There is no doubt that an employer-sponsored daycare center that provides quality care to employees' children at a convenient location is a valuable benefit. However, it is not a suitable option for every employer. Daycare centers are expensive and require a high level of employee utilization to be cost-effective. It also requires careful planning and a high level of commitment from upper management.

Some employers are overcoming the obstacles and implementing childcare centers. For example, employers can reduce the costs by forming joint ventures with other employers or sponsoring existing centers. Overall, employers should consider a number of factors when deciding whether to offer a center, including the following:

**Recruiting advantages.** Many job applicants see an employer-provided child care center as an incentive for employment, thus giving employers that offer this benefit a great advantage in recruiting a quality workforce.

**Reduced turnover.** Costly turnover is reduced because employees are less willing to quit if it means they must disrupt their children by moving them out of a center where they receive quality care. Women also are more likely to return from maternity leave or take shorter leaves if quality care is readily available.

**Less absenteeism and tardiness.** On- or near-site daycare centers may decrease absenteeism and tardiness by reducing or eliminating problems with outside child care arrangements.

**Higher productivity.** Some employers believe that their daycare center helps to improve productivity because employees are able to concentrate on their work instead of worrying about childcare problems.

**Easier staffing for shift work and overtime.** In firms where employees work late days, nights, or weekends, the daycare center may have heightened value, because child care for off-hours generally is much more difficult to find.

**Enhanced public image.** Childcare centers and other family-oriented benefits can help an employer be viewed as innovative or as a leader in the community and its industry.

**Consider the Costs**

There is little statistical information available on the cost of providing an employer-sponsored daycare center, though most agree the costs are relatively high. In general, start-up costs may run from as little as $50,000 to more than $700,000, depending on a variety of factors. These figures include all costs necessary to open the center, such as renovation or building purchase, equipment, professional fees, and initial staffing costs. Operating costs include all costs expended to run the center, such as staffing, supplies, food, utilities, rent, and insurance. A
daycare center's operating costs may be partially or completely offset by the revenue it takes in, depending on how much employees and other clients are charged to use the center.

When considering costs, employers usually factor in the projected cost savings they expect to achieve in terms of reduced turnover, absenteeism, and tardiness; shortened maternity leaves; and reduced use of employee sick leave for child care needs. Investment of capital to obtain and develop a well-chosen site may be viewed as another way to increase the company's long-term financial assets.

Liability Concerns

Employers sponsoring or operating daycare centers may be held liable in a variety of capacities, depending upon their level of involvement with the facility. Generally, the greater the employer's involvement with the daycare center, the greater the risk of liability for accidents and injuries occurring there. The types of legal claims that may be asserted against employers are diverse. Claims may range from liability for the center's debts, unsafe premises, toys, or equipment, to liability for criminal sexual abuse of children by center personnel or volunteers. While liability is a serious and legitimate concern, some consultants note that there have been few, if any, reports of employers actually being sued or held liable for damages as a result of sponsoring a daycare center.

Tax Advantages to Employees

In many cases, employees pay for employer-sponsored daycare center services, although the rates may be subsidized. Whatever the price, there are some tax advantages available to lessen the impact of costs. For example, the dependent care tax credit allows a taxpayer to deduct from gross income up to $4,800 ($6,000 in 2002) of qualified dependent care expenses that are necessary to enable the taxpayer or the taxpayer's spouse to work. In addition, a dependent care assistance program allows an employee to exclude from gross income up to $5,000 of dependent care expenses necessary to enable the employee or the employee's spouse to work. The IRS requires employers to report the fair market value of the dependent care assistance provided to each employee on the employee's W-2 form, regardless of how much the employee actually paid to use the center.

Tax Advantages to Employers

Whether an employer constructs a new building or renovates an existing one, capital expenditures necessary to establish a daycare center generally are not currently deductible, but may be depreciated using the Accelerated Cost Recovery System of depreciation (ACRS) under Internal Revenue Code [26 USC 168] Section 168. Such expenditures include amounts paid for capital assets such as buildings, playground equipment, and furniture and equipment.

Operating expenses incurred after the childcare center is established generally can be deducted currently as ordinary and necessary business expenses under tax Code [26 USC 162] Section 162. To be deductible, these expenses should be reasonable in terms of the cost per child, and the cost per employee should be in line with an employer's business purpose of attracting
and retaining qualified employees. Operating expenses include such items as amounts paid for salaries, supplies, rent, and insurance premiums.

Effective for taxable years beginning after December 31, 2001, employers will receive a tax credit equal to 25 percent of qualified expenses for employer-provided child care and 10 percent of qualified expenses for child care resource and referral services. The maximum total credit cannot exceed $150,000 per taxable year. (The Economic Growth and Tax Relief Reconciliation Act of 2001)

**Managing a Daycare Center**

An employer may manage its daycare center itself, contract with an outside party, or choose another arrangement. The decision generally depends on how much control the employer wants to have over the center's operations and the quality and availability of outside management groups. Common management models include:

- **Separate, incorporated, non-profit business.** Under this arrangement, the new daycare center corporation is managed by a volunteer board of directors. The board is comprised of employees at the company, parents, and, possibly, community representatives. This model allows the employer to own the center without some of the problems associated with other types of ownership. For instance, liability remains with the new non-profit business; a director is hired to run the day-to-day operations and report to the board.

- **Employer landlord/outside management.** The employer rents space to the child care management group, which owns the center's service. The employer has little further involvement in the operation, management, costs, or decisions concerning operation of the center. This arrangement also removes the employer from the policy decisions of the center; removes the company further from liability; gives the employer distance from the center; and makes financial profits and losses from the center the responsibility of the management group.

- **Employer owned and operated.** Under this arrangement, the center is run as part of the employer's company—for example, as an employee service reporting to the human resources department. This model offers the most control over the operations of the center, and allows the employer to deduct any expenses connected with the center as a business expense. However, liability remains with the employer.

- **Consortium.** A group of employers, possibly including a developer, sets up a daycare center for use by employees or tenants. The center may be run by a management group or may be incorporated as a separate, non-profit entity with a board of directors. Employers that want to adopt a consortium management strategy may want to research or hire consultants to advise them on how to set up a non-profit corporation and board. The availability of childcare management groups also should be investigated.

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