



ALABAMA CHILD CARE TAX CREDITS
GENERAL OVERVIEW
AND FREQUENTLY
ASKED QUESTIONS



GENERAL FAQ

November 2024



WOMEN'S FOUNDATION
OF ALABAMA

The 2024 Child Care Tax Credit law is a comprehensive framework for incentivizing investments in child care infrastructure and services through tax credits and grants.

Overall, the law aims to create a robust system of financial incentives to support the expansion, improvement, and operation of child care facilities in Alabama, particularly targeting underserved areas and working families. Through a combination of tax credits and grants, it seeks to enhance child care accessibility and quality, thereby promoting workforce participation and the overall welfare of the community.

The new law contains two tax credits: a tax credit for employers to expand access to child care for employees and a tax credit for child care programs (facilities that participate in Alabama Quality Stars that serve children whose care is paid for with a subsidy). The Act also includes a grant program for nonprofit child care programs.

1. When does the tax credit start?

The tax credit is applicable for tax years beginning on or after January 1, 2025, and ending December 31, 2027.

2. What is the first year I can apply for the tax credits?

The first year of eligibility for the tax credits is tax year 2025, which means January 1st, 2025 through December 31st, 2025, the credit will be claimed on the tax forms submitted in 2026.

3. What tax credits are available?

[The Employer Tax Credit.](#) The [employer tax credit](#) is designed to support child care services for employees of the employer. The tax credit for small businesses (fewer than 25 employees) is worth 100% of eligible expenses up to \$600,000 per year. The amount of the credit is capped at 75% of eligible expenses up to \$600,000 for all other employers. There is a \$15 million initial aggregate cap for all employers that increases to \$20 million by 2027.

[The Child Care Facility Tax Credit.](#) The [child care facility tax credit](#) is designed to incentivize child care providers to improve the quality of their program and to serve low-income children whose care is paid for through a child care subsidy. There is an aggregate cap for all for-profit facilities of \$5 million annually. The credit amount for each facility will be determined based on the quality rating of the child care facility (ranging from one to five stars, with higher quality ratings receiving higher credits) and the average monthly number of eligible children served (age 5 or younger whose care is paid for through a child care subsidy). There is a cap of \$25,000 per facility per year. Child care providers apply to the Department of Revenue, providing documentation of facility quality rating and eligible children served.

[Nonprofit Child Care Provider Grants.](#) The third provision of the law is to provide financial assistance for facility improvement and operation to [nonprofit child care providers](#). The total amount of nonprofit child care provider grants are capped at \$5 million annually with a grant amount of up to \$50,000 per provider per year. The Department of Human Resources will issue rules related to specific criteria as well as the application process

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4. Why isn't there more money available for this credit?

It is not unusual for a new tax credit to be capped on an annual basis. This allows states to plan for the costs associated with utilization of the tax credit. In the case of the child care facilities credit, the cap is set at \$5 million per year over the next three years. In this way, the State Legislature designs tax credits to fit into overall budget projections and planning. Specific to the 2024 tax credit legislation, the Act requires a review of the usage of the credit as well as the impact of tax credits on workforce participation. This is an opportunity for the state legislature to better understand how the credit is working and to determine whether any changes need to be made based on experience and lessons learned.

5. Will my tax accountant know about the new tax credits?

The Department of Revenue has posted information related to the employer tax credit and the child care facility credit on separate web pages.

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/>

In addition, many professional associations circulate information to their members about recent tax changes so that certified tax professionals are knowledgeable about the latest modifications to the state tax code. Talk to your accountant about the credit and whether you may qualify for the credit (or how you can qualify for the credit). For example, employer investments in expanding access to child care for employees may meet the criteria under eligible expenses. If so, those expenses form the basis of the tax credit. For-profit child care programs may participate in the Alabama Quality Stars program. They may also serve children whose care is paid for with a subsidy. Both of these aspects are important in calculating the value of the tax credit. The Alabama Department of Revenue will promulgate rules and related regulations for submitting returns and the criteria that must be met to qualify. The proposed rules will be released in the Alabama Administrative Monthly (AAM) on November 27, 2024, and the public comment period will run from November 27, through January 7, 2025. [The AAM can be accessed here.](#)

It is important to regularly check the Department of Revenue website for updated information.

6. If I don't use an accountant, how will I know how to claim the credit?

It is highly recommended to receive professional tax advice through a certified tax professional. If you need help, the IRS has a web page related to finding a tax professional. <https://www.irs.gov/tax-professionals/choosing-a-tax-professional>

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6. If I don't use an accountant, how will I know how to claim the credit? (cont.)

You can also request information from the Department of Revenue, which is the state department that will promulgate the rules and related regulations around the child care tax credit. The proposed rules will be released in the Alabama Administrative Monthly (AAM) on November 27, 2024, and the public comment period will run from November 27, through January 7, 2025. [The AAM can be accessed here.](#)

The Department of Revenue has a webpage dedicated to the employer tax credit and the child care facility tax credit that will continually be updated as the rules are set to claim the credit. You may also find the information on the Department of Revenue website through the links below:

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/child-care-facility-tax-credit/>

7. Will tax preparers like H&R Block and Turbo Tax have the tax credit information?

Tax reporting software generally has information on state tax credits. Most online tax software companies add state credits into their state tax filing programs.

