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Improving Child Care Worker Retention through Tax Reform by Including Early Childhood Educators in the Educator Expense Deduction

RESEARCH-TO-POLICY BRIEF

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Key Findings and Recommendations

Background
Including early educators in the Educator Expense Deduction (EED), a federal income tax deduction of up to $300 for unreimbursed educator expenses, could improve child care worker retention, supporting working families and businesses.

Findings
Results of a national survey of 25,469 early educators indicate they would benefit from the EED and **participate at rates similar to K-12 teachers.**

Recommendation to Congress
Amend the Internal Revenue Code of 1986 to include early educators in the EED.

Recommendation to States
States should provide this deduction on state income taxes.

Background

An essential component of economic development is affordable and accessible early care and education for young children birth to Kindergarten entry. Unfortunately, access to early care and education is uncertain in many places because of severe challenges recruiting and retaining early educators. This is due in large part to low wages and a lack of professional respect that early educators report experiencing. Nationally, early childhood educators earn a median hourly wage of $13.07, less than half that of elementary school teachers, with 13% earning below federal poverty line wages and 43% needing to rely on public assistance for basic needs such as food and healthcare.[1] The result is persistent problems with child care worker recruitment and retention, creating significant employment challenges for businesses and working families that result each year in billions of dollars of lost economic activity.[2]

Including early educators in the Educator Expense Deduction (EED), a federal personal income tax deduction, may be a relatively low-cost way to increase early educator retention by easing a portion of their financial burden and demonstrating that they are respected for the important work they do providing child care to support families and businesses and educating young children. Early childhood educators often are excluded in policies that support K-12 teachers. One clear example is their exclusion from the EED, which allows teachers and other educational staff to claim up to $300 in federal income tax deductions for their unreimbursed purchases of classroom materials and other necessary educational costs.[3]

This policy brief describes the EED and past efforts to include early educators in this tax deduction, presents new research findings regarding the degree to which early educators might utilize an EED, and offers recommendations for federal and state policy.

What is the EED? The EED was first established in 2002 as a temporary federal tax benefit for eligible teachers in Kindergarten through Grade 12, as well as other educational staff. The EED was later made permanent and indexed to inflation as a part of the Protecting Americans from Tax Hikes (PATH) Act of 2015. The deduction was capped at $250 per educator ($500 for married educators filing jointly) and offered as an "above-the-line" deduction, meaning that it could be claimed regardless of whether the educator itemized their tax deductions or took the standard deduction.

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In 2022, the EED limit was increased to $300 ($600 for married educators filing jointly). Allowable deductions include educational items such as classroom supplies, other educational materials, and professional development experiences that are purchased by the educator using their personal money and are not reimbursed by their employer.[4] About 89.5% of K-12 educators claimed the deduction, with an average deduction of $265.29 across all tax returns ($239.78 for single-person returns) for the 2021 tax year.[5]

Of note, the EED applies only to an income tax filer who is "a Kindergarten through Grade 12 teacher, instructor, counselor, principal, or aide for at least 900 hours a school year in a school that provides elementary or secondary education as determined under state law."[6] Early educators are excluded from this tax deduction, even those who work alongside eligible K-12 teachers in the same school, such as teachers in school-based PreKindergarten classes and preschool special education programs, and even if those early educators hold teaching credentials and degrees on par with their K-12 colleagues.

Have there been efforts to include early educators in the EED? Past federal legislative efforts to include early educators in the EED were unsuccessful, despite bipartisan sponsorship and widespread support from national early childhood organizations. The Pre-K Teacher Parity Act of 2017 sought to include early educators in the deduction and defined them as educators working in licensed or otherwise regulated child care, state PreKindergarten programs, early intervention and preschool special education, programs operated by a local education agency, and Head Start and Early Head Start.[7] Four years later, the bipartisan Supporting Early-childhood Educators' Deduction (SEED) Act of 2021 was introduced in both the House and Senate.[8] It was reintroduced in 2023,[9] where it failed to emerge from the House Committee on Ways and Means.

