CLASP
The Center for Law and Social Policy

NATIONAL WOMEN'S LAW CENTER

Fact Sheet

January 2021 | Katherine Gallagher Robbins, Melissa Boteach, and Julie Kashen

Why Child Care Needs Direct Spending, Not Just Tax Credits, During COVID and Beyond

The COVID pandemic has pushed child care and early learning to the brink, with the sector losing **one in six jobs** and **thousands of providers** on the verge of shutting their doors. The pandemic has especially harmed **communities of color,** as women of color are disproportionately represented in the early education workforce and families of color have all too often struggled to find and afford care, even before the pandemic. As we look to recover, families are likely to face a dearth of care options, putting parents in impossible situations and undermining employers' ability to recruit and retain workers and workers' ability to be productive on the job.

To support child care through COVID and to ensure a robust recovery and an equitable economy in the future, child care requires at least $50 billion in direct public spending to support providers and families.

While a tax credit targeting families' child care costs[1] can play a small, complementary role in helping to offset the cost of care for families, addressing the range of urgent needs in the child care crisis before us requires an influx of public investment through relief funds and a significant down payment in mandatory child care spending to start building the child care system that an equitable recovery demands.

COVID's Devastating Impact on Child Care

Even before COVID, child care was difficult to access and afford for many families, while workers--virtually all women and disproportionately women of color--were paid poverty-level wages. This disconnect is because direct public support for child care has always been far too low, a reality **rooted in a history of racist and sexist policies** that have devalued care and the women who provide it. The primary federal funding source for child care, the Child Care and Development Block Grant, served only one in six families before COVID, and it **disproportionately fails Asian American and Latinx families**.

Now the child care sector has been devastated by COVID. Child care requires significant resources to equitably address the immediate, urgent needs facing the field: health and safety, compensation for the workforce, business stability, and support for families. Addressing the crisis includes:

- Ensuring workers and children are safe through the provision of and financing of PPE; sanitation supplies; access to free, voluntary, priority vaccination; and necessary equipment such as upgraded HVAC systems.
- Providing premium pay for workers, offering critical benefits such as paid leave and health care, and investing in substitute pools and other necessary staffing models.
- Providing stability to child care businesses by addressing COVID-related debt, defraying fixed costs

[1] This type of targeted tax credit is distinct from the Child Tax Credit, which is a broader cash support for families.

that remain during periods of low enrollment, supporting closed providers so they can open their doors after COVID, and more.

- Supporting families by reducing or eliminating copayments as parents struggle to make ends meet and providing virtual services when possible and appropriate.
- Supporting the diverse range of child care providers through education and outreach, simplifying access to support, and reaching out to the range of centers, family homes, and in-home providers that serve families.

The Solution: At Least $50 Billion in Direct, Flexible Spending to Stabilize Child Care

To address these and other critical concerns, child care needs at least $50 billion in direct, flexible stabilization to support providers, families, and early educators. The CARES Act provided $3.5 billion for child care, whereas estimates showed at least **$9.6 billion/month** was necessary. In December, Congress provided an additional $10 billion in support, and President Biden's American Rescue Plan builds on this with an additional $40 billion in direct relief for child care ($25 billion for a much-needed stabilization fund and $15 billion in additional funding through CCDBG) for a total of $50 billion. Congress must pass at least the $40 billion in the American Rescue Plan to stabilize child care and provide much-needed additional support to build back a better system and to adequately value and support the 21st-century caregiving and early education workforce the country needs.

Tax Credits Are A Complementary Policy, Not A Replacement For Significant Direct Spending And Bold Reforms

The administration's plan also includes a tax proposal to expand and improve the Child and Dependent Care Tax Credit (CDCTC) to make up to $4,000 in expenses eligible for a maximum 50 percent credit for one child or dependent (and up to $8,000 in expenses eligible for 2 or more children or dependents). The proposed changes to the CDCTC would also make the credit fully refundable for families with incomes of less than $125,000. Currently, families may claim a credit of up to 35 percent of up to $3,000 in expenses ($6,000 for 2 or more children).

Expanding the Child and Dependent Care Tax Credits would help some families offset their out-of-pocket child care expenses, but it would not address many of the other urgent concerns the child care system faces, including health and safety, provider supports, a well-trained and fairly compensated workforce with the ability to join a union, adequate child care supply, or virtual services. In addition, while a tax credit can help reimburse families for expenses paid during the year, because child care costs are ongoing and generally a large share of their monthly expenses, families struggle to "float" until filing their annual taxes. For all of these reasons, an expanded tax credit is a complementary--not a primary--tool for stabilizing and rebuilding the child care sector.

Families and providers have waited far too long for the support they need. Effectively providing this support to address the range of urgent needs in the child care crisis through direct public spending to providers must be part of any COVID relief package.