TAX BREAKS FOR CHILD CARE

With today's high cost of living, there are more and more dual-income families with children. As a result, child care is a critical need for many California families. If you are, or plan to be, one of these families, the following information may help prepare you for the financial and other challenges ahead.

AFFORDABILITY

Out-of-home child care costs can be quite high. For example, sending an infant to a child care center costs a family about six times more than the annual tuition for a California State University and 33 percent more than a University of California campus. In fact, Californians pay 20 percent more for child care than the national average, so be sure to factor this in when making your family's child care and other financial decisions.

AVAILABILITY

Due to the increased number of two-income families, finding an opening in a conveniently located, affordable and reputable child care facility could be a challenge.

Only 25 percent of children whose parents are in the work force have licensed child care available to them; and only 4 percent of child care centers have care available during nontraditional hours—despite the fact that 20 percent of Californians work non-traditional hours.

So don't wait until the last minute to plan for your child care needs. The sooner you can explore your options and get on waiting lists, the better for you, and your children.

QUALITY

Child care is different than baby-sitting. Most child care facilities offer some level of educational and social activities that help children learn and grow.

Quality child-care has been shown to promote school-readiness. Participants in a longitudinal study of quality care had significantly higher high school grades, scored higher on literacy tests at age 19 and were more likely to earn a high school diploma.

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You may be able to reduce your federal and state income tax by claiming the credit for child and dependent care expenses on your tax return. The child and dependent care expenses credit can be up to 35 percent of your qualifying expenses, depending upon your income. This credit is available to people who, to work or to look for work, have to pay for childcare services for dependents under age 13. The credit is also available if you paid for care of a spouse or a dependent of any age who is physically or mentally incapable of self-care.

Filers who qualify for the federal credit and have an adjusted state income of $100,000 or less can claim a percentage of the federal break on their California income tax forms 540, 540A and 540NR. However, the credit cannot be claimed by filers of the simplest form, the 540-EZ.

While the federal credit can cut a taxpayer's bill to zero, the California credit is refundable—it can give a filer money back regardless of the tax bill. If the taxpayer's tax liability is less than the credit due, the state will send the taxpayer a check for the difference.