to fall as earnings increase, reflecting the progressive nature of the states' sliding fee scales under CCDF.[33] Also, note that the subsidy falls to $0

Figure 6. Distribution of CCDF and DCTC Child Care Subsidies Among States For a Single Parent with One Child in Full-Time Center-Based Care (Minimum, Bottom Quartile, Median, Top Quartile and Maximum)



* Child care subsidy is prorata reduced at the $10,000 earnings level to reflect part-year work at minimum wage.
Source: Figure prepared by the Congressional Research Service.

[33] An exception, shown in the figure, is between $10,000 and $11,000, where the subsidy (continued...)

in at least one state as represented by the line depicting the minimum for a family with as little as $13,000 in annual earnings, but then increases around $15,000 as the DCTC takes effect.

Turning to **Table A-3** (page 42), upon which **Figure 6** is based, it can be seen that three states (Nebraska, South Carolina, and West Virginia) provide no subsidy to an applicant family with annual income of $13,000. These families' incomes are also too low for them to qualify for a child care tax allowance under the DCTC. A family with slightly lower income of $12,000 would qualify for an annual child care subsidy of $4,635 in Nebraska, $3,702 in South Carolina, and $2,086 in West Virginia. Although new applicant families would not be eligible for CCDF subsidies in these three states if their annual earnings were $13,000 or higher, families might be eligible at this earnings level if they were in transition from TANF or if they had initially qualified for CCDF when their earnings were lower.

Notice that the five lines in **Figure 6** all connect to a common single line depicted at the bottom of the figure. This common line represents the DCTC subsidy alone, apart from any subsidy provided under CCDF. The figure shows the DCTC phasing in over the $15,184 to $19,184 income range; $19,184 marks the minimal annual income at which the depicted family could receive the maximum $600 DCTC (a 25% credit rate applied to the maximum allowed child care expenses of $2,400). At the $15,000 annual income level, just below the effective DCTC lower-income threshold in 1999, the depicted family would be *ineligible* for CCDF in 10 states (see **Table A-3**); in these states, the family's income would be too high to qualify for a CCDF subsidy and too low to receive any tax benefits from the DCTC.[34] (Note: earlier, in the discussion of CCDF income-eligibility limits, **Figure 1** showed that eight states' basic income-eligibility limits were below the DCTC lower income threshold. After applying states' sliding-fee schedule rules, the hypothetical family with $15,000 in earnings would receive no subsidy in two more states (Nebraska and Maryland) than those shown in **Figure 1**.) At the $19,000 income level (just below the maximum DCTC threshold of $19,184), the depicted family would be *eligible* for a subsidy through CCDF in 24 states. Families with $22,000 in annual earnings would be eligible for CCDF in just 13 states (see **Table A-3**).

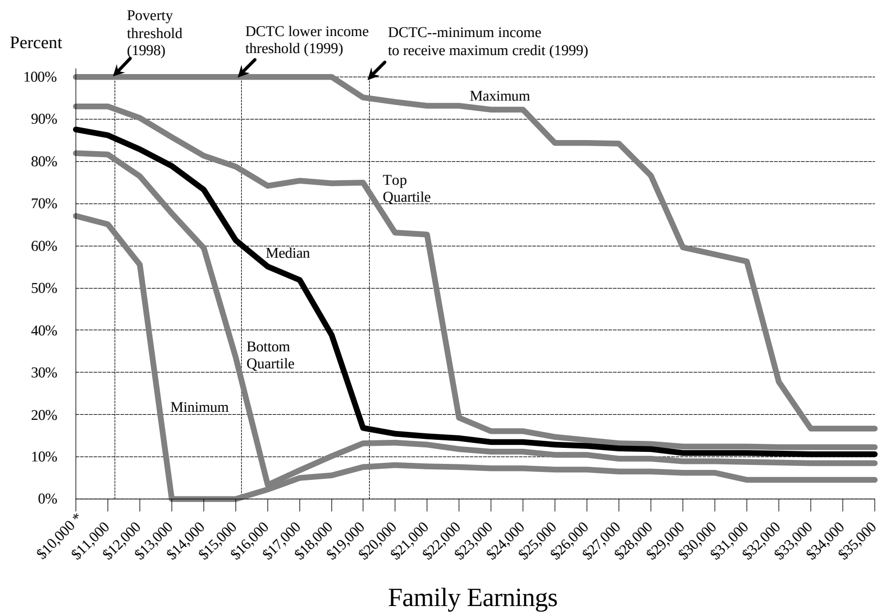
[33] (...continued)
appears to be rising with income. This is because the family with $10,000 in earnings is assumed to be working less than a full year (i.e., $10,000 annual earnings reflects less full-time, full-year employment at the current minimum wage of $5.15 per hour). Accordingly, the child care subsidy has been pro-rata reduced to reflect less than full-year employment for the family with $10,000 in earnings.

[34] In one additional state, South Dakota, the depicted family would be eligible only for a minimal subsidy of $8.

Child Care Subsidies as a Percent of Costs, by Family Income

Figure 7 depicts child care subsidies as a percent of child care costs by family income, across states. The figure is similar to **Figure 6** except that the subsidy is shown as a percentage of the cost of child care (i.e., the CCDF payment rate, shown in **Figure 3**). The figure shows that for a single parent family with annual income of $11,000 (just below the poverty level in 1998), states subsidize between 65% (minimum) and 100% (maximum) of the cost of child care for a 3-year old in full-time care. One state (Oklahoma) subsidizes 65% of child care costs for a family near poverty, whereas three states (California, Hawaii, and Vermont) subsidize the full cost of child care (see **Table A-4**). Half the states subsidize 86% or more (i.e., the median value) of the cost of child care for a single parent with one child having income near poverty. At the $15,000 annual income level, just below the effective DCTC lower-income threshold in 1999, one quarter of the states subsidize 79% or more of the cost (top quartile) of child care, half the states subsidize 61% or more of the cost (median) of child care, and one quarter of the states subsidize less than 34% of the cost (bottom quartile).

Figure 7. Combined Child Care Subsidy Under CCDF and DCTC as a Percent of Child Care Costs For a Single Parent with One Child in Full-Time Center-Based Care Distribution of States (Minimum, Bottom Quartile, Median, Top Quartile and Maximum)



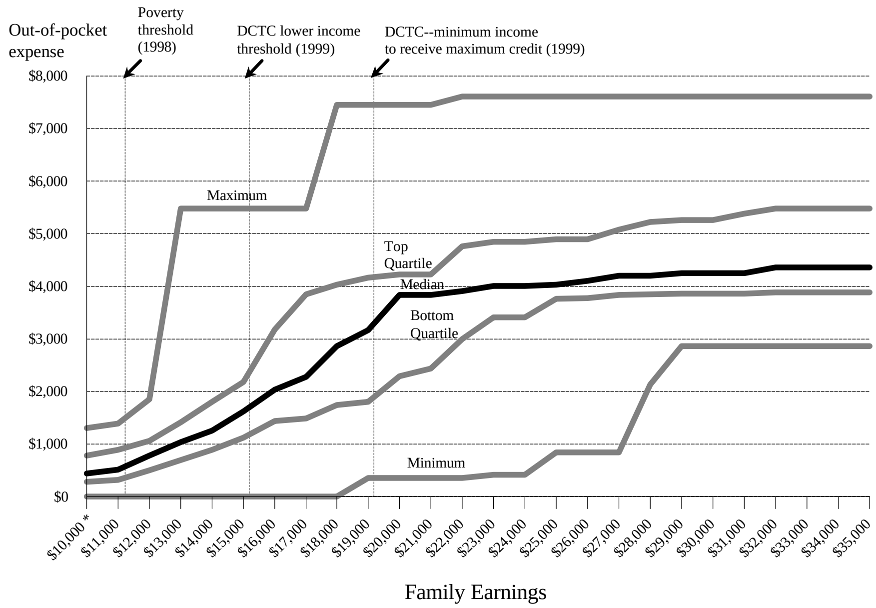
* Child care subsidy is prorata reduced at the $10,000 earnings level to reflect part-year work at minimum wage.

Source: Figure prepared by the Congressional Research Service.

Net Out-of-Pocket Child Care Expenses by Family Income

Figure 8 is similar to **Figure 6**, but it presents the out-of-pocket child care expenses that a single parent would bear with a 3-year old child in full-time center-based child care contracted at the CCDF payment rate. The figure shows that in the bottom quarter of all states a family with $11,000 in annual earnings (an amount just below poverty) would pay $327 or less per year for child care; in half the states, a family would pay $521 (median) or more per year for child care, and in the top quarter of states, a family would pay $898 or more per year for child care. At the $15,000 earnings level, a point near which the family would become eligible for the DCTC ($15,184 per year), the median out-of-pocket expense is $1,681, more than triple the median child care expense cost ($521) for a family using the same type of care, but at the $11,000 earnings level.

