

Congress of the United States  
U.S. House of Representatives  
Committee on Small Business  
2361 Rayburn House Office Building  
Washington, DC 20515-6515

MEMORANDUM

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TO: Members, Subcommittee on Rural Affairs, Agriculture, Trade, and  
Entrepreneurship  
FROM: Rep. Abby Finkenauer, Chair  
DATE: February 6, 2020  
TITLE: Taking Care of Business: How Childcare is Important for Regional Economies

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On **Thursday, February 6<sup>th</sup> at 10:00 a.m. in Room 2360 of the Rayburn House Office Building**, the Subcommittee on Rural Development, Agriculture, Trade, and Entrepreneurship will hold a hearing entitled: “Taking Care of Business: How Childcare is Important for Regional Economies.”

**Introduction**

When quality, affordable childcare is available, the impacts are felt by families, businesses, and their communities more broadly. Access to childcare supports regional economies because it has a positive impact on workforce participation, allowing small firms to access a larger pool of workers. With access to affordable care, employers report fewer absences, less turnover, increased stability, and generally greater satisfaction among workers. Furthermore, disruptions in employment due to unforeseen issues with childcare arrangements cost the U.S. economy over \$57 billion in lost revenues, wages, and productivity.<sup>1</sup>

The hearing will give members the opportunity to hear from experts about the economic impacts of childcare accessibility on small firms and their employees. Members will also hear about the positive effects that childcare can have on rural communities and their economies, as well as the opportunities and challenges for businesses that want to provide employees with childcare benefits.

Witnesses include:

- Ms. Cindy Cisneros, Vice President for Education Programs at the Committee for Economic Development of the Conference Board (CED), Arlington, Virginia.
- Mr. Dan Levi, President of Levi Architecture, PLC., Cedar Falls, Iowa., Testifying on behalf of the Black Hawk Child Care Coalition.

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<sup>1</sup> SANDRA BISHOP-JOSEF, ET AL., READY NATION, “WANT TO GROW THE ECONOMY? FIX THE CHILDCARE CRISIS (2019).

- Ms. Sarah Piepenburg, Owner of Vinaigrette, Minneapolis, Minnesota., Testifying on behalf of Main Street Alliance.
- Dr. Veronique de Rugy, Senior Research Fellow, Mercatus Center, George Mason University, Arlington, VA.

## **Background**

Childcare is a necessity for the majority of American families, as 65% of children under 6 years old have all available parents in the workforce.<sup>2</sup> This equates to more than 12 million children across the country attending some form of childcare each week.<sup>3</sup> Access to high-quality, stable, affordable childcare allows parents to stay in the workforce and avoid gaps in employment. It can also be a deciding factor whether a parent is able to seek additional education and training, which can contribute to higher earnings and increased economic mobility.<sup>4</sup>

When workers face challenges finding affordable childcare, this not only impacts labor force participation but also inhibits regional and local economic growth. These challenges are especially evident in rural areas where there are higher rates of child poverty and young children are more likely to enter school behind their metropolitan-area peers in terms of educational development. Across the country, access to affordable childcare allows parents to enter the workforce, stay employed, and support small businesses.

## **The Costs of Childcare**

The cost of childcare presents a significant financial burden for many working parents. In many parts of the country, the average cost of childcare is higher than the average cost of housing, transportation, food, and even college tuition.<sup>5</sup> The United States has the third-highest childcare cost for families, as measured by as a percentage of family income compared with other Organization for Economic Co-operation and Development (OECD) countries.<sup>6</sup> The Department of Health and Human Services (HHS) defines affordable childcare as care that costs no more than 7% of a family’s median household income. However, its estimated that childcare costs account for almost 20% of median household income nationally—nearly three times the threshold defined by HHS. The share of household income spent on childcare is much higher for families with more than one child in care and for those with younger children.<sup>7</sup>

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<sup>2</sup> KATIE HAMM AND CARMEL MARTIN, CENTER FOR AMERICAN PROGRESS, A NEW VISION FOR CHILDCARE IN THE UNITED STATES (2015).

