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## **HOUSE BILL ADDS \$69 BILLION IN DEFICIT-FINANCED TAX CUTS BY EXTENDING CHILD TAX CREDIT TO FAMILIES WITH INCOMES UP TO ABOUT \$300,000**

### **Bill Includes Temporary Token for Low-Income Families, Alongside Large New Permanent Tax Cuts for Higher-income Families, Including Members of Congress**

by Robert Greenstein

The child tax credit bill that the House of Representatives will consider this week greatly expands the tax credit for families in the \$110,000 to \$300,000 range, ballooning the bill's cost to \$228 billion through 2014, according to the official Joint Tax Committee estimate, and to \$213 billion according to the Urban Institute-Brookings Institution Tax Policy Center estimate.

- Under current law, married families with incomes up to \$110,000 receive the full tax credit of \$1,000 per child. Married families with two children who have incomes between \$110,000 and \$149,000 receive a partial tax credit (i.e., a credit of less than \$1,000 per child).
- Families with two children that have incomes above \$149,000 do not qualify for the credit but already receive some of the largest tax-cut benefits provided by the other tax cuts enacted over the past three years, including the reductions in upper-bracket tax rates and reductions in capital gains taxes, dividend taxes and the estate tax. Moreover, families at these income levels do not need government assistance through the child tax credit to meet the basic costs of providing for their children.
- The House bill, however, would *more than double* the income thresholds for the child tax credit, raising from \$110,000 to \$250,000 the income level up to which the full credit of \$1,000 per child is provided to married filers, effective in 2004.<sup>1</sup> Married families with two children and incomes between \$250,000 and \$289,000 would receive a partial child credit. If a family has three children, it would receive a partial credit until its income reaches \$309,000.
- The Tax Policy Center estimates that this increase in the income thresholds for the child tax credit would cost \$69 billion through 2014, nearly one-third of the overall cost of the House bill. The cost — and the amount added to the deficit — rises to \$87 billion when the increased interest payments on the debt that the provision would generate are taken into account.

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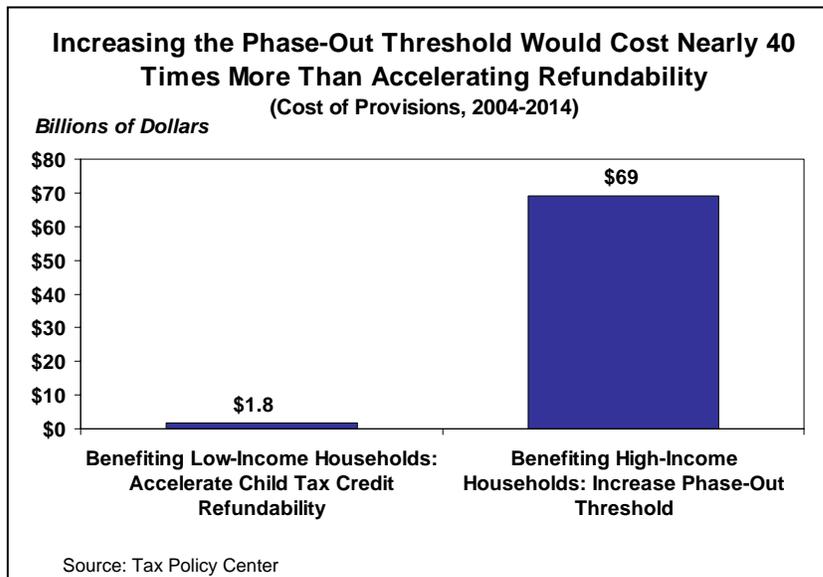
<sup>1</sup> For single-parent families, the income threshold would be raised from \$75,000 to \$125,000.

**Table 1**  
**How the House Bill Raises the Income Thresholds for the Credit**

Number of Children	Current Law		House Bill	
	Credit begins to phase out at incomes of:*	Credit phases out completely at:	Credit begins to phase out at incomes of:*	Credit phases out completely at:
1	\$110,000	\$129,000	\$250,000	\$269,000
2	\$110,000	\$149,000	\$250,000	\$289,000
3	\$110,000	\$169,000	\$250,000	\$309,000

\* Credit is reduced by \$50 for each \$1,000 of income above this threshold level

- Tax Policy Center data show that three million children in these higher-income families would be added to the child-tax-credit rolls in 2004. These families include most Members of Congress who have children. But the bill fails to extend the child credit to any of the millions of working-poor children who are denied the credit because their parents do not earn enough to qualify for it. A family with full-time minimum wage earnings would continue to be ineligible for the child tax credit. In addition, if the cost of extending the child credit to higher-income families ultimately were offset through cuts in federal programs, as could well be the case, low-income families and children would likely be made worse off.
- The House bill does accelerate by one year, to 2004, an increase in the low-income component of the child tax credit that is scheduled to take effect in 2005. This very modest provision, which applies only to low-income families with earnings over \$10,750 (families with earnings below \$10,750 are not eligible for the credit), would provide \$1.8 billion in additional tax benefits to these families. As noted, the extension of the child tax credit to higher-income families costs \$69 billion through 2014, or 38 times more.



- None of the bill's costs would be offset; they would be financed entirely through higher deficits. Using the Joint Tax Committee's cost estimate, the bill would add \$279 billion to deficits through 2014, including the increased interest payments on the debt that the bill would generate.

### **House Bill Extends Child Credit Tax Cut to Members of Congress While Continuing to Deny Child Credit to Full-Time Minimum-Wage Workers**

The House child tax credit bill would give a substantial new tax break to most Members of Congress with children.

