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Special Series: **Economic Recovery Watch**

January 26, 2009

TAX CREDIT PROVISIONS IN HOUSE AND SENATE RECOVERY PACKAGES WOULD LESSEN GROWTH IN POVERTY
Plans Would Keep Hundreds of Thousands of Children Out of Poverty

by Arloc Sherman

While reviving the economy is the overriding goal of the economic recovery package, particular elements of the package are likely to have other important benefits as well. One is to counter what otherwise will be a major spike in child poverty.

The House recovery plan contains a number of poverty-reducing provisions, three of which — a new "Making Work Pay" tax credit and proposals to expand the Child Tax Credit and the Earned Income Tax Credit — would keep out of poverty about 1.1 million children who otherwise would be poor. Counting adults as well, these temporary tax provisions would keep a total of more than 2.5 million Americans out of poverty. The Senate's similar but somewhat weaker set of provisions would keep more than 800,000 children out of poverty, about a quarter million fewer than the House bill but still a substantial number.[1]

Both the House and Senate packages, therefore, would significantly reduce the expected increase in poverty during the recession, especially among children.

The proposed changes come at a time of growing economic distress. The economy has shed 2.6 million jobs since the recession began, and homelessness has grown in many communities around the country.[2] The unemployment rate has climbed from 4.9 percent to 7.2 percent and is forecast to reach 9 percent later this year and to continue rising into 2010, according to Goldman Sachs. If the relationship between the increase in unemployment and the rise in poverty that held in the last three recessions holds in this recession as well, as is likely, the number of Americans living in poverty will jump during this recession by 7.5-10.3 million above the 2006 level of 36.5 million. The number of poor children will climb by 2.6-

[1] These figures reflect the effects of these three tax credit provisions. Other measures in the House and Senate packages would result in additional poverty reduction.

[2] Barbara Sard, "Number of Homeless Families Climbing Due to Recession: Recovery Package Should Include New Housing Vouchers and Other Measures to Prevent Homelessness," Center on Budget and Policy Priorities, January 8, 2009, http://www.cbpp.org/1-8-09hous.htm.

Table 1: EFFECTS OF HOUSE AND SENATE TAX CREDIT PROVISIONS ON CHILDREN AND POVERTY

	HOUSE	SENATE
Children Kept Out of Poverty	1.09 million	830,000
All Persons Kept Out of Poverty	2.5 million	2.1 million

3.3 million above the 2006 level of 12.8 million. These increases will occur over several years.[3]

Overview of House and Senate Proposals

The House recovery package contains several provisions related to tax credits, including:

- *Making Work Pay credit.* This new credit would provide up to $500 for individuals, and $1,000 for couples, who work. It would equal 6.2 percent of the first $8,065 in earnings, so an individual would need $8,065 in earnings to qualify for the full $500 credit.

- *Child Tax Credit.* The package would expand the Child Tax Credit by providing at least a partial credit to all working tax filers with qualifying children under 17. In 2008, the credit was available only to those with annual earnings of more than $8,500.[4]

- *Earned Income Tax Credit.* The package would increase the EITC for families with three or more children. (Currently, a filer with three or more children receives the same credit as a filer with two children.) The package also would provide marriage penalty relief under the EITC. Currently, some couples receive a smaller EITC if they marry than if they remain single.[5]

In the Senate, the package under consideration by the Finance Committee is essentially the same with regard to the Making Work Pay credit and the EITC, but the expansion of the Child Tax Credit is smaller. The Senate version would make at least a partial credit available to working filers with more than $6,000 of earnings — a level lower than the 2008 earnings threshold of $8,500, but higher than the level under the House bill, under which the credit would begin to phase in with a working parent's first dollar of earnings.

[3] Sharon Parrott, "Recession Could Cause Large Increases in Poverty and Push Millions into Deep Poverty: Stimulus Package Should Include Policies to Ameliorate Harshest Effects of Downturn," Center on Budget and Policy Priorities, November 24, 2008, http://www.cbpp.org/11-24-08pov.htm.

[4] The earnings threshold for the Child Tax Credit was set to $8,500 for tax year 2008 in previous legislation. Without further congressional action it will revert to $12,550 for tax year 2009. Because the child credit phases in slowly, people with earnings modestly above the threshold receive only a very small credit.

[5] Existing law somewhat reduces the penalty on marrying by permitting couples to continue qualifying for the maximum allowable EITC at adjusted gross income levels of up to $3,120 higher than if they were unmarried. The House and Senate packages would strengthen this marriage penalty relief by extending this maximum income level $5,000 above the level for unmarried filers.

