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THE WALL STREET JOURNAL.

WSJ.com

FAMILY FINANCES | OCTOBER 23, 2008, 5:01 P.M. ET
SMART MONEY

Five Ways to Save on Child-Care Costs

By Lisa Scherzer | SmartMoney

The love a parent has for their child knows no bounds. But, unfortunately, the costs of raising a child are almost as boundless.

To put the high costs parents face into perspective, consider this: The average monthly cost of care for an infant is higher than the average amount families spent on food each month last year, according to a report by the National Association of Child Care Resource and Referral Agencies. In fact, full-time care for an infant can reach \$14,000 a year, says NACCRRA. Factor in the 50-plus packs of diapers and the all-terrain stroller (not to mention the college fund), and you may find that you either need to fire the baby sitter or get a second job to afford it all.

But parents needn't despair. There are ways to save on child care that doesn't entail bringing your one-year-old to the weekly sales meeting.

Take advantage of tax credits

Uncle Sam can offer cash-strapped parents some relief. The Child and Dependent Care Credit allows working parents to claim up to \$3,000 for one child and up to \$6,000 for two or more children on their 2008 income taxes for money spent on child care. Just keep in mind that the maximum credit to which you're entitled will be reduced if you use your employer's flexible spending account, says Bob Scharin, senior tax analyst in the Tax & Accounting business of Thomson Reuters. (More on this in the next section.)

Check IRS.gov for more information.

Open a Dependent-Care Flexible-Spending Account

Offered by 96% of employers, according to Hewitt Associates, these accounts function like medical FSAs by allowing workers to set aside pretax dollars -- a maximum of \$5,000 -- to pay for child care. Eligible expenses include day-care centers, baby sitters and even day camps. To qualify, your spouse must be working, looking for work or a full-time student.

Remember that the same expenses can't be used for both the tax credit and the FSA, says Mark Luscombe, principal analyst at CCH, a unit of Wolters Kluwer, a tax information provider. For example, if a taxpayer had \$8,000 in qualifying expenses for one child, \$5,000 could be covered by the FSA and the remaining \$3,000 could qualify for the full child and dependent care credit, depending on your income. If a taxpayer had \$5,000 in expenses for one child, the costs could be covered entirely by the FSA and no expenses would qualify for the credit.

Seek Employer Discounts

Some large companies negotiate discounts with local child-care centers, says Paige Hobey, author of "The Working Gal's Guide to Babyville." Find out if your company offers any, and if they don't, request they look into it. "Most human resources departments are happy to follow up on something like that – it's at no cost to them," she says.

Adjust your work schedule

Ask your employer for flex time, suggests Candace Bahr, managing partner of Bahr Financial Group, a wealth-management firm in Carlsbad, Calif. Employees who have the potential for more flexible schedules – even on a short-term basis – can divide caretaking by working shifts. One parent works evenings, while the other stays home with the child during the day – that's more time at home with your child, and less money spent on baby sitters.

Share Care -- and Costs

One increasingly popular way to cut costs is to share a nanny or baby sitter with another family. For the savvy, frugal parent, "share care," as it's sometimes called, is an excellent option, says Genevieve Thiers, founder and CEO of SitterCity, an online database for baby sitters and other caregivers.

Here's an example of how it works: A family that's struggling to pay a nanny \$600 a week, teams up with another family that has a child around the same age to share the nanny. Now each family pays \$350 a week for the nanny's services, thereby giving the nanny a bump in compensation (she earns \$700 a week) and significantly lowering their own costs, says Thiers.

Finding a nanny or sitter who meets both families' needs takes time, though: "It's like three-way matchmaking," says Kathy Webb, president of Homework Solutions, a company that prepares payroll taxes for families that employ nannies and other household workers. Start your search by contacting local parenting groups or visiting local child-care sites like DCUrbanMom in Washington, or Park Slope Parents in Brooklyn. "You'll see whole sections devoted to parents looking for nanny shares that didn't exist a few years ago," she says.

