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HOUSE CHILD CREDIT LEGISLATION NOT FISCALLY RESPONSIBLE

Bill More Likely to Harm Children than to Assist Them

By Robert Greenstein

The child tax credit legislation that the House of Representatives passed on June 12 carries a price tag of $82 billion, with none of its costs being offset. A proposal of this nature was floated in Senate negotiations in early June on child tax credit legislation but was rejected because of the effect it would have in worsening an already grim deficit picture. Such an approach, due to its fiscal irresponsibility, is more likely over the long run to harm than to help children, especially low-income children. As explained below, if the choice becomes one between passing such legislation and failing to act on the exclusion of low-income working families from the child tax credit provision of the newly enacted tax-cut law, these families and their children would be better served by no action.

The Provision Benefiting Low-income Children

Like legislation the Senate passed in early June, the House bill would provide modest assistance in 2003 and 2004 to 6.5 million low-income working families with 11.9 million children. The legislation would accelerate a provision of law enacted in 2001, under which the size of the child tax credit for low-income families is scheduled to increase in 2005. Under the legislation, this increase would occur in 2003 rather than 2005. The result would be an increase of $3.5 billion in child tax credits for low-income working families over the next two years.

The low-income families affected would receive an average annual increase in their child tax credit of approximately $150 per child in 2003 and 2004. This provision would have no effect after 2004 and would not make eligible for the child credit any low-income families that are not already eligible. Working families with earnings of less than $10,500 are ineligible and would remain so.

The Provision Benefiting Higher-income Families

The House legislation also would extend the child tax credit to many higher-income married families, by raising the income level at which the credit begins to phase down for married families from $110,000 to $150,000. This would make married families in the $110,000-$150,000 range, who now receive a partial child tax credit, eligible for a full credit. In addition, it would extend a partial tax credit to many families in the $150,000-$200,000 range or, in the case of families with more than two children, to some families with incomes exceeding $200,000. (The income level at which a family's credit entirely phases out depends on the

Impact of House Bill on Low-income Families in 2003 and 2004
(Married Family with Two Children)

Income	Current Child Credit	Credit Under Bill	Increase Per Child
$12,000	$150	$225	$37.50
15,000	450	675	112.50
20,000	950	1,425	237.50

number of children in the family; see table at the bottom of page 2.) The extension of the credit to these higher-income families would cost $20.4 billion through 2010. (The Senate child tax credit bill has a similar provision, but it costs only $4.8 billion because it would not start to phase in until 2008 and would take full effect in 2010.)

The House legislation thus provides nearly six times as much in new tax cuts to higher-income families, who already will receive large tax cuts from the just-enacted tax-cut law, as to the low-income working families largely left out of that law.

Repealing the 2004 "Sunset"

The provision included in the new tax-cut law signed on May 28 that raises the child tax credit to $1,000 in 2003 is scheduled to expire — or "sunset" — at the end of 2004. This "sunset" was one of the measures that Congressional leaders and the White House used to keep the cost of the new law to $350 billion. The House bill would repeal this sunset, adding $57 billion in cost. If the bill is enacted, it will mean that Congress has started to repeal the measures it used to keep the new law's cost from exceeding $350 billion before the ink on the new law is barely dry.

Consequences for Children

The federal revenue base is contracting sharply. In addition, new budget projections show that if the numerous "sunsets" now written into the tax code are extended without the costs of these extensions being "paid for," federal budget deficits ultimately will reach stunning proportions.

- With enactment of the new tax-cut legislation last month, federal revenues will fall this year to their lowest level, measured as a share of the economy, since 1959. Federal *income tax* revenue will reach their lowest level, as a share of the economy, since 1943.

Child Tax Credit Phase-out for Married Couples

Number of children	**Current law**		**House and Senate Legislation**	
	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	$150,000	$169,000
2	110,000	149,000	150,000	189,000
3	110,000	169,000	150,000	209,000

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

- A new analysis by Brookings economists William Gale and Peter Orszag shows that largely as a result of the 2001 tax cut and the just-enacted tax cut, the federal income tax code now contains "sunsets" to a vastly greater degree than in the past. Gale and Orszag demonstrate that if all of the provisions of the tax code that are set to expire in coming years are extended without those extensions being "paid for," the cost of the extensions will reach *$430 billion* a year by 2013. They also show that this cost will equal 2.4 percent of the Gross Domestic Product, which is triple the average size of the Social Security shortfall that the Social Security trustees project over the next 75 years.

  Orszag has noted that "it is not an exaggeration to state that the future fiscal health of the nation will depend in important part on whether these extensions are paid for."

As a result, what is at stake is much more consequential than whether the low-income child tax credit provision takes effect in 2003 or 2005. The key matter at stake is not whether the increase in the child credit to $1,000 should or will be extended beyond December 31, 2004; sooner or later, the increase in the child credit almost certainly will be extended. Rather, the critical issue at stake is whether major tax cuts will be extended and new tax cuts added on top *without* the costs of such actions being offset, or whether a more responsible course will be charted and such costs will be paid for. Goldman-Sachs recently described the nation's long-term fiscal situation as "terrible." If the tax-cut measures that are scheduled to expire are extended and further tax cuts added without the resulting costs being offset, the nation's long-term fiscal picture will become markedly worse.

The decisions made on this matter are likely to have profound consequences for children. If the "sunsets" in the tax code are removed without the costs of such action being offset, the result will be both to pass a greater mountain of debt to the nation's children and to create intense pressures for increasingly severe cuts over time in federal programs. With low-income children being one of the nation's weakest political constituencies, programs to assist them will likely suffer from the deep budget cuts that will become almost inevitable.

For these reasons, if the choice comes down to being between: a) passing a measure such as the House bill that restores the low-income child tax credit provision but uses that restoration as a vehicle for another costly tax-cut bill, and b) failing to accept such a bill even if that means no action is taken on the child tax credit provision for low-income children, then low-income children will be better served by no action. This fortunately is not the only course available to policymakers. The House can agree in conference to accept the Senate bill, which addresses the low-income child tax credit issue without adding to deficits.