Figure 8. Combined Net Annual Out-Of-Pocket Child Care Expenses After CCDF and DCTC For a Single Parent with One Child in Full-Time Center-Based Care Distribution of States (Minimum, Bottom Quartile, Median, Top Quartile and Maximum)



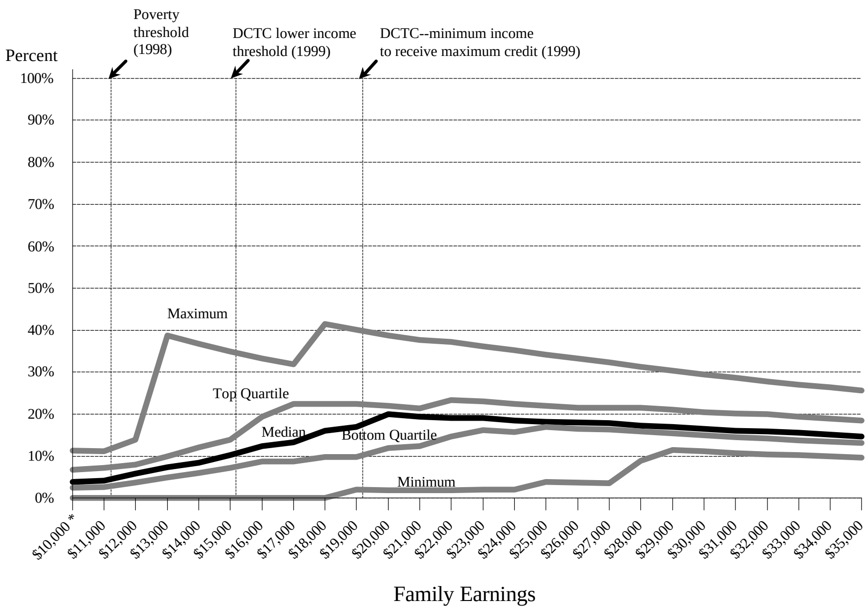
* Child care subsidy is prorata reduced at the $10,000 earnings level to reflect part-year work at minimum wage.

Source: Figure prepared by the Congressonal Research Service.

Child Care Expenses as a Percent of Net After-Tax Income, by State

Lower income families who are ineligible for CCDF, or who are eligible but don't actually receive CCDF assistance, may find that child care priced at the CCDF payment rate is unaffordable, even considering the tax savings offered by the DCTC. **Figure 9** depicts child care expenses as a percent of family net income, after federal income taxes (including adjustment for the EITC) and FICA taxes, for the hypothetical family who contracts for child care at the CCDF payment rate in each state. As noted earlier, HHS has suggested that states set their sliding fee scales for child care so that a low-income family would be required to pay no more than 10% of its income for child care. **Figure 9** shows that most states' CCDF sliding fee scales conform to this 10% income guideline for a family with earnings near the poverty level. The figure shows, for example, that families in half the states are required to pay no more than 4% of their net income for child care if they earn $11,000 per year (i.e., just below poverty level). At this earnings level, out-of-pocket child care expenses would be more than 7% of net family income in one quarter of the states; in six states (Colorado, Nevada, New Hampshire, North Dakota, Oregon, Wisconsin) and the District of Columbia child care expenses would amount to 10% or more of net after-tax income (see **Table A-6**).

Figure 9. Out-Of-Pocket Child Care Costs as a Percent of Net After-Tax Income For a Single Parent with One Child in Full-Time Center-Based Care Distribution of States (Minimum, Bottom Quartile, Median, Top Quartile and Maximum)



* Child care subsidy is prorata reduced at the $10,000 earnings level to reflect part-year work at minimum wage.

Source: Figure prepared by the Congressonal Research Service.

Figure 9 also shows that in at least one state a family with earnings as low as $13,000 would have child care expenses that amount to as much as 39% of net income, if the family were to contract for full-time center-based care at the established payment rate. In this case, the family, living in Nebraska (see **Table A-6**), would be ineligible for any subsidy under CCDF, as its income would be too high, and it would also be ineligible for any subsidy under the DCTC, as its income would be too low.

Similarly, the family would be ineligible for CCDF if it lived in South Carolina, where the unsubsidized cost of full-time center-based care would amount to 29% of after-tax income, and in West Virginia, where the cost would amount to 20% of net income (see **Table A-6**). Clearly, at such a low earnings level, the cost of full-time center-based care at the established payment rate would prohibit most families from choosing such arrangements, as it would leave the family with too little money for shelter, food, clothing, and other necessities.

Even at higher earnings levels, child care costs at the CCDF payment rate may place great strains on the family budget, even considering savings from the DCTC. For example, **Figure 9** shows that child care costs would amount to 20% or more of a family's after-tax income at the $20,000 earnings level in half the states, considering both CCDF and DCTC subsidies. At this earnings level, the depicted family would be eligible for CCDF in only 18 states (see **Table A-6**). Consequently, at the $20,000 earnings level, families in most states would receive only the DCTC, which amounts to a savings of $600 on their federal income taxes, the maximum available DCTC.[35] The tax savings attributed to the DCTC is factored in on the income side (i.e., denominator) in calculating the out-of-pocket child care expense percentage amount shown in the figure.

Lower income families who are ineligible for CCDF, and those who are eligible but not served by the program, may be priced out of the child care market, when it comes to purchasing the same quality of care that is offered to families with less income under CCDF. Families priced out of "CCDF-comparable care" may be forced to find less costly child care arrangements, which may also be less convenient, less reliable, or of lesser quality.

Concluding Notes and Outstanding Issues

The primary federal grant and tax subsidies for child care were developed in isolation from one another and have little in common in terms of their operation, their legislative histories, and their policy justifications. The CCDF is administered by states, so by design its eligibility criteria and benefit levels vary widely across the country. The DCTC is a federal tax credit with uniform provisions regarding who may claim it and the amount of tax savings they receive. Despite years of debate, the CCDF is relatively new, based on programs created in 1988 and 1990. In contrast, the DCTC can trace its history as far back as 1954, when an itemized tax deduction for child care expenses was authorized.

In terms of policy justifications, the CCDF is rooted in public welfare concepts: welfare recipients and very low-income families need help with their child care costs to enable them to become and remain employed and to achieve economic self-sufficiency. Tax allowances for child care are justified on the basis of several tax concepts: child care expenses are a cost of earning income that taxpayers should be

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[35] That is, the 25% DCTC credit rate at the $20,000 income level, multiplied by the maximum qualified child care expenses under DCTC of $2,400 for one child, equals $600. The CCDF payment rate for full-time center-based care for a 3-year old child is above the $2,400 DCTC qualified expense limit in all states.

allowed to recognize, and a child care tax benefit provides equity for families with work-related child care expenses in comparison with families with an at-home parent, whose "imputed" income is not taxed.

Our analysis of the impact of these subsidies on families' child care expenses raises policy questions that Congress might want to consider in evaluating proposals to expand or revise the existing grant program or tax provisions. A complete exploration of these questions goes beyond the scope of this report. For example:

- *Should all working parents receive some federal child care subsidy?*

Under current law, all working parents do not receive a federal child care subsidy. As this report has shown, CCDF eligibility criteria vary widely by state and are typically set below the federal maximum of 85% of state median income. In 10 states, a family's income could be too high to qualify for a CCDF subsidy, but too low to receive any tax savings from the DCTC. In most states, a family could theoretically be eligible for both subsidies, but would be unlikely to benefit from both. In fact, a family eligible to claim even one dollar of the tax credit would fall into the CCDF "very low-income" priority group only in 10 states.

Thus, in some states there is a gap between the official eligibility criteria for the CCDF and the DCTC, and in many states there is a gap between the income level at which families *actually* receive CCDF subsidies and the level at which they can claim a child care tax credit. These gaps generally affect lower income families not receiving CCDF subsidies and result from four factors: the flexibility allowed states in setting eligibility criteria for the CCDF, the fact that the CCDF is not an entitlement to individuals, the CCDF is not funded at a level adequate to serve all eligible families, and the structure of the DCTC as a non-refundable credit.

- *Should federal child care subsidies be equitable for similar families, both within and across states?*

As illustrated in this report, the dollar amount of subsidies available to families under the CCDF and DCTC combined varies widely by state and by family income. A family at a certain income level may be eligible to receive a sizeable child care subsidy in one state but little or nothing in another. In addition, small income differences can have large consequences in the amount of a family's child care subsidy. In other words, families with the same income are not treated the same across states, and families in the same state are not necessarily treated equitably at different income levels.

These patterns result in part from the flexibility given to states in setting both eligibility criteria and benefit levels under the CCDF. In addition, eligibility criteria under the CCDF and DCTC are not coordinated with one another, resulting in the gaps in coverage described above. Thus, in some states a family with gradually increasing income can lose eligibility for a child care subsidy under the CCDF and then receive no subsidy at all until its income climbs high enough to trigger DCTC savings.

Development of a more cohesive federal child care policy for all working families might not be easy. Regarding the CCDF, it is important to remember that variation among states was specifically permitted by Congress, which structured the program as a block grant with federal *parameters* instead of specific mandates regarding eligibility criteria, payment rates, and sliding fee schedules. The most recent child care amendments were contained in — and are consistent with — the 1996 welfare reform legislation that transferred significant decision-making authority for program design to the states.

Likewise, Congress did not establish CCDF subsidies as an entitlement to individuals, and in fact it repealed previous child care entitlements for current and former welfare recipients. It was not congressional intent that all families below a certain income level or within a certain category be guaranteed access to child care subsidies, nor was it congressional intent that similar families necessarily be treated the same in every state. At the same time, while the tax credit has uniform provisions nationwide, it does not reach families without tax liability and therefore does not even out differences among state CCDF programs.

- *Should making child care affordable be a goal of federal child care subsidies?*

Neither the grant program nor the child care tax provisions are explicitly intended to make child care affordable for all families. In fact, the concept of "affordability" is not clearly articulated for these subsidies. The DCTC and DCAP have different qualifying expense ceilings, neither of which has been adjusted since 1981 despite increases in actual child care costs. Neither tax benefit is adjusted for family size in the case of three or more children.