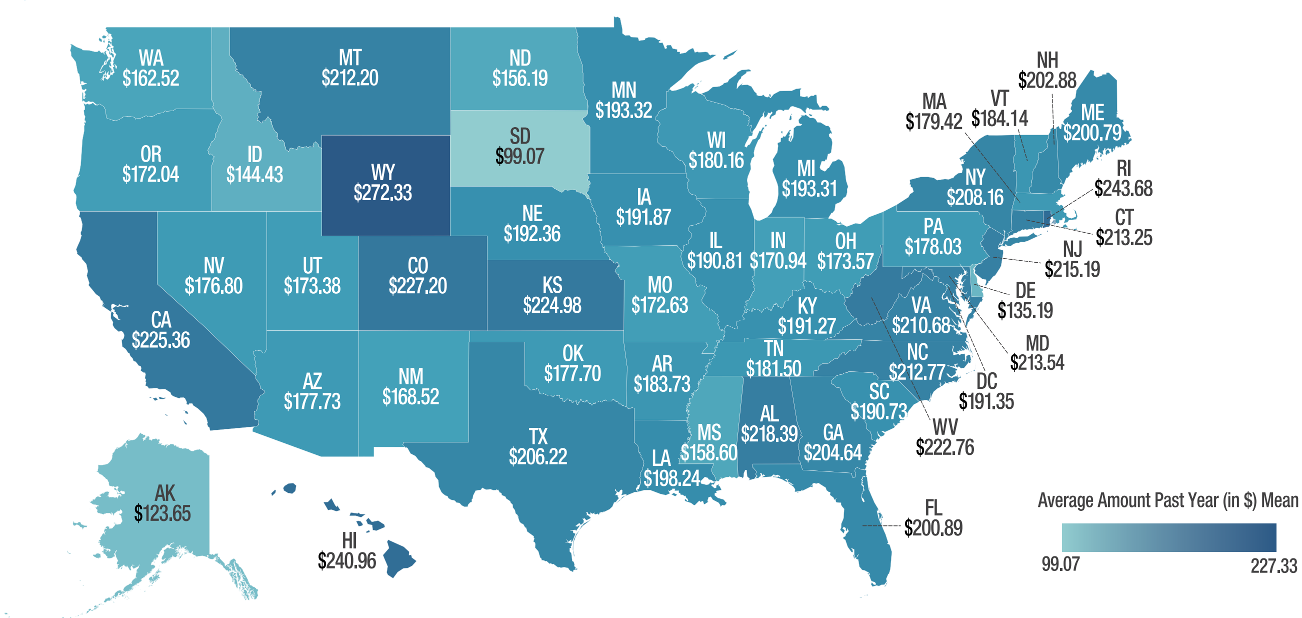
Findings

Would early educators utilize the EED if made available to them? To address this question, data of an ongoing national survey of early educators (25,469 in this survey wave) were used to estimate early childhood educator's likely utilization of an EED if offered. Data were obtained from early educators across all 50 states and the District of Columbia, representing those working in child care centers, home-based child care, schools, Head Start and Early Head Start, and other settings, and participating in studies coordinated through the National Workforce Registry Alliance.[10] Among many questions, respondents were asked how much of their own money they used in the past year to pay for participation in professional development courses, books, supplies, computer equipment (including related software and services), other equipment, and supplementary materials that they used in the classroom (using the exact wording in the 2022 IRS filing instructions for the EED).

Results indicate that early educators overall would utilize the EED at a rate similar to that of K-12 teachers, and the amount of expenses claimed might be less per tax filer compared to K-12 teachers. Nationally, 90.6% of early educators report incurring during the past year unreimbursed out-of-pocket educational expenses that would have been eligible for tax deduction under the EED if they were a K-12 teacher. This rate is slightly higher than the 89.5% of K-12 teachers who claimed the EED in 2021. The national average amount of unreimbursed educator expenses incurred by early educators was $198.62. This amount is less, however, than the average amount claimed by K-12 teachers ($265.29 in the 2021 tax year).

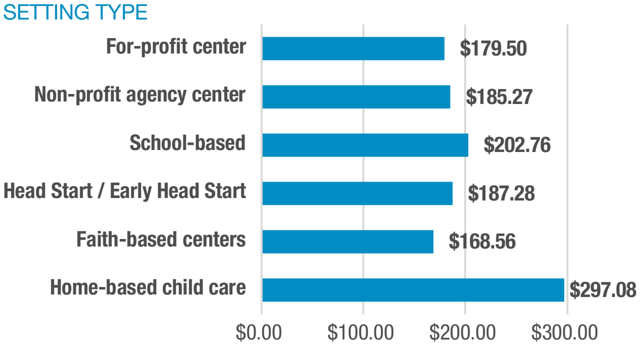
By state. Likely utilization of an EED for early educators appears high across all states, although variability is noted. The rate of likely utilization ranges from 64.1% in Alaska to 100% in four states (Mississippi, Rhode Island, Utah, and Wyoming). Average early educator expenses (Figure 1) ranged from a low of $99.07 in South Dakota to a high of $272.33 in Wyoming. Early educators' personal unreimbursed spending by state can be found in Appendix A.

