

Employer Tax Benefits

A 2026 Opportunity Guide for Utah Employers

*How Employers Can Reinvest Their Tax Dollars To
Support Workers*

Park City Community Foundation's Early Childhood
Alliance

\$1.36B

Annual loss to Utah's economy
due to childcare issues

74%

2-parent Utah households with
kids < 6 who need two incomes

85%

Potential combined federal/state
child care tax credit (small biz)

32%

Single-parent median income
spent on center-based infant
child care

Disclaimer: The information contained in this presentation is provided for general informational purposes only and is not intended as, and should not be construed as, tax advice. Tax laws are complex and subject to change. Any examples or projections are illustrative and may not reflect actual results. You should consult your own tax advisor regarding the application of these rules to your specific situation.

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Federal credit up to 50% — expanded under OBBA

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Permanent, expanded, and easier to claim

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Permanently extended — \$5,250/year tax-free

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Utah's Family Workforce Challenge

32.4

Utah's Median Age
(Youngest State in U.S.)

76%

Utah Mothers With School-Age Children Are Working

17.5%

Increase in cost of raising a small child in Utah from 2025 to 2026 (Utah was one of the states with the biggest increase)

The Economic Reality

83% of millennials will leave one job for another with stronger family-friendly supports

\$1.1B annual cost to Utah employers from absences & turnover caused by employees' child care challenges

48% of Utah parents made significant work/school adjustments due to child care issues in the prior 12 months

High-quality, center-based infant care in Utah costs an average of **\$22,812/year**, which is:

- 19% of Utah **median household income** (HHS recommends $\leq 7\%$)
- more than double the annual tuition and fees for resident students attending the University of Utah (**\$10,480**)

How Employers Benefit — The Business Case

Talent Attraction

[59%](#) of parents would rather have their employer subsidize their child care costs than give them a raise.

Offering family-friendly workforce supports signals that the employer supports the needs of its employees.

Retention & Turnover

Paid leave helps retain employees during critical life moments and avoids the costly expenses associated with turnover.

Replacing an employee costs between [50%](#) to [200%](#) of annual salary, depending on their level.

Productivity

Parents distracted by child care instability cost employers in lost focus, absenteeism, and reduced output.

When employees have family care benefits, they report [45%](#) higher productivity and [40%](#) lower absenteeism.

Tax Credit Offset

2026 combined federal/Utah child care tax credits and deductions can offset up to 85% of the real employer cost of child care benefits (for small employers) and federal tax credits offset up to 25% of paid family and medical leave.

High Return on Investment

[Boston Consulting Group](#) found ROIs from child care benefits ranging from 90% to 425%.

Paid family and medical leave has been shown to increase revenue by nearly [5%](#) and profit by nearly [7%](#) per full-time equivalent employee.

Build the Workforce of Tomorrow

According to the [U.S. Chamber of Commerce](#) Foundation, advancing high-quality childcare is a “wise investment in America’s future—strengthening business today while building the workforce we’ll depend on tomorrow and for decades to come.”

IRC § 45F: Employer-Provided Child Care Tax Credit

BEFORE OBBBA (Through 2025)

- Credit rate: 25% of eligible expenses
- Maximum eligible expenses: \$150,000/year
- No distinction by employer size
- Low utilization due to small size
- Set to expire — temporary provision



AFTER OBBBA (2026 Onward — PERMANENT)

- Credit rate:
 - large biz: 40% of eligible expenses
 - small biz: 50% of eligible expenses
- Max eligible expenses:
 - large biz: \$500,000/year
 - small biz: \$600,000/year
- Can work through an intermediate entity to ease administration and increase flexibility for employees
- Joint ownership/consortium models allowed
- PERMANENT — no expiration

IRC § 45F Deep Dive: What Qualifies & How to Claim

Qualified Expenses

- On-site child care facility costs (acquisition, construction, rehab, expansion)
- Operating costs of employer-provided child care facility
- Contracting with one or more licensed child care providers for employee use
- NEW: Intermediate entities can hold contracts with multiple child care providers
- NEW: Consortium/joint facility ownership with other employers
- Child care referral/resource services (10% credit)

Small Business Definition (50% Rate)

- Gross receipts test under IRC §448(c)
- Must have < \$32 million in gross business receipts (2026 threshold)
- Small businesses get 50% credit rate (vs. 40% for large)
- Maximum eligible expenses: \$600,000 (vs. \$500,000 for large)
- 99.3% of Utah businesses are small businesses (324,821)

Recapture Rule — Know Before You Claim

If an employer-operated facility ceases to be used for child care within 10 years, federal credits are partially recaptured; Utah applies a 5-year recapture period for on-site child care.

