TQEE Tennesseans *for* Quality Early Education

Employer-Provided Child Care Tax Credit Expansion – "45F"

The final version of the 2025 tax reconciliation package (the One Big Beautiful Bill Act – H.R.1) was signed into law on July 4th, 2025. The bill included a significant expansion of Section 45F of the Internal Revenue Code.

Section 45F under the Internal Revenue Code provides for an income tax credit designed to encourage businesses to invest in child care support for working families. The One Big Beautiful Bill Act substantially expanded the credit, broadened the types of expenses that are eligible under the credit, and made it easier for small businesses to work together to provide support jointly to their employees.

Feature	Pre-2025	One Big Beautiful Bill Act (2025+)
% of qualified child care expenditures credited	25%	40% (or 50% for eligible small businesses)
% of qualified child care resource and referral expenditures credited	10%	10%
Maximum annual credit	$150,000	$500,000 (or $600,000 for eligible small businesses)
Pooling resources allowed	No	Yes
What counts as qualified expenses	Facility costs, some services	Broader: facility, contracted, agency, referral
Credit indexed for inflation	No	Yes
Filing method	Form 8882	Form 8882

Qualified Child Care Expenditures

Qualified child care facility expenditures are amounts paid or incurred:

- To acquire, construct, rehabilitate or expand property that is:
  - To be used as part of a qualified child care facility of the taxpayer,
  - Depreciable (or amortizable) property, and
  - Not part of the principal residence (within the meaning of IRC Section 121) of the taxpayer or any employee of the taxpayer; or
- To operate a qualified child care facility of the taxpayer. This includes training employees, providing scholarship programs, and providing increased compensation to employees with higher levels of child care training; or
- Under a contract with a qualified child care facility to provide child care services to employees of the taxpayer, or under a contract with an intermediate entity that contracts with one or more qualified child care facilities to provide such child care services.

Qualified Child Care Facility

A qualified child care facility is a space that meets the requirements of all applicable state and federal laws, and must also meet these conditions:

- The principal use of the facility must be to provide child care assistance, unless the facility is also the principal residence (within the meaning of IRC Section 121) of the person operating the facility;
- If the facility is the principal trade or business of the taxpayer, at least 30% of the enrollees of the facility must be dependents of employees of the taxpayer; and
- The use of the facility (or the eligibility to use the facility) must not discriminate in favor of highly compensated employees (within the meaning of IRC Section 414(g)).

As part of amendments to Section 45F, a jointly-owned or operated child care facility may now qualify as a qualified child care facility.

Qualified Resource and Referral Expenditures

Qualified resource and referral expenditures are amounts paid or incurred under a contract to provide child care resource and referral services to your employees.

The provision of the services (or the eligibility to use the services) must not discriminate in favor of highly compensated employees.

Eligible Small Business

A small business may qualify for the higher 50% rate and $600,000 maximum credit if it meets the gross receipts test of IRC Section 448(c), measured over a 5-year period. For 2025, this means a business with annual gross receipts under approximately $31 million (adjusted for inflation).

Pooling Resources

Businesses can now join together to pool resources and contract with licensed childcare providers, or jointly own or operate a child care facility, allowing all participating businesses to claim a share of the tax credit under Section 45F. This collaboration lowers the costs and administrative burden for each company while providing quality childcare access to their employees.

Example 1: Two small businesses, Smith Manufacturing and Jones Realty, partner with ABC Daycare:

- Smith pays $80,000; Jones pays $60,000.
- Each company can claim 50% of its share: Smith claims $40,000 credit, Jones claims $30,000 credit.

Both must file IRS Form 8882 and keep documentation of the expenses and partnership agreement.

Example 2: A group of four small businesses jointly contract with XYZ Playhouse, agreeing to split the $200,000 child care contract evenly amongst the businesses.

- Each business pays $50,000 to XYZ Playhouse.
- Each business claims a $25,000 credit (50% of $50,000).

Interaction with the Business Expense Deduction

If an employer incurs qualified child care expenditures in excess of the maximum allowable credit amount under Section 45F, any excess amount can still be deducted as a business expense.

Example: Smith Manufacturing, a small business, contracts with XYZ Daycare and pays $2 million in expenses.

- Smith can claim the full $600,000 tax credit under Section 45F.
- Smith may also claim a business expense deduction for its child care expenses, but it must reduce the $2 million in expenses by the $600,000 tax credit when calculating the amount it can claim as a business deduction ($1.4 million).

*This information is only a summary of the IRC Section 45F and does not constitute legal or financial advice. Employers looking to explore the employer-provided child care credit should consult with their legal counsel and/or tax advisors.