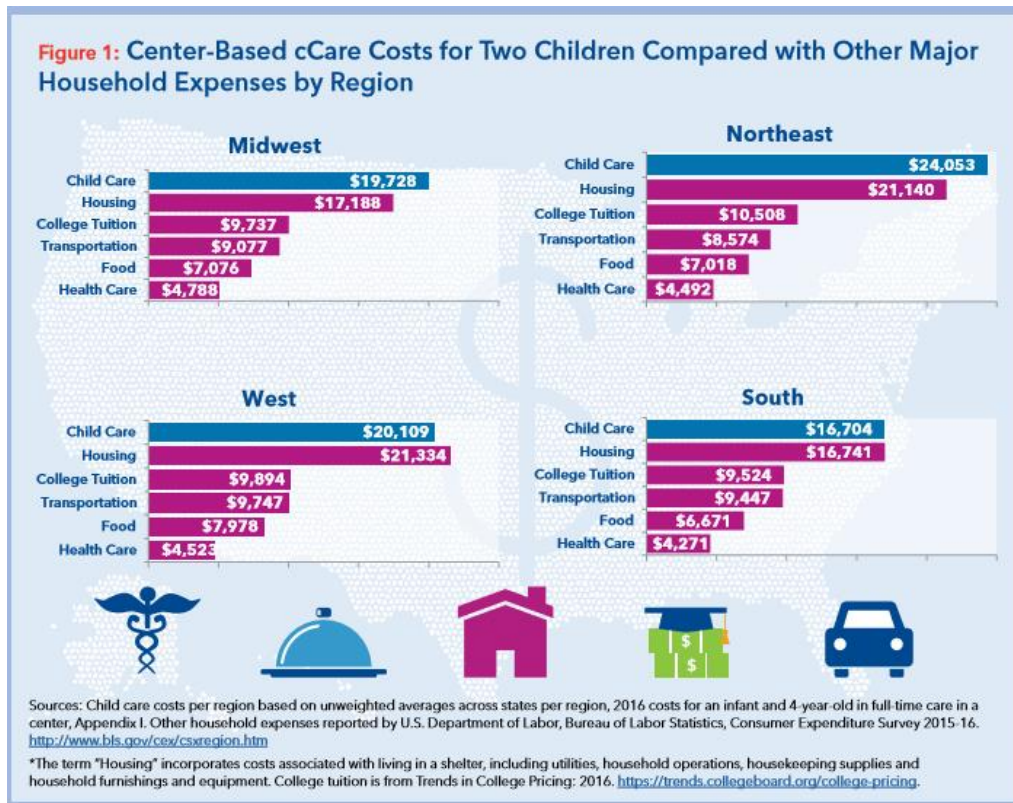
<sup>3</sup> U.S. BUREAU OF LABOR STATISTICS, “TABLE 4. FAMILIES WITH OWN CHILDREN: EMPLOYMENT STATUS OF PARENTS BY AGE OF YOUNGEST CHILD AND FAMILY TYPE, 2017-2018 ANNUAL AVERAGES (2019).

<sup>4</sup> COMMITTEE FOR ECONOMIC DEVELOPMENT, CHILD CARE IN STATE ECONOMIES-2019 UPDATE (2019).

<sup>5</sup> CHILD CARE AWARE, PARENTS AND THE HIGH COST OF CHILD CARE (2017).

<sup>6</sup> KATIE HAMM AND CARMEL MARTIN, CENTER FOR AMERICAN PROGRESS, A NEW VISION FOR CHILD CARE IN THE UNITED STATES (2015).

<sup>7</sup> COMMITTEE FOR ECONOMIC DEVELOPMENT, CHILD CARE IN STATE ECONOMIES-2019 UPDATE (2019).