How to Claim §45F

- File **Form 8882**; credit flows to **Form 3800**
- Nonrefundable — carry back 1 yr / forward 20
- Reduce expense deduction & facility basis by the credit
- Utah credit guidance: Gov.'s Office of Economic Development

Utah HB 190: Child Care Business Tax Credit (2026)

What HB 190 Does (Effective 2026)

- Expands Utah's nonrefundable employer-provided child care tax credit
- Small businesses (\leq \$32M gross receipts): 30% state credit on qualified expenditures
- Larger employers: 10% state credit on qualified expenditures
- Eliminates prior requirement to first claim construction credit before operating credit
- Use this [estimator](#) to calculate potential tax benefits

Stacking: Small Business

Federal 45F Credit: 50%

Utah HB 190 Credit: 30%

UT/Fed Business Expense Deduction: ~5%

Net Employer Cost: ~15%

The Stacking Math for a Utah Small Business

Stack the credits, then deduct the rest:

\$12,000

You spend

–

\$6,000

Federal 45F

–

\$3,600

Utah HB 190

–

\$611

Business Expense Deduction

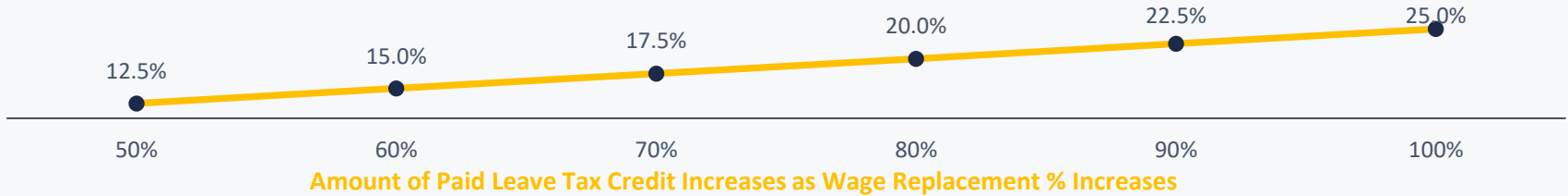
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\$1,789

Net cost

Tax credits + deduction cover 85% of the cost — you pay just 15%.

IRC § 45S: Employer Credit for Paid Family & Medical Leave



Made PERMANENT

No more annual renewal anxiety. §45S is now a stable planning tool for all employers and their CPAs.

Written Policy Required

Employer must have a written PFML policy providing at least 2 weeks paid leave annually, at $\geq 50\%$ of normal wages, for all qualifying employees.

Reduced Tenure Requirement

Required tenure reduced from 12 months to optionally 6 months — allowing more employees to qualify sooner (employer's choice).

Insurance Premium Method **NEW**

Employers can now credit group insurance premiums that cover FMLA-type leave for eligible employees — even if no employees take leave that year.

Wide Range of Eligible Events

- Parental & bonding leave (birth, adoption, foster care)
- Caring for family members with a serious health condition
- Personal medical leave
- Military exigency of family member

Maximize Credit By Paying 100% of Wages

Consider offering 100% wages for a shorter length of time rather than a lower percentage of wages over a longer length of time to maximize the credit.

§ 45S Implementation: Eligibility, Calculation & CPA Checklist

Eligibility Requirements (2026)

- Written PFML policy must be in place BEFORE leave is taken
- Policy must provide ≥2 weeks paid leave annually (full-time); prorated for part-time
- Payment of ≥50% of employee's normal wages
- Available to employees with 1+ year tenure (or 6+ months if employer elects)
- Policy must cover employees earning ≤\$96,000 (2026 qualifying threshold)
- Policy must include non-interference/anti-retaliation protective language
- Must cover FMLA-qualifying reasons (birth, adoption, serious health condition, etc.)

