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MANPOWER AND
RESERVE AFFAIRS

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (MANPOWER AND
RESERVE AFFAIRS)
ASSISTANT SECRETARY OF THE NAVY (MANPOWER AND
RESERVE AFFAIRS)
ASSISTANT SECRETARY OF THE AIR FORCE (MANPOWER
AND RESERVE AFFAIRS)
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Department of Defense (DoD) Child Development Program Fees for School Year
2022-2023

Section 1793 of title 10, United States Code, requires that the Department prescribe regulations establishing fees for Military Child Development Center and School-Age Care programs. In addition, pursuant to DoD Instruction 6060.02, "Child Development Programs (CDPs)," September 1, 2020, the Assistant Secretary of Defense for Manpower and Reserve Affairs shall annually review and issue a child care fee policy based upon total family income for use by programs in the DoD child development system of care.

Parent fees have been adjusted primarily to compensate for increases in direct care staff hourly wages necessary to compete with local labor markets. The fee policy increases the number of family income categories from 13 to 14 and increases the highest total family income category to \$154,051 and above. In addition, the fee policy includes an hourly care rate increase from \$7.00 to \$8.00 per hour.

In support of the Deputy Secretary of Defense directives from the May 4, 2022 Deputy's Workforce Council, the fee policy requires the Military Departments to report metrics on the implementation of CDP personnel child care fee reductions. The Department will use this information to assess whether implementation of such fee reductions are associated with an observable difference or change in patterns of staff recruitment and retention.

The fee policy also directs the Military Departments to increase the community-based child care fee assistance provider rate cap to \$1,700 per child/per month. In addition, the policy directs the Military Departments to ensure child care subsidies provided to military certified family child care providers are consistent with the community-based fee assistance provider rate cap.

The Military Departments and the Defense Logistics Agency will implement the fee policy no later than October 3, 2022. My point of contact for this matter is Ms. Nichele LeGrand- Murphy, Office of Military Family Readiness Policy, whom you may contact at nichele.d.legrand-murphy.civ@mail.mil.

Thomas A. Constable
Performing the Duties of the Assistant Secretary
of Defense for Manpower and Reserve
Affairs

Attachments:

1. Fee Ranges (SY 2022-2023)
2. Additional Information and Reporting Requirements
3. DD Form 2652, Application for Department of Defense Child Care Fees
4. Market Adjustment Option Authorization Form
5. Notification for Civilian Sponsors Tax Year 2021
6. Annual Fee Report Template
7. Frequently Asked Questions

**Department of Defense (DoD)
Child Development Program Fees
School Year (SY) 2022-2023
Additional Information and Reporting Requirements**

Section 1793 of Title 10, United States Code, requires that DoD prescribe uniform fee regulations for Military Child Development Center (CDC) and School-Age Care (SAC) programs. In addition, pursuant to DoD Instruction 6060.02, "Child Development Programs," September 1, 2020, the Assistant Secretary of Defense for Manpower and Reserve Affairs shall annually review and issue a child care fee policy based on total family income (TFI) for use by programs in the DoD child development system of care.

Child Development Program Fees:

Parent fees have been adjusted to sustain affordability for our families and to compensate for increases in direct care staff hourly wages necessary to compete with local labor markets. The fee policy increases the number of family income categories from 13 to 14 and increases the highest total family income category to \$154,051 and above (Child Development Program Fee Chart at Attachment 1). In addition, the fee policy includes an hourly care rate increase from \$7.00 per hour to \$8.00 per hour. The fee policy will be implemented no later by October 3, 2022.

Fee guidelines for regularly scheduled CDC and SAC programs are based on 50 hours of care per week. In the event that mission requirements dictate the need for care beyond 10 hours per day, the program will assume the additional costs using appropriated fund dollars. If program operating hours extend to 14 hours a day, no child may remain in care for more than 12 hours per day, except in cases of emergency.

Installation SAC full-day child development program fees (summer and holidays) are based on full-day CDC fees and include the number of SAC operating hours. SAC rates include all meals and snacks when provided. SAC fees must be reduced up to 20 percent when meals and snacks are not provided during the full-day summer program.

All DoD contractors and specified space available patrons pay the unsubsidized child development program fee. This does not apply to surviving spouses and military members and DoD civilian employees with nonworking spouses.

