



## Leave No Child Behind: A Quick Take on How Congress Should Restructure the Child Tax Credit to More Fairly Value Families and Reduce Inequality

BY SHAWN FREMSTAD\*

Established by Congress in 1997, the child tax credit “had its genesis in the notion that every family in America should get a \$500 allowance for each of their children.”<sup>1</sup> According to the Joint Committee on Taxation, the Congress that enacted the credit believed that it would “better recognize the financial responsibilities of raising dependent children” and “promote family values.”<sup>2</sup>

Unfortunately, in its current form, the Child Tax Credit (CTC) is far from a universal benefit—it only recognizes the financial responsibilities of raising dependent children of some families—and has the effect of increasing inequality among families with children.<sup>3</sup>

Congress is currently considering some modifications to the Child Tax Credit, including reforms to extend the credit to more families with children. While the reforms under consideration are important, the Child Tax Credit also requires a more substantial overhaul, one that makes the credit more fair and progressive in distributional terms, and improves its efficacy as a support for parents, particularly those with disabilities or caring for children with severe disabilities, as well as grandparents who have taken on child-rearing responsibilities.

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<sup>1</sup> Statement of Robert S. McIntyre, Citizens for Tax Justice. “The \$500 Child Credit: A Case Study in Tax Complexity.” Submitted to the House Ways and Means Committee, June 23, 1998. <<http://www.ctj.org/html/complex.htm>>.

<sup>2</sup> Joint Committee on Taxation. “General Explanation of Tax Legislation Enacted in 1997.” December 17, 1997, p. 7. <[http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=1997\\_joint\\_committee\\_on\\_taxation&docid=f:45107c1.wais.pdf](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=1997_joint_committee_on_taxation&docid=f:45107c1.wais.pdf)>.

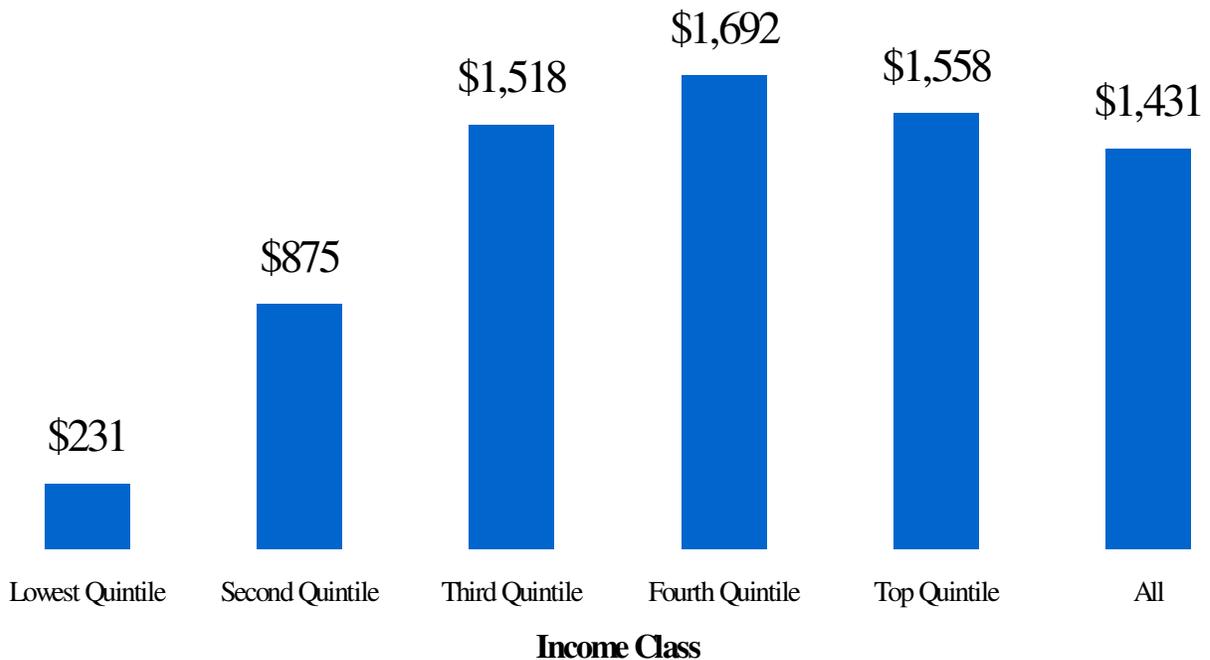
<sup>3</sup> As this issue brief was being readied for release, House Ways and Means Chairman Charles Rangel announced that economic-recovery legislation to be introduced in the House would include a provision to make the child tax credit more inclusive. A subsequent CEPR issue brief will assess this provision when details become available.

