

Tax Benefits for Employers

Child care assistance provided by an employer is a tax-deductible business expense. You should further discuss the relevant tax laws highlighted below with your accountant and/or tax counsel. You should also explore tax incentives and programs relating to the provision of child care that are specific to your state, county, and/or community.

Business Expenses

Amounts paid by an employer to provide a child care service for employees may be deductible as ordinary business expenses under IRC Section 162 as the services reduce absenteeism and turnover; aid in recruitment and retention of employees; and increase productivity for the employer. Amounts paid by an employer to a welfare benefit fund, such as a Voluntary Employees' Beneficiary Association (VEBA), may also be deductible.

Charitable Contributions

An employer may be entitled to a charitable contribution deduction for donating to a qualifying tax-exempt child care organization.

Capital Expenses

Costs incurred for acquiring, constructing, and/or remodeling a building to be used as a child care center can be depreciated over a thirty-nine year period under the Modified Accelerated Cost Recovery System described in IRC Section 168. Costs of equipping the building can be depreciated over varying recovery periods depending on the type of business in which the center is located and the type of equipment. See IRS Publication 946 for specific depreciation instructions.

Start-Up Expenses

Start-up and investigatory expenses incurred in the development of a new child care center may be amortized over 60 months or more under IRC Section 195. Eligible expenses may include costs for advertising, needs assessments, consultant services, and staff training.

Tax-Exempt Organizations

An employer-sponsored child care center may be established as a tax-exempt 501(c)(3) organization. The organization providing child care services must apply to the IRS for tax-exempt status. The employer's contributions to the center may be deductible as charitable contributions. However, it is required that the center must also be open to the general public. An employer may also be able to deduct child care benefits provided through a (VEBA) 501(c)(9).

Dependent Care Assistance Plan (DCAP)

Though primarily a tax benefit for employees, DCAPs also provide a tax incentive to employers. A DCAP is one type of flexible spending account in which an employee sets aside a certain amount each month to pay for dependent care. Neither the employee nor the employer pays income or FICA taxes on the amount used for dependent care if the benefit is offered under a cafeteria plan as defined in IRC Section 125.