Credit Calculation

Wages Method:
 12.5% base rate × wages paid during leave
 + 0.25% for each 1% above 50% wage replacement
 Max rate: 25% (at 100% wage replacement)

Insurance Premium Method (NEW):
 Credit based on cost of group insurance premiums covering FMLA leave. Available even if no leave taken.

EXAMPLE · \$60K salary · 8-wk PFML at 100% pay

Wages paid on leave: \$9,231

\$2,308	\$6,923 net wage cost
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↑ 25% federal credit 75% net cost

Action Items for §45S:

Review written PFML policy NOW to assess compliance. Coordinate with HR. Ensure payroll system distinguishes §45S-qualifying leave. Review aggregation rules for related entities. Check for IRS guidance (expected to address several open issues).

IRC § 129: Dependent Care Assistance Programs (DCAP)

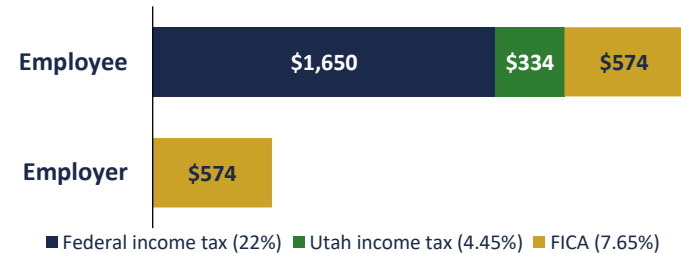
LIMIT INCREASE

\$5,000 → \$7,500

First increase since 1986 — PERMANENT

Employee/Employer Savings at \$7,500

\$3,132 combined savings (42%):
\$2,558 employee + \$574 employer



How DCAPs Work — Two Types

Employee-Funded FSA (Pre-Tax Salary Reduction): Employee elects to direct up to \$3,750 (\$7,500 for joint filers) of pre-tax income (similar to a health care flexible spending account) to care for children under age 13 or elderly family members who are recognized by the IRS as a dependent. This election reduces federal income tax, Utah state income tax, and both employee and employer FICA. Employer cost: plan document + payroll coordination only.

Employer Contribution: Employers may choose to match or fully fund their employees' DCAP accounts (up to the limit), but account holders forfeit any unspent funds at the end of the year.

DCAP vs. §45F: Eligible Expenses

DCAP (§129) — Eligible Expenses

Covers work-related care for children under age 13, including licensed day care, day camp, after-school care, and in-home care — even babysitting by non-dependent caregivers, so long as the care enables the employee to work.

Not limited to children: DCAP also covers care for other qualifying dependents incapable of self-care — e.g., a disabled spouse or an elderly parent.

Employer Credit (§45F) — Eligible Expenses

Covers costs of operating or contracting with a qualified provider (either directly or through an intermediate entity) for a qualified child care facility — construction, staffing, and resource/referral services. Utah's HB190 tax credit is limited to center-based child care facilities located within Utah.

Informal or in-home babysitting does not qualify, making the eligible-expense base narrower than a DCAP.

No age limit: the credit is tied to qualifying-facility care, not a child's age, unlike DCAP's under-13 rule.

Key Difference — DCAP Is More Flexible, but Tax Credits Provide More Financial Benefit to Employers

Eligible expenses for child care paid from DCAPs are more flexible than employer-sponsored child care eligible for a tax credit under §45F/HB190, because they include work-related babysitting performed by non-tax-dependents and elderly or disabled dependent care. A DCAP can reimburse a wider range of real-world care arrangements, while §45F is limited to expenses tied to qualified child care facilities; however, DCAPs only cover child care expenses up to age 13 and account holders forfeit any unspent funds at the end of the year.

