



ALABAMA CHILD CARE TAX CREDITS  
**UNDERSTANDING  
THE BASICS**







## 2024 Alabama Child Care Tax Credit Law

In 2024, the Alabama State Legislature passed a [new tax credit](#) specifically to expand access to child care for Alabama's working parents.

Enacted on May 9, 2024, the new law has three basic components:

- **Employer Tax Credit.** The employer credit is designed to support access to child care for employees.
- **Child Care Facility Tax Credit.** The child care facility tax credit is designed to strengthen program quality (through Alabama Quality Stars) and to expand access to child care for low-income working families.
- **Nonprofit Child Care Provider Grant.** Nonprofit child care programs can apply for a grant (these providers cannot benefit from a tax credit because, as nonprofits, they do not pay taxes on program revenue) to help cover the cost of program quality and facility improvements.

The tax credits are authorized for use beginning January 1, 2025 and ending December 31, 2027 (unless extended by the State Legislature).

## Tax Credit Overview in More Detail

**Employer Tax Credit.** Small businesses (fewer than 25 employees) can receive up to \$600,000 per year for eligible child care expenses. The amount of the credit is capped at 75% of \$600,000 in eligible expenses for all other employers.

**Eligible Expenses for Employers.** Eligible expenses include:

- The construction, renovation, expansion, or repair of a child care facility, or for the purchase of equipment for such facility, or for the maintenance and operation of the facility.
- Payments made to child care facilities or employees for the provision of child care at child care facilities for children of employees.
- Payments made to child care facilities to reserve services for children of employees.

Eligible expenses are used to support access to child care by employees (and independent contractors of the employer) with annual income up to \$80,000 (excluding any overtime or bonuses). In addition, employers must demonstrate that they prioritize the payment of child care expenses for the benefit of employees eligible for the Earned Income Tax Credit.

**Total Employer Tax Credit Cap.** The employer tax credit is capped at \$15 million for 2025 rising to \$20 million by 2027. At least 25% is reserved for small businesses or employers headquartered in rural areas. By the close of the second quarter, the funds may revert to other applications if unused.

**Child Care Facility Tax Credit.** The child care facility tax credit is based on the Quality Star level of a program and the average monthly number of eligible children (age 5 or younger whose care is paid for with a child care subsidy). The credit per facility is capped at \$25,000 annually.



The credit (subject to the \$25,000 cap per facility) is worth:

- 5-Star Quality Rating: \$2,000 per eligible child
- 4-Star Quality Rating: \$1,750 per eligible child
- 3-Star Quality Rating: \$1,500 per eligible child
- 2-Star Quality Rating: \$1,250 per eligible child
- 1-Star Quality Rating: \$1,000 per eligible child

**Total Child Care Facility Tax Credit Cap.** The child care facility tax credit is capped at \$5 million annually for 2025, 2026, and 2027. At least 25% is reserved for child care providers operating exclusively in rural areas. By the close of the second quarter, the funds may revert to other applications if unused.

### Shared Aspects of Both the Employer Tax Credit and the Child Care Facility Tax Credit

**Qualifying for the Tax Credit.** Employers and child care providers must reserve a credit allocation through My Alabama Taxes on the Department of Revenue website, through a first-come, first-served reservation system. Employers and child care providers must be able to provide documentation that their expenses are eligible and any other requirements (published in the rules by the Department of Revenue) have been met.

A tax credit reservation does not necessarily guarantee that an applicant will receive a tax credit. Both tax credits have annual caps on the aggregate amount of the credits allowed. Both tax credits have a 25% set-aside for specific types of employers or child care providers. Documentation for both tax credits will be reviewed by the Department of Revenue for compliance.

**Tax Credit Use.** Tax credits can be applied against:

- The employer/facility owner's state income taxes;
- The State portion of the financial institution excise tax;
- The Insurance premiums tax; or
- The utility license tax (for utility companies only)

### Additional Information

The Department of Revenue has issued rules related to the tax credits that you can access through the Alabama Administrative Monthly. [The AAM can be accessed here.](#) The public comment period for the rules will be open from November 27, 2024 - January 7, 2025. This is the opportunity for stakeholders to weigh in with their thoughts, comments, or concerns on the proposed rules for administration of the tax credits.

**Employer Tax Credit.** <https://www.revenue.alabama.gov/tax-incentives/employer-tax-credit/>

**Child Care Facility Tax Credit.** <https://www.revenue.alabama.gov/tax-incentives/childcare-facility-tax-credit/>

For questions about your specific business or situation, consider consulting with a certified public accountant (CPA). Tax preparers can help determine how to accurately use the tax credit to best benefit employers and child care providers.

**Tax Professional Help.** The IRS has a helpful web page that explains how to find a qualified tax professional. <https://www.irs.gov/tax-professionals/choosing-a-tax-professional>

You may also reach the Department of Revenue at [Help Center – Alabama Department of Revenue](#) or, use the Department of Revenue's Taxpayer Advocacy hotline at 334-242-1055, or use this email [incentives@revenue.alabama.gov](mailto:incentives@revenue.alabama.gov).