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THE NEW SENATE CHILD CREDIT LEGISLATION — WHAT IT DOES AND DOES NOT DO

by Robert Greenstein

On June 5, the Senate passed 94-2 a bill that would restore a child tax credit provision for low-income working families that was dropped in the House-Senate conference on the large tax-cut bill signed May 28. There has been some confusion about the new Senate legislation.

Some new reports have stated that the Senate bill would extend the child tax credit to more low-income families. Some news accounts also have noted the inclusion in the bill of a provision extending eligibility for the credit to higher-income families and described the families made eligible as those in the $110,000-$150,000 range. A number of reports have said the bill's $10 billion cost would be offset by *increasing* customs fees. All of these statements are at least partially incorrect.

- The families the legislation would make newly eligible for the child tax credit all are higher-income families, and many families with incomes *above* $150,000 — particularly in the $150,000-$200,000 range — would be among the new beneficiaries. The bill raises, later in the decade, the income level at which the credit *begins to phase down* for married filers from $110,000 to $150,000, so that families in the $110,000 to $150,000 range would receive a full rather than a partial child credit. This also increases the income level up to which married families receive a partial child tax credit to $189,000 for families with two children and $209,000 for families with three children.

- The bill does benefit low-income working families. It does not make any low-income families eligible for the credit who are not already eligible. The bill benefits 6.5 million low-income families with 11.9 million children by accelerating into 2003 a provision of current law that is scheduled, starting in 2005, to raise the amount of the child credit they already receive.[1]

- Some accounts have said these 6.5 million lower-income families would receive an increase in their child credit of $400 per child and now get a full credit of $1,000 a child. This, too, is incorrect. The 6.5 million families would receive an increase in their credit, but for most of these families, the increase would be well below $400 per child and their total credit would be less than $1,000 per child. (In most cases, their credit would be limited to 15 percent of the amount by which their earnings exceed $10,500.) The Senate legislation provides the low-income families that would benefit from it with an average increase in the child credit of approximately $150 per child for each of the next two years. (See table on page 2.)

[1] These estimates come from an analysis by Citizens for Tax Justice. Analysis by the Urban Institute-Brookings Institution Tax Policy Center finds a modestly larger number of low-income families — 7.1 million — would benefit. The Tax Policy Center estimates that these families would receive an average increase in their credit of $276 per family.

Impact of Senate Bill on Low-income Families (Married Family with Two Children)			
Income	**Current Child Credit**	**Credit Under Senate Bill**	**Increase Per Child**
$12,000	$150	$225	$37.50
15,000	450	675	112.50
20,000	950	1,425	237.50

- Because the low-income provision has an effect only in 2003 and 2004 while the provision providing the child credit to higher-income families likely will be extended and become a regular, ongoing part of the child credit, the bill's benefits for higher-income families are likely over time to outweigh substantially its benefits for lower-income families. The low-income provision would boost by $3.5 billion the child tax credits that low-income families receive in 2003 and 2004. It would not affect the child tax credits these families receive after that. By contrast, the provision that extends the child tax credit to the higher-income families would provide these families with $3 billion to $4 billion in tax cuts in tax year 2010, when it would take full effect. (The provision would begin to phase in starting in 2008 and would cost $4.8 billion over tax years 2008-2010.) If extended, this provision would provide added benefits of $30 billion to $40 billion to the higher-income families in the ten years after that.

  As a result of this provision, analysis by the Urban Institute-Brookings Institution Tax Policy Center finds that in 2010, some 99 percent of the tax benefits under the Senate bill would go to the top fifth of households, with 78 percent of the benefits going to the top 10 percent of households.

- Finally, the provision related to customs user fees merely extends fees that are already in place but are slated to expire on September 30. The provision does *not* increase the size of these fees. Extension of these fees is included in the President's budget and in the Congressional budget resolution that the House, along with the Senate, approved in April.

Child Tax Credit Phase-out for Married Couples

Number of children	**Current law**		**New Legislation in 2010**	
	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 last point is that while the bill assists 6.5 million low-income working families, it could work to the detriment of some other low-income working families, although this is not clear. The extension of the customs users fees in the bill is considered by the Congressional Budget Office to be a reduction in federal outlays (i.e., in expenditures), rather than an increase in government revenues. Extension of these fees was the sole significant source of funding available to the Senate Finance Committee to cover anticipated costs for several key components of upcoming welfare reauthorization legislation — such as costs for child care funding needed to prevent a sizeable reduction in child care slots for the working poor, for extending and strengthening a program that provides health insurance coverage for families that have worked their way off welfare (this proposal is largely included in the President's budget), and funds to strengthen child support enforcement. If the customs fees are used for the child tax credit legislation instead, this financing source will be unavailable to cover such child care, health care, and child support enforcement costs over the next five years. As a consequence, the Finance Committee would face the alternatives of producing a welfare reauthorization bill that exceeds its outlay ceiling and thus needs 60 votes to pass on the Senate floor, making cuts in other programs deep enough to cover these costs, or failing to include the child care and health care funds, with the result that cuts in child care slots and health insurance coverage for low-income working families would ensue.

Legislation introduced June 2 by Senators Blanche Lincoln and Olympia Snowe would have restored the low-income child tax credit provision dropped from the recently enacted tax-cut bill and offset the cost through measures to curb corporate tax shelter abuses the Senate had approved as part of the larger tax-cut bill it passed in May. (These measures were dropped in conference.) The provisions to curb tax shelter abuses fell out of the new child credit legislation in the last couple of days, however, as the legislation was negotiated in the Senate. In the end, the extension of the customs fees was used not only to cover the cost of the low-income child tax credit provision but to cover the cost of the new tax cut for higher-income families as well.