### **Small Businesses as Childcare Providers**

Given that 65% of children have all available parents in the workforce, there is a high demand for childcare.<sup>8</sup> The childcare industry consists of approximately 675,000 childcare establishments, mostly small businesses with less than 10 employees.<sup>9</sup> Overall, the childcare industry supports approximately 1.52 million workers (including sole proprietors) and generates \$47.2 billion in revenue.<sup>10</sup>

Approximately 75% of all children in childcare are served by childcare centers with paid employees.<sup>11</sup> These 75,000 childcare firms employ about 925,000 employees and generate more than 80% of the revenue within the childcare industry.<sup>12</sup> A typical provider employs about 12 people and has an average payroll of about \$250,000.<sup>13</sup>

<sup>8</sup> KATIE HAMM AND CARMEL MARTIN, CENTER FOR AMERICAN PROGRESS, A NEW VISION FOR CHILD CARE IN THE UNITED STATES (2015).

<sup>9</sup> COMMITTEE FOR ECONOMIC DEVELOPMENT, CHILD CARE IN STATE ECONOMIES-2019 UPDATE (2019).

<sup>10</sup> ID.

<sup>11</sup> ID.

<sup>12</sup> COMMITTEE FOR ECONOMIC DEVELOPMENT, CHILD CARE IN STATE ECONOMIES-2019 UPDATE (2019).

<sup>13</sup> COMMITTEE FOR ECONOMIC DEVELOPMENT, CHILD CARE IN STATE ECONOMIES-2019 UPDATE (2019).

Around 599,000 childcare providers are home-based businesses, often operated by a sole proprietor.<sup>14</sup> Most of these operations are considered microbusinesses.<sup>15</sup> A typical home-based sole proprietor childcare provider generates approximately \$15,000 in annual revenue and the owner is able to retain an estimated \$8,900 in net earnings.<sup>16</sup> Between 2010 and 2016, the number of home-based childcare providers declined from 752,000 to 599,000.<sup>17</sup> This 20% decline has been linked to a number of factors including increased cost of providing care, lack of subsidy growth, and low-net earnings of running a home-based childcare business.<sup>18</sup> Overall, the decrease in home-based childcare providers has reduced the options available for parents seeking affordable childcare options.

Another factor complicating access to childcare is workforce recruitment and retention in a field where wages are low. Employees at childcare centers are typically some of the lowest-paid professionals, averaging \$10 per hour, and just over \$20,000 annually.<sup>19</sup> Nearly 40% of childcare workers rely on public assistance, such as Medicaid or nutrition assistance, at some point in their careers.<sup>20</sup> Like all industries, the childcare sector relies on strong, stable communities to support their business.

### **The Regional Economic Impacts of Childcare**

51% of Americans live in a childcare desert. A childcare desert is generally defined as an area where more than 50 children under the age of 5 have no access to a child care provider or where there are so few options that there are more than three times as many children as there are available slots for care.<sup>21</sup> In addition, over 70% of parents report that locating affordable, quality childcare in their community is a serious problem.<sup>22</sup>

Without access to affordable childcare, economic growth and development is stunted due to the negative impact on workers, business owners, and local communities. Parents often suffer lost time at work or school due to childcare difficulties and collectively lose out on \$9.4 billion in wages.<sup>23</sup> Businesses lose more than \$12.7 billion per year due to childcare issues faced by owners and employees.<sup>24</sup> Overall, the U.S. economy loses \$57 billion per year in revenue, wages, and productivity due to challenges with childcare access around the country.<sup>25</sup>

Childcare access is an important infrastructure component that allows parents to participate in the work force, helps businesses attract and retain employees, and raises economic output by reducing productivity loss. Given the outsized of importance of childcare for the workforce, the

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<sup>14</sup> COMMITTEE FOR ECONOMIC DEVELOPMENT, CHILD CARE IN STATE ECONOMIES-2019 UPDATE (2019).

