



Guide to Employer-Provided Child Care Tax Credits

The federal Employer-Provided Child Care Tax Credit (IRC Section [45F](#)), combined with Utah's complementary [corporate](#) and [individual](#) business child care tax credits, create a valuable incentive for businesses to support their employees' child care needs.

Investing in child care benefits not only helps businesses attract and retain top talent but also boosts employee productivity and morale. By reducing some of the financial burden of child care, companies can foster a supportive work environment, reduce absenteeism, and enhance overall job satisfaction. According to the [U.S. Chamber of Commerce Foundation](#), Utah's economy suffers an annual loss of \$1.36 billion due to child care issues.

Starting with payments in January of 2026, the expanded¹ federal tax credit will allow employers to offset up to \$500,000 (\$600,000 in the case of an eligible small business²) per year in child care-related expenses, covering 40% (or 50% in the case of an eligible

¹ Section 70401 of the Big Beautiful Bill expands the employer-supported tax credit.

² Utah's employer-sponsored child care tax credit mirrors the federal tax credit—meaning businesses must meet the modified gross receipts test of [26 U.S.C. §448\(c\)](#) to qualify as a small business. In order to be considered small, the business must have average annual gross receipts for the 5 taxable-year period ending with the preceding taxable year that do not exceed [\\$32,000,000](#) in 2026. The amount is adjusted each year for inflation, rounded to the nearest multiple of \$1,000,000.

small business) of qualified child care facility or provider costs and 10% of child care resource and referral expenditures. These annual limits will be adjusted for inflation.

In Utah, starting in 2026,³ a similar, but not identical, additional nonrefundable corporate/individual income tax employer-sponsored child care tax credit is available in the following amounts:

- **20%** of the construction expenditures for an **on-site** child care facility;
- **30%** of qualified child care expenditures for an eligible small business; and
- **10%** of qualified child care expenditures for a large business.

These tax credits are available for: (1) onsite, employer-owned and operated child care facilities; (2) any amount paid or incurred under a contract (or multiple contracts) with a qualified child care facility to provide child care services to the employees of the taxpayer; or (3) or under a contract with an intermediate entity that contracts with one or more qualified child care facilities to provide such child care services. Employers can also combine the employer-provided child care tax credit and the business expense deduction. In other words, any amount expended that exceeds the limit of the tax credit can be deducted as a business expense. Since these credits are nonrefundable, in order to receive the full benefit, businesses must be a for-profit entity with tax liability that exceeds the amount of the credits. Nonprofit, government, and tribal entities are generally not eligible since they do not have federal or state tax liability.

The following chart shows the combined state and federal potential employer sponsored child care tax credits based upon whether the employer qualifies as a large or small employer:

Activity	Credit	Small	Large
Construction			
	Federal 45F	50%	40%
	Utah	20%	20%
	Combined Total Tax Credit	70%	60%
Operation of Onsite Facility			
	Federal 45F	50%	40%
	Utah	30%	10%
	Combined Total Tax Credit	80%	50%
Contracted Child Care (Direct or Using Intermediary)			
	Federal 45F	50%	40%
	Utah	30%	10%
	Combined Total Tax Credit	80%	50%

³ Child Care Business Tax Credit [HB 190](#).

If an employer decides to open a child care facility onsite, it can also recoup a federal tax credit up to 40% (50% for a small business) of the costs related to constructing, expanding, or rehabilitating, the property to accommodate child care services (up to the federal limit of \$500,000 (\$600,000 for a small business)). In addition, the employer may claim up to 20% of the construction expenditures under the Utah state tax credit.

Please note that there is a sliding scale of recapture percentages if the employer-owned child care facility ceases to operate or changes ownership without the new owner assuming the recapture liability within ten years.

Employers may choose to use an intermediary or contract directly with one or more child care providers that are either currently providing or could provide child care services to its employees, thereby supporting parental choice and convenience. Any expenses charged by the intermediary are likely also eligible for state/federal tax credits. Employers who are interested in contacting companies that may serve as an intermediary, should consider contacting national firms such as [Upwards](#) or [Tootris](#).

The employer can choose to negotiate terms and conditions with each child care provider, or apply standard terms to each provider. Each child care services agreement can be tailored to meet the needs of the employer, its employees with children, and the child care provider. The agreement must be in writing, signed by all parties, and meet the requirements of 45F in order for the employer to claim the tax credit. An example child care services contract template is provided below for convenience.

For more information, visit our FAQs [here](#) and estimate possible tax scenarios using our estimator tool [here](#).

Employers and child care providers should discuss any possible contractual arrangements with their financial, tax, and legal advisors before entering into any agreements.

45F Employer-Sponsored Child Care Tax Credit Examples

In addition to our [tax credit estimator](#), Civitas Strategies provides a good employer-sponsored child care [tax credit estimator](#) and the U.S. Chamber of Commerce Foundation also provides a useful [summary](#).

Based upon [GAO's example](#), the [estimator](#) will allow employers to estimate the possible federal and state tax credit benefits of supporting its employees using either an intermediary or a direct child care services contract with a qualified child care provider.

An example child care services contract template and potential discussion topics are included below for convenience. For additional information, please see the [Bipartisan Policy Center's 45F Employer-Provided Child Care Tax Credit: 2026 Guide](#) and [FAQs](#).