### Who Receives the Child Tax Credit?

The Child Tax Credit is currently the “largest federal cash assistance program for children”—it provides over \$46 billion a year to families with children—and has been described by the nonpartisan Urban-Brookings Tax Policy Center as a “middle-class entitlement.”<sup>4</sup> Under current law, most families with children (more technically, most tax filing units with dependent children under age 17) may claim a credit of up to \$1,000 per child.<sup>5</sup>

Parents and other caregivers of children are denied the credit if they have earnings below \$8,500 in tax year 2008 (in 2009, the market-income requirement jumps to \$12,550, and is adjusted upward for inflation in subsequent years). In addition, parents and other caregivers with incomes modestly above \$8,500 are not eligible for the full credit. Instead, the credit for these families is limited to 15 percent of earnings above the threshold, subject to a cap at \$1000 per child.

**FIGURE 1**  
**Child Tax Credit: Average Dollar Amount of Benefit Among Recipients by Income Category, 2007**

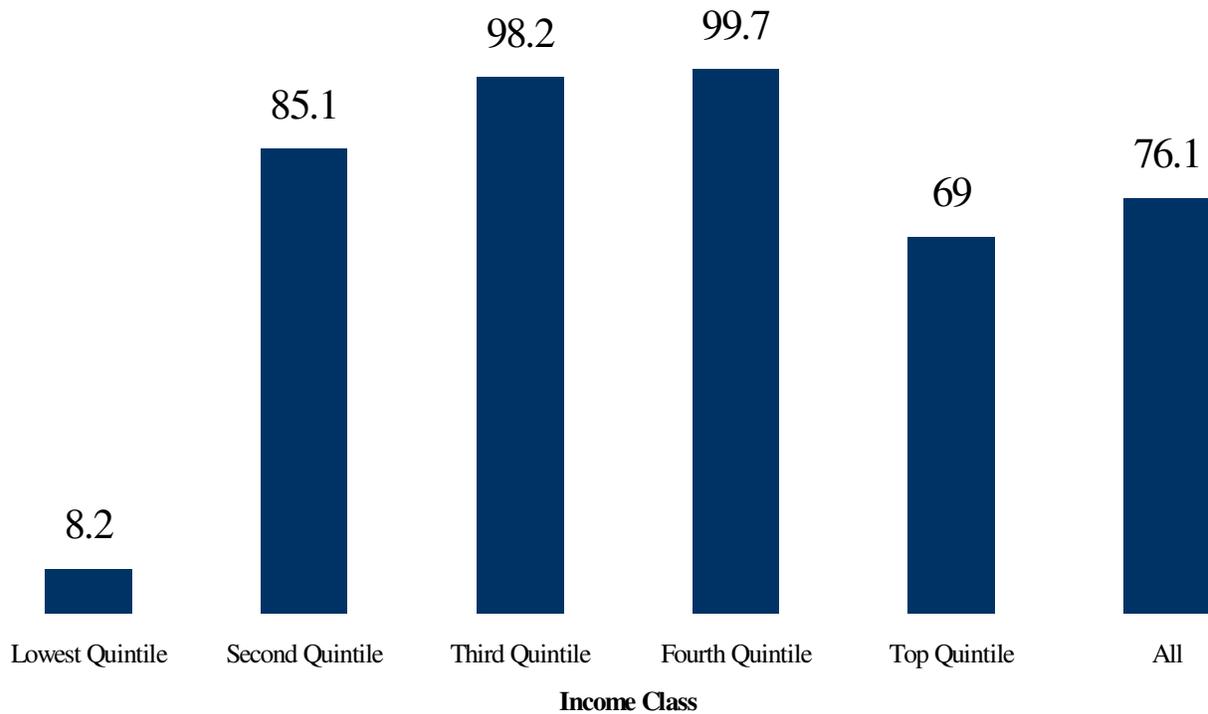


Source: Tax Policy Center Table T07-0296.

<sup>4</sup> Burman, Leonard and Laura Wheaton. “Who Gets the Child Tax Credit?” Tax Policy Center, October 3, 2005.