<sup>15</sup> U.S. SMALL BUSINESS ADMINISTRATION, THE ROLE OF MICROBUSINESS EMPLOYERS IN THE ECONOMY (2017).

<sup>16</sup> COMMITTEE FOR ECONOMIC DEVELOPMENT, CHILD CARE IN STATE ECONOMIES-2019 UPDATE (2019).

<sup>17</sup> COMMITTEE FOR ECONOMIC DEVELOPMENT, CHILD CARE IN STATE ECONOMIES-2019 UPDATE (2019).

<sup>18</sup> COMMITTEE FOR ECONOMIC DEVELOPMENT, CHILD CARE IN STATE ECONOMIES-2019 UPDATE (2019).

<sup>19</sup> COMMITTEE FOR ECONOMIC DEVELOPMENT, CHILD CARE IN STATE ECONOMIES-2019 UPDATE (2019).

<sup>20</sup> MARCY WHITEBOOK, DEBORAH PHILLIPS, AND CAROLLEE HOWES, WORTHY WORK, STILL UNLIVABLE WAGES: THE EARLY CHILDHOOD WORKFORCE 25 YEARS AFTER THE NATIONAL CHILD CARE STAFFING STUDY (2014).

<sup>21</sup> Center for American Progress, America's Child Care Deserts in 2018.

<sup>22</sup> Center for American Progress, America's Child Care Deserts in 2018.

accessibility and affordability of childcare can have a strong effect on local and regional economies.

### **Employer Options for Childcare Benefits**

Small and mid-sized businesses, especially in rural areas, often struggle with workforce recruitment and retention. Being able to offer a benefit that improves the accessibility or affordability of childcare for employees can help firms compete for talent and avoid turnover.

Businesses have several options when it comes to offering childcare benefits to employees, including low-cost options like dependent care assistance plans such as Flexible Spending Accounts, childcare information including resources and referrals. Other, more costly options include offering childcare at or near the worksite, childcare vouchers or subsidies for employees, and back-up childcare assistance. In addition to direct childcare benefits and supports, employers can establish policies such as telework and predictable work schedules that can help parents to address interruptions in childcare. Large firms are far more likely to offer childcare benefit than small ones, which often do not have the time, expertise, or money to do so.

### **Current Federal Policy Supporting Childcare**

The childcare system is recognized by employers, working parents, and policymakers as an essential support for the workforce. Industry wide, childcare providers derive approximately 60% of their revenue from private tuition. Federal, state, and local government funding covers 39%, and philanthropy covers the other 1%.<sup>26</sup>

#### **Temporary Assistance for Needy Families (TANF)**

TANF was created in 1996 to support low-income families with children. States have the flexibility to utilize TANF funds to support low-income families through increased access to childcare and early education opportunities. A state can transfer up to 30% of its TANF funds to the Childcare and Development Block Grant (CCDBG), which provides childcare assistance for disadvantaged families and funds childcare quality initiatives.

#### **Childcare and Development Fund (CCDF)**

CCDF is the main source of federal funding dedicated primarily to childcare subsidies for low-income working families. This includes the Childcare and Development Block Grant (CCDBG) to states, the Childcare Entitlement to States (CCES), state maintenance-of-effort and matching funds associated with CCES, and federal funds from TANF that states can transfer to CCDF. Mandatory and discretionary CCDF funds are appropriated separately and are allocated to states using different formulas.

##### **1. Childcare and Development Block Grant (CCDBG)**

CCDBG (P.L. 113-186) is a federal block grant program that provides funding to states, territories, and tribes. It is the primary federal funding source focused on providing access to

