HomePay℠

DEPENDENT CARE TAX BREAKS

Most people assume that paying their nanny "on the books" will significantly increase their cost of care. The truth is, for most families, dependent care tax breaks offset most – if not all – of the employer payroll taxes. For an estimate of your tax costs and tax breaks for the 2025 tax year, visit our free Employer Budget Calculator.

And there's more good news! Effective 2026, the savings from dependent care tax breaks will increase. Here are the details:

If you employ someone in your home whose services are at least partly for the well-being and protection of a child (under age 13) or other qualifying dependent, and your household meets the work-related test — which means the care is needed because both parents work, are looking for work, or are full-time students – the expenses qualify for one or both of the following tax breaks:

- **Dependent Care Account**
  Also called a "Flexible Spending Account" (FSA), this tax break allows you to pay for childcare expenses using pre-tax dollars. Effective 2026, the limit on the amount you can set aside increases from $5,000 to $7,500 per family per year. That means that, depending on your marginal tax rate, maximizing your FSA will save up to $3,000 in federal taxes (up from $2,000 in 2025). Note: If you work in a location with state/local income taxes, your savings may be greater.

  While the rules are set by the IRS, families access this tax break through a participating employer. For enrollment details, check with your HR or Accounting Department.

  Note: *Hiring a nanny is considered a change in childcare expense resulting in a qualifying event that allows you to enroll in an FSA outside of open enrollment.*

- **Child or Dependent Care Tax Credit (CDCTC)**
  Families can receive a tax credit on care-related expenses through their federal income tax return using IRS Form 2441. The expense limit is $3,000 for one dependent or $6,000 for 2 or more dependents. The credit percentage ranges between 20% and 50% depending on your Adjusted Gross Income (AGI). For families with one child, the credit will yield annual savings between $600 and $1,500. For families with two or more children, the savings range is $1,200-$3,000. Note: Additional tax credits or deductions are available to offset state taxes in 30 states.

Maximizing Your Tax Breaks

Eligible expenses include the nanny's wages, employer taxes on those wages, and any fees paid to a placement agency. If you have access to a Dependent Care Account, you will save the most by setting aside the maximum amount allowed (up to the total amount of your qualifying expenses) toward your Dependent Care Account. If you do not have access to a Dependent Care Account, you will want to make sure to take advantage of the CDCTC.

HomePay is the nation's leading specialist in the unique area of household employment payroll, tax & labor law. Our simple, affordable service provides a no-work, no-worry solution to paydays, tax time and all points in between.

To learn more, visit our website to watch our quick video tour. If you have any questions about your situation, please call for a free consultation. We're here to help!

Phone: 877-367-1969 | Email: partners@myhomepay.com | Schedule a Call

When you're ready to get started, just visit partners.myhomepay.com and complete a short registration.