The CCDF addresses the issue of affordability by requiring states to establish payment rates so that participating families have access to the same types of child care as families not eligible for program subsidies. However, states retain final control over the payment rates and sliding fee scales that determine the out-of-pocket expenses of participating families. More importantly, states determine who actually receives CCDF subsidies. Families not in a state's priority group for CCDF assistance and lacking sufficient income to owe taxes may receive no direct federal help to afford child care. Yet, this CRS analysis shows that child care priced at the levels assumed by state payment rates may be beyond the financial reach of many families who do not receive CCDF subsidies.

The current child care subsidies do not work together to make child care affordable for all working families because they were designed to accomplish different goals. In designing the child care grant program, lawmakers were primarily concerned with promoting self-sufficiency for poor families who might find the cost of child care a barrier to entering or remaining in the labor force. While states have the flexibility to serve families with incomes up to 85% of the state median income, priority often is given to those on welfare or with the lowest incomes. Likewise, the tax credit is not intended to make child care affordable for all families, but rather to allow working families to recognize some of their child care expenses as a cost of earning income. Thus, it is possible that the CCDF and the DCTC are each achieving their goals, while at the same time, affordability of child care remains a problem for certain families.

Numerous other issues — both broad and narrow — surround proposals to expand or revise existing child care subsidies. Questions might be raised about equity of coverage, adequacy of resources, quality of care, complexity of benefits, families with an at-home parent, budget cost, and so on. However, it is difficult to analyze these issues without first answering the overarching question of what should be the federal government's primary goal in providing child care subsidies. Currently, there are two different answers to this question, reflecting the two different types of child care subsidies available. As our report has shown, these subsidies can be justified when examined individually, but raise issues when looked at together.

APPENDIX A

Methodology

The estimates of child care subsidies shown in this report are based on a computer simulation of how a hypothetical family might be affected under CCDF and DCTC rules. With some exceptions noted in the report, the hypothetical family is a single parent working full-time (at various income levels) with a 3-year old child in center-based care. CCDF rules relating to payment rates to providers, income eligibility limits, and sliding fee schedules were derived from analysis of state plans on file at HHS on August 14, 1998. The estimates assume that the parent contracts for child care at the established payment rate. Because payment rates may vary within a state, the payment rate for the most populated area of the state was chosen for the analysis. These payment rates may be higher than those in other areas in a state.

The estimates of DCTC subsidies are based on tax year 1999 rules that were current law on January 1, 1999. The tax analysis assumes the following:

- Earnings are the only source of family income;
- Families do not claim any deductions (such as for contributions to individual retirement accounts) in determining their adjusted gross income (i.e., above-the-line deductions); thus, adjusted gross income is the same as earnings;
- Families claim the basic standard deduction and no additional standard deduction for age or blindness;
- Families claim the DCTC and child tax credit when permitted, but they do not claim any other nonrefundable tax credits (such as the credit for adoption expenses or the lifetime learning credit);
- Families count any out-of-pocket child care costs (i.e., the CCDF payment rate less the CCDF subsidy) towards the DCTC limits on qualifying expenses (i.e., $2,400 for one child and $4,800 for two or more children);
- Families claim the maximum DCTC (depending on their qualified expenses and AGI) and child tax credit ($500) unless the sum of the two credits exceeds the families' regular tax liability (i.e., their tax on taxable income, prior to any credits), in which case the sum is reduced to that liability. (The tentative minimum tax limitation on credits was taken into account, though it does not affect the examples shown.); and
- For estimates of out-of-pocket child care costs as a percent of net after-tax income (**Figure 9** and **Table A-6)**, the numerator in the calculation (out-of-pocket costs) is the family's child care payment after considering any CCDF subsidy, while the denominator (after-tax income) is family earnings less federal income taxes (taking into account the DCTC and the EITC) and less FICA taxes.

Effective DCTC Benefits

Interactions between the DCTC and the $500 per child tax credit sometimes reduce the *effective* tax savings that families with qualified child care expenses receive from the DCTC. Internal Revenue Service (IRS) tax forms instruct tax filers to calculate the DCTC before calculating the child tax credit; thus, the latter is the first to be limited when the sum of the two credits exceeds the family's regular tax liability. (The DCTC is nonrefundable, as is the child credit for families with one or two children. Under Section 26 of the Code, the sum of these credits and other nonrefundable personal credits cannot exceed taxpayers' regular tax liability. As mentioned above, the tentative minimum tax does not affect the limitation on tax credits for families used in our examples.)

For example, assume that a taxpayer with one child could claim a $400 DCTC in addition to the $500 child credit before taking into account limitation on nonrefundable credits. If the taxpayer's regular tax liability were $900 or more, both of these credis could be claimed in full. However, if the taxpayer's regular tax liability were $700, IRS procedures would allow the taxpayer to claim a DCTC of $400 and a child credit of $300 (i.e., $700 - $400).

This ordering of credits sometimes makes tax savings from the DCTC appear to be larger than they actually are. In the example just cited, the taxpayer could have claimed the full $500 child credit had there been no child care expenditures. The effect of claiming a credit for child care expenditures would be to increase tax savings by $200 (i.e., $700 - $500). While the "official" DCTC would be $400, the *effective* DCTC would only be $200.

Note that if the taxpayer in this example had been able to claim a DCTC of $500 the *effective* DCTC would still only be $200. Each dollar increase in the DCTC would be offset by a dollar reduction in the child credit until the latter is reduced to zero.

The analysis in this report is based on the effective DCTC. It shows the additional tax savings that would result when families with one or two children (for whom the child credit is claimed) also claim the credit for child care expenditures.

Federal Income Tax Formula (Simplified)

Listed below are 10 steps of the general formula for calculating federal income taxes. The list omits some steps, such as prepayments (from withholding and estimated payments) and the alternative minimum tax..

1. Gross income
2. *minus* Deductions (or adjustments) for AGI
3. = Adjusted gross income
4. *minus* Greater of standard or itemized deductions
5. *minus* Personal and dependency exemptions
6. = Taxable income
7. *times* Tax rate
8. = Tax on taxable income (regular tax liability)
9. *minus* Credits
10. = Final tax liability

Support Tables

Table A-1. Child Care Development Fund Income Eligibility Limits for a Two-Person Family, by State
(Annual Income)

State	Very low income limit	Basic income eligibility limit	85% of State Median Income
Alabama	$13,776	$13,788	$24,120
Alaska	$12,936	$30,960	$30,960
Arizona	$10,620	$14,340	$25,740
Arkansas	$9,931	$14,896	$21,103
California	$18,684	$28,032	$31,776
Colorado	$13,788	$19,608	$28,644
Connecticut	$10,572	$31,704	$35,928
Delaware	$3,240	$16,068	$26,412
District of Columbia	$14,400	$28,800	$28,800
Florida	$10,356	$15,540	$19,164
Georgia	$18,396	$21,576	$26,064
Hawaii	$12,204	$27,924	$31,656
Idaho	$10,608	$15,540	$20,292
Illinois	$10,596	$17,664	$30,024
Indiana	$15,912	$20,160	$27,288
Iowa	$13,260	$16,440	$27,348
Kansas	$16,404	$20,232	$26,208
Kentucky	$4,248	$14,431	$25,971
Louisiana	$10,608	$23,952	$23,952
Maine	$10,526	$26,303	$26,303
Maryland	$7,452	$18,168	$33,492
Massachusetts	$22,344	$32,064	$34,212
Michigan	$8,400	$21,096	$30,612
Minnesota	$8,772	$27,744	$31,440
Mississippi	$11,004	$18,000	$18,000
Missouri	$6,540	$14,388	$30,348
Montana	$4,188	$19,632	$22,668
Nebraska	$10,716	$19,632	$24,428
Nevada	$10,608	$25,536	$28,932
New Hampshire	$14,856	$17,052	$29,760
New Jersey	$15,915	$21,220	$35,494
New Mexico	$14,220	$21,468	$21,480

Table A-1. Child Care Development Fund Income Eligibility Limits for a Two-Person Family, by State
(Annual Income)

State	Very low income limit	Basic income eligibility limit	85% of State Median Income
New York	[a]	$21,828	$28,320
North Carolina	$22,740	$22,740	$25,764
North Dakota	$2,796	$23,748	$23,748
Ohio	$6,684	$15,912	$34,608
Oklahoma	$17,088	$22,416	$22,416
Oregon	$10,320	$26,724	$26,724
Pennsylvania	$10,608	$24,936	$30,348
Rhode Island	$10,608	$19,632	$31,872
South Carolina	$10,356	$12,948	$25,176
South Dakota	$10,608	$15,912	$24,432
Tennessee	$13,320	$15,756	$24,348
Texas	$15,912	$22,248	$25,212
Utah	$10,368	$17,088	$25,944
Vermont	$13,332	$25,920	$27,696
Virginia	$10,608	$28,920	$28,920
Washington	$7,848	$18,564	$28,572
West Virginia	$8,088	$12,132	$17,184
Wisconsin	$17,508	$17,508	$28,320
Wyoming	$12,732	$14,112	$29,640

Source: Table prepared by the Congressional Research Service (CRS) based on information from CCDF state plans submitted by the states to the Department of Health and Human Services (HHS) (information on file at HHS as of August 14, 1998).

[a] Local social services districts define the income level which constitutes "very low income" in their districts.

