Dependent Care Tax Breaks Are Changing in 2026 – Here's What Families Need to Know

If you have young children in daycare or pay for care so you can work, 2026 brings some of the most significant improvements to dependent care tax benefits in years. The One Big Beautiful Bill Act permanently increases the value of the Child and Dependent Care Credit for many families and raises the amount that can be contributed to a dependent care flexible spending account (FSA).

While that's welcome news, it also makes planning more complicated. The strategy that made sense for years may no longer be the best choice for every family.

Bigger Tax Benefits Beginning in 2026

Starting with the 2026 tax year, the Child and Dependent Care Credit becomes substantially more valuable for many taxpayers.

Although the maximum eligible expenses remain unchanged at $3,000 for one qualifying child or $6,000 for two or more, the percentage used to calculate the credit increases for many families. Instead of topping out at 20% for most taxpayers, the credit can now be as high as 35% for many middle-income households, with lower-income taxpayers potentially qualifying for an even higher percentage before income phaseouts apply.

At the same time, the annual contribution limit for employer-sponsored dependent care FSAs increases from $5,000 to $7,500, allowing more families to pay daycare expenses with pre-tax dollars.

Should You Use the Credit or the FSA?

For years, the answer was usually simple: maximize the dependent care FSA if your employer offered one. That's because FSA contributions reduce both income taxes and payroll taxes, often producing greater savings than the tax credit alone.

The 2026 changes mean that answer is no longer automatic.

For families with one child, the FSA will often continue to provide the greatest overall tax benefit, particularly as income rises into higher tax brackets.

However, families with two or more children—especially those in lower tax brackets—may actually come out ahead by claiming the dependent care credit instead of maximizing the FSA. The enhanced credit can outweigh the additional tax savings provided by pre-tax payroll deductions in certain situations.

In other words, what worked in previous years may no longer be the best strategy.

Income Now Matters More Than Ever

The new rules introduce additional income-based phaseouts that make planning much more

individualized. Two families with similar daycare expenses may receive very different tax results depending on their adjusted gross income, filing status, and available employer benefits.

Because of these moving pieces, simply following last year's approach could leave valuable tax savings on the table.

One Important Surprise

Many people assume that the largest credit percentage automatically benefits lower-income taxpayers the most. But this isn't necessarily true. The dependent care credit is nonrefundable, meaning it generally cannot reduce your tax below zero. Families with little or no income tax liability may qualify for a large theoretical credit but receive little or even none of the benefit.

There are limited exceptions where the credit can offset certain other taxes, such as Alternative Minimum Tax (AMT), but these situations are uncommon.

Now Is a Good Time to Review Your Benefits

Open enrollment season may be the perfect opportunity to revisit your dependent care elections. Questions worth asking include:

- Should you contribute the full $7,500 to a dependent care FSA?
- Would claiming the credit instead produce a larger tax benefit?
- Has your income changed enough that your optimal strategy is different from prior years?
- Are you expecting changes to childcare costs or family size during 2026?

The answers will vary from family to family.

Let's Run the Numbers

The expanded dependent care credit is excellent news for working families, but it also means tax planning has become more nuanced than ever. Rather than relying on general rules of thumb, we'll help compare your available options, including your employer's dependent care FSA, to determine which approach produces the lowest overall tax bill.

A quick planning review before making your 2026 benefit elections could result in meaningful tax savings throughout the year. Don't hesitate to reach out to our office if you'd like to explore what options are available to you.