<sup>5</sup> A “qualifying child” is someone who meets the following criteria: 1) was under age 17 at the end of the tax year; 2) is a son, daughter, adopted child, stepchild or eligible foster child, brother, sister, stepbrother, stepsister, or a descendant of any of these individuals; 3) is a U.S. citizen, U.S. national or resident of the U.S.; 3) does not provide over half of his or her own support, and 4) lived with the parent or caretaker claiming the credit for more than half of the tax year (there are some exceptions to this criteria).

**FIGURE 2**  
**Percentage of Families with Children by Income Category who Receive Child Tax Credit, 2007**



The credit is reduced (or “phased out”) for families with incomes above a certain threshold: \$110,000 if married filing jointly; \$55,000 if married filing separately; and \$75,000 if single, head of household, or a qualifying widow(er).

As Figure 1 shows, these parameters result in a benefit that provides larger parenting subsidies for upper-middle-class families in the top 40 percent of the income distribution, including subsidies to nearly all families with children in the fourth highest quintile of the income distribution, than it does to working-class and lower-middle-class families in bottom 40 percent of the income distribution. Moreover, as Figure 2 shows, it denies the credit altogether to substantial segments of the working class (92 and 15 percent of families in the bottom two quintiles of the income distribution, respectively, in 2007, when the minimum income threshold was \$11,750).

Although families with young children have lower incomes on average than families with older children, they are less likely to receive the credit or the full credit. According to a Tax Policy Center estimate, 17.6 percent of children under age 2 were ineligible for the children in 2007, compared with 13.6 percent of children age 10-16.<sup>6</sup>

<sup>6</sup> Burman, Leonard and Laura Wheaton, Eligibility for the Child Tax Credit by Age of Child, Tax Policy Center, May 2007. <[http://www.taxpolicycenter.org/UploadedPDF/411470\\_Eligibility\\_Child.pdf](http://www.taxpolicycenter.org/UploadedPDF/411470_Eligibility_Child.pdf)>.

## Make the Child Tax Credit an Inclusive Child Allowance by Eliminating the Minimum Income Threshold

Parents or caregivers with no or little earnings face the same costs of raising children as other parents and typically have considerably fewer resources, yet they are ineligible for the CTC. As Leonard E. Burman and Laura Wheaton of the nonpartisan Tax Policy Center have noted: “For the majority of recipients ... the CTC is tantamount to a cash allowance. Viewed simply as a child subsidy, it is hard to understand why the families who most need help are excluded.”<sup>7</sup>

Since the intent of the credit is to help parents defray the costs of raising children, the CTC should be restructured as an inclusive child allowance for all low- and middle-income children. This requires eliminating the requirement that parents have \$8,500 in annual earnings in 2008 to receive the CTC and, at a minimum, providing the current full credit amount (regardless of federal income tax liability) to all children in low- and middle-income families.

Some may argue that the minimum income threshold serves as a work incentive. If this is the case, it is a duplicative and unnecessary one. The Earned Income Tax Credit (EITC) is already structured in a way that incentivizes increased hours of employment for low-wage workers. The Child Tax Credit should play a role that is distinct from the EITC, namely “better recogniz[ing] the financial responsibilities of raising dependent children” and “promot[ing] family values.” Again, Burman and Wheaton are instructive, asking: “why lower-income households should be subject to work incentives delivered by two separate programs—the EITC and the CTC.”

While the role the EITC plays in subsidizing low-wage work is important, there will always be parents and non-parental caretakers (such as retired grandparents and other relatives who have assumed parental roles) in a dynamic economy and society who are unable to work, regardless of the incentives provided, or who should take time away from market-compensated employment and devote greater time to a child’s care.

For example, in some cases, it will be both individually and socially beneficial for the parent of a child with a severe disability to stop working outside the home, or limit their hours outside the home, to better meet the development and other needs of that child. In many such cases, the time a parent needs to devote to the care of a child with a severe disability significantly exceeds the time a parent needs to commit to the care of a healthy and normally abled child.<sup>8</sup>

Similarly, a substantial number of grandparents and other relatives of children have primary responsibility for the needs of children. Many of these non-parental caretakers are retired, and, therefore, ineligible for the Child Tax Credit, despite their willingness to take on the considerable financial obligations of raising a child who is not their own.

