

CHILD CARE RELATED TAX CREDITS IN STATES

August 2024 Update

Alabama

FOR EMPLOYERS

Tax Landscape: Forty-four states levy corporate income taxes.

Does Alabama levy taxes on corporate employers in the state?

Yes

Does Alabama have an employer tax credit to incentivize the provision of child care for employees?

Yes

Employer Child Care Tax Credit Description

HB358 was enacted in 2024 to establish an employer child care tax credit, child care provider tax credit, and a nonprofit child care provider grant. Eligible expenses for employers: Expenses incurred for the construction, renovation, expansion, or repair of a child care facility, or for the purchase of equipment for such facility, or for maintenance and operation; payments made to child care facilities or employees for the provision of child care for children of employees; or payments made to child care facilities to reserve services for children of employees. Available for services for employees with \$80,000 or less income. The tax credit is equal to total eligible expenses by the employer, up to \$600,000 per year for each employer. The employer credit is capped at \$15M in 2025, \$17.5M in 2026, and \$20M in 2027.

A tax credit for child care providers up to \$25,000 annually. The credit is based on the average monthly number of children served on subsidy. For 5-star providers, \$2,000 per child; for 4-star providers, \$1,750 per child; for 3-star providers, \$1,500 per child; for 2-star providers, \$1,250 per child. The provider credit is capped at \$5M per year.

The bill also approved grants by the Department of Human Resources to nonprofit child care providers for expenses related to the construction, expansion, improvement, repair, or operation of a child care facility, so long as such expenses are made to improve quality.

Code Section: <https://alison.legislature.state.al.us/files/pdf/SearchableInstruments/2024RS/HB358-enr.pdf>

FOR PARENTS

Tax Landscape: Nine states do not levy personal income taxes.

(Seven states do not levy personal income taxes and an additional two states do not tax wages. For example, in those states investment income and interest is taxed but wages are not taxed).

Does Alabama levy taxes on personal income?

Yes

Does Alabama have a dependent care tax credit for parents?

No

Parent Child Care Tax Credit Description

No child care tax credit for families at this time

Code Section: Not Applicable

OTHER POTENTIAL REVENUE SOURCES

Check out CED's Child Care Tax Credit Corner web page for other taxes that states may levy (e.g., estate or inheritance taxes, lottery taxes, marijuana taxes, property taxes, sales taxes, and tobacco and vaping taxes).

www.ced.org/child-care-state-tax-credits