Fee Reductions for CDP Personnel:

The Military Departments and the Defense Logistics Agency may authorize all CDP personnel reduced child care fees as a recruitment and retention incentive. In support of the Deputy Secretary of Defense directives from the May 4, 2022 Deputy's Workforce Council related to ensuring adequate staffing in DoD Child Development Programs, the Military Departments will be required to report metrics on the implementation of CDP personnel child care fee reductions. The Department will assess whether implementation of such fee reductions are associated with an observable difference or change in patterns of staff recruitment and

retention. The required metrics reporting tool was provided under a separate tasker.

Programs that reduce CDP personnel child care fees to Category 1 fees may also authorize multi-child discounts resulting in the child care fees going below the Category 1 fee.

Child Care Fee Assistance for Community-Based Providers:

The Military Departments will increase the community-based child care fee assistance provider rate cap to \$1,700 per child/per month by October 3, 2022. Fee assistance accounts are centrally managed by each Service, and additional funding to support this effort was requested in the Fiscal Year 2023 President's Budget.

Military Certified Family Child Care Provider Subsidies:

In support of the Deputy Secretary of Defense directives from the 4 May 2022 Deputy's Workforce Council, the Military Departments offering child care subsidies to military certified family child care providers will standardize these subsidies consistent with the community-based fee assistance provider rate cap of \$1,700 per child/per month.

Determining Total Family Income:

Total Family Income (TFI) must be verified on an annual basis. Each family must provide income documentation for verification using the most recent Form W-2 or current Leave Earning Statement (LES) of the military Service member or DoD civilian employee. If applicable, a military spouse's income and all adults who financially contribute to the welfare of the child must provide proof of income as well.

Each family, regardless of income category, must provide income documentation. Families are not permitted to automatically elect to enroll in the highest fee category. Failure to provide the required information will delay the processing and approval of child care services and could result in denial of child care services.

DD Form 2652, Application for Department of Defense Child Care Fees, in paper or electronic form, is used to verify TFI (Attachment 3). Department of Defense Instruction 6060.02, Child Development Programs, defines TFI to include all earned income, including wages; salaries; tips; long-term disability benefits; voluntary salary deferrals; Basic Allowance for Housing Reserve Component/Transit (BAH RC/T) subsistence allowances, in-kind quarters, and subsistence received by a Military Service member, DoD civilian employee, and if applicable, his or her spouse; and anything else of value, even if not taxable, received for services. BAH RC/T and subsistence allowances include the Basic Allowance for Quarters and the Basic Allowance for Subsistence received by military and civilian personnel, when provided (with respect to grade and status) and the value of meals and lodging furnished in-kind to military personnel residing on military bases.

TFI calculations must also include quarters' subsistence and other allowances appropriate for the rank and status of military or civilian personnel, whether received in cash or in-kind. Rather than use the BAH listed on an LES, installations must use the non-locality

BAH RC/T for all members, regardless of whether they live in government housing or off of the installation. Dual military couples living in government quarters must include BAH RC/T of the senior member only. In locations where military members receive less than the BAH RC/T allowance, use the local BAH rate. For DoD civilian employees outside the continental United States, include either the housing allowance or the value of the in-kind housing provided. Programs should not include alimony and child support received by the custodial parent, Supplemental Security Income (SSI) benefits received on behalf of the dependent child, reimbursements for educational expenses or health and wellness benefits, Cost of Living Allowance (COLA), temporary duty allowances, or reenlistment bonuses.

Because the BAH RC/T chart is based on the calendar year, programs will use the current BAH RC/T chart. More information can be obtained on BAH at <http://www.defensetravel.dod.mil/perdiem/> and at <http://www.defenselink.mil/militarypay>.

Fee Adjustments:

A program may choose to charge weekly fees using the low-market adjustment rate if costs for comparable care within the installation catchment area are significantly lower. Programs may also apply the low or high-market adjustment rates to school-age programs only to remain competitive with off-installation school-age care programs. The low- and high-market adjustment rate options are approved by the Service headquarters and reported to the Office of Military Family Readiness Policy Children, Youth, and Families by October 3, 2022 (Attachment 4). The use of low- and high-market adjustment rate options at approved installations will be validated during the annual certification process.

