

Child Care Resources for the Kentucky Business Community

Child care is one of the most significant barriers to workforce participation and employment in Kentucky. Unable to afford child care, unable to find it, or sometimes both, thousands of working families across the Commonwealth find themselves having to choose between ensuring quality care for their children or pursuing a career.

With 170,000 open jobs as of May 2022 and one of the lowest workforce participation rates in the nation – at just 58.2 percent – Kentucky’s child care challenge merits the attention of both employers and policymakers. Fortunately, there are several public resources available to help the business community play a lead role in tackling this challenge.

Resources to Find Child Care

The Kentucky Cabinet for Health and Family Services maintains a database of child care providers that is searchable by address, county, or zip code. The database also includes a rating of providers based on Kentucky All STARS, the state’s quality rating system for child care programs.

Child Care Resource and Referral Agencies can be vital resources in finding access to child care. CCR&Rs support early childhood professionals and help working families explore child care options. Learn more about CCR&Rs in Kentucky by following the Key Resource Links at the end of this document.

House Bill 499 - The Employee Child Care Assistance Partnership

In the 2022 legislative session, the Kentucky General Assembly passed House Bill 499, which was sponsored by Representative Samara Heavrin. This legislation, signed into law by the Governor on April 8, 2022, creates a **new pilot program** in Kentucky called the Employee Child Care Assistance Partnership.

Under the new partnership program, employers, providers, and employees work together to support working Kentucky families. If an employer enters into an agreement with a child care provider to help subsidize the cost of services for an employee, then the state may **match the employer’s contribution up to 100 percent** – assuming all program guidelines and conditions have been met and funding remains available.

If an employer wants to assist employees with the cost of child care by providing a standard contribution to eligible employees (ex. \$200 a month), they can use an agreement form to be developed by the Cabinet for Health and Family Services. Through this agreement form, employers can work with child care providers to determine how this assistance will be paid on providers’ billing cycles. If the Cabinet approves the agreements, it can enter into the partnership and match the payment made by the employer up to 100 percent or the total cost of care (ex. another \$200 a month for a total employee benefit of \$400). This program allows employers to effectively double the size of an employee benefit while simultaneously making child care more affordable for working families.

This program will officially roll out in July of 2023 but will begin accepting partnership applications in April of 2023. In the meantime, the Cabinet for Health and Family Services, which is charged with administering the program, will be releasing additional information and regulations.

Details on the Employee Child Care Assistance Partnerships

- Private for-profit and nonprofit employers are eligible to participate.
- Employers must enter into individual agreements with child care providers and employees, and the agreements must be approved and agreed to by the Cabinet.
- The state match can be up to 100 percent of the employer contribution, but the match phases down based on the employee's household income.
- The employer contribution and the state match go directly to the child care provider in accordance with the provider's billing cycle.
- For a child care provider to be eligible to participate in the partnership, they must also participate in Kentucky All STARS, the state's early childhood quality rating system.
- The General Assembly appropriated \$15 million for the program from July 2023 to July 2024. Lawmakers set aside 25 percent of the funds exclusively for small businesses.

What Kentucky Employers Should be Doing NOW to Prepare for the Program

While this program does not officially begin until July 2023, there is a lot employers can be doing right now to get prepared.

Employers should assess the need and value of this program within their current or prospective workforce.

Employers should consider their administrative capacity to participate in a program like this and comply with all of its guidelines.

Employers should immediately begin reaching out to child care providers in their area and start building relationships.

Key Business and Community Resources in Kentucky

Business Partnership Grants - Employers across the Commonwealth may receive up to \$100,000 in matching funds from the state to implement an on-site child care facility or partner with a local provider to offer care for their employees. The application deadline for this program is December 31, 2022.

Child Care Desert Areas Matching Funds Grant - Areas in Kentucky with minimal access to child care that meet the definition of a "child care desert" can receive up to \$100,000 in matching funds to start a new child care facility.

Family Child Care Provider Grant - Individuals can receive up to \$2,500 in financial assistance to open a new family child care service.

