CENTER ON BUDGET AND POLICY PRIORITIES
820 First Street, NE, Suite 510, Washington, DC 20002
Tel: 202-408-1080 Fax: 202-408-1056 center@cbpp.org www.cbpp.org

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# WAS THERE ENOUGH ROOM IN THE TAX BILL FOR THE LOW-INCOME CHILD TAX CREDIT PROVISION?

By Isaac Shapiro and Robert Greenstein

The tax bill that President Bush signed May 28 dropped a child tax credit provision included in the Senate version of the bill that would have assisted close to 12 million children in low-income working families, many of whom receive no benefit from the final legislation. A front page story in the *New York Times* on May 29 highlighted the absence of this provision.[1] In explaining why this provision was dropped, a spokeswoman for the House Ways and Means Committee told the *New York Times* that the provision was in the bill when the cost of the package was tentatively set at $380 billion but was one of the provisions that had to be dropped to reduce the bill's cost to $350 billion. Since the cost of the dropped provision was only $3.5 billion, it appears this decision was not necessary. It would not have been difficult to provide room for the provision in the bill.

- The cost of the deleted low-income child tax credit provision — $3.5 billion — equals one percent of the official cost of the final bill. It equals just 2.3 percent of the official cost of the capital gains/dividend tax cut and thus could have been included if the capital gains/dividend provision had been scaled back slightly.

- Alternatively, room could have been made for the child credit provision by slightly reducing the acceleration in the reduction in the top income tax rate. The Urban Institute-Brookings Institution Tax Policy Center estimates that for each 0.1 percentage point the top rate is reduced, the cost is $1.3 billion. Thus, if the top rate had been reduced to 35.3 percent in 2003 through 2005 (and 35 percent thereafter) rather than to 35.0 percent now, the savings would have been $3.9 billion, which would have been more than enough to pay for the low-income child tax credit provision. Had this been done, a very large cut in the top rate would still have been included. In fact, people with incomes of more than $1 million per year still would have received an average tax cut of about $88,000 in 2003, rather than the $93,500 average tax cut they will receive under the legislation as enacted.

- A third way that room could have been made for the child credit provision was by including in the legislation some measures to close abusive corporate tax shelters. As *The Washington Post* has reported, the Senate Bill "included provision to crack down on abusive corporate tax shelters, combat some accounting scams such as those pursued by Enron Corp., prevent U.S. companies from moving their headquarters to post office boxes in offshore tax havens such as Bermuda and limit grossly inflated deferred compensation plans for corporate executives."[2]

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[1] David Firestone, "Tax Law Omits $400 Child Credit for Millions," *The New York Times*, May 29, 2003.
[2] Jonathan Weisman, "Late Deals Got Tax Cut Done," *The Washington Post*, May 30, 2003.

These Senate provisions would have saved more than $25 billion. *All* of these provisions were dropped in conference. Only $3.5 billion of this more than $25 billion in savings would have been needed to accommodate the child-tax credit provision.

- The cost of the deleted child credit provision is dwarfed by the tax cuts the bill provides to people whose incomes above $1 million. The legislation will provide in the neighborhood of $90 billion in tax cuts to the approximately 200,000 households with incomes over $1 million if none of the provisions in the legislation are extended, and larger amounts if, as now seems likely, a number of the provisions are renewed. By contrast, there are 11.9 million children in low-income working families that would have benefited from the low-income tax child credit provision that was jettisoned in conference.

- The low-income child tax credit provision that was dropped was simply an acceleration of a change that will take effect in 2005. Its costs thus would have been limited to this year and next. This contrasts with many tax cut provisions included in the legislation that are likely to be extended and ultimately to cost much more than the official cost estimate for the legislation indicates.

The choice to exclude the low-income provision also reflects a significant inconsistency in the legislation. The new law accelerates the child tax credit provision of the 2001 tax cut that is targeted on middle- and upper-income families, but not the child tax credit provision of the 2001 law targeted on low- and modest-income working families. (Similarly, the new tax law accelerates the marriage penalty relief provisions enacted in 2001 for middle- and upper-income families, but not the marriage penalty relief provision of law that is targeted on low-income working families.)

## Other Claims by Ways and Means Spokeswoman Are Also Off-Base

In the *New York Times* article, the Ways and Means Committee spokeswoman also said:

> "This bill does a lot to help people who need help. But its primary purpose was to generate jobs."

The tax provisions in the bill are of little benefit to low-income households, probably the group that needs help the most. According to data from the Tax Policy Center, the bottom fifth of households will receive tax cuts from the legislation that average just $1 in 2003, while the next-to-bottom fifth will receive tax cuts averaging $38. This contrasts with the average tax cut of $93,500 that will go to people with incomes of more than $1 million.

Furthermore, tax cuts targeted on lower-income families are probably the most effective form of tax measure for generating immediate increases in demand, and thus job creation. Economic research shows that low-income families are more likely to spend additional income they receive through a tax cut than higher-income families are. Only if tax cuts are spent will they boost the economy now.  For this reason, the deleted Senate provision would likely have been more effective, per dollar of cost, in boosting the economy than most or all of the tax-cut provisions that were enacted.

For further information on the new tax law and the low-income child tax credit provision, see the Center on Budget and Policy Priorities analysis “How the New Tax Law Alters the Child Tax Credit and How Low-Income Families Are Affected.”