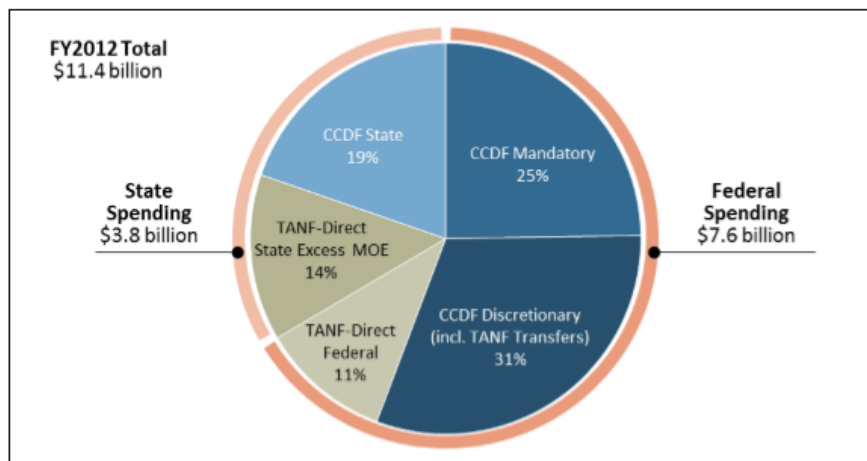
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<sup>26</sup> Lindsay Oncken, *The First Pillar of Care: Cost*, NEW AMERICA, <https://www.newamerica.org/in-depth/care-report/first-pillar-care-cost/>

childcare services to low-income working families.<sup>27</sup> The 2014 reauthorization law substantially amended the previous CCDBG Act with emphasis on strengthening requirements related quality of childcare such as health and safety, licensing, enforcement, and quality of care.<sup>28</sup>

## 2. The Childcare Entitlement to States (CCES)

CCES comes out of the 1996 welfare reform law (P.L. 104-193). This law authorized the CCES in Section 418 of the Social Security Act, which directly appropriates annual mandatory childcare funding for states and tribes.<sup>29</sup> The law calls for CCES funds to be integrated at the state level with discretionary allotments from CCDBG.<sup>30</sup>



**Source:** Prepared by the Congressional Research Service based on analysis of CCDF and TANF expenditure data released by the Administration for Children and Families at the U.S. Department of Health and Human Services. CCDF data can be found at <http://www.acf.hhs.gov/programs/occ/resource/ccdf-expenditure-data-all-years>. TANF data can be found at <http://www.acf.hhs.gov/programs/ofa/programs/tanf/data-reports>.

Fewer than 1.5 million children – about one in six eligible children – receive federal childcare assistance through CCDF. Nearly two-thirds of those children are under age 6. Twenty states have waiting lists for childcare, and most cut off eligibility at such a low level that most families are ineligible.

## Tax Policy to Support Childcare

### 1. Child Tax Credit

The Child Tax Credit was enacted as part of the Taxpayer Relief Act of 1997 (P.L. 105-34). At the end of 2017, President Trump signed into law P.L. 115-97, commonly referred to as the Tax Cuts and Jobs Act, or TCJA, which made numerous temporary changes to individual income tax provisions, including the child tax credit.<sup>31</sup> The act increased the maximum amount of the credit per child from \$1,000 to \$2,000, increased the maximum amount of the refundable tax credit per

<sup>27</sup> KAREN LYNCH, CONG. RESEARCH SERV., IF10511, CHILDCARE ENTITLEMENT TO STATES (2019).

<sup>28</sup> KAREN LYNCH, CONG. RESEARCH SERV., IF10511, CHILDCARE ENTITLEMENT TO STATES (2019).

<sup>29</sup> KAREN LYNCH, CONG. RESEARCH SERV., IF10511, CHILDCARE ENTITLEMENT TO STATES (2019).

<sup>30</sup> KAREN LYNCH, CONG. RESEARCH SERV., IF10511, CHILDCARE ENTITLEMENT TO STATES (2019).

<sup>31</sup> MARGOT CRANDALL-HOLLICK, CONG. RESEARCH SERV., IF11077, THE CHILD TAX CREDIT (2019).

child from \$1,000 to \$1,400, and increased the income level at which the credit phases out from \$110,000/\$75,000 for married/unmarried tax filers to \$400,000/\$200,000.