Comparing DCAP & 45F/Utah Benefits Side by Side

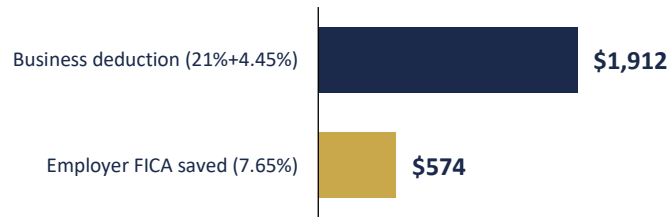
	DCAP — §129	Employer Credits — §45F and Utah
Who benefits	Primarily the employee	Both employer and employee
Tax mechanism	Pre-tax salary exclusion	Nonrefundable business tax credit (Form 8882)
Employer benefit	Saves payroll (FICA) tax on excluded wages	50% of qualified costs (80% small biz), up to \$500K (\$600K small biz) plus business expense deduction
Employee benefit	Up to \$7,500/yr (joint filer) of care paid pre-tax; lowers taxable income	Better/cheaper access to care; employee does not pay income taxes on amounts paid to child care providers, but receives tuition credit
Annual limit	\$3,750 \$7,500 (joint filer) per employee per year (2026)	\$500K (large biz)/\$600K (small biz) of eligible expenses
Administration	Light — plan document + payroll deduction	Heavier — operate facility or contract directly (or through intermediate entity) with one or more child care providers, recordkeeping, basis tracking
Key risk / catch	Use-it-or-lose-it; nondiscrimination testing	Nonrefundable; no double-dip on deduction, but can combine with business expense deduction; subject to recapture

Two Options for \$7,500 Employer Investment In Child Care

SCENARIO: A Utah small business invests **\$7,500** annually toward one employee's child care expenses (TY 2026)

OPTION A — Fully Fund Employee DCAP

Employer invests \$7,500 into the employee's pre-tax DCAP.

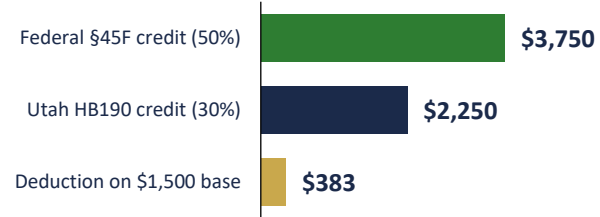


Total Tax Benefit \$2,486 (tax savings of 33%)

Net Employer Cost ≈ \$5,014

OPTION B — Contract With a Licensed Center (\$45F + HB190)

Employer pays \$7,500 directly to a contracted licensed child care center that **qualifies for both federal and Utah tax credits**.



Total Tax Benefit \$6,383 (tax savings of 85%)

Net Employer Cost ≈ \$1,118

KEY DIFFERENCE — Same \$7,500. Routing it as direct, licensed-provider care (Option B) rather than a DCAP cuts the employer's net cost from ~\$5,014 to ~\$1,118 — about 85% subsidized — because only Option B stacks the \$45F and HB190 credits and business expense deduction. Employers can offer both to maximize flexibility.

IRC § 127: Educational Assistance & Student Loan Repayment

What §127 Provides

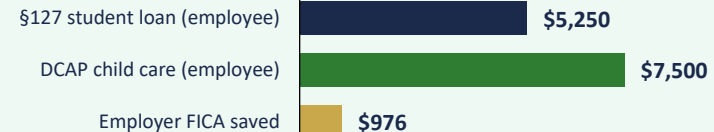
- Employers may provide up to \$5,250/year in tax-free educational assistance
- Covers: tuition, fees, books, supplies — both undergraduate AND graduate
- CARES Act 2020: Expanded to include employer payments of employee student loan principal & interest
- OBBBA PERMANENTLY extended student loan repayment provision (was set to expire 1/1/2026)
- Employee excludes the \$5,250 from gross income — no federal or state income tax, no FICA
- Employer deducts the payment as a business expense AND avoids FICA on those dollars
- Program must be in a written Educational Assistance Program (EAP) meeting §127 requirements

