Affordable Child Care for Families
Federal & State Tax Incentives

January 2026

Federal Tax Incentives to Promote Affordability for Families:

Dependent Care Tax Credit (DCTC):

The Dependent Care Tax Credit (DCTC) allows families to take a tax credit for child care expenses related to dependent children under age 13 or expenses relating to caring for those individuals who are mentally or physically disabled (and who are claimed as a dependent).

The amount of eligible expenses are capped and only a percentage of the allowable expenses are used to calculate the credit. For example, the credit rate declines as income rises. Allowable child care expenses for a family with one child are limited to $3,000 per year. Families with two children are allowed $6,000 in expenses per year. Against the cap of allowable expenses is a percentage limitation that is applied against the cap, which declines as income rises.

Beginning in 2026, the maximum credit is $1,500 for one child (50 percent of $3,000 in expenses) and $3,000 for two children (50 percent of $6,000). The 50 percent credit rate is reduced as income rises, but not below 20 percent. The credit rate for families with income over $105,000 (for single filers) and $210,000 (for couples filing jointly) is 20 percent.

The following table shows the declining percentage of credit rates by income beginning in 2026.

Income Range	Credit Rate Percentage	Max Dollar Value for One Child
For single filers:		
Under $15,000	50%	$1,500
Between $15,000 - $45,000	phase down to 35%	$1,050
Between $45,000 - $75,000	35%	$1,050
Between $75,000 - $105,000	phase down to 20%	$600
Over $105,000	20%	$600
For married couples filing jointly:		
Under $15,000	50%	$1,500
Between $15,000 - $45,000	phase down to 35%	$1,050
Between $45,000 - $150,000	35%	$1,050
Between $150,000 - $210,000	phase down to 20%	$600
Over $210,000	20%	$600

To read more information about the DCTC, check out IRS Form 2441 and related IRS resources that describe how to calculate the credit.

Employer Sponsored Dependent Care Assistance Plans for Child Care Expenses (DCAPs)

Under current federal tax law, employers can set up Dependent Care Assistance Plans, which are flexible spending accounts (Section 129 of the Internal Revenue Code). If employers choose to offer such plans, beginning in 2026, employees can set-aside up to $7,500 in pre-tax salary for dependent care expenses.

Using pre-tax dollars means a tax savings to employees (potentially 20-40 percent of child care expenses depending upon the family's tax bracket and expenses incurred for child care) as well as a tax savings for employers (funds set aside through a flexible spending account reduce employer payroll – for example, these funds aren't subject to FICA or FUTA taxes).

For many employees with young children, they may already be paying for child care, so the option for a flexible spending account reimburses them at a tax savings for money that would be spent anyway.

How do flexible spending plans work? An employer establishes a written plan (required by the IRS) and distributes a summary of the plan to all employees (required by the Department of Labor).

Employees estimate how much they think they will spend on child care for the year. They can then choose to have up to $7,500 of their salary per year set aside tax-free into a flexible spending account through regular paycheck deductions.

As child care expenses are incurred, employees can submit for reimbursement from their flexible spending account (FSA). Prior to 2026, FSAs were capped at $5,000 annually. Beginning in 2026, FSAs are capped at $7,500. Expenses related to dependent children under age 13 or related to dependents who are mentally or physically incapable of caring for themselves (and who the employee claims as a dependent) are eligible for reimbursement through FSAs.

Here's a calculator to help employees figure out tax savings by utilizing DCAP benefits. It's always a good idea to consult with a tax professional, but conceptually, there are savings to be realized through the tax code for employers who wish to assist their employees with child care affordability.

Idaho Tax Incentives to Promote Child Care Affordability for Families:

Idaho Child Care Tax Deduction: In Idaho, families can deduct up to $12,000 in child care expenses from their income. Idaho uses the same criteria as the federal government to determine which expenses are eligible for the deduction. Filers can claim the deduction using the Idaho tax form 39R section B Line 6 (more information is available as part of the Idaho Individual income tax instructions and worksheet on page 30) and must submit a copy of their federal Form 2441 along with their Idaho tax return.

Resource Summary

- IRS Publication 503, Child and Dependent Care Expenses for use in preparing tax returns
- IRS Instructions to fill out Form 2441, Child and Dependent Care Expenses
- IRS Form 2441, Child and Dependent Care Expenses (Tax Credit)
- Dependent Care Assistance Plans (DCAPs), Section 129 of the Internal Revenue Code
- Dependent Care Assistance Plans (DCAPs)
- Idaho Office of Group Insurance Dependent Care Assistance Information
- Idaho tax form 39R
- Idaho individual income tax instruction and worksheet, page 30

Need help to prepare and file your federal income tax forms?

The Volunteer Income Tax Assistance (VITA) program offers free tax help to people who generally make $67,000 or less, persons with disabilities and limited English speaking taxpayers who need assistance in preparing their own tax returns. IRS-certified volunteers provide free basic income tax return preparation with electronic filing to qualified individuals.