



ALABAMA CHILD CARE TAX CREDITS

EMPLOYER FAQ



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November 2024



Frequently Asked Questions / Employer Tax Credit | November 26, 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 public subsidy). The Act also includes a grant program for nonprofit child care programs. This FAQ brief is about the [employer tax credit only](#). A companion FAQ document addresses the child care facility 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 a business can apply for the employer tax credit?

The first-year employers are eligible for the credit is 2025, which means that it is actually claimed through tax forms submitted in 2026.

3. In general, what does the employer tax credit do?

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 on the credit that increases to \$20 million by 2027.

4. As an employer, how do I qualify for this tax credit?

All for-profit employers are eligible to receive the employer tax credit based on eligible expenses related to supporting employees in accessing child care.

Eligible expenses include:

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

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4. As an employer, how do I qualify for this tax credit? (Cont.)

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. 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.

5. What taxes does the employer tax credit offset?

The tax credit that employers receive can be applied against:

- The employer'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)

6. 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 employer credit, the cap increases each 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.

7. Will my tax accountant know about the new tax credit?

Many employers may have an in-house financial advisor. Others may contract out for professional tax services. The Department of Revenue has created new web pages with information related to the tax credit. In addition, professional associations are likely to notify accountants about recent tax changes. Employers should consult with their tax advisor about the credit and determine whether they may qualify for the credit or how to qualify for the credit in the future by implementing a strategy to help employee access or pay for child care.

If an employer is not already assisting employees in accessing child care, they may want to consider conducting a survey to better understand their employee's child care usage and challenges. Employers can then review options based on employee feedback from the survey.

More information about the details of the credit are available at: <https://www.revenue.alabama.gov/tax-incentives/employer-tax-credit/>

It is important to regularly check the Department of Revenue website for updates to the employer tax credit web page.

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

The Alabama Department of Revenue will promulgate rules and regulations for the tax credit 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.](#)

Certified accountants can help navigate tax credit changes and support employer compliance. By reviewing the rules set out by the Department of Revenue, your accountant can help you navigate the requirements to generate the credit. For example, the employer credit is based on eligible expenses and employer size as well as the income of employees supported.

9. If I do not use an accountant, how will I know how to claim the credit?

You can request information from the Department of Revenue, which is the state department that will promulgate the rules and regulations around the new child care 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.](#)

The Department of Revenue has webpages dedicated to the employer tax credit and the child care facilities tax credit that will continually be updated as the rules and processes are set to claim the credit. You may find the information here:

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

Working with a certified tax professional can help ensure that tax credits are calculated correctly.

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 employer tax credit?

To qualify for the credit, an eligible employer must do the following:

- Reserve a credit allocation through My Alabama Taxes on the Department of Revenue website, through a first-come, first-served reservation system.
- Incur eligible expense for the calendar year in which the reservation is made.
- Demonstrate that they prioritize supporting employees who are eligible for the Earned Income Tax Credit (EITC) under the Internal Revenue Code.
- Submit required documentation as required by the Department of Revenue.

The tax credit must be claimed for the tax year in which the eligible expenses are incurred.

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11. What are the requirements to qualify for the employer tax credit? (Cont.)

The tax credit has an annual aggregate cap for all employers: \$15 million for 2025, \$17.5 million for 2026, and \$20 million for 2027, of which 25 percent of each annual cap is reserved for employers that are small business and employers that are headquartered in rural areas.

Any reserved credits that are not fully allocated by these specific employers by July 1 of each year will be reallocated to other applicants.

12. How do I reserve a credit allocation?

Starting March 1, 2025, eligible employers can reserve their tax credit allocations through My Alabama Taxes. 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, employers must submit documentation of their qualifying expenses to claim a 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 to qualify for the credit. In addition, the annual cap on the total amount of credits that can be awarded may impact an applicant's ability to receive a tax credit.

Detailed instructions on how to make a reservation will be posted on the Department of Revenue web page by January 1, 2025. In the meantime, please direct any inquiries to incentives@revenue.alabama.gov

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

The Department of Revenue will promulgate rules that will contain pertinent information for businesses, child care providers, and tax preparers. Those 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.](#)

Additional information can be obtained through the Department of Revenue website here:

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

For questions about your specific business or situation, it is helpful to consult with a certified public accountant (CPA). Tax preparers can help determine how to properly utilize the tax credit to best benefit your business.

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 link incentives@revenue.alabama.gov

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14. Will there be enough money for my business to get the tax credit?

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

There is a priority allocation process which ensures funds are reserved for small businesses or employers headquartered in rural areas.

Starting March 1, 2025, employers 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, employers 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 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.

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

It is a first-come, first-served tax credit. However, within that concept, there are some set-asides.

Employer Tax Credit. At least 25% is reserved for small businesses or employers headquartered in rural areas.

By the close of the 2nd quarter, credit funds that are reserved but not used, may revert to other applications.

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

The employer tax credit is designed to help employers support child care services for their employees. Small businesses may receive up to \$600,000 per year for eligible child care-related expenses. If an employer has 25 or more employees, then 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.

17. I own a small business can I still qualify for the tax credit?

Small businesses are eligible to claim a credit for 100 percent of their eligible expenses up to \$600,000 annually. Small businesses are employers that have fewer than 25 employees.

18. How can my business weigh-in on the Department of Revenue's rules on the business tax credit?

The Department of Revenue will promulgate rules that will contain important 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.](#)

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18. How can my business weigh-in on the Department of Revenue's rules on the business tax credit? (Cont.)

Interested members of the public can submit comments in writing either by mail to Cameran Clark, Secretary, Alabama Department of Revenue, Room 4131, Gordon Persons Building, 50 N. Ripley Street, Montgomery, AL 36132 or by email to Cameran.Clark@revenue.alabama.gov at any time during the comment period.

On January 7, 2025, there will be a public hearing through web-conference. Specific information on the public hearing will be published in the November AAM, or you can email taxpolicy@revenue.alabama.gov to obtain the sign-in information to attend that specific public hearing date.

19. Will the money ever increase so more employers can take advantage of the tax credit?

The legislature has the sole discretion as to increase or extend the tax credit prior to the three-year sunset, which is December 31, 2027, (unless extended by the legislature). For the employer child care tax credit there is a \$15 million initial aggregate cap that increases to \$20 million by 2027. Whether or not the tax credit is extended or increased could depend upon its utilization during the initial three-year period for which it is authorized.

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

Documentation needed to support the tax credit application will be determined by the Department of Revenue and laid out in the proposed rules that will be published in the Alabama Administrative Monthly (AAM) on November 27, 2024. The public comment period will run from November 27, through January 7, 2025. [The AAM can be accessed here.](#)

Employers must provide detailed documentation to substantiate their claims, including receipts, contracts with child care providers, payroll records, and other relevant information as required by the Department of Revenue.

An employer's reserved credit will not be awarded until all required documentation is submitted to and verified by the department. Any and all credits that have been reduced or denied upon verification shall be reallocated to those employers that were next in line for the reservation of credits.

21. 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.

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22. 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, particularly those related to child care (e.g., Section 45(f) of the U.S. Internal Revenue Code includes a federal tax credit for employers that support access to child care for employees).

Consult with other people in your industry or seek advice from members of a professional organization. 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 making a decision.

Since the pandemic, many tax preparers work remotely. However, employers may want to work with someone with knowledge about Alabama specific credits and, ideally, is located in Alabama and has 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.

23. 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 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.

24. 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.](#)

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 any additional information. The website address is www.wfalabama.org