The PACE Act of 2017

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Background: For too many families, the cost of childcare can make it difficult to maintain employment and make ends meet. In nearly half of the country, the annual cost of full-time childcare for a 4-year old is greater than the average cost of in-state tuition at a 4-year college or university.[1] Those pressures are felt most by low-wage workers who spend on average more than 30 percent of their income on childcare.[2]

While the federal government provides two significant tax benefits to help offset childcare costs, the Child and Dependent Care Tax Credit (CDCTC) and Dependent Care Flexible Spending Accounts (FSAs), they are both in need of an update. Both, for example, have not kept pace with inflation, meaning they have become less useful over time as the cost of childcare increases. The ***Promoting Affordable Childcare for Everyone (PACE) Act*** makes several changes to make both tax policies immediately more generous, but also ensures they evolve over time by ensuring annual updates to provide families with greater spending power when seeking care for their children. Because both tax provisions affect care for the elderly and individuals with disabilities, those enhanced benefits will extend to them as well.

Bill Summary: The PACE Act makes several key updates to tax provisions that support care for children and other dependents. Specifically, the bill:

1. Modernizes the Child and Dependent Care Tax Credit by:
    - Making the credit refundable in order to expand the credit's reach to low-income working parents.
    - Increasing the value of the credit by raising the credit rate for families of all income levels, creating a new top rate of 50 percent that phases down to 35 percent for higher-income families.
    - Indexing the credit to inflation by ensuring that the credit's income phase-out, step-down rate, and the eligible expenses a taxpayer claims all keep pace with rising childcare costs.

2. Enhances Dependent Care Flexible Spending Accounts (FSAs) by:
    - Increasing the amount of pre-tax dollars families can put into these accounts from $5,000 to $7,500. This exclusion from gross income allows families to save money on income and FICA taxes, and the PACE Act's increase means those savings will go even further than current law's.
    - Indexing the new cap to inflation so FSAs can keep pace with the cost of childcare. Because the current $5,000 cap is not indexed to inflation, families are falling further and further behind the rising cost of care. By raising the cap to $7,500, and indexing that amount to inflation, the PACE Act ensures FSAs are reliably updated to keep steady a parent's purchasing power for their child's care.

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[1] Economic Policy Institute, Child Care Costs in the United States, 2016.
[2] U.S. Census Bureau, Who's Minding the Kids? Child Care Arrangements, 2013.