



ALABAMA CHILD CARE TAX CREDITS

CHILD CARE
PROVIDER FAQ



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November 2024



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. This FAQ brief is about the child care facility tax credit only. A companion FAQ document addresses the employer tax credit.

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 to claim the child care facility tax credit?

The first-year child care facilities can claim the credit is tax year 2025, which means that it is actually claimed through tax forms submitted in 2026.

3. What does the child care facility tax credit do?

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 child care 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 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.

4. Can nonprofit child care programs receive the child care facility tax credit?

No. Instead of a tax credit, nonprofit child care programs will be eligible for grants as specified under the new tax credit law. The Department of Human Resources (DHR) will publish rules related to how the new grant process will work for non-profit providers.

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

It is not unusual for a new tax credit to be capped on an annual basis. This allows states to plan for the revenue losses associated with utilization of the tax credit. In the case of the child care facility 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 works and to determine whether any changes need to be made based on experience and lessons learned.

6. Will my tax accountant know about the tax credit?

You should first talk to your accountant about the credit and determine whether you may qualify for the credit or how to qualify for the credit (e.g., participate in Alabama Quality Stars and serve children whose care is paid for with a subsidy). You will need to know the average monthly number of children under age 5 whose care is paid for with a subsidy in your program as well as your Quality Stars rating. The calculation for the tax credit is based on both. Your accountant will also be able to find the resources they need through the state Department of Revenue which will promulgate rules and regulations for submitting tax returns and to ascertain qualification for the 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.](#)

Information about the credit is available on the Department of Revenue website:

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

It is important to regularly check the website for updates about the child care facility tax credit.

7. How will my accountant find out about the tax credit?

The Alabama Department of Revenue will promulgate rules and regulations for submitting tax returns and to ascertain how criteria are met. 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.](#)

Your accountant can help navigate tax credit changes and support child care facility compliance. By reviewing the rules set out by the Department of Revenue, your accountant will know the requirements to generate the credit. For example, the tax credit is based on both the star level of the facility and the average monthly number of children under age 5 paid for with a child care subsidy.

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8. How will I claim the tax credit if I pay estimated taxes?

Child care facilities will file estimated or quarterly taxes as they regularly do. The Department of Revenue will issue guidance as to how the credits are claimed. Regardless, starting March 1, 2025, it is important that eligible child care providers reserve their credit allocations through My Alabama Taxes. The Department of Revenue will issue rules related to reserving tax credits. 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.](#)

9. 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>

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. Those rules will be issued in the Alabama Administrative Monthly (AAM) and will be available on November 27. [You can access the AMM through this link.](#) The public comment period on the rules will run until January 7, 2025.

The Department of Revenue has a webpage dedicated to the child care facility tax credit that will continually be updated as the rules are set forth to claim the credit. You may find the information here:

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

10. 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.

11. What are the requirements to qualify for the credit?

Child care providers can apply to the Department of Revenue, providing documentation of facility quality rating and eligible children served. The credit amount for each facility is determined based on the quality rating of the child care facility (one to five stars) and the number of eligible children served, with a cap of \$25,000 per facility per year.

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

For questions about your specific 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.

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12. Who do I contact with questions about the tax credit? (Cont.)

The Department of Revenue will promulgate rules around the child care tax credit that will contain pertinent information for child care providers and tax preparers. Those rules will be available on November 27 in the Alabama Administrative Monthly (AAM) and the public comment period will be open until January 7, 2025. [The AAM can be accessed through this link](#) and additional information can be obtained through the Department of Revenue website here:

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

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

Apply early! Eligibility is first-come, first-served after the set asides.

For example, there is a priority allocation which ensures a portion of funds is reserved for child care providers operating exclusively in rural areas.

Starting March 1, 2025, eligible 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, child care providers 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. Also, there is a \$5 million cap on the overall amount of credits to be awarded.

Detailed instructions on 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

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

Yes. However, at least 25% of the credits are 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.

15. How much money goes to the 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 number of eligible children served (under age 5 whose care is paid for with a child care subsidy), with a cap of \$25,000 per facility per year.

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15. How much money goes to the providers for the tax credit? (Cont.)

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

16. Will the money ever increase so more businesses can take advantage of the tax credit?

The legislature has the sole discretion as to whether to increase or extend the tax credit or prior to the three-year sunset, which is December 31, 2027. Whether or not the credit is extended or increased could depend upon its utilization during the initial three-year period for which it is authorized.

17. I don't pay taxes, how do I get the tax credit?

If you are a non-profit child care provider, you can apply for the grant through the Department of Human Resources (DHR). If you are a for-profit provider and do not report your income to the IRS and file taxes, you cannot get the tax credit.

18. What documentation do I need to qualify for the tax credit?

Child care providers are eligible based on their quality rating (Quality Stars) and the average monthly number of eligible children they serve whose care is paid for with a child care subsidy.

Child care providers must provide detailed documentation to substantiate their credit claim, including ownership verification, quality rating of the facility, and the average monthly number of eligible children attending each facility for the calendar year.

Documentation needed to support the tax credit application will be determined by the Department of Revenue through the rulemaking process. The comment period on the proposed rules for the tax credit will begin on November 27, and will run through January 7, 2025. The proposed rules will be released in the November issue of Alabama Administrative Monthly (AAM), which is the official register of rule changes proposed by state agencies and published on the last business day of each month and [can be accessed here](#).

The facility credit will not be awarded until all required documentation is submitted and verified by the Department of Revenue. Failure to provide the required documentation will result in the automatic denial of the credit. All credits that have been reduced or denied upon verification shall be reallocated to those child care providers that were next in line for the reservation of credits.

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19. 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.

20. 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 work with someone with knowledge about Alabama specific credits, ideally who is located in Alabama and has other clients in the child care industry. An Alabama tax preparer may also have a relationship with the Department of Revenue to ask questions or receive clarifications if needed.

21. 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. In 2024 it was clear that expanding access to child care was an important policy driver for the Alabama State Legislature. To build a case to extend the credit, it is important that child care providers know about the credit, and use it. In cases where there are challenges, those should be documented in case there is a need for revisions to the law.

22. What is next?

Women's Foundation of Alabama in partnership with Manufacture Alabama, Business Council of Alabama, VOICES for Alabama's Children, the Alabama Department of Revenue, and others will host upcoming webinars to review and explain the child care tax credits. Webinars will be recorded so that people can watch at their convenience. The first webinar will be December 4, 2024, at 2:00 p.m. [Click here to sign up for the webinar.](#) We are working to secure a date in January 2025 for an additional webinar specifically for child care facilities.

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