Each Military Department and the Defense Logistics Agency will establish criteria that authorizes installation commanders to grant case-by-case exceptions to the fee policy. Fees for individual families may be adjusted on a case-by-case basis if warranted due to special financial hardship (DoD contractors and specified space-available patrons are ineligible for the individual financial hardship exception). In addition, commanders may authorize up to a 20 percent reduction of fees for each additional child of the same family. Individual family fees may not be adjusted below the Category 1 fee except when discounts for multiple children of Category 1 families are provided.

Income Tax Considerations:

DoD civilian employees with children enrolled in DoD-subsidized child care programs are subject to the requirements of Section 61 of Title 26, United States Code (also referred to as the Internal Revenue Code). As a result, the Internal Revenue Code requires that child care subsidies generally be treated as part of gross income for tax purposes (see Notification to Civilian Sponsors Tax Year 2022 at Attachment 5). Active duty Service members are not impacted, as they receive an exclusion from taxes for benefits under dependent care assistance programs based on language included in the Military Family Tax Relief Act, codified at Title 10, United States Code, Sec.134(b).

Reporting Requirements:

The DoD Office of Military Family Readiness Policy will conduct an annual fee review, using the Annual Fee Report templates for child development programs (Attachment 6). The date of record for the annual report is November 1, 2022; the report must be submitted to the Office of Military Family Readiness Policy by December 16, 2022.

The point of contact for this policy is Ms. Nichele LeGrand-Murphy, Office of Military Family Readiness Policy Children, Youth, and Families. She may be reached by e-mail at nichele.d.legrand-murphy.civ@mail.mil.

**NOTIFICATION FOR CIVILIAN SPONSORS UTILIZING DEPARTMENT OF
DEFENSE SUBSIDIZED CHILD DEVELOPMENT PROGRAMS
DURING TAX YEAR 2022**

The Department of Defense (DoD) is required to notify you annually of the tax value of the child care subsidy for your installation-based child development program. This letter serves as your notification.

The Internal Revenue Code (IRC) commonly referred to as the “tax code” or “law,” is provided in Section 61 of Title 26, United States Code (also referred to as the Internal Revenue Code). The IRC requires that child care subsidies generally be treated as cash income, in addition to normal earnings. While no direct subsidy payment is made to any sponsor, either military or civilian, the DoD installation-based child development programs are equally subsidized for all sponsors through appropriated funds. These subsidies enable the programs to provide quality care to your children at a rate less than would normally be charged. These subsidies reduce the cost to you of this nationally accredited child care.

While the IRC requires child care subsidies to be potentially taxable, there are tax exclusions on the value of subsidies up to \$5,250 (for married individuals filing separately), or \$10,500 (for married couples filing jointly or single heads of household), from gross income if the subsidies are made available through an employer Dependent Care Assistance Plan (DCAP); which is the case for children enrolled in DoD installation child care programs.

The IRC also stipulates that the child must be claimed as a dependent on the Federal income tax return of their parent or guardian in order to qualify for the \$5,250 or \$10,500 exclusion. This stipulation applies to civilian employee sponsors with children enrolled in DoD subsidized child care programs. Additional guidance may be found in the Internal Revenue Service Publication 503, "Child and Dependent Care Expenses."

Each year the DoD must determine the value of the child care subsidy. The third party administrator (TPA) performs this calculation on behalf of the Department by deducting the amount of your child care fees from the tax value of the child care space to determine a “net value” of the child care space. **This net value is the amount that is considered potentially taxable income associated with the DoD child care subsidy.** Only child care subsidies that exceed the \$10,500 (\$5,250 for married individuals filing separately) exclusion are taxable and reportable. Sponsors are responsible for considering any Dependent Care Flexible Spending Accounts (DCFSA) to determine if the net value, plus the DCFSA value, exceeds the \$10,500 or \$5,250 amount, which would be considered potentially taxable income. If you have questions regarding your potential tax liabilities, you should consult with your tax advisor.

Tax Year 2022 Information

The cash value of the subsidy for 2022 tax purposes is \$6,947

The 2022 **net value** of the subsidy for each income category is listed below:
Only child care subsidies that exceed the \$10,500 (\$5,250 for married individuals filing separately) exclusion are taxable and reportable.