## 2. Child and Dependent Care Credit

The Child and Dependent Care Credit is a nonrefundable tax credit that reduces a taxpayer's federal income tax liability based on child and dependent care expenses incurred. The credit is calculated by multiplying the amount of qualifying expenses—a maximum of \$3,000 if the taxpayer has one qualifying individual, and up to \$6,000 if the taxpayer has two or more qualifying individuals—by the appropriate credit rate dependent on the taxpayer's adjusted gross income.<sup>32</sup> This tax credit was not changed by the Tax Cuts and Jobs Act.

## 3. Employer Sponsored Child and Dependent Care Exclusion

Exclusion for Employer-Sponsored Child and Dependent Care Benefits allows workers to exclude from their wages up to \$5,000 of employer-sponsored child and dependent care benefits.<sup>33</sup> These benefits include direct payments from an employer to employee's care provider, reimbursement for employee care costs, on-site care offered by employer, and flexible spending accounts that allow employees to set aside a portion of earning on a pretax basis.<sup>34</sup> Taxpayers can claim both the exclusion and the tax credit but not for the same out-of-pocket child and dependent care expenses.<sup>35</sup>

## 4. Employer Provided Dependent Care Credit

Employers are allowed to claim a tax credit equal to 25% of qualified expenses for employee childcare and 10% of qualified expenses for childcare resource and referral services. Qualified childcare expenses include the cost of acquiring, constructing, rehabilitating, or expanding property used for a qualified childcare facility, costs for the operation of the facility, or costs for contracting with a qualified childcare facility to provide childcare. A 25% credit can significantly decrease the cost of on-site facilities for employers and encourage some firms to develop on-site facilities. However, firms have to be large enough to make the facility viable. Small and mid-sized firms may not have the resources or enough employees with children to operate a viable childcare facility.

Overall, federal and state childcare subsidies and tax credits are key to improving the affordability of childcare for many families; however, for many employers and families the costs remain prohibitively high. Total federal and state childcare subsidies and tax credits (\$17.6 billion) equal more than one third (37.3%) of total U.S. childcare industry revenue.<sup>36</sup>

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<sup>32</sup> MARGOT CRANDALL-HOLLICK, CONG. RESEARCH SERV., R44993, CHILD AND DEPENDENT CARE TAX BENEFITS: HOW THEY WORK AND WHO RECEIVES THEM (2018).

<sup>33</sup> MARGOT CRANDALL-HOLLICK, CONG. RESEARCH SERV., R44993, CHILD AND DEPENDENT CARE TAX BENEFITS: HOW THEY WORK AND WHO RECEIVES THEM (2018).

<sup>34</sup> MARGOT CRANDALL-HOLLICK, CONG. RESEARCH SERV., R44993, CHILD AND DEPENDENT CARE TAX BENEFITS: HOW THEY WORK AND WHO RECEIVES THEM (2018).

<sup>35</sup> MARGOT CRANDALL-HOLLICK, CONG. RESEARCH SERV., R44993, CHILD AND DEPENDENT CARE TAX BENEFITS: HOW THEY WORK AND WHO RECEIVES THEM (2018).

<sup>36</sup> COMMITTEE FOR ECONOMIC DEVELOPMENT, CHILD CARE IN STATE ECONOMIES-2019 UPDATE (2019).

## **Conclusion**

The lack of access to childcare and other policies like paid parental leave impacts participation in the labor force, hinders economic growth, has negative impacts on children and working families, and marks the United States as an outlier among other advanced economies around the globe.<sup>37</sup> The nation's economy thrives when people can go to work and have enough money to afford necessities. When people are forced to leave the workforce or forgo promotions or training in order to care for their children, this has a negative impact on our families and small business owners around the country.

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<sup>37</sup> SARAH JANE GLYNN AND DANIELLE CORLEY, CENTER FOR AMERICAN PROGRESS, THE COST OF WORK-FAMILY POLICY INACTION (2016).