Why This Matters for Young Utah Families

- Utah's median age is 32.4 — employees in prime student loan repayment years
- Average U.S. student loan debt: **\$42,573**
- For a 22% tax bracket employee: \$5,250 benefit = ~\$1,790 in federal and Utah income/FICA tax savings
- For a corporation paying combined 25.5% Utah/federal income tax, the employer saves \$1740 income/FICA taxes on each \$5,250 payment
- Differentiates employer brand for recruiting young professionals

Example: Combining Educational Assistance With DCAP

Employer offers \$5,250/yr student loan repayment (§127 EAP) + \$7,500 DCAP for child care = **\$12,750 tax-free to the employee.**
 Employer deducts both and avoids FICA on both (~\$976 FICA savings).



The Stacking Strategy: Maximum ROI

Comprehensive Example: Utah Small Business (< \$32M gross receipts), 20 employees, 2026 Tax Year

Benefit Program	Annual Investment	Federal Credit / Savings	UT State Credit / Savings	Business Expense Deduction (UT/Fed) Savings	Net Employer Cost
§45F: Child Care Contract	\$20,000	50% credit = \$10,000	30% HB190 = \$6,000	21% fed + 4.45% Utah of remaining \$4K = \$1020	\$2,980 (85% offset)
§45S: Paid Family Leave (2 employees take 8 wks avg)	\$12,307.67 wages paid	25% credit = \$3,077	N/A	N/A	\$9,231
DCAP: Employee FSA (10 employees elect \$7,500)	Payroll reduction only	Employer FICA savings: \$5,737	N/A	N/A	(savings of \$5,737)
§127: Student Loan Repayment (2 employees × \$5,250)	\$10,500	Employer FICA savings: ~\$803	N/A	21% fed + 4.45% Utah = \$2,677	\$7,020
TOTAL CREDITS & SAVINGS	Over \$42,808 in benefits delivered (not counting employee tax savings)	\$19,617 in federal savings	\$6,000 in UT state savings	\$3,697 in UT/Fed income tax savings	~\$13.5K net cost

Note: These figures are illustrative estimates for educational purposes. Actual credit amounts depend on specific facts. Coordinate §45F and DCAP to avoid double-counting.

Bottom Line: This employer delivered ~ \$43K in employee benefits and received ~ \$29K+ back in credits, deductions, and tax savings— a net cost of ~\$13.5K, ~68% tax savings.

Salary vs. Salary-Plus-Benefits

SCENARIO: One employee, two pay structures — \$85,000 straight salary vs. \$70,000 salary plus a stacked benefits package (TY 2026)

SCENARIO A — \$85,000 Straight Salary

WHAT THE EMPLOYEE RECEIVES

- Salary — fully taxable **\$85,000**

The employee pays for child care and any student loans out of after-tax take-home pay — no tax-advantaged benefits offset those costs.

Employee after-tax value **\$56,015**

Employer net cost **\$69,823**

SCENARIO B — \$70,000 Salary + Benefits

WHAT THE EMPLOYEE RECEIVES

- Salary — taxable **\$70,000**
- Child care · §45F + HB 190 **\$10,000**
- DCAP · \$5K employer + \$2.5K employee **\$7,500**
- Employer student loan repayment **\$3,000**

Employee after-tax value of salary + benefits **\$74,721**

Employer net cost **\$63,490**

THE VERDICT — Same employee: shifting \$15K of salary into benefits adds ~\$18,706 to the employee's after-tax value AND cuts the employer's net cost ~\$6,333. Both sides win.

Illustrative, TY 2026. Assumes employee 22% federal bracket (~34.1% combined with Utah income tax + FICA); employer 25.55% income tax + 7.65% FICA; §45F (50%) & HB190 (30%) credits reduce the deductible base.. Coordinate §45F and DCAP to avoid double-counting. Confirm with a tax advisor.

Coordination, Compliance & Planning Considerations



1

§45F + DCAP Coordination

Employer-provided child care excluded under §129 (DCAP) cannot ALSO be used as the basis for the §45F credit for the same expenses. Bifurcate carefully. Direct contract expenses with a provider or facility costs → §45F; employer cash assistance through DCAP → §129 exclusion. Employers can offer both.