Table A-2. Child Care Development Fund Income Eligibility Limits for a Three-Person Family, by State (Annual Income)

State	Very low income limit	Basic income eligibility limit	85% of State Median Income
Alabama	$17,316	$17,328	$29,796
Alaska	$16,224	$38,244	$38,244
Arizona	$13,332	$18,000	$31,800
Arkansas	$12,267	$18,401	$26,068
California	$20,028	$30,036	$34,044
Colorado	$17,328	$24,648	$36,000
Connecticut	$13,056	$39,168	$44,376
Delaware	$4,056	$20,124	$30,492
District of Columbia	$17,784	$35,580	$35,580
Florida	$12,984	$19,476	$24,012
Georgia	$22,728	$24,276	$32,196
Hawaii	$15,336	$34,488	$39,084
Idaho	$13,332	$19,476	$25,056
Illinois	$13,092	$21,816	$37,092
Indiana	$19,992	$25,332	$33,708
Iowa	$16,668	$20,664	$33,780
Kansas	$20,592	$25,404	$32,892
Kentucky	$5,328	$18,155	$32,082
Louisiana	$13,320	$29,580	$29,580
Maine	$13,210	$32,492	$32,492
Maryland	$9,204	$22,440	$41,856
Massachusetts	$23,172	$33,252	$42,264
Michigan	$9,708	$26,064	$37,812
Minnesota	$10,992	$34,272	$38,844
Mississippi	$12,996	$21,996	$21,996
Missouri	$8,088	$17,784	$35,904
Montana	$5,256	$24,660	$28,008
Nebraska	$13,452	$24,672	$30,175
Nevada	$13,332	$31,536	$35,748
New Hampshire	$18,672	$21,408	$36,768
New Jersey	$19,995	$26,660	$43,846
New Mexico	$17,580	$23,412	$26,544
New York	[a]	$26,964	$34,992
North Carolina	$28,092	$28,092	$31,836

Table A-2. Child Care Development Fund Income Eligibility Limits for a Three-Person Family, by State (Annual Income)

State	Very low income limit	Basic income eligibility limit	85% of State Median Income
North Dakota	$3,456	$29,340	$29,340
Ohio	$8,400	$19,992	$42,744
Oklahoma	$18,000	$27,696	$27,696
Oregon	$12,756	$33,012	$33,012
Pennsylvania	$13,332	$31,320	$35,904
Rhode Island	$13,320	$24,660	$35,856
South Carolina	$12,984	$16,224	$31,104
South Dakota	$13,332	$20,004	$30,180
Tennessee	$15,024	$19,464	$30,084
Texas	$19,992	$27,480	$31,152
Utah	$12,984	$21,108	$32,040
Vermont	$13,332	$25,920	$27,696
Virginia	$13,332	$35,724	$35,724
Washington	$9,864	$23,328	$35,292
West Virginia	$9,996	$14,988	$21,240
Wisconsin	$21,996	$21,996	$34,968
Wyoming	$15,996	$17,736	$35,832

Source: Table prepared by the Congressional Research Service (CRS) based on information from CCDF state plans submitted by the states to the Department of Health and Human Services (HHS) (information on file at HHS as of August 14, 1998).

[a] Local social services districts define the income level which constitutes "very low income" in their districts.

Table A-3. Annual Child Care Subsidies Under CCDF and DCTC by State For a Single Parent with One Three-Year-Old Child in Full-Time Center-Based Care

	Family Earnings																	
State	$10,000*	$11,000	$12,000	$13,000	$14,000	$15,000	$16,000	$17,000	$18,000	$19,000	$20,000	$21,000	$22,000	$23,000	$24,000	$25,000	$30,000	$35,000
Alabama	$2,677	$2,868	$2,711	$2,607	$0	$0	$123	$273	$423	$573	$600	$576	$576	$552	$552	$528	$480	$480
Alaska	$9,508	$10,185	$10,185	$8,925	$8,925	$8,925	$9,048	$8,148	$8,298	$8,448	$5,850	$5,826	$5,826	$3,177	$3,177	$3,153	$3,105	$480
Arizona	$3,407	$3,650	$3,650	$3,650	$3,650	$0	$123	$273	$423	$573	$600	$576	$576	$552	$552	$528	$480	$480
Arkansas	$3,115	$3,337	$2,503	$1,669	$834	$0	$123	$273	$423	$573	$600	$576	$576	$552	$552	$528	$480	$480
California	$6,744	$7,224	$7,224	$7,224	$7,224	$7,224	$7,224	$7,224	$7,224	$6,872	$6,802	$6,618	$6,511	$6,393	$6,068	$5,943	$480	$480
Colorado	$2,460	$2,515	$2,395	$2,251	$2,107	$2,047	$2,038	$2,056	$2,134	$2,143	$600	$576	$576	$552	$552	$528	$480	$480
Connecticut	$5,198	$5,556	$5,516	$5,216	$5,156	$5,096	$5,159	$4,909	$4,931	$4,856	$4,796	$4,720	$4,324	$4,225	$4,148	$4,024	$3,476	$480
Delaware	$2,940	$3,069	$2,990	$2,711	$2,711	$2,232	$2,275	$273	$423	$573	$600	$576	$576	$552	$552	$528	$480	$480
District of Columbia	$3,594	$3,608	$3,366	$3,125	$2,883	$2,641	$2,280	$2,430	$2,338	$2,246	$2,032	$1,766	$576	$552	$552	$528	$480	$480
Florida	$3,748	$4,015	$4,015	$3,806	$3,598	$3,598	$123	$273	$423	$573	$600	$576	$576	$552	$552	$528	$480	$480
Georgia	$2,921	$3,024	$2,868	$2,764	$2,607	$2,503	$2,469	$2,410	$2,361	$2,268	$2,190	$2,054	$576	$552	$552	$528	$480	$480
Hawaii	$3,921	$4,200	$4,200	$4,188	$4,188	$4,188	$4,191	$4,191	$4,191	$3,885	$3,885	$3,881	$3,881	$3,877	$3,877	$3,545	$480	$480
Idaho	$3,047	$3,264	$3,264	$3,264	$2,688	$2,688	$123	$273	$423	$573	$600	$576	$576	$552	$552	$528	$480	$480
Illinois	$3,471	$3,718	$3,718	$3,457	$3,457	$3,196	$3,006	$3,156	$423	$573	$600	$576	$576	$552	$552	$528	$480	$480
Indiana	$5,841	$6,257	$5,996	$5,736	$5,475	$5,214	$4,815	$4,705	$4,594	$4,483	$600	$576	$576	$552	$552	$528	$480	$480
Iowa	$4,138	$4,432	$3,911	$3,650	$3,129	$2,868	$2,730	$273	$423	$573	$600	$576	$576	$552	$552	$528	$480	$480
Kansas	$3,349	$3,587	$3,587	$3,119	$2,519	$2,519	$2,234	$2,384	$2,534	$2,645	$600	$576	$576	$552	$552	$528	$480	$480
Kentucky	$3,407	$3,520	$3,324	$3,324	$3,063	$0	$123	$273	$423	$573	$600	$576	$576	$552	$552	$528	$480	$480
Louisiana	$2,848	$3,050	$3,050	$3,050	$1,695	$1,695	$1,817	$1,967	$2,117	$2,118	$2,118	$1,586	$1,586	$1,562	$552	$528	$480	$480
Maine	$4,847	$5,169	$5,089	$5,009	$4,789	$4,699	$4,731	$4,621	$4,671	$4,624	$4,549	$4,453	$4,377	$4,278	$4,201	$4,077	$480	$480
Maryland	$3,898	$4,176	$3,948	$3,732	$3,072	$0	$123	$273	$423	$573	$600	$576	$576	$552	$552	$528	$480	$480
Massachusetts	$6,620	$7,091	$6,622	$6,622	$6,622	$6,101	$6,223	$6,373	$5,898	$5,996	$5,996	$5,425	$5,425	$4,828	$4,828	$4,230	$2,826	$480
Michigan	$4,994	$5,350	$5,350	$5,350	$5,350	$5,350	$5,426	$5,423	$5,215	$4,364	$3,416	$4,347	$576	$552	$552	$528	$480	$480
Minnesota	$6,089	$6,522	$6,522	$6,522	$6,522	$6,522	$6,393	$6,327	$6,220	$6,069	$5,853	$5,605	$5,349	$4,989	$4,590	$3,978	$480	$480
Mississippi	$3,101	$3,214	$3,094	$2,962	$2,818	$2,662	$2,617	$2,587	$423	$573	$600	$576	$576	$552	$552	$528	$480	$480
Missouri	$3,164	$3,389	$3,129	$3,129	$2,868	$0	$123	$273	$423	$573	$600	$576	$576	$552	$552	$528	$480	$480
Montana	$3,428	$3,672	$3,420	$3,120	$2,772	$2,592	$2,091	$1,773	$1,683	$1,485	$600	$576	$576	$552	$552	$528	$480	$480
Nebraska	$5,111	$5,259	$4,635	$0	$0	$0	$123	$273	$423	$573	$600	$576	$576	$552	$552	$528	$480	$480
Nevada	$3,322	$3,559	$3,559	$2,847	$2,847	$2,847	$2,258	$2,408	$1,846	$1,996	$2,024	$1,288	$1,288	$1,264	$1,264	$1,240	$480	$480
New Hampshire	$3,602	$3,859	$3,859	$3,859	$3,859	$3,220	$3,342	$3,492	$423	$573	$600	$576	$576	$552	$552	$528	$480	$480
New Jersey	$4,977	$5,331	$5,331	$5,103	$5,103	$4,816	$4,653	$4,803	$4,668	$4,787	$4,502	$4,478	$576	$552	$552	$528	$480	$480
New Mexico	$2,785	$2,940	$2,790	$2,640	$2,483	$2,293	$2,225	$2,185	$2,145	$573	$600	$576	$576	$552	$552	$528	$480	$480
New York	$6,815	$7,248	$7,091	$6,883	$6,622	$6,361	$6,275	$6,165	$6,054	$5,931	$5,710	$5,477	$576	$552	$552	$528	$480	$480
North Carolina	$3,405	$3,647	$3,647	$3,647	$3,647	$3,647	$3,745	$3,741	$3,741	$3,737	$3,737	$3,734	$3,734	$552	$552	$528	$480	$480

