

The PACE Act of 2017

Representatives Kevin Yoder (R-KS) and Stephanie Murphy (D-FL)

Background: Across the country, the high cost of childcare is a barrier for parents who try to work full time and provide safe, quality care for their children. In many states, the cost of full-time childcare is so high that it rivals the average costs of housing or in-state tuition at public universities.¹ Lower-income families are hurt the most by this, as childcare costs on average make up more than 30 percent of their income.²

The Child and Dependent Care Tax Credit (CDCTC) and Dependent Care Flexible Spending Accounts (FSAs) are two existing tax benefits designed to help families afford childcare. However, both of these programs are in need of significant updates. **The Promoting Affordable Childcare for Everyone (PACE) Act** makes crucial changes to the tax policies that will make them more effective and more generous, both now and in the future.

Bill Summary: The PACE Act makes important updates and reforms to the tax provisions that help families care for children and other dependents. Specifically, the bill:

1. Improves and modernizes the Child and Dependent Care Tax Credit (CDCTC) by:

- **Making the credit fully refundable.** This change will allow the credit to help low-income working parents, whose low or zero tax liabilities prevent them from benefiting from the current CDCTC.
- **Increasing the value of the credit.** The PACE Act raises the credit rate for all families, with a new top rate of 50% that phases down to 35% for higher-income families
- **Indexing the credit to inflation.** This will help the CDCTC keep pace with rising childcare costs in the future.

2. Enhances Dependent Care Flexible Spending Accounts (FSAs) by:

- **Increasing the amount of pre-tax dollars** that families can put into FSAs from \$5,000 to \$7,500. This money is excluded from gross income and allows families to reduce their tax burden while paying for important care for dependents.
- **Indexing the new cap to inflation** so that FSAs are updated steadily and families can save enough money to pay for childcare.

Impact: The PACE Act will make tangible improvements to American families' ability to pay for childcare.

1. Low income family of four making less than \$15,000 a year:

- a. **Current law:** receives zero CDCTC benefit.
- b. **PACE Act:** maximum annual CDCTC refund of \$3,000 to help pay for childcare.

2. Middle class family of four making \$55,000 a year:

- a. **Current law:** maximum annual CDCTC benefit of \$1,200.
- b. **PACE Act:** maximum annual CDCTC benefit of \$2,100, which is \$900 more to help pay for childcare.

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.