8. Who do I contact with questions about the tax credit?

For questions about your specific business or situation, you should consider consulting with a certified public accountant (CPA). Tax preparers can help determine how to properly utilize the tax credit to best benefit you and your business.

The Department of Revenue will promulgate rules and regulations around the child care tax credits that will contain pertinent information for businesses and tax preparers. The proposed rules will be released in the Alabama Administrative Monthly (AAM) on November 27, 2024, and the public comment period will run from November 27, through January 7, 2025. [The AAM can be accessed here.](#)

The Department of Revenue also has a dedicated page on its website that can be accessed through these links:

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/child-care-facility-tax-credit/>

You may also reach the Department of Revenue at Help Center - Alabama Department of Revenue or at the Department of Revenue's Taxpayer Advocacy hotline at 334-242-1055 or through this email incentives@revenue.alabama.gov.

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9. Will there be enough money for me to get the tax credit?

File early, it is first-come, first-served after the set asides.

For example, there is a priority allocation which ensures a portion of funds are reserved for small businesses, child care providers in rural areas, and nonprofit providers in rural areas.

Starting March 1, 2025, eligible businesses and child care providers can reserve their credit allocations through My Alabama Taxes on the Department of Revenue website.

Reservations will be on a first-come, first-served basis and based on the eligibility criteria outlined in the Act. Once a credit is reserved, all entities must submit documentation of their qualifying expenses to claim the refund on their tax returns. Please be advised that reserving a tax credit does not guarantee that you will receive the credit. Substantiating documentation must be submitted for the department's review in order to qualify for the credit.

Detailed instructions about how to make a reservation will be posted on the department's page by January 1, 2025. In the meantime, please direct any inquiries to incentives@revenue.alabama.gov.

10. Is it a "first come, first served" tax credit?

Yes. However, both the employer tax credit and the child care facility tax credits have some set-asides of the funding that apply to the total amount of credits that can be awarded.

Employer Tax Credit. At least 25% is reserved for small businesses (less than 25 employees) or employers headquartered in rural areas.

Child Care Facility Tax Credit. At least 25% is reserved for child care providers operating exclusively in rural areas.

By the close of the 2nd quarter, unused funds within the set-asides will revert to other applications in a first-come, first-served manner.

11. How much money goes to child care providers for the tax credit?

The amount of the credit for providers is determined based on the quality rating of the child care facility (ranges from one to five stars, with higher ratings receiving higher credits) and the average monthly number of eligible children served (age 5 or younger whose care is paid for through a child care subsidy), with a cap of \$25,000 per facility per year. The credit (subject to the overall \$25,000 annual cap) is worth:

- Five Star Quality Rating: \$2,000 per eligible child
- Four Star Quality Rating: \$1,750 per eligible child
- Three Star Quality Rating: \$1,500 per eligible child
- Two Star Quality Rating: \$1,250 per eligible child
- One Star Quality Rating: \$1,000 per eligible child

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12. How much money goes to employers for the tax credit?

The employer tax credit is designed to support child care services for their employees.

Small business may receive up to \$600,000 per year per employer for eligible child care-related expenses. For employers with 25 or more employees, 75% of the eligible expenses up to \$600,000 may be claimed. There is a \$15 million initial aggregate cap that increases to \$20 million by 2027.

13. Why is the credit going to sunset after three years?

It is not uncommon for a new tax credit to initially be authorized for a few years. In that way, the legislature can review its use. Modifications can be made if needed based on experience and lessons learned. The legislation was authorized for three years, which means it expires after December 31, 2027, unless further legislative action is taken to extend it. The legislature can extend the tax credit at their discretion.

14. How do I find someone reliable to help me prepare my taxes?

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>

It is important to ensure that the tax preparer you choose has experience with your specific tax situation. It may be helpful to ask if the individual or firm has experience in dealing with tax credits for small businesses or child care facilities. Consult with other people in your industry if you are self-employed or own a small business or seek advice from members of a professional organization. Getting referrals from your co-workers, friends or family members is another option, but they likely are facing a different tax or financial situation from you.

Online reviews of tax preparers are also available, but verifying the people who wrote them can be tricky. If you receive a recommendation for a CPA, ask the tax preparer for a few references and shop around before you make a decision.

Since the pandemic, many tax preparers work remotely. However, you will want to hire someone with knowledge about Alabama specific credits, ideally being located in Alabama, and having a lot of clients in your business sector. An Alabama tax preparer may also have a relationship with the Department of Revenue to ask questions or receive clarifications if needed.

15. Is there a way to keep the credit going so it doesn't sunset in 3 years?

The state legislature is the body of government that can make that decision based on their priorities and the budget. From the 2024 legislation, it is clear that expanding access to child care was an important policy driver for the legislation. To build a case to extend the credit, it's important that employers know about the credit, understand it, and use it. In cases where there are challenges, those should be documented in case there is a need for revisions to the law.

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16. What is next?

Women's Foundation of Alabama will have a dedicated landing page on the Women's Foundation of Alabama website with pertinent information, frequently asked questions, important dates, and links to both the Department of Revenue and the Department of Human Resources for additional information. Our website is www.wfalabama.org.