Finally, while many parents with work-related disabilities are employed, others are unable to work or can only work a limited number of hours. These parents should not be excluded from a near-universal benefit that supports parenting. Moreover, some research suggests that the basic needs of persons with disabilities are higher than those for non-disabled persons. For example, Peiyun She

<sup>7</sup> Burman, Leonard and Laura Wheaton, Who Gets the Child Tax Credit?, Tax Policy Center, October 3, 2005.

<sup>8</sup> See Alstott, Anne. 2004. *No Exit: What Parents Owe Their Children and What Society Owes Parents*. Oxford University Press: New York. p. 128.

and Gina Livermore of the Cornell Institute for Policy Research estimate that people with disabilities who lived alone in the latter half of the 1990s would need annual incomes that are almost double the poverty line or substantially higher to experience the same level of hardship, on average, as those without disabilities with incomes at the poverty level.<sup>9</sup> If anything, there is a strong case for providing a larger Child Tax Credit to parents with disabilities (as well as those caring for children with disabilities). Yet, the current credit structure denies it to many of them altogether.

### **Make the Child Tax Credit More Progressive**

The CTC should be a progressive benefit, that is, one that provides greater benefits for families who have lower incomes, and, thus, generally spend a greater portion of their incomes on providing necessities to their children. Most importantly, this would require substantially boosting the benefit for lower- and moderate-income parents. Currently, the CTC provides up to \$1,000 for each qualifying child under the age of 17. Moreover, families in the lowest and next to lowest income quintiles typically receive much less than the amount—\$875 for a family in the second quintile receiving the credit and \$243 for the average family in the first quintile receiving the credit. These amounts, of course, are extremely modest in comparison to the actual costs of raising healthy children.

### **A Mainstream Proposal to Restructure the Child Tax Credit as a Child Allowance**

In a 2003 Brookings Institution publication, Greg Duncan and Katherine Magnuson developed a mainstream proposal for restructuring the child tax credit as a child allowance for families with young children.<sup>10</sup> The Brookings proposal is largely consistent with the changes proposed above and has the following components:

- families with incomes up to \$60,000 would be eligible for the credit;
- allowance payments would be made on a monthly rather than annual basis to provide a “more visible recognition of the importance of parenting [that] is less subject to the exploitation of low-income parents by tax preparation services that offer them high-interest loans against their [tax] refunds”;
- the allowance would equal \$300 a month during a child’s first twelve months of life, and \$200 between the ages of one and five;
- the benefit would be counted as taxable income;
- up to 50 percent of the child allowance would be counted as income in the Temporary Assistance income-supplement program;

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<sup>9</sup> She, Peiyun and Gina Livermore. 2006. “Long-term Poverty and Disability Among Working-age Adults: Research Brief.” Cornell University Institute for Policy Research: Ithaca, NY.  
<<http://digitalcommons.ilr.cornell.edu/edicollect/1226/>>.

<sup>10</sup> Duncan, Greg and Katherine Magnuson. 2003. “Promoting the Healthy Development of Young Children.” *One Percent for the Kids: New Policies, Brighter Futures for America’s Children*, Isabel Sawhill, editor, Brookings Institution Press: Washington, DC.

- the current child tax credit would be eliminated for children age five and under, but maintained for older children.

Duncan and Magnuson note that research suggests a “possible payoff both in the early education interventions and in stabilizing economic resources for children in families in the bottom 20 to 25 percent of the income distribution.”

The Brookings proposal is a good starting point for restructuring the Child Tax Credit, but needs some modifications, including the following:

- The new allowance should be available to families with incomes somewhat higher than \$60,000 (although not as high as the current CTC).
- The Child Tax Credit for children age 6 or older should be increased for low- and moderate-income families by setting it equal to at least \$100 a month. All low- and moderate-income families, regardless of parental employment, should receive this amount.
- The Child Tax Credit should be available to children age 17 to 21, as long as they are claimed as dependents by their parents.

## Conclusion

In addition to the modest reforms currently under consideration by Congress, the Child Tax Credit also requires a more substantial overhaul, one that makes the credit fair and progressive in distributional terms, and improves its efficacy as a support for working- class parents and non-parental caretakers. Making the CTC more inclusive would also serve important gender equity goals. Mothers interrupt paid employment at a far greater rate than fathers to care for children, and these interruptions are not limited to any particular income class of mothers.<sup>11</sup>

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<sup>11</sup> See, e.g., Alstott, p. 24.