- Families in Category I have a child care subsidy net value of **\$3,931/year** for a full-time, full-day space.
- Families in Category II have a child care subsidy net value of **\$3,463/year** for a full-time, full-day space.
- Families in Category III have a child care subsidy net value of **\$2,683/year** for full-time, full-day space.
- Families in Category IV have a child care subsidy net value of **\$1,747/year** for full-time, full-day space.
- Families in Category V have a child care subsidy net value of **\$759/year** for full-time, full-day space.
- Families in Category VI have a child care subsidy net value of **\$395/year** for full-time, full-day space.
- Families in Category VII - XIV have **NO** child care subsidy net value (**\$0/year**) for a full-time, full-day space based on the yearly total of fees paid for child care.

CHILD DEVELOPMENT PROGRAM FEE POLICY FREQUENTLY ASKED QUESTIONS

1. How have income ranges been adjusted?

- Parents fees have been adjusted to sustain affordability for our families and to compensate for increases in direct care staff hourly wages necessary to compete with local labor markets.
- The fee policy increases the number of family income categories from 13 to 14 and increases the highest total family income category to \$154,051 and above.

2. Who will be affected by the fee schedule?

- The fee schedule applies to families whose children attend regularly scheduled CDC and SAC programs during SY 2022-2023.
- All DoD contractors and specified space available patrons pay the unsubsidized child development program fee. This does not apply to surviving spouses and military members and DoD civilian employees with nonworking spouses.

3. What services will families receive for the fee ranges?

- Fee guidelines for regularly scheduled CDC and SAC programs are based on 50 hours of care per week. In the event that mission requirements dictate the need for care beyond 10 hours per day, the program will assume the additional costs using appropriated fund dollars. If program operating hours extend to 14 hours a day, no child may remain in care for more than 12 hours per day, except in cases of emergency.
- Installation SAC full-day child development program fees (summer and holidays) are based on full-day CDC fees and include the number of SAC operating hours. SAC rates include all meals and snacks when provided. SAC fees must be reduced up to 20 percent when meals and snacks are not provided during the full-day summer program.

4. When will the fee schedule be implemented for SY 2022-2023?

- The Military Departments and the Defense Logistics Agency will implement the fee schedule no later than October 3, 2022.

5. Will families have to resubmit documentation if there have been no changes to financial arrangements?

- Total Family Income must be verified on an annual basis. TFI for all families enrolled in child development programs must be verified no later than October 3, 2022. Each family, regardless of their income category, must provide income documentation for

verification using the most recent W-2 forms or current LES(s) of the Military Service member or DoD civilian employee. Families will no longer be permitted to automatically elect to enroll in the highest fee category. If applicable, their spouse's income and/or all adults who financially contribute to the welfare of the child must provide proof of income as well.

6. What happens if a family refuses to provide proof of income?

- Failure to provide the required information will delay the processing and approval of child care services and could result in denial of child care services.

7. How is Total Family Income (TFI) determined and what forms are required for verification?

- The DD Form 2652, *Application for Department of Defense Child Care Fees*, in either paper or electronic form, will be used to verify TFI as defined in DoDI 6060.02.
 - Programs will use DD Form 2652 at <https://www.esd.whs.mil/Portals/54/Documents/DD/forms/dd/dd2652.pdf>
- For the purposes of determining child care fees in DoD child development programs, TFI includes all earned income, including wages; salaries; tips; long-term disability benefits; voluntary salary deferrals; basic allowance for housing Reserve Component/Transit (BAH RC/T), subsistence allowances, in-kind quarters, and subsistence received by a Service member; DoD civilian employee and, if applicable, his or her spouses and all adults who financially contribute to the welfare of the child; and anything else of value, even if not taxable, that was received for providing services. TFI calculations must also include quarters subsistence and other allowances appropriate for the rank and status of military or DoD civilian personnel whether received in cash or in kind.
- Programs should not include alimony, child support received by the custodial parent, Supplemental Security Income (SSI) benefits received on behalf of the dependent child, reimbursements for educational expenses or health and wellness benefits, cost of living allowances (COLA) received in high-cost areas, temporary duty allowances, or reenlistment bonuses.
- Do not include cash awards, bonuses, or overtime pay in TFI calculation.
- TFI includes the appropriate non-locality BAH with Dependents Rate (BAH RC/T) for all members, regardless of whether they live in government housing or off of the installation. Programs will use the local BAH rate in locations where Service members receive less than the BAH RC/T allowance. For dual military living in government quarters, include BAH RC/T of the senior member only; for a Defense civilian employee OCONUS, include either the housing allowance or the value of the in-kind housing provided.