Table 2: EFFECTS OF HOUSE AND SENATE TAX CREDIT PROVISIONS ON CHILDREN AND POVERTY

	HOUSE	SENATE
Earnings Required to Receive at Least Partial Child Tax Credit	$1	$6,000
Earnings Required to Receive Full Child Tax Credit (for two-child family)	$13,333	$19,333
Child Tax Credit for a Minimum-Wage Family of Four (earnings of $14,500)	$2,000	$1,275

How These Provisions Would Affect Poverty Among Children

Both the House and Senate bills would provide substantial new assistance to large numbers of children and protect many of them from slipping into poverty. But the House's larger Child Tax Credit expansion would provide greater assistance, protecting more than a quarter-million more children from poverty than the Senate bill would.

The House's Making Work Pay, EITC, and child credit provisions would:[6]

- **Reduce by 1.1 million the number of children living below the poverty line.** The number of children in poverty still is expected to rise due to the recession, but the increase would be substantially smaller under the House package.

- **Reduce by more than 2.5 million the total number of Americans (children and adults) living in poverty.**

The Senate version would:

- **Reduce by 830,000 the number of children living below the poverty line**.

- **Reduce by 2.1 million the total number of Americans (children and adults) living in poverty.**

In both versions, more than 60 million children in families with incomes up to $200,000 would benefit from the Making Work Pay credit.[7]

[6] The impacts on poverty discussed here are relative to current law with the Child Tax Credit earnings threshold at its 2008 level of $8,500. The poverty reductions would be larger if compared with what would occur if Congress allowed the earnings threshold to revert to $12,550.

[7] The Making Work Pay tax credit would phase out at $200,000 for married couples and $100,000 for individuals.

Difference Between House and Senate Child Tax Credit Provisions

As noted, families with earnings between $1 and $6,000 would receive a partial child credit under the House bill, but would continue to be ineligible for the credit under the Senate bill. These families contain 2.2 million children, according to the Tax Policy Center.

The Tax Policy Center data also show that the House bill also would provide a larger tax credit than the Senate version to another 10 million children whose families earn *more than* $6,000. For example, for families with two qualifying children, the House approach would provide a larger tax credit to families earning between $6,000 and $19,333 than the Senate approach would.

In total, counting those who would not be eligible under the Senate version, the House approach would provide larger Child Tax Credits than the Senate approach for 12.2 million children.

The reason why the different earnings thresholds in the two bills would affect families with incomes well above the thresholds is that the child credit phases in slowly. Under current law (and under both House and Senate provisions), the credit phases in at 15 cents for every dollar earned above the earnings threshold until reaching its maximum value of $1,000 per child.

Thus, under the House approach, a family with full-time, minimum-wage earnings of $14,500 a year would qualify for the full credit of $2,000 ($1,000 per child), because the credit would begin to phase in with the first dollar of earnings. Under the Senate approach, the family would qualify for $1,275 (that is, 15 percent of its earnings above the $6,000 threshold).

The larger Child Tax Credit is the reason the House tax credit provisions would keep about 260,000 additional children out of poverty compared with the Senate approach.

Methodology

This analysis uses Census Bureau survey data to simulate what families' taxes would be in 2010, both with and without the House and Senate provisions in place.[8]

This analysis does not use the government's official measure of poverty, which is based on a family's *pre-tax* cash income and thus does not register the effect of the tax credits examined here. Instead, it uses an alternative poverty measure that follows the poverty-measurement recommendations of the National Academy of Sciences (NAS). This measure considers income *after* taxes and also counts as income the value of certain government non-cash benefits, including food stamps, rent subsidies, and low-income home energy

[8] The Census data used for simulating the poverty-reducing effects of House and Senate policies are 2005 data from the March 2006 Current Population Survey, adjusted for inflation to 2010 dollars. The analysis also incorporates data from the Department of Health and Human Services' TRIM model to correct for underreporting of certain benefits in the Census survey data.

assistance. (Work expenses and out-of-pocket medical expenses are subtracted from income.) The measure also incorporates a modified poverty threshold, as recommended by NAS.

Note: we do not know how much poverty would rise, as a result of the recession, under an NAS-style poverty measure; the projections of increased poverty cited in this analysis use the official poverty measure. The historical data necessary to forecast the increase in poverty using the NAS poverty measure are not available.

There are reasons to think that poverty may not rise quite as much during the recession under the NAS measure as under the official measure of poverty; for example, the NAS-style measure captures the poverty-alleviating effect of food stamps and other non-cash benefits that tend to increase during a recession in response to falling cash incomes. However, with the number of people in poverty expected to rise by at least 7.5 million under the official poverty measure if unemployment rises to 9 percent, and the number of poor children expected to rise by at least 2.6 million, it is likely that poverty would rise significantly under an NAS measure as well.