2

§45S Wage Reduction (§280C)

Wages used to claim §45S credit must reduce the employer's deduction for compensation. Do not double-count wages as both a business expense deduction AND the full §45S credit. Net benefit is still significant but must be calculated correctly.

3

Written Plan Documents Required

§45S: Written PFML policy must be in place BEFORE leave occurs. §127: Written EAP must meet §127 requirements. §129: DCAP plan document required. Employers should establish documents NOW for full 2026 tax year benefit.

4

Nondiscrimination Testing

DCAP §129: 55% Average Benefits Test — HCEs vs. NHCEs. §127: Concentration test (no more than 5% of benefits to owners/their dependents). §45S: Non-HCE access required. Run tests proactively before year-end.

5

Utah HB 190 Plan Document Review

HB 190 nonrefundable credit requires qualifying expenses to meet Utah's definition. Confirm the licensed facility qualifies under Utah law. Credit applies against Utah corporate or individual income tax.

6

Recapture & Long-Term Commitment

§45F: 10-year recapture period for employer-operated facilities. If facility closes or stops being used for child care, credits recapture. For contracted care arrangements, recapture if contract terminates early. Plan for multi-year commitment.

Action Items for Utah Employers Before December 31, 2026

Now

- Identify number of employees who likely have child care needs or parental workforce issues
- Pull and review any existing PFML written policies for §45S compliance (non-interference language, coverage, wage rates)
- Review current benefits and evaluate potential to add child care, student loan, and DCAP benefits
- If already providing DCAPs, amend to reflect \$7,500 limit for plan year 2026
- Become a [Best Place for Working Parents](#)

Next Quarter

- Model §45F credit opportunity: estimate eligible child care expenses or contract costs for 2026
- Run §129 55% Average Benefits Test projection to identify nondiscrimination risk before year-end
- Coordinate with HR/benefits advisors to draft/update §127 EAP for student loan repayment if not in place
- Analyze whether business qualifies as 'small business' under §448(c) < \$32M gross receipts for 50% §45F rate and 30% Utah tax credit

By EOY

- Finalize §45S written PFML policy — ensure effective date precedes any qualifying leave
- Confirm Utah HB 190 eligibility and document qualifying child care expenditures (off-site now counts)
- Complete §280C analysis for §45S wage deduction reduction
- Communicate full benefits package to employees for 2027 open enrollment planning

2026 Employee Benefits Quick Reference: All Programs at a Glance

Program	IRC Section	Who Benefits	2026 Max Value	Employer Benefit	Key Action
Employer Child Care Credit (Federal)	§45F	Employees with children in child care	50% small biz (eligible expense cap of \$600k) 40% large biz (eligible expense cap of \$500K)	Direct tax credit (40%–50% of costs)	Calculate eligible child care expenses
UT Child Care Credit (State)	Utah HB 190	Employees with children in child care centers	30% small biz 10% large biz (of qualified costs)	Direct tax credit that stacks with §45F;	Review qualified expenditures
Paid Family & Medical Leave Credit	§45S	All employees on qualifying FMLA leave	12.5%–25% of wages paid (or premiums)	General business credit; permanent	Written policy must exist first
Dependent Care Assistance Program	§129 DCAP	Employees with Children under 13 or elderly or disabled dependents	\$3,750 (\$7,500 for joint filers)	FICA savings; low admin cost	Amend plan documents now
Educational Assistance & Student Loans	§127	All employees with education expenses or student loans	\$5,250/year excluded from income	FICA savings; deductible	Written EAP required

Note: All amounts are 2026 figures under OBBBA P.L. 119-21 and Utah HB 190. This table is a summary — consult IRC text and IRS guidance for complete requirements.

The Opportunity Is Here. The Tax Code Rewards Employers Who Invest In Their Workforce.

Utah families are stretched thin. High child-care costs, loss of income during critical life events, student loan burdens, and the cost of parenting and caring for elderly or disabled family members are hitting Utah's best employees — right now. The federal and Utah 2026 tax code have responded with an unprecedented suite of family-friendly employer incentives.