- With a salary of \$158,100 in 2004, Members of Congress with two or fewer children are ineligible for the child tax credit under current law.
- Under the House bill, married filers that have incomes up to \$250,000 would qualify for a full child tax credit of \$1,000 per child. For a family with two children, this would be a new tax cut of \$2,000 every year, starting this year. These tax credits would total \$22,000 through 2014. This tax cut would be on top of the generous tax cuts that people at these income levels — including Members of Congress — already are receiving as a result of various other tax cuts enacted over the past three years.
- By contrast, low-income working families with a parent who works full-time year-round at the minimum wage would continue to be shut out of the Child Tax Credit. Families with earnings below \$10,750 are ineligible for the child tax credit. Full-time work at the minimum wage pays \$10,300.
- Similarly, Members of Congress would receive substantially larger child tax credits than most of those working-poor families that do earn enough to qualify for the credit. A Member of Congress with two children would receive \$2,000 a year in new child tax credits. If a Member has three children, he or she would receive \$3,000 a year in child tax credits under the bill. But a married family that earns \$15,000 will receive a total of \$637.50 a year in child tax credits.\*

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\* A married family with \$15,000 in earnings in 2004 would receive a tax cut equal to 15 percent of the amount by which its earnings exceed \$10,750. Such a family would receive a child tax credit of \$637.50 (which is 15 percent of \$4,250, the amount by which the family's earnings exceed \$10,750).

- Raising the income threshold for the full credit from \$110,000 to \$250,000 would not increase economic efficiency or economic incentives. The principal economic effects of expanding the child credit to higher-income families would be the adverse effects of the larger budget deficits that the proposal would engender.

### **Low-income Families to Receive Small Temporary Gain, but Likely to be Harmed Over Time**

Some media accounts last week reported that the House bill would make the child tax credit available to more upper-income *and* more lower-income families. This claim is not correct: while the bill more than doubles the income threshold at the top to extend the credit to more high-income families, it does not make additional low-income families eligible for the credit.<sup>2</sup>

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<sup>2</sup> A small exception to this statement is that a change the bill would make regarding the treatment of combat pay in the calculation of a family's child credit could make a very small number of low-income families eligible for the credit.

<b>Table 2</b>			
<b>Impact of Bill on Low-income Families in 2004 (Married Family with Two Children)</b>			
<b>Income</b>	<b>Current Child Credit</b>	<b>Credit Under House Bill</b>	<b>Increase Per Child</b>
\$12,000	\$125	\$187.50	\$31.25
\$15,000	\$425	\$637.50	\$106.25
\$20,000	\$925	\$1,387.50	\$231.25

As noted, the bill accelerates by one year an increase in the size of the low-income component of the child tax credit scheduled to take effect in 2005.<sup>3</sup> Low-income families that qualify for the child tax credit would receive a modestly larger credit in 2004 than they otherwise would get. This change would provide an additional benefit only in 2004, with the increased benefit averaging \$150 per child for the low-income families that qualify for it.

Working-poor families with a parent who works full time throughout the year at the minimum wage would *not* qualify.<sup>4</sup> They would remain ineligible for the child tax credit, since families must have earnings above \$10,750 to qualify. By contrast, families in the \$150,000 to \$250,000 range would become eligible for the full credit. They would receive an additional tax benefit of \$1,000 per child every year in perpetuity, starting with 2004.

- Between now and 2014, the low-income families with two children that would benefit from the acceleration of the low-income child tax credit provision would receive an additional \$300, on average, as a result of the acceleration. (Some of these families also would benefit from the extension of the \$1,000 maximum credit amount beyond December 31, 2004, and they would benefit from the elimination of the 2010 sunset date on the child credit expansions enacted in 2001.)
- By comparison, families with two children that make between \$150,000 and \$250,000 would receive an additional \$22,000 in tax cuts through 2014 as a result

<b>Table 3</b>		
<b>Total New Tax Cuts, 2004-2014, from the Low-Income and Upper-Income Provisions of the House Bill</b>		
<b>For a Married Family with Two Children</b>		
<b>Family has Minimum-Wage Earnings</b>	<b>Low-income Family with Earnings Above Minimum Wage Level (average increase in tax benefits)</b>	<b>Families in \$150,000-\$250,000 Range, Including Many Members of Congress</b>
\$0	\$300	\$22,000

<sup>3</sup> Currently, the child tax credit for families with incomes too low to owe income tax equals 10 percent of the amount by which a family's earnings exceed \$10,750, up to a maximum of \$1,000 per child. In 2005, the 10 percent factor is slated to rise to 15 percent; the House bill would accelerate this increase into 2004. Under the bill, the child tax credit in 2004 would equal 15 percent (rather than 10 percent) of the amount by which a family's earnings exceed \$10,750.

<sup>4</sup> Depending on the calculation used, full time minimum wage earnings equal either \$10,300 (\$5.15 an hour for 40 hours a week for 50 weeks a year) or \$10,712 (if the computation is made for 52 weeks rather than 50).

of the increase in the income threshold for the credit. (\$2,000 a year for the 11 years from 2004 through 2014 equals \$22,000.)

Overall, the combined long-term effect of accelerating the increase in the credit for low-income working families by one year while raising to \$250,000 the income level up to which families may receive the full credit would likely be harmful for low-income children and families. These families would receive no ongoing gains from the acceleration, and the \$69 billion in increased costs through 2014 from extending the child tax credit to higher-income families would further enlarge budget deficits that already threaten to reach economically unsustainable levels in the decades ahead. Because of the unsustainably large deficits that loom, the cost of this new tax cut for higher-income families would eventually have to be offset. The odds are substantial that when offsetting savings ultimately were produced, part of those savings would come from reductions in programs that assist low-income families, since such families are a weak political constituency.