

Alabama 2024 Child Care Tax Credit Overview


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The Workforce Challenge in Alabama

- Low workforce participation rates, especially among women
- Significant exits from the workforce during the pandemic
- Childcare costs consume a large portion of household income
- Addressing these issues is key to economic growth





What is the 2024 Child Care Tax Credit Law?

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- Enacted on May 9, 2024
 - Effective January 1, 2025, through December 31, 2027
 - Key Components:
 - Employer Tax Credit
 - Child Care Facility Tax Credit
 - Nonprofit Child Care Provider Grant

Supporting Employers

- Eligible expenses: construction, operation, employee payments, and reservations for child care
- Up to 100% of eligible expenses for small businesses (<25 employees)
- 75% of eligible expenses for larger businesses, capped at \$600,000
- Annual aggregate cap: \$15M (2025), \$17.5 (2026), \$20M (2027)



Supporting Employers

- Employers must prioritize employees eligible for earned income tax credit.
- Employees are defined as making \$80K or less, excluding overtime or bonuses.
- Rural means any county with 50K or less in population



What Taxes Can Be Offset?



State income taxes



State Portion of Financial institution excise tax

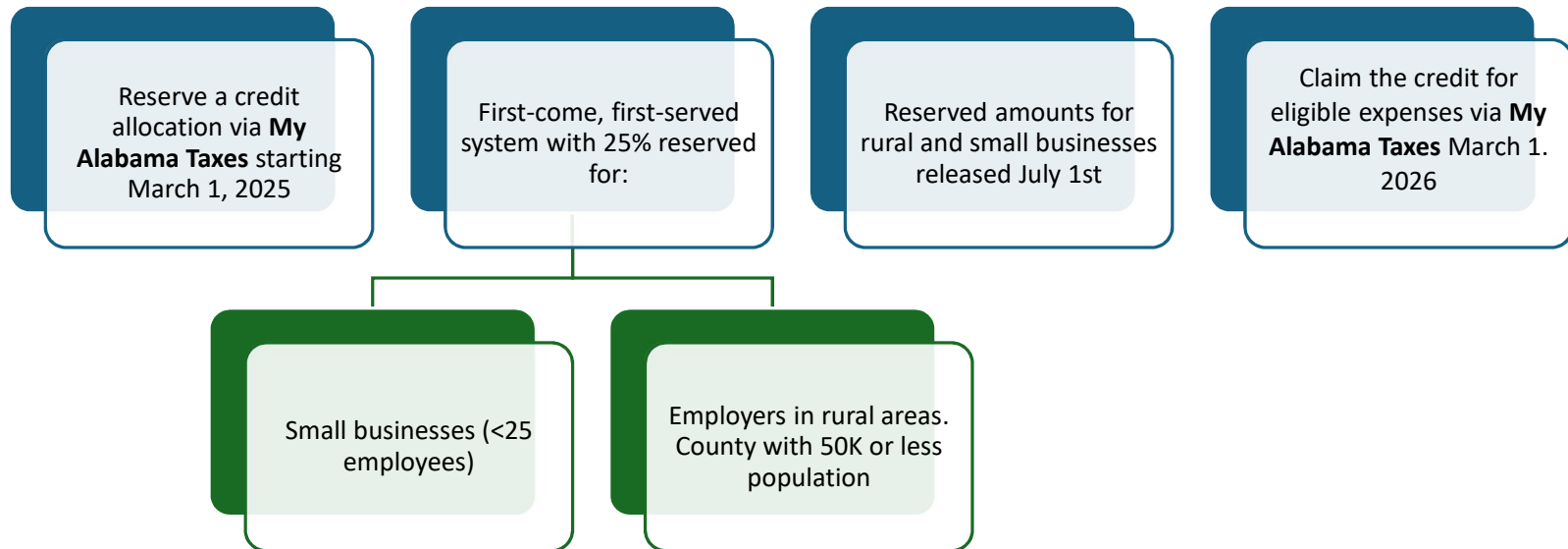


Insurance premiums tax



Utility license tax (for utility companies)

Steps to Qualify



Definitions Overview

- **Key Terms :**
 - **Child or Children:** Individuals under 5 years of age.
 - **Childcare Facility:** Licensed facilities participating in the Quality Rating and Improvement System.
 - **Eligible Child/Children:** Participants in the Child Care Subsidy Program attending certified facilities.
 - **Facility Tax Credit:** Credit tied to the quality rating of facilities. (\$25,000 per facility).
 - **Quality Rating System:** Alabama Quality STARS program (1 to 5 stars).





Facility Credit Overview

- **Alabama's Quality STARS** Exclusively for facilities participating in the Quality Rating and Improvement System (1 to 5 stars).
- **The credit is linked to the facility's star rating to drive quality:**
 - Per Facility Tax Credit Max is \$25,000 per facility.
 - \$2,000 per eligible child for 5-star facilities.
 - Reduces incrementally to \$1,000 per eligible child for 1-star facilities.



Grants for Nonprofit Providers

- **Key Details:**
- **Grant Amounts:** Up to \$50,000 annually for nonprofit childcare providers.
- **Total funding cap:** \$5 million per calendar year for all applicants.
- **Eligibility Requirements:**
 - Licensed nonprofit status.
 - Use of funds for improving childcare quality or capacity.
 - Adherence to grant terms (e.g., compliance with Department of Human Resources rules).
- **Repayment Clause:** Default on terms leads to repayment.

Rules and Info

Proposed rules were published in Alabama Administrative Monthly: November 27, 2024
(There is a link in the chat)

Public comment period ran from November 27, 2024 - January 7, 2025

Public hearing was held on January 7, 2025

For information email:
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CONTACTS AND INFORMATION



Tax Credit Details:

[Employer and Childcare Facilities Tax Credit](#)



Questions: incentives@revenue.alabama.gov or
call 334-242-1055; DHR



[IRS Guide for Finding Tax Professionals](#)

Questions and Comments

Thank you for your interest in
Alabama's 2024 Child Care Tax
Credit

Contact us with any questions:
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