Table A-3. Annual Child Care Subsidies Under CCDF and DCTC by State For a Single Parent with One Three-Year-Old Child in Full-Time Center-Based Care

	Family Earnings																	
State	$10,000*	$11,000	$12,000	$13,000	$14,000	$15,000	$16,000	$17,000	$18,000	$19,000	$20,000	$21,000	$22,000	$23,000	$24,000	$25,000	$30,000	$35,000
North Dakota	$2,683	$2,874	$2,464	$2,464	$2,053	$2,053	$2,176	$1,915	$2,065	$2,215	$600	$576	$576	$552	$552	$528	$480	$480
Ohio	$3,951	$4,233	$4,137	$4,029	$3,909	$3,789	$123	$273	$423	$573	$600	$576	$576	$552	$552	$528	$480	$480
Oklahoma	$2,181	$2,037	$1,737	$1,437	$1,137	$957	$779	$629	$423	$573	$600	$576	$576	$552	$552	$528	$480	$480
Oregon	$2,633	$2,820	$2,340	$1,920	$1,512	$1,080	$483	$273	$423	$573	$600	$576	$576	$552	$552	$528	$480	$480
Pennsylvania	$4,624	$4,954	$4,954	$4,693	$4,693	$4,432	$4,294	$4,444	$4,510	$4,302	$4,106	$3,890	$3,890	$3,159	$3,159	$528	$480	$480
Rhode Island	$3,310	$3,546	$3,546	$3,546	$3,285	$3,285	$3,095	$3,203	$2,971	$2,959	$600	$576	$576	$552	$552	$528	$480	$480
South Carolina	$3,456	$3,702	$3,702	$0	$0	$0	$123	$273	$423	$573	$600	$576	$576	$552	$552	$528	$480	$480
South Dakota	$3,502	$3,752	$3,008	$2,008	$1,008	$8	$123	$273	$423	$573	$600	$576	$576	$552	$552	$528	$480	$480
Tennessee	$2,726	$2,920	$2,555	$2,399	$2,034	$1,877	$123	$273	$423	$573	$600	$576	$576	$552	$552	$528	$480	$480
Texas	$3,948	$4,203	$4,113	$4,023	$3,933	$3,843	$3,876	$3,936	$3,995	$3,911	$3,843	$3,757	$3,689	$552	$552	$528	$480	$480
Utah	$3,159	$3,384	$2,976	$2,580	$1,980	$1,380	$927	$993	$423	$573	$600	$576	$576	$552	$552	$528	$480	$480
Vermont	$4,074	$4,364	$4,364	$4,364	$4,277	$4,233	$4,205	$4,041	$3,718	$3,382	$3,055	$2,872	$2,540	$2,080	$1,861	$1,401	$480	$480
Virginia	$5,428	$5,789	$5,459	$5,349	$4,959	$4,829	$4,661	$4,671	$4,501	$573	$600	$576	$576	$552	$552	$528	$480	$480
Washington	$5,074	$5,436	$5,022	$4,552	$4,082	$3,612	$3,264	$2,944	$2,624	$573	$600	$576	$576	$552	$552	$528	$480	$480
West Virginia	$2,008	$2,151	$2,086	$0	$0	$0	$123	$273	$423	$573	$600	$576	$576	$552	$552	$528	$480	$480
Wisconsin	$5,939	$6,205	$5,944	$5,684	$5,423	$5,266	$5,076	$5,070	$423	$573	$600	$576	$576	$552	$552	$528	$480	$480
Wyoming	$4,600	$4,928	$4,458	$4,106	$4,106	$0	$123	$273	$423	$573	$600	$576	$576	$552	$552	$528	$480	$480
Minimum	$2,008	$2,037	$1,737	$0	$0	$0	$123	$273	$423	$573	$600	$576	$576	$552	$552	$528	$480	$480
Bottom Quartile	$3,108	$3,301	$3,029	$2,676	$2,295	$1,230	$123	$273	$423	$573	$600	$576	$576	$552	$552	$528	$480	$480
Median	$3,471	$3,702	$3,650	$3,457	$3,072	$2,662	$2,258	$2,185	$1,683	$573	$600	$576	$576	$552	$552	$528	$480	$480
Top Quartile	$4,735	$5,061	$4,794	$4,458	$4,233	$4,211	$4,198	$4,116	$3,868	$3,560	$2,623	$2,463	$576	$552	$552	$528	$480	$480
Maximum	$6,815	$7,248	$7,224	$7,224	$7,224	$7,224	$7,224	$7,224	$7,224	$6,872	$6,802	$6,618	$6,511	$6,393	$6,068	$5,943	$3,476	$480

Source: Table prepared by the Congressional Research Service.

Note: Subsidy amounts assume the parent contracts for child care at the CCDF payment rate. CCDF subsidy is based on income eligibility limits for a new applicant to CCDF and the CCDF sliding fee schedule in the state. CCDF subsidy calculations are based on information from states' CCDF plans on file at the Department of Health and Human Services (HHS) on August 14, 1998. DCTC subsidies are based on 1999 federal income tax provisions. DCTC subsidies reflect the effective subsidy for child care expenses after taking into account the full effect of the $500 per child tax credit.

* Assumes full-time part year work at the minimum wage.

Table A-4. Annual Child Care Subsidies Under CCDF and DCTC as a Percent of Child Care Costs by State For a Single Parent with One Three-Year Old Child in Full-Time Center-Based Care

	Family Earnings																	
State	$10,000*	$11,000	$12,000	$13,000	$14,000	$15,000	$16,000	$17,000	$18,000	$19,000	$20,000	$21,000	$22,000	$23,000	$24,000	$25,000	$30,000	$35,000
Alabama	79%	79%	74%	71%	0%	0%	3%	7%	12%	16%	16%	16%	16%	15%	15%	14%	13%	13%
Alaska	97%	97%	97%	85%	85%	85%	86%	78%	79%	80%	56%	55%	55%	30%	30%	30%	30%	5%
Arizona	82%	82%	82%	82%	82%	0%	3%	6%	10%	13%	14%	13%	13%	12%	12%	12%	11%	11%
Arkansas	80%	80%	60%	40%	20%	0%	3%	7%	10%	14%	14%	14%	14%	13%	13%	13%	12%	12%
California	100%	100%	100%	100%	100%	100%	100%	100%	100%	95%	94%	92%	90%	88%	84%	82%	7%	7%
Colorado	69%	66%	62%	59%	55%	53%	53%	54%	56%	56%	16%	15%	15%	14%	14%	14%	13%	13%
Connecticut	93%	93%	92%	87%	86%	85%	86%	82%	82%	81%	80%	79%	72%	70%	69%	67%	58%	8%
Delaware	79%	77%	75%	68%	68%	56%	57%	7%	11%	14%	15%	14%	14%	14%	14%	13%	12%	12%
District of Columbia	80%	75%	70%	65%	60%	55%	47%	50%	48%	46%	42%	37%	12%	11%	11%	11%	10%	10%
Florida	83%	83%	83%	78%	74%	74%	3%	6%	9%	12%	12%	12%	12%	11%	11%	11%	10%	10%
Georgia	91%	88%	83%	80%	76%	73%	72%	70%	69%	66%	64%	60%	17%	16%	16%	15%	14%	14%
Hawaii	100%	100%	100%	100%	100%	100%	100%	100%	100%	93%	93%	92%	92%	92%	92%	84%	11%	11%
Idaho	85%	85%	85%	85%	70%	70%	3%	7%	11%	15%	16%	15%	15%	14%	14%	14%	13%	13%
Illinois	83%	83%	83%	77%	77%	71%	67%	70%	9%	13%	13%	13%	13%	12%	12%	12%	11%	11%
Indiana	96%	96%	92%	88%	84%	80%	74%	72%	70%	69%	9%	9%	9%	8%	8%	8%	7%	7%
Iowa	89%	89%	79%	74%	63%	58%	55%	6%	9%	12%	12%	12%	12%	11%	11%	11%	10%	10%
Kansas	84%	84%	84%	73%	59%	59%	53%	56%	60%	62%	14%	14%	14%	13%	13%	12%	11%	11%
Kentucky	88%	84%	80%	80%	73%	0%	3%	7%	10%	14%	14%	14%	14%	13%	13%	13%	12%	12%
Louisiana	90%	90%	90%	90%	50%	50%	54%	58%	62%	63%	63%	47%	47%	46%	16%	16%	14%	14%
Maine	86%	85%	84%	83%	79%	78%	78%	76%	77%	76%	75%	74%	72%	71%	69%	67%	8%	8%
Maryland	92%	92%	87%	82%	68%	0%	3%	6%	9%	13%	13%	13%	13%	12%	12%	12%	11%	11%
Massachusetts	94%	94%	88%	88%	88%	81%	82%	84%	78%	79%	79%	72%	72%	64%	64%	56%	37%	6%
Michigan	95%	95%	95%	95%	95%	95%	96%	96%	93%	77%	61%	77%	10%	10%	10%	9%	9%	9%
Minnesota	97%	97%	97%	97%	97%	97%	95%	94%	92%	90%	87%	83%	80%	74%	68%	59%	7%	7%
Mississippi	88%	86%	82%	79%	75%	71%	70%	69%	11%	15%	16%	15%	15%	15%	15%	14%	13%	13%
Missouri	87%	87%	80%	80%	73%	0%	3%	7%	11%	15%	15%	15%	15%	14%	14%	14%	12%	12%
Montana	97%	97%	90%	83%	73%	69%	55%	47%	45%	39%	16%	15%	15%	15%	15%	14%	13%	13%
Nebraska	100%	96%	85%	0%	0%	0%	2%	5%	8%	10%	11%	11%	11%	10%	10%	10%	9%	9%
Nevada	75%	75%	75%	60%	60%	60%	48%	51%	39%	42%	43%	27%	27%	27%	27%	26%	10%	10%
New Hampshire	73%	73%	73%	73%	73%	61%	64%	66%	8%	11%	11%	11%	11%	11%	11%	10%	9%	9%
New Jersey	83%	83%	83%	80%	80%	75%	73%	75%	73%	75%	70%	70%	9%	9%	9%	8%	7%	7%
New Mexico	76%	75%	71%	68%	63%	59%	57%	56%	55%	15%	15%	15%	15%	14%	14%	14%	12%	12%
New York	96%	95%	93%	90%	87%	84%	82%	81%	80%	78%	75%	72%	8%	7%	7%	7%	6%	6%
North Carolina	91%	91%	91%	91%	91%	91%	93%	93%	93%	93%	93%	93%	93%	14%	14%	13%	12%	12%