Child Care Services Contract

This Agreement by and between [Employer Name] (“Employer”), located at [Employer Address], and qualified child care facility [Child Care Facility Name] (“Child Care Provider”), located at [Facility Address].

Whereas Employer seeks to reserve spaces in a child care program for its employees’ dependents; and

Whereas Child Care Provider offers a quality child care program that could potentially be used by Employer’s employees’ dependents;

Therefore, Employer and Child Care Provider freely enter into this Agreement:

1. **Services Provided.** Child Care Provider agrees to provide child care services to the dependents of the employees of the Employer identified below (“Enrolled Families). These services include, but are not limited to: [description of type of child care services provided, i.e. hours and frequency of care, number and ages of children, whether the children subject to this agreement receive priority registration or enrollment, etc.].
2. **Term.** The term of this Agreement shall commence on the last date signed by the parties below and continue until [End Date], unless terminated earlier in accordance with the provisions of this Agreement.
3. **Fees and Payment.** Employer agrees to pay the Child Care Provider the following payments each month for Enrolled Families: [description of employer contribution, i.e. \$300 per employee child/month].
 - a. These Employer payments shall be made directly to Child Care Provider on a monthly basis, due on [payment date], and do not exceed the fair market value of such care.
 - b. Child Care Provider will invoice Employer each month requesting payment of the agreed upon Employer contribution by identifying Enrolled Families receiving services that month.
 - c. These Employer payments may or may not cover the full cost of providing the child care services. Any amounts owed for child care services that exceed the Employer payment are the responsibility of the Enrolled Families.

- d. Child Care Provider is responsible for the collection of all tuition payments from Enrolled Families.
4. **Enrolled Families.** This Agreement applies to the enrolled participants listed on Exhibit A attached hereto. [Explain process to keep list of enrolled families current and identify any new dependents by periodically updating Exhibit A.]
5. **Representations of Child Care Provider.** Child Care Provider represents that the following is true:
 - a. The principle use of the child care facility is to provide child care.
 - b. Child Care Provider meets the requirements of all applicable laws and regulations of the State of Utah and the local government in which the facility is located, including the licensing of the facility as a child care facility.
 - c. Subject to availability, enrollment at the facility is open to the employees of Employer during the term of this Agreement.
 - d. Employer does not own or operate the facility.
 - e. Child Care Provider has sufficient liability insurance.
 - f. Child Care Provider does not discriminate in favor of Employer's employees who are highly-compensated employees (within the meaning of 26 U.S.C. §414(q)).
6. **Responsibilities of Child Care Provider.** Child Care Provider agrees to provide the child care services as set forth above and to inform Employer in writing if its employees' dependents are no longer receiving child care services from the Child Care Provider within 30 days of a change in service.
7. **Termination.** Either party may terminate this Agreement with thirty days' written notice. In the event of termination, the Child Care Provider shall be paid for all services rendered up to the date of termination.
8. **Confidentiality.** Both parties agree to maintain the confidentiality of all personal and financial information regarding the dependents and their families.
9. **Assignability.** This Agreement shall be binding upon, and shall be enforceable by and inure solely to the benefit of, the Parties and their respective and permitted successors assigns. Each party shall provide written notice to the other of any transfer hereunder at least 30 days prior to the effective date of the transfer.

10. **Integration.** This Agreement contains the entire agreement of the parties and supersedes all oral agreements, negotiations and representations between the parties pertaining to the subject matter of this Agreement.

11. **No Third-Party Beneficiaries.** Nothing in this Agreement shall be construed as giving any person, corporation or other entity other than the parties any right, remedy or claim under or in respect of this Agreement or any provision hereof.

12. **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of Utah.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date last indicated below.

[Employer Name]

[Title]

[Date]

[Child Care Provider Name]

[Title]

[Date]

Exhibit A to Child care Services Contract between [Employer Name] and [Child Care Provider]

Effective as of: [insert date].

Enrolled participants:

1. _____
2. _____
3. _____

Discussion Topics for Planning a Child Care Services Agreement

- Nature of the partnership:
 - Will the program operate at a facility operated by the employer (on-site) or at a facility operated by the child care provider (off-site)?
 - Will the employer directly pay tuition, for reserved spots, or for other expenses? If so, how much will be paid, and how frequently?
- Spaces and Children Served:
 - What ages will the child care program serve?
 - How many children can the program serve?
 - How many slots are currently available for the partnership, and how many are already filled?
 - Will additional slots be reserved for employer's staff if they open up?
 - What happens if there is a wait list for employees' children?
 - Program schedule: What are the program hours? What days/times during the year is the program closed or will be closed? Does this match the hours of the employer?
- Demand:
 - Has the employer assessed whether their current employees would enroll children in this program?
 - How many families/children might enroll as soon as this partnership begins?
 - How many families/children are interested in enrolling next year?
 - Are there more or less slots available than this assessed demand?
- Child care program policies and procedures:
 - Does the employer want to review the policies and procedures in place by the child care business?
 - Does the employer want to approve the policies and procedures in place by the child care business?
 - Is there a shared desire for the employer and the child care business to review and discuss the child care program's policies and procedures on an annual basis?