FIGURE 1. | AVERAGE AMOUNT OF POTENTIALLY DEDUCTIBLE EXPENSES



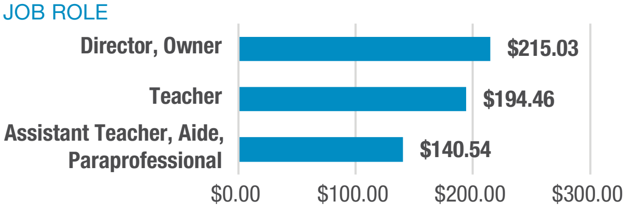
By program type. The highest amount of average expenses incurred by early educators were those working in home-based child care programs ($297.08, with 94.5% claiming at least some level of unreimbursed expenses). The lowest average amounts were reported by early educators in faith-affiliated ($168.56) and for-profit centers ($179.50). Unreimbursed early educator expenses by setting type are shown in Figure 2.

FIGURE 2. | UNREIMBURSED EARLY EDUCATOR EXPENSES BY SETTING TYPE



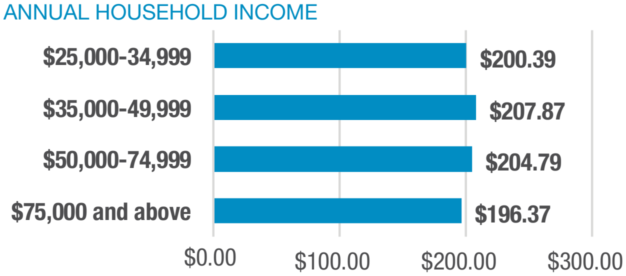
By job role. The highest average amount of unreimbursed personal expenses were reported by child care directors and owners ($215.03), followed by teachers ($194.46) and assistant teachers, aides, and paraprofessionals ($140.54). However, it was those at the entry levels of the field (assistant teachers, aides, and paraprofessionals) who were the most likely to report having spent at least some amount of unreimbursed personal expenses on classrooms or professional development (93.7%), followed by directors and owners (90.1%) and teachers (88.1%). Unreimbursed early educator expenses by job role are shown in Figure 3.

FIGURE 3. | UNREIMBURSED EARLY EDUCATOR EXPENSES BY JOB ROLE



By annual household income. Early educators living in households with an annual income of $35,000-49,999 reported the highest average amount of unreimbursed out-of-pocket work expenses ($207.87), with the lowest average amount reported for those in households with incomes of $75,000 or more ($196.37). Unreimbursed early educator expenses by annual household income are shown in Figure 4.

FIGURE 4. | UNREIMBURSED EARLY EDUCATOR EXPENSES BY ANNUAL HOUSEHOLD INCOME



Policy Recommendations

1. **Include early educators in the federal EED**
   Federal legislation should be introduced to amend the Internal Revenue Code of 1986 to include early educators in the EED. This bill should be modeled after the Pre-K Teacher Parity Act of 2017, borrowing its clear language defining the field of early educators. The 119th Congress will be focusing largely on tax legislation, and many of the tax bills being considered will have significant implications for young children, their families, and those who care for them and educate them. Including early educators in the popular EED should be an easy consideration, and could be helpful for increasing child care worker retention at a time when stable access to child care is widely recognized as a key economic driver.

2. **Consider providing a state tax deduction for early educators until a federal version is passed**
   Most states (36 including the District of Columbia) use either the federal adjusted gross income or the federal taxable income as the state income tax starting point[11]—automatically deducting the EED from taxable income at the state level.[12] Therefore, K-12 educators are already receiving state income tax relief in these states. Until early educators are included in a federal EED, individual states should provide a similar above-the-line deduction specifically for early childhood educators.

Acknowledgments
These analyses were made possible mostly due to a collaboration with the National Workforce Registry Alliance, now housed at the Buffett Early Childhood Institute at the University of Nebraska. Data used in analyses are maintained at the Buffett Early Childhood Institute in collaboration with the Tobin Center for Economic Policy at Yale University.

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[1] McLean, C., Austin, L.J.E., Powell, A., Jaggi, S., Kim, Y., Knight, J., Muñoz, S., & Schlieber, M. (2024). Early Childhood Workforce Index – 2024. *Center for the Study of Child Care Employment, University of California, Berkeley.* https://cscce.berkeley.edu/workforce-index-2024/.

[2] U.S. Chamber of Commerce Foundation. (2023). *Untapped potential: Economic impact of childcare breakdowns in the U.S.* https://www.uschamberfoundation.org/solutions/early-childhood-and-k-12-education/untapped-potential

[3] Internal Revenue Service. (2022, August 10). *New school year reminder to educators; maximum educator expense deduction rises to $300 in 2022.* https://www.irs.gov/newsroom/new-school-year-reminder-to-educators-maximum-educator-expense-deduction-rises-to-300-in-2022