Table A-4. Annual Child Care Subsidies Under CCDF and DCTC as a Percent of Child Care Costs by State For a Single Parent with One Three-Year Old Child in Full-Time Center-Based Care

	Family Earnings																	
State	$10,000*	$11,000	$12,000	$13,000	$14,000	$15,000	$16,000	$17,000	$18,000	$19,000	$20,000	$21,000	$22,000	$23,000	$24,000	$25,000	$30,000	$35,000
North Dakota	70%	70%	60%	60%	50%	50%	53%	47%	50%	54%	15%	14%	14%	13%	13%	13%	12%	12%
Ohio	90%	90%	88%	86%	83%	81%	3%	6%	9%	12%	13%	12%	12%	12%	12%	11%	10%	10%
Oklahoma	75%	65%	56%	46%	36%	31%	25%	20%	14%	18%	19%	18%	18%	18%	18%	17%	15%	15%
Oregon	67%	67%	56%	46%	36%	26%	11%	6%	10%	14%	14%	14%	14%	13%	13%	13%	11%	11%
Pennsylvania	90%	90%	90%	86%	86%	81%	78%	81%	82%	79%	75%	71%	71%	58%	58%	10%	9%	9%
Rhode Island	92%	92%	92%	92%	85%	85%	80%	83%	77%	77%	16%	15%	15%	14%	14%	14%	12%	12%
South Carolina	91%	91%	91%	0%	0%	0%	3%	7%	10%	14%	15%	14%	14%	14%	14%	13%	12%	12%
South Dakota	97%	97%	78%	52%	26%	0%	3%	7%	11%	15%	15%	15%	15%	14%	14%	14%	12%	12%
Tennessee	86%	86%	75%	71%	60%	55%	4%	8%	12%	17%	18%	17%	17%	16%	16%	16%	14%	14%
Texas	81%	81%	79%	77%	76%	74%	75%	76%	77%	75%	74%	72%	71%	11%	11%	10%	9%	9%
Utah	90%	90%	79%	68%	52%	37%	25%	26%	11%	15%	16%	15%	15%	15%	15%	14%	13%	13%
Vermont	100%	100%	100%	100%	98%	97%	96%	93%	85%	78%	70%	66%	58%	48%	43%	32%	11%	11%
Virginia	86%	85%	81%	79%	73%	71%	69%	69%	66%	8%	9%	8%	8%	8%	8%	8%	7%	7%
Washington	96%	96%	88%	80%	72%	64%	58%	52%	46%	10%	11%	10%	10%	10%	10%	9%	8%	8%
West Virginia	75%	75%	73%	0%	0%	0%	4%	10%	15%	20%	21%	20%	20%	19%	19%	18%	17%	17%
Wisconsin	85%	83%	80%	76%	73%	71%	68%	68%	6%	8%	8%	8%	8%	7%	7%	7%	6%	6%
Wyoming	93%	93%	84%	78%	78%	0%	2%	5%	8%	11%	11%	11%	11%	10%	10%	10%	9%	9%
Minimum	67%	65%	56%	0%	0%	0%	2%	5%	6%	8%	8%	8%	8%	7%	7%	7%	6%	5%
Bottom Quartile	82%	82%	77%	68%	59%	34%	3%	7%	10%	13%	13%	13%	12%	11%	11%	10%	9%	8%
Median	88%	86%	83%	79%	73%	61%	55%	52%	39%	17%	16%	15%	14%	14%	14%	13%	11%	11%
Top Quartile	93%	93%	90%	86%	81%	79%	74%	75%	75%	75%	63%	63%	19%	16%	16%	15%	12%	12%
Maximum	100%	100%	100%	100%	100%	100%	100%	100%	100%	95%	94%	93%	93%	92%	92%	84%	58%	17%

Source: Table prepared by the Congressional Research Service (CRS).

Note: Subsidy amounts assume the parent contracts for child care at the CCDF payment rate and receives CCDF subsidy based on CCDF income eligibility limits for a new applicant to CCDF and the CCDF sliding fee schedule in the state. CCDF subsidy calculations are based on information from states' CCDF plans on file at the Department of Health and Human Services (HHS) on August 14, 1998. DCTC subsidies are based on 1999 federal income tax provisions. DCTC subsidies reflect the effective subsidy for child care expenses after taking into account the full effect of the $500 per child tax credit.

* Assumes full-time, part year work at the minimum wage.

Table A-5. Net Annual Out-of-Pocket Child Care Expenses Under CCDF and DCTC by State For a Single Parent with One Three-Year-Old Child in Full-Time Center-Based Care

	Family Earnings																	
State	$10,000*	$11,000	$12,000	$13,000	$14,000	$15,000	$16,000	$17,000	$18,000	$19,000	$20,000	$21,000	$22,000	$23,000	$24,000	$25,000	$30,000	$35,000
Alabama	$730	$782	$939	$1,043	$3,650	$3,650	$3,650	$3,650	$3,650	$3,650	$3,650	$3,650	$3,650	$3,650	$3,650	$3,650	$3,650	$3,650
Alaska	$294	$315	$315	$1,575	$1,575	$1,575	$1,575	$2,625	$2,625	$2,625	$5,250	$5,250	$5,250	$7,875	$7,875	$7,875	$7,875	$10,500
Arizona	$730	$782	$782	$782	$782	$4,432	$4,432	$4,432	$4,432	$4,432	$4,432	$4,432	$4,432	$4,432	$4,432	$4,432	$4,432	$4,432
Arkansas	$779	$834	$1,669	$2,503	$3,337	$4,171	$4,171	$4,171	$4,171	$4,171	$4,171	$4,171	$4,171	$4,171	$4,171	$4,171	$4,171	$4,171
California	$0	$0	$0	$0	$0	$0	$0	$0	$0	$469	$563	$798	$939	$1,079	$1,502	$1,642	$7,224	$7,224
Colorado	$1,120	$1,320	$1,440	$1,584	$1,728	$1,788	$1,920	$2,052	$2,124	$2,256	$3,835	$3,835	$3,835	$3,835	$3,835	$3,835	$3,835	$3,835
Connecticut	$400	$440	$480	$780	$840	$900	$960	$1,360	$1,440	$1,520	$1,600	$1,680	$2,200	$2,300	$2,400	$2,500	$3,000	$5,996
Delaware	$781	$917	$997	$1,276	$1,276	$1,754	$1,834	$3,986	$3,986	$3,986	$3,986	$3,986	$3,986	$3,986	$3,986	$3,986	$3,986	$3,986
District of Columbia	$921	$1,228	$1,470	$1,712	$1,953	$2,195	$2,679	$2,679	$2,921	$3,162	$3,404	$3,646	$4,836	$4,836	$4,836	$4,836	$4,836	$4,836
Florida	$779	$834	$834	$1,043	$1,251	$1,251	$4,849	$4,849	$4,849	$4,849	$4,849	$4,849	$4,849	$4,849	$4,849	$4,849	$4,849	$4,849
Georgia	$292	$417	$574	$678	$834	$939	$1,095	$1,304	$1,460	$1,564	$1,669	$1,825	$3,441	$3,441	$3,441	$3,441	$3,441	$3,441
Hawaii	$0	$0	$0	$12	$12	$12	$12	$12	$12	$420	$420	$420	$420	$420	$420	$840	$4,200	$4,200
Idaho	$538	$576	$576	$576	$1,152	$1,152	$3,840	$3,840	$3,840	$3,840	$3,840	$3,840	$3,840	$3,840	$3,840	$3,840	$3,840	$3,840
Illinois	$730	$782	$782	$1,043	$1,043	$1,304	$1,616	$1,616	$4,500	$4,500	$4,500	$4,500	$4,500	$4,500	$4,500	$4,500	$4,500	$4,500
Indiana	$243	$261	$521	$782	$1,043	$1,304	$1,825	$2,086	$2,346	$2,607	$6,518	$6,518	$6,518	$6,518	$6,518	$6,518	$6,518	$6,518
Iowa	$487	$521	$1,043	$1,304	$1,825	$2,086	$2,346	$4,954	$4,954	$4,954	$4,954	$4,954	$4,954	$4,954	$4,954	$4,954	$4,954	$4,954
Kansas	$616	$660	$660	$1,128	$1,728	$1,728	$2,136	$2,136	$2,136	$2,136	$4,247	$4,247	$4,247	$4,247	$4,247	$4,247	$4,247	$4,247
Kentucky	$487	$652	$847	$847	$1,108	$4,171	$4,171	$4,171	$4,171	$4,171	$4,171	$4,171	$4,171	$4,171	$4,171	$4,171	$4,171	$4,171
Louisiana	$316	$339	$339	$339	$1,695	$1,695	$1,695	$1,695	$1,695	$1,695	$1,695	$2,372	$2,372	$2,372	$3,389	$3,389	$3,389	$3,389
Maine	$800	$880	$960	$1,040	$1,260	$1,350	$1,440	$1,700	$1,800	$1,900	$2,000	$2,100	$2,200	$2,300	$2,400	$2,500	$6,049	$6,049
Maryland	$325	$348	$576	$792	$1,452	$4,524	$4,524	$4,524	$4,524	$4,524	$4,524	$4,524	$4,524	$4,524	$4,524	$4,524	$4,524	$4,524
Massachusetts	$438	$469	$939	$939	$939	$1,460	$1,460	$1,460	$2,086	$2,086	$2,086	$2,711	$2,711	$3,285	$3,285	$3,859	$5,214	$7,561
Michigan	$263	$282	$282	$282	$282	$282	$282	$282	$563	$1,689	$2,816	$1,689	$5,631	$5,631	$5,631	$5,631	$5,631	$5,631
Minnesota	$190	$204	$204	$204	$204	$204	$456	$540	$684	$876	$1,164	$1,476	$1,812	$2,256	$2,688	$3,276	$6,726	$6,726
Mississippi	$403	$540	$660	$792	$936	$1,092	$1,260	$1,440	$3,754	$3,754	$3,754	$3,754	$3,754	$3,754	$3,754	$3,754	$3,754	$3,754
Missouri	$487	$521	$782	$782	$1,043	$3,911	$3,911	$3,911	$3,911	$3,911	$3,911	$3,911	$3,911	$3,911	$3,911	$3,911	$3,911	$3,911
Montana	$101	$108	$360	$660	$1,008	$1,188	$1,812	$2,280	$2,520	$2,868	$3,780	$3,780	$3,780	$3,780	$3,780	$3,780	$3,780	$3,780
Nebraska	$0	$216	$840	$5,475	$5,475	$5,475	$5,475	$5,475	$5,475	$5,475	$5,475	$5,475	$5,475	$5,475	$5,475	$5,475	$5,475	$5,475
Nevada	$1,107	$1,186	$1,186	$1,898	$1,898	$1,898	$2,610	$2,610	$3,321	$3,321	$3,321	$4,033	$4,033	$4,033	$4,033	$4,033	$4,745	$4,745
New Hampshire	$1,302	$1,395	$1,395	$1,395	$1,395	$2,034	$2,034	$2,034	$5,253	$5,253	$5,253	$5,253	$5,253	$5,253	$5,253	$5,253	$5,253	$5,253
New Jersey	$1,009	$1,081	$1,081	$1,309	$1,309	$1,595	$1,881	$1,881	$2,167	$2,167	$2,510	$2,510	$6,412	$6,412	$6,412	$6,412	$6,412	$6,412
New Mexico	$866	$970	$1,120	$1,270	$1,428	$1,618	$1,808	$1,998	$2,188	$3,911	$3,911	$3,911	$3,911	$3,911	$3,911	$3,911	$3,911	$3,911
New York	$292	$365	$521	$730	$991	$1,251	$1,460	$1,721	$1,981	$2,242	$2,503	$2,711	$7,613	$7,613	$7,613	$7,613	$7,613	$7,613
North Carolina	$337	$361	$361	$361	$361	$361	$361	$361	$361	$361	$361	$361	$361	$4,008	$4,008	$4,008	$4,008	$4,008

