The Family Tax Credits Guide

> Raising kids is expensive, and the tax code offsets part of it. Here is how the Child Tax Credit and childcare breaks work, and how to choose.

Children are one of the largest expenses a family takes on, and the tax code softens the blow with some of the most valuable breaks available. Two matter most, the Child Tax Credit and the choice between a Dependent Care FSA and the care credit. Getting them right is worth thousands of dollars.

The Child Tax Credit

The Child Tax Credit is worth up to 2,200 dollars for each qualifying child under 17 in 2026, and because it is a credit, it cuts your tax bill dollar for dollar, not just your taxable income. Much of it, up to 1,700 dollars per child, is refundable, so it can boost your refund even if you owe little.

The full credit is available up to high income thresholds, 200,000 dollars for single filers and 400,000 for joint, so most families receive all of it. Above the threshold it phases out by 50 dollars for every 1,000 dollars of income. Two children give a 4,400 dollar base credit, reduced only if your income is high. It is one of the simplest and most valuable family breaks.

Dependent Care FSA versus the care credit

Childcare so you can work is expensive, and there are two breaks to help, but you generally choose one. The Child and Dependent Care Credit is worth 20 to 35 percent of eligible expenses, up to a cap, with the rate falling as income rises. The Dependent Care FSA lets you pay for care with pre-tax dollars, saving your marginal rate plus payroll tax.

For most middle and higher earners, the FSA wins. On 8,000 dollars of care for two children at a 90,000 dollar income, the credit rate has fallen to its 20 percent floor, giving a 1,200 dollar credit, while a 7,500 dollar FSA at a 22 percent bracket plus FICA saves about 2,224 dollars. The credit tends to win only at low incomes, where its rate nears 35 percent. Run both to see which fits your income.

How the breaks stack

The credits do not all conflict. The Child Tax Credit is separate from the childcare breaks, so a family can claim the Child Tax Credit and use a Dependent Care FSA or the care credit at the same time. What you cannot do is use both the FSA and the care credit on the same dollars of expense.

Some families run expenses through the FSA up to its limit, then claim the care credit on any remaining eligible expenses, though the overlap is capped. The interaction is technical, so the simplest approach for most is to pick the single better childcare break, usually the FSA, and separately claim the Child Tax Credit for each child.

Beyond the annual breaks

The Child Tax Credit and childcare breaks help with today costs, but the biggest future expense, college, needs its own plan. A 529 college savings plan grows tax-free for qualified education expenses and often earns a state tax break on contributions.

Think of it as layers. The Child Tax Credit and care breaks reduce this year tax bill, a 529 builds the college fund, and life and disability insurance protect the income that pays for it all. Each does a different job. Use the family calculators to size them together rather than treating them one at a time.

> **Key takeaway.** Claim the Child Tax Credit for each child, and for childcare, compare the Dependent Care FSA against the care credit, since for most working families the FSA saves more. Then plan for college with a 529.

Assumptions

- The 2026 Child Tax Credit is 2,200 dollars per qualifying child under 17, phasing out above 200,000 single or 400,000 joint. Figures come from the versioned tax data.
- The Dependent Care FSA and the care credit generally cannot cover the same expenses. This guide compares each on its own.

Sources

- IRS, Child Tax Credit
- IRS, child and dependent care credit