Facility Repairs Grant - Licensed or certified child care providers can access up to \$10,000 in grants to update their facilities to ensure the health and safety of children in their care.

All of the above grant programs are overseen by the Kentucky Division of Child Care.

Kentucky Child Care Assistance Program - Low-income working families in Kentucky may be eligible for financial assistance through the state from the Child Care Assistance Program, or CCAP. Eligible parents must generally be employed or enrolled full-time in a qualified education or training program. To qualify, a worker's gross income must be at or below 85 percent of the State Median Income at the time of application (e.g., \$5,504 per month for a family of four).

Third-Party Benefit Administrators - Some companies may find it beneficial to work with a business that specializes in administering employee child care benefits. For a list of Kentucky Chamber member companies that offer these services, please contact: ctrue@kychamber.com.

Key State and Federal Tax Incentives Related to Child Care

The Employer-Provided Child Care Tax Credit - Also known as the Employer-Provided Child Care Facilities and Services Tax Credit, this program allows employers to claim a tax credit against federal income taxes for qualifying expenses related to the provision of child care for their employees. Employers may claim a credit worth 25 percent of qualifying expenses such as building or acquiring an on-site child care facility or contracting with a provider to provide child care for their employees. Employers may claim a 10 percent credit for expenses associated with contracting out services from a child care resource and referral agency. The total credit amount for an employer is capped at \$150,000 in a single tax year.

Dependent Care Assistance Exclusion - Employers may exclude from an employee's wages up to \$5,000 in qualifying child care benefits in a tax year. Kentucky conforms to this provision of the Internal Revenue Code, meaning the exclusion also applies to state income taxes.

Dependent Care Flexible Spending Account - Through a DCFSA, an employee can have wages withheld pre-tax from their paycheck and deposited in an account that they can use for the reimbursement of costs associated with child care. DCFSA's, just like FSA's for health care, can reduce a workers' overall income tax burden and help them set aside money for child care.

Child and Dependent Care Tax Credit (Key Tax Credit for Working Families) - Workers should be aware that they may be eligible for a tax credit to reduce their federal income taxes for expenses associated with providing care for a child under the age of 13. Kentucky law offers a state version of this tax credit capped at 20 percent of the federal credit.

Earned Income Tax Credit (Key Tax Credit for Working Families) - Although not directly related to child care, the federal Earned Income Tax Credit, or EITC, can help working families afford child care. The EITC is for low-to-moderate income earners and increases based on family size.

Gauging the Child Care Needs Of Your Employees

A critical first step in deciding what type of child care assistance to offer your employees should be developing a better understanding of their child care needs. Many employers have found it useful to conduct an employee survey to learn more. The Chamber has made available a list of recommended survey questions for employers to use through their preferred survey delivery and data collection tools.

For questions or to access the recommended survey questions, email Claire True (ctrue@kychamber.com) or click the following link: <https://www.kychamber.com/childcaresurvey>.

Key Resource Links

- **Kentucky Child Care Database:** <https://kynect.ky.gov/benefits/s/child-care-provider>
- **Child Care Resource & Referral Agencies:** <https://www.childcareaware.org/resources/ccrr-search/>
- **Information on CCAP:** <https://chfs.ky.gov/agencies/dcb/dcc/Pages/ccap.aspx>
- **Child Care Grant Programs for Employers:** <https://chfs.ky.gov/agencies/os/oas/Pages/grants.aspx>
- **IRS Employer-Provided Child Care Tax Credit Form:** <https://www.irs.gov/forms-pubs/about-form-8882>
- **IRS Guidance on Dependent Care Assistance Exclusion:** <https://www.irs.gov/pub/irs-pdf/p15b.pdf>
- **Information on Dependent Care FSAs:** <https://fsafeds.com/explore/dcfesa>
- **IRS Guidance on Child & Dependent Care Tax Credit:**
<https://www.irs.gov/newsroom/child-and-dependent-care-credit-faqs>
- **IRS Guidance on Earned Income Tax Credit:**
<https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit-eitc>