Table A-5. Net Annual Out-of-Pocket Child Care Expenses Under CCDF and DCTC by State For a Single Parent with One Three-Year-Old Child in Full-Time Center-Based Care

	Family Earnings																	
State	$10,000*	$11,000	$12,000	$13,000	$14,000	$15,000	$16,000	$17,000	$18,000	$19,000	$20,000	$21,000	$22,000	$23,000	$24,000	$25,000	$30,000	$35,000
North Dakota	$1,150	$1,232	$1,643	$1,643	$2,053	$2,053	$2,053	$2,464	$2,464	$2,464	$4,106	$4,106	$4,106	$4,106	$4,106	$4,106	$4,106	$4,106
Ohio	$437	$468	$564	$672	$792	$912	$4,701	$4,701	$4,701	$4,701	$4,701	$4,701	$4,701	$4,701	$4,701	$4,701	$4,701	$4,701
Oklahoma	$739	$1,092	$1,392	$1,692	$1,992	$2,172	$2,472	$2,772	$3,129	$3,129	$3,129	$3,129	$3,129	$3,129	$3,129	$3,129	$3,129	$3,129
Oregon	$1,288	$1,380	$1,860	$2,280	$2,688	$3,120	$3,840	$4,200	$4,200	$4,200	$4,200	$4,200	$4,200	$4,200	$4,200	$4,200	$4,200	$4,200
Pennsylvania	$487	$521	$521	$782	$782	$1,043	$1,304	$1,304	$1,304	$1,564	$1,825	$2,086	$2,086	$2,868	$2,868	$5,475	$5,475	$5,475
Rhode Island	$292	$313	$313	$313	$574	$574	$886	$886	$1,199	$1,199	$3,859	$3,859	$3,859	$3,859	$3,859	$3,859	$3,859	$3,859
South Carolina	$341	$365	$365	$4,067	$4,067	$4,067	$4,067	$4,067	$4,067	$4,067	$4,067	$4,067	$4,067	$4,067	$4,067	$4,067	$4,067	$4,067
South Dakota	$112	$120	$864	$1,864	$2,864	$3,864	$3,872	$3,872	$3,872	$3,872	$3,872	$3,872	$3,872	$3,872	$3,872	$3,872	$3,872	$3,872
Tennessee	$438	$469	$834	$991	$1,356	$1,512	$3,389	$3,389	$3,389	$3,389	$3,389	$3,389	$3,389	$3,389	$3,389	$3,389	$3,389	$3,389
Texas	$900	$990	$1,080	$1,170	$1,260	$1,350	$1,440	$1,530	$1,620	$1,710	$1,800	$1,890	$1,980	$5,193	$5,193	$5,193	$5,193	$5,193
Utah	$370	$396	$804	$1,200	$1,800	$2,400	$2,976	$3,060	$3,780	$3,780	$3,780	$3,780	$3,780	$3,780	$3,780	$3,780	$3,780	$3,780
Vermont	$0	$0	$0	$0	$87	$131	$218	$436	$873	$1,309	$1,746	$1,964	$2,400	$2,837	$3,055	$3,491	$4,364	$4,364
Virginia	$900	$990	$1,320	$1,430	$1,820	$1,950	$2,240	$2,380	$2,700	$6,779	$6,779	$6,779	$6,779	$6,779	$6,779	$6,779	$6,779	$6,779
Washington	$224	$240	$654	$1,124	$1,594	$2,064	$2,534	$3,004	$3,474	$5,676	$5,676	$5,676	$5,676	$5,676	$5,676	$5,676	$5,676	$5,676
West Virginia	$669	$717	$782	$2,868	$2,868	$2,868	$2,868	$2,868	$2,868	$2,868	$2,868	$2,868	$2,868	$2,868	$2,868	$2,868	$2,868	$2,868
Wisconsin	$1,022	$1,251	$1,512	$1,773	$2,034	$2,190	$2,503	$2,659	$7,456	$7,456	$7,456	$7,456	$7,456	$7,456	$7,456	$7,456	$7,456	$7,456
Wyoming	$329	$352	$821	$1,173	$1,173	$5,279	$5,279	$5,279	$5,279	$5,279	$5,279	$5,279	$5,279	$5,279	$5,279	$5,279	$5,279	$5,279
Minimum	$0	$0	$0	$0	$0	$0	$0	$0	$0	$361	$361	$361	$361	$420	$420	$840	$2,868	$2,868
Bottom Quartile	$292	$327	$501	$704	$888	$1,122	$1,440	$1,495	$1,747	$1,805	$2,294	$2,441	$2,998	$3,415	$3,415	$3,767	$3,865	$3,891
Median	$438	$521	$782	$1,040	$1,260	$1,618	$2,034	$2,280	$2,868	$3,162	$3,835	$3,840	$3,911	$4,008	$4,008	$4,033	$4,247	$4,364
Top Quartile	$780	$898	$1,061	$1,412	$1,810	$2,181	$3,183	$3,856	$4,027	$4,171	$4,224	$4,224	$4,768	$4,843	$4,843	$4,901	$5,266	$5,475
Maximum	$1,302	$1,395	$1,860	$5,475	$5,475	$5,475	$5,475	$5,475	$7,456	$7,456	$7,456	$7,456	$7,613	$7,613	$7,613	$7,613	$7,613	$7,613

Source: Table prepared by the Congressional Research Service(CRS).

Note: Net out-of-pocket child care costs assume the parent contracts for child care at the CCDF payment rate and receives CCDF subsidy based on CCDF income eligibility limits for a new applicant to CCDF and the CCDF sliding fee schedule in the state. CCDF subsidy calculations are based on information from states' CCDF plans on file at the Department of Health and Human Services (HHS) on August 14, 1998. DCTC subsidies are based on 1999 federal income tax provisions. DCTC subsidies reflect the effective subsidy for child care expenses after taking into account the full effect of the $500 per child tax credit.

* Assumes full-time, part year work at the minimum wage.

