

# The Legal Review

*Bringing the Law to Life for the Household Employment Industry*

*A Complimentary Resource from*  
**Breedlove & Associates**

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*In an effort to help you strengthen your business practices and steer clear of legal trouble, The Legal Review will share findings from relevant legal cases. We've found that the easiest way to gain a practical understanding of complex tax and labor law is by reviewing real-life situations. These stories will illuminate potential legal landmines for your agency and/or your clients, and more importantly, show you how to avoid them.*

## **Pending Legislative Changes to the Child and Dependent Care Tax Credit** *Understanding the Significant Potential Impact for our Industry*

As you may already be aware, the International Nanny Association (INA) has spearheaded an extensive lobbying effort to amend the Child and Dependent Care Tax Credit. The effort has resulted in three bills pending approval in the House and Senate.

This legislation – if passed – will provide a significant lift to the entire care industry because more families will be able to afford quality care. Since we're numbers people, we've dedicated this month's *Legal Review* to helping everyone understand the potential financial impact of this legislation.

### ***The Current Law***

There are two tax breaks designed to help families with child or elder care expenses:

**Flexible Spending Account.** Offered through most medium and large companies, Flexible Spending Accounts enable participants to pay for up to \$5,000 of care expenses per family per year with pre-tax dollars. Depending on the family's marginal tax rate, this tax break saves families \$2,100 - \$2,300 per year.

**Child and Dependent Care Tax Credit (CDCTC).** Families can receive a 20% tax credit on up to \$3,000 of dependent care expenses if they have 1 dependent or up to \$6,000 if they have 2 or more dependents. Using Form 2441 with their federal income tax return, families with one child save up to \$600 per year while families with two or more children save up to \$1,200 per year.

While the cost of care has risen steadily over the years, these tax breaks have remained static for more than a decade. Each year, fewer and fewer families can afford quality care. It's time for change.

### ***The Proposed Legislation***

The new bill under consideration in Congress is designed to better reflect today's cost of quality care. Although the Flexible Spending Account would not be altered, the CDCTC would change radically. The proposed legislation would double the expense limits (to \$6,000 of dependent care expenses if a family has 1 dependent and \$12,000 if the family has 2 or more dependents). Additionally, the tax credit percentage would increase from 20% to 35%.

## The New Math

The proposed legislation would save your clients a considerable amount of money each and every year they employ a caregiver. Here's a comparison of the current and proposed tax breaks using the Child and Dependent Care Tax Credit:

### Families with One Child

Current Tax Breaks (20% of \$3,000) = \$600

Proposed Tax Breaks (35% of \$6,000) = **\$2,100**

### Families with Two or More Children

Current Tax Breaks (20% of \$6,000) = \$1,200

Proposed Tax Breaks (35% of \$12,000) = **\$4,200**

**Important Note:** If a family has 2 or more children AND access to a Flexible Spending Account, they'll be able to capitalize on both tax breaks. Using the \$5,000 Flexible Spending Account through their employer, the families will save \$2,100 - \$2,300 from that tax break PLUS they'll have an additional \$7,000 in expenses that can be itemized on Form 2441 under the CDCTC. Combined, the two tax breaks would yield a savings of \$4,550 - \$4,750 each and every year!

As you can see, the proposed legislation would provide tremendous financial relief for families – making quality in-home childcare more affordable to more families and potentially creating a significant increase in demand for the entire industry.

## How We Can All Help

In order to improve the odds of these bills becoming law, we encourage you to take a moment to send an impassioned plea to your Senators and your Representative in the House. We also encourage you to share this legislative news with your database of families so they too can voice their opinion.

To write your congressmen: Most congressmen have an email contact from on their website which can be found by googling *Your State + Senators* (i.e. Texas Senators) and *US House of Representatives + Your City* (i.e. US House of Representatives Austin, TX).

In our current legislative environment, the squeaky wheel gets the grease. So, let's make some noise. Five minutes could make a huge difference for our industry.

**If you have additional questions, please call 888-BREEDLOVE (273-3356) or visit [www.breedlove-online.com](http://www.breedlove-online.com). We're here to help our agency partners provide their candidates and clients with information, tools and resources that improve the employment relationship, eliminate legal risk for all parties, and increase the professionalism of the industry.**



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