[4] Morris, M. (2021). No teacher left behind: Reforming the educators expense deduction. Indiana Law Journal, 96(3), Article 6. https://www.repository.law.indiana.edu/ilj/vol96/iss3/6; Zaretsky, R. (2022, September 7). *The Educator Expense Deduction: It may be time to trade this token benefit.* Tax Policy Center, Urban Institute and Brookings Institution. http://www.taxpolicycenter.org/taxvox/educator-expense-deduction-it-may-be-time-trade-token-benefit

[5] Internal Revenue Service. (2024). *Statistics of Income—2022 Individual Income Tax Returns.*

[6] Internal Revenue Service. *Educator expense deduction, Topic No. 458.* https://www.irs.gov/taxtopics/tc458

[7] Pre-K Teacher Parity Act of 2017, H.R. 1013, 115th Congress. (2017). https://www.congress.gov/bill/115th-congress/house-bill/1013

[8] Supporting Early-childhood Educators' Deduction (SEED) Act of 2021, H.R. 5254, 117th Congress. (2021). https://www.congress.gov/bill/117th-congress/house-bill/5254; and S. 3424, 117th Congress. (2021). https://www.congress.gov/bill/117th-congress/senate-bill/3424

[9] Supporting Early-childhood Educators' Deduction (SEED) Act of 2023, H.R. 5928, 118th Congress. (2023). https://www.congress.gov/bill/118th-congress/house-bill/5928; and S. 3037, 118th Congress. (2023). https://www.congress.gov/118/bills/s3037/BILLS-118s3037is.pdf

[10] The Buffett-Yale National Early Child Care Workforce Survey began in May 2020 and is the largest and most comprehensive ongoing survey of the wellbeing of early childhood educators, with data from more than 126,000 respondents across all U.S. states and the District of Columbia. Respondents are contacted primarily through the National Workforce Registry Alliance (NWRA) housed at the Buffett Early Childhood Institute. The current brief uses Qualtrics survey data collected with a subset of 25,469 early educators surveyed between June and August 2023. Data were weighted (trimmed to 2.5) based on age, race, ethnicity, and state to match the 2021 American Community Survey occupational code for child care worker. To learn more about the methods used in these surveys, please consult papers from the National CARES Partnership available at https://buffettinstitute.nebraska.edu/policy-research/workforce-well-being. Information about the NWRA can be obtained at https://buffettinstitute.nebraska.edu/.

[11] Twenty-nine states including the District of Columbia use the federal adjusted gross income (AZ, CA, CT, DE, GA, HI, IL, IN, IA, KS, KY, LA, ME, MD, MI, MO, MT, NE, NM, NY, NC, OH, OK, RI, UT, VA, WV, WI, and DC), and seven states use the federal taxable income (CO, ID, MN, ND, OR, SC, and VT).

[12] Walczak, J. (2018). Tax reform moves to the states: *State revenue implications and reform opportunities following federal tax reform: Special Report N. 242.* Tax Foundation.

Appendix A Early Educators' Personal Unreimbursed Spending by State

State	Spending Own Money Rate (%)	Average Amount Spent in Past Year ($)	State	Spending Own Money Rate (%)	Average Amount Spent in Past Year ($)
Alabama	95.2	218.39	Montana	91.8	212.20
Alaska	64.1	123.65	Nebraska	95.9	192.36
Arizona	88.2	177.73	Nevada	88.2	176.80
Arkansas	73.9	183.73	New Hampshire	93.1	202.88
California	91.6	225.36	New Jersey	89.0	215.19
Colorado	92.0	227.20	New Mexico	84.6	168.52
Connecticut	87.8	213.25	New York	89.7	208.16
Delaware	95.1	135.19	North Carolina	92.2	212.77
District of Columbia	89.9	191.35	North Dakota	87.8	156.19
Florida	94.3	200.89	Ohio	91.0	173.57
Georgia	92.5	204.64	Oklahoma	96.0	177.70
Hawaii	94.8	240.96	Oregon	90.6	172.04
Idaho	71.4	144.43	Pennsylvania	90.5	178.03
Illinois	92.4	190.81	Rhode Island	100.0	243.68
Indiana	90.6	170.94	South Carolina	87.4	190.73
Iowa	95.5	191.87	South Dakota	77.3	99.07
Kansas	91.6	224.98	Tennessee	91.3	181.50
Kentucky	87.2	191.27	Texas	89.4	206.22
Louisiana	88.2	198.24	Utah	100.0	173.38
Maine	88.6	200.79	Vermont	78.6	184.14
Maryland	91.2	213.54	Virginia	89.7	210.68
Massachusetts	86.0	179.42	Washington	82.8	162.52
Michigan	91.7	193.31	West Virginia	88.8	222.76
Minnesota	93.2	193.32	Wisconsin	92.8	180.16
Mississippi	100.0	158.60	Wyoming	100.0	272.33
Missouri	82.7	172.63	**United States**	**90.6**	**198.62**