Table A-6. Out-of-Pocket Child Care Expenses as a Percent of Net After Tax Income by Sate For a Single Parent with One Three-Year-Old Child in Full-Time Center-Based Care

	Family Earnings																	
State name	$10,000*	$11,000	$12,000	$13,000	$14,000	$15,000	$16,000	$17,000	$18,000	$19,000	$20,000	$21,000	$22,000	$23,000	$24,000	$25,000	$30,000	$35,000
Alabama	6%	6%	7%	7%	24%	23%	22%	21%	20%	20%	19%	18%	18%	17%	17%	16%	14%	12%
Alaska	3%	3%	2%	11%	11%	10%	10%	15%	15%	14%	27%	26%	26%	37%	36%	35%	30%	35%
Arizona	6%	6%	6%	6%	5%	28%	27%	26%	25%	24%	23%	22%	22%	21%	20%	20%	17%	15%
Arkansas	7%	7%	12%	18%	22%	27%	25%	24%	23%	22%	22%	21%	20%	20%	19%	19%	16%	14%
California	0%	0%	0%	0%	0%	0%	0%	0%	0%	3%	3%	4%	5%	5%	7%	7%	28%	24%
Colorado	10%	11%	11%	11%	12%	11%	12%	12%	12%	12%	20%	19%	19%	18%	18%	17%	15%	13%
Connecticut	3%	4%	4%	6%	6%	6%	6%	8%	8%	8%	8%	9%	11%	11%	11%	11%	12%	20%
Delaware	7%	7%	7%	9%	9%	11%	11%	23%	22%	21%	21%	20%	19%	19%	18%	18%	15%	13%
District of Columbia	8%	10%	11%	12%	13%	14%	16%	16%	16%	17%	18%	18%	24%	23%	22%	22%	19%	16%
Florida	7%	7%	6%	7%	8%	8%	29%	28%	27%	26%	25%	24%	24%	23%	22%	22%	19%	16%
Georgia	3%	3%	4%	5%	6%	6%	7%	8%	8%	8%	9%	9%	17%	16%	16%	15%	13%	12%
Hawaii	0%	0%	0%	0%	0%	0%	0%	0%	0%	2%	2%	2%	2%	2%	2%	4%	16%	14%
Idaho	5%	5%	4%	4%	8%	7%	23%	22%	21%	21%	20%	19%	19%	18%	18%	17%	15%	13%
Illinois	6%	6%	6%	7%	7%	8%	10%	9%	25%	24%	23%	23%	22%	21%	21%	20%	17%	15%
Indiana	2%	2%	4%	6%	7%	8%	11%	12%	13%	14%	34%	33%	32%	31%	30%	29%	25%	22%
Iowa	4%	4%	8%	9%	12%	13%	14%	29%	28%	27%	26%	25%	24%	24%	23%	22%	19%	17%
Kansas	5%	5%	5%	8%	12%	11%	13%	12%	12%	12%	22%	21%	21%	20%	20%	19%	16%	14%
Kentucky	4%	5%	6%	6%	7%	27%	25%	24%	23%	22%	22%	21%	20%	20%	19%	19%	16%	14%
Louisiana	3%	3%	3%	2%	11%	11%	10%	10%	9%	9%	9%	12%	12%	11%	16%	15%	13%	11%
Maine	7%	7%	7%	7%	8%	9%	9%	10%	10%	10%	10%	11%	11%	11%	11%	11%	23%	20%
Maryland	3%	3%	4%	6%	10%	29%	28%	26%	25%	24%	23%	23%	22%	21%	21%	20%	18%	15%
Massachusetts	4%	4%	7%	7%	6%	9%	9%	8%	12%	11%	11%	14%	13%	16%	15%	17%	20%	25%
Michigan	2%	2%	2%	2%	2%	2%	2%	2%	3%	9%	15%	9%	28%	27%	26%	25%	22%	19%
Minnesota	2%	2%	2%	1%	1%	1%	3%	3%	4%	5%	6%	8%	9%	11%	12%	15%	26%	23%
Mississippi	4%	4%	5%	6%	6%	7%	8%	8%	21%	20%	20%	19%	18%	18%	17%	17%	15%	13%
Missouri	4%	4%	6%	6%	7%	25%	24%	23%	22%	21%	20%	20%	19%	19%	18%	18%	15%	13%
Montana	1%	1%	3%	5%	7%	8%	11%	13%	14%	15%	20%	19%	18%	18%	17%	17%	15%	13%
Nebraska	0%	2%	6%	39%	37%	35%	33%	32%	30%	29%	28%	28%	27%	26%	25%	25%	21%	18%
Nevada	10%	10%	9%	13%	13%	12%	16%	15%	18%	18%	17%	20%	20%	19%	19%	18%	18%	16%
New Hampshire	11%	11%	10%	10%	9%	13%	12%	12%	29%	28%	27%	26%	26%	25%	24%	24%	20%	18%
New Jersey	9%	9%	8%	9%	9%	10%	11%	11%	12%	12%	13%	13%	31%	30%	30%	29%	25%	22%
New Mexico	8%	8%	8%	9%	10%	10%	11%	12%	12%	21%	20%	20%	19%	19%	18%	18%	15%	13%
New York	3%	3%	4%	5%	7%	8%	9%	10%	11%	12%	13%	14%	37%	36%	35%	34%	29%	26%
North Carolina	3%	3%	3%	3%	2%	2%	2%	2%	2%	2%	2%	2%	2%	19%	19%	18%	16%	13%

Table A-6. Out-of-Pocket Child Care Expenses as a Percent of Net After Tax Income by Sate For a Single Parent with One Three-Year-Old Child in Full-Time Center-Based Care

	Family Earnings																	
State name	$10,000*	$11,000	$12,000	$13,000	$14,000	$15,000	$16,000	$17,000	$18,000	$19,000	$20,000	$21,000	$22,000	$23,000	$24,000	$25,000	$30,000	$35,000
North Dakota	10%	10%	12%	12%	14%	13%	12%	14%	14%	13%	21%	21%	20%	20%	19%	18%	16%	14%
Ohio	4%	4%	4%	5%	5%	6%	29%	27%	26%	25%	24%	24%	23%	22%	22%	21%	18%	16%
Oklahoma	6%	9%	10%	12%	13%	14%	15%	16%	17%	17%	16%	16%	15%	15%	14%	14%	12%	11%
Oregon	11%	11%	14%	16%	18%	20%	23%	24%	23%	23%	22%	21%	21%	20%	19%	19%	16%	14%
Pennsylvania	4%	4%	4%	6%	5%	7%	8%	8%	7%	8%	10%	11%	10%	14%	13%	25%	21%	18%
Rhode Island	3%	3%	2%	2%	4%	4%	5%	5%	7%	7%	20%	19%	19%	18%	18%	17%	15%	13%
South Carolina	3%	3%	3%	29%	27%	26%	25%	24%	23%	22%	21%	20%	20%	19%	19%	18%	16%	14%
South Dakota	1%	1%	6%	13%	19%	25%	24%	22%	22%	21%	20%	20%	19%	18%	18%	17%	15%	13%
Tennessee	4%	4%	6%	7%	9%	10%	21%	20%	19%	18%	18%	17%	17%	16%	16%	15%	13%	11%
Texas	8%	8%	8%	8%	8%	9%	9%	9%	9%	9%	9%	10%	10%	25%	24%	23%	20%	17%
Utah	3%	3%	6%	8%	12%	15%	18%	18%	21%	20%	20%	19%	18%	18%	17%	17%	15%	13%
Vermont	0%	0%	0%	0%	1%	1%	1%	3%	5%	7%	9%	10%	12%	13%	14%	16%	17%	15%
Virginia	8%	8%	10%	10%	12%	12%	14%	14%	15%	36%	35%	34%	33%	32%	31%	30%	26%	23%
Washington	2%	2%	5%	8%	11%	13%	15%	17%	19%	30%	29%	29%	28%	27%	26%	26%	22%	19%
West Virginia	6%	6%	6%	20%	19%	18%	17%	17%	16%	15%	15%	14%	14%	14%	13%	13%	11%	10%
Wisconsin	9%	10%	11%	13%	14%	14%	15%	15%	41%	40%	39%	38%	36%	35%	34%	34%	29%	25%
Wyoming	3%	3%	6%	8%	8%	34%	32%	31%	29%	28%	27%	27%	26%	25%	24%	24%	20%	18%
Minimum	0%	0%	0%	0%	0%	0%	0%	0%	0%	2%	2%	2%	2%	2%	2%	4%	11%	10%
Bottom Quartile	3%	3%	4%	5%	6%	7%	9%	9%	10%	10%	12%	12%	15%	16%	16%	17%	15%	13%
Median	4%	4%	6%	7%	8%	10%	12%	13%	16%	17%	20%	19%	19%	19%	19%	18%	16%	15%
Top Quartile	7%	7%	8%	10%	12%	14%	19%	22%	22%	22%	22%	21%	23%	23%	22%	22%	20%	18%
Maximum	11%	11%	14%	39%	37%	35%	33%	32%	41%	40%	39%	38%	37%	36%	35%	34%	29%	26%

* Assumes full-time, part year work at the minimum wage.

Note: Subsidy amounts assume the parent contracts for child care at the CCDF payment rate and receives CCDF subsidy based on CCDF income eligibility limits for a new applicant to CCDF and the CCDF sliding fee schedule in the state. CCDF subsidy calculations are based on information from states' CCDF plans on file at the Department of Health and Human Services (HHS) on August 14, 1998. DCTC subsidies are based on 1999 federal income tax provisions. DCTC subsidies reflect the effective subsidy for child care expenses after taking into account the full effect of the $500 per child tax credit. Net after-tax income is earnings, less FICA taxes and federal income taxes (including the EITC).

Source: Table prepared by the Congressional Research Service.