- Note that the BAH RC/T rate is based on the calendar year. Programs will use the current BAH RC/T chart. More information can be obtained on BAH at <http://www.defensetravel.dod.mil/perdiem/> and at <http://www.defenselink.mil/militarypay>.

8. Why is the allowance for housing included in the total family income computation?

- Section 1793(a) of Title 10, United States Code, requires that the DoD establish DoD-wide uniform child care fees based on TFI. In 1990, when the fee policy was first established, the family's Internal Revenue Service (IRS) Form 1040 was used to determine TFI.
- In 1993, the definition of TFI was changed to be consistent with the Internal Revenue Code (IRC) definition for military members claiming the Earned Income Tax Credit for Child Care. According to the IRC definition, TFI comprises all earned income to include wages; salaries; tips; long-term disability; voluntary salary deferrals; quarters allowances (BAQ); subsistence allowances (BAS); and in-kind quarters and subsistence received by military members, DoD civilian employees, or a spouse; and anything else of value, even if not taxable. Basic Allowance for Housing (Type II) was used instead of BAQ because of changes to the housing allowance system in 1998.
- The computation of TFI is based on earned income rather than on disposable income. The BAH used to calculate TFI represents an in-kind service that you receive in lieu of a housing payment. As noted above, subsistence allowance is included in the category of earned income.

9. How is TFI calculated for non-related families or non-married couples?

- In households where non-related families are living in the same residence, programs are required to include the income of all adults who financially contribute to the welfare of the child.
- In households where the parents are not married or are in a legal partnership and the custodial parent is geographically separated from the sponsor, programs are required to include the income of both.

10. How is income calculated for individuals who work on commission and who do not have a previous tax year return?

- Individuals who have no employment income history and whose income fluctuates throughout the year must provide an employer estimate of the anticipated annual earnings. Individuals who are self-employed will be required to provide an estimate of annual earnings.

11. How is income calculated for individuals who own their own business?

- Calculate the TFI using the business net income.

12. Are there any exceptions to these rules in the event of special circumstances? If so, how are these determined?

- Commanders have the authority to grant individual hardship waivers for Service members and DoD civilian employees, yet they must consider the balance of NAF income and appropriated fund support as they approve waivers. Individual family fees may not be adjusted below the Category 1 fee unless discounts for multiple children of the same family are authorized.
- All DoD contractors and specified space-available patrons are ineligible for the individual financial hardship exception.

13. Are there discounts for multiple children from the same family?

- Installation commanders may authorize up to a 20% reduction of fees for additional children of the same family. If a multiple child discount is offered, the discount shall apply to all TFI categories.
- DoD contractors and specified space-available patrons (this does not apply to surviving spouses or families with a military or DoD civilian sponsor) are ineligible to receive the multiple child discount, based on a review of DoD Section 1799 of Title 10, United States Code, the statutory provision that authorizes child and youth program services for dependents of those who are not members of the armed forces or civilian employees.

14. Will DoD civilian employees be taxed on the value of the child care space?

- Section 61 of Title 26, United States Code (also referred to as the Internal Revenue Code), provide that child care subsidies are generally treated as part of gross income for tax purposes. The amount of income is generally calculated by adding the value of the subsidy to the taxable income of DoD civilian employees who benefit from the subsidies.
- The cost of each space in DoD installation-based child development programs is equally subsidized for both Service members and DoD civilian employees through appropriated funds. These subsidies include direct support for a limited number of staff salaries, equipment, and supplies. Additional financial support is provided in the form of installation contracts, facility and grounds maintenance, and other personnel support. In the absence of subsidies, the cost of child development programs offered to both Service members and DoD civilian employees would be significantly higher.

15. What is the market adjustment rate option, and who will pay it?

- The low- and high-market adjustment rate options, authorized by the Office of Children and Youth through the Service headquarters, provide the opportunity to adjust fees using the designated single fee per category.
 - The optional low-market adjustment for CDC and/or SAC child care fees may be used in locations where costs for comparable care within the installation catchment areas are significantly lower.
 - The optional high-market adjustment rate may be used in areas where it is necessary to pay higher wages to compete with local labor or at those installations where wages are affected by non-foreign area COLA, post differential, or locality pay.