

How the Expanded Employer Child Care Tax Credit Can Save Your Business Thousands

Let's talk about a tax update that can make a big difference for businesses offering child care benefits.

The Employer Provided Child Care Tax Credit has been expanded under OBBBA, and these changes are designed to make it easier and more rewarding for employers to help their teams with child care. In this video, we'll talk about what the law looked like before, what's changing, and how companies can start planning ahead to take full advantage of the new opportunities.

Previously, employers who provided child care support had access to a tax credit that allowed businesses to claim up to 25% of qualified child care facility expenditures. This included some things like operating an on-site child care center or contracting with a licensed provider. On top of that, they could claim 10% of expenditures for child care resource and referral services, such as helping employees find child care options via external providers. The cap for the credit was \$150,000 per year. Starting January 1, 2026, some significant enhancements kick in. Here are the key changes.

The credit percentage goes up: For large businesses, it moves from 25% to 40%; for small businesses, defined as gross receipts of \$31 million or less in 2025, the credit jumps to 50%. The 10% credit for resource and referral services stays the same.

The annual cap increases: For large businesses, it goes from \$150,000 to \$500,000 and for small businesses up to \$600,000. Both caps will be adjusted annually for inflation, beginning in 2027.

There's more flexibility in how the child care benefit is structured. Employers can now contract with a third-party intermediary or jointly operate a child care facility with other employers, making it more accessible, especially for smaller firms. So why should employers pay attention to this? There are a few reasons. First, if you're already spending on child care related supports, this gives you a stronger financial incentive for doing so. Second, it opens the door for smaller businesses that might not have been able to operate an on-site facility on their own. With the increased flexibility, you can partner with others or use external providers. Third, in a tight labor market, offering strong, family-friendly benefits can help you attract and retain talent. The expanded credit makes child care support more feasible.

Madison, WI

1221 John Q Hammons Drive
Suite 100
Madison, WI 53717

Phone: (608) 831-8181
Fax: (608) 831-4243

Brookfield, WI

18650 W. Corporate Drive
Suite 200
Brookfield, WI 53045

Phone: (262) 641-6888
Fax: (262) 641-6880

Colorado Springs, CO

P.O. Box 62786
Colorado Springs, CO 80962
Phone: (719) 413-5551

Contact Us:

Email: info@SVAaccountants.com
Web: SVAaccountants.com

Even though the effective date is January 1, 2026, you can start planning today. Here are a few action steps.

Review your current offerings: take stock of any child-related spending you're already doing. Does it qualify under the new credit rules?

Explore partnerships or third-party options: If you don't have an on-site facility, consider teaming up with other local businesses and contracting with a licensed provider to take advantage of the flexibility.

Consult with your tax advisor: The credit is claimed via IRS Form 8882, so you want to make sure you understand eligibility documentation requirements and how it fits into your broader tax planning.

Make child care support part of your workforce strategy: Think about how this benefit can be communicated to your current staff and candidates. Putting it front and center can help distinguish your company. Taking steps now means you'll be ready to take full advantage once the changes hit.

If you haven't been involved in this space yet, now is a good time to look into whether this benefit makes sense for you.

Madison, WI

1221 John Q Hammons Drive
Suite 100
Madison, WI 53717

Phone: (608) 831-8181
Fax: (608) 831-4243

Brookfield, WI

18650 W. Corporate Drive
Suite 200
Brookfield, WI 53045

Phone: (262) 641-6888
Fax: (262) 641-6880

Colorado Springs, CO

P.O. Box 62786
Colorado Springs, CO 80962

Phone: (719) 413-5551

Contact Us:

Email: info@SVAaccountants.com
Web: SVAaccountants.com