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Child Tax Credit Increases in GOP Tax Plan Exclude Millions of Children in Low-Income Working Families

By Robert Greenstein, Chye-Ching Huang, Chuck Marr, Emily Horton, and Roderick Taylor

Most of the major provisions in the tax plan that the Trump Administration and congressional Republicans announced in September would primarily benefit high-income people and corporations. The plan's proponents have pointed to the plan's Child Tax Credit (CTC) increase as providing major benefits to low- and middle-income families with children. But the plan's CTC proposal would exclude at least 16 million children in low-income working families.

That's because Republican leaders have proposed to make their CTC increase non-refundable, meaning that working families with incomes too low to have federal income tax liability would not benefit. For example, a single parent with two children would receive no benefit from the plan's CTC proposal unless her income exceeded \$18,000; if she worked full-time, year-round at the minimum wage, she would be left out. Married couples with two children and earnings up to \$24,000 would similarly be left out. In addition, for many *middle*-income families, other provisions in the GOP tax plan would effectively cancel out the benefits they would receive from the CTC increase.

Republican leaders have suggested that they may increase the CTC further as they revise their plan. Unless they revise the proposal's basic structure, however, it still will leave out — or fail to meaningfully benefit — millions of low-income working families. And, while a CTC proposal from Senators Marco Rubio and Mike Lee would represent an improvement, making more working-poor families eligible for the CTC and raising the amount of the CTC available to other low-income working families, the increase would be much smaller than the CTC increase that higher-income families would receive under their proposal or under the Republican leadership's tax plan.

Meanwhile, unless Republican leaders make much larger, more fundamental changes in their overall tax plan, low- and middle-income families with children would, on average, likely end up *worse off* in the long run. The tax-cut benefits they would receive would be modest; about 80 percent of the tax cuts under the GOP plan would go to the top 1 percent of households, the Tax Policy Center estimates. Meanwhile, the higher budget deficits that the tax cuts would generate would create strong pressure for damaging budget cuts in coming years in an array of programs that help

many low- and middle-income families meet important needs, including programs important to the well-being of millions of children.

The CTC Proposal in Republican Leaders' Tax Plan

The CTC now provides a maximum tax credit of \$1,000 per eligible child under age 17. The CTC is “partially refundable,” meaning that it is partly, but not entirely, available to families with incomes too low to owe federal income tax. Specifically, the refundable portion of the CTC is limited to 15 percent of a family’s earnings over \$3,000. Thus, a single mother with two children and earnings of \$7,500 is eligible for a CTC of \$675, or \$337.50 per child $[(7,500-3,000)*15\%]$, rather than for the \$2,000 (\$1,000 per child) that a middle-income family with two children receives. Because of the credit’s slow phase-in for working families with low incomes, families with two children do not receive the full credit of \$1,000 per child until their earnings reach \$16,333. The poorest children consequently qualify for only a very small CTC or none at all.

The GOP leaders’ tax plan proposes to increase the maximum CTC.¹ Their plan doesn’t specify the exact size of the increase, so we, like the Tax Policy Center, assume the increase would be the same as under the earlier House Republican “Better Way” tax plan: an increase of \$500, raising the maximum CTC to \$1,500 per child. The Republican leaders’ plan clearly states that the increase would *not* be refundable, a point that Gary Cohn, National Economic Council Director, recently reiterated (see box).

While doing nothing to strengthen the CTC for the lowest-income working families, the plan calls for increasing the income levels at which the CTC begins to phase out for higher-income married families, thereby making more families with six-figure incomes eligible for the credit. In fact, as explained below, some six-figure-income families would be the ones who gain the most from the plan’s CTC proposal.²

Low-Income Working Families Left Out

Failing to make the proposed increase in the maximum CTC refundable to any degree would block the lowest-income working families from benefiting from the increase. Altogether, we estimate that at least 16 million children in low-income working families would be entirely excluded from the CTC increase.³ This includes:

¹ Unified Framework for Fixing Our Broken Tax Code, The Trump Administration, the House Committee on Ways and Means, and the Senate Committee on Finance, September 27, 2017, <https://www.treasury.gov/press-center/press-releases/Documents/Tax-Framework.pdf>.

² The plan does not specify the new phase-out levels. The “Better Way” plan increased the income level at which the CTC begins to phase out for married filers from \$110,000 to \$150,000.

³ CBPP estimates based on March 2017 Current Population Survey data and Tax Policy Center table T17-0228. These estimates assume the proposal increases the non-refundable CTC by \$500, compared to current law (i.e., without the other tax changes in the Republican leaders’ tax framework). Estimates rely on Tax Policy Center estimates (for the number of children of working tax filers who earn too little to receive the maximum Child Tax Credit, equal to 10.3 million children) and CBPP analysis of Census Bureau data from the March 2017 Current Population Survey (for additional children who would not benefit from a larger non-refundable tax credit because they have no federal income tax to offset, equal to another 5.7 million children). The combined figure of 16.0 million children is likely to be too low because Census-based estimates tend to undercount families receiving tax credits. Estimates of working parents affected

- 5.4 million poor children, 1.2 million of whom live in deep poverty (i.e., below *half* the poverty line);
- 6.1 million children under age 6;
- 8.8million children in single-parent households; and
- 6.2 million Latino children, 5.0 million white children, 3.3 million black children, and 400,000 Asian children.

The average income of working families with children that would be left out of the CTC changes is \$16,000. Of the working families left out, 58 percent include a parent who works at least 40 hours per week. The parents in families that would be left out work in a range of occupations, many of which pay low or very modest wages (see Table 1).⁴

- A married couple with two children and earnings of less than \$24,000 would not benefit at all from GOP leaders’ proposed CTC expansion. Married families with two children and incomes between \$24,000 and \$32,300 would benefit but would receive less than the full \$500 per child increase.
- Single parents with two children and earnings below \$18,000 wouldn’t benefit at all. This means that a single mother working full time at the federal minimum wage and earning \$14,500 would receive no CTC increase. Single-parent families with two children and earnings between \$18,000 and \$26,300 would receive less than the full \$500 per child increase.

TABLE 1

Top Occupations of Working Parents Left Out of Non-Refundable CTC Expansion

	Number of working parents
Sales	957,000
Food preparation and serving	870,000
Office and administrative support	853,000
Building and grounds cleaning and maintenance	787,000
Construction and extraction	746,000
Transportation and material moving	692,000
Personal care and service	655,000
Manufacturing	610,000
Health care support	445,000

Source: CBPP estimates from March 2017 Current Population Survey and Tax Policy Center table T17-0228.

follow a similar methodology, combining TPC and Census-based estimates of *filers* that would not benefit with Census-based estimates of the share of working parents in each occupation within this group.

⁴ The examples in the text assume the other individual income tax changes in the Republican leaders’ proposal. They assume those parameters not specified in the GOP framework — including the amount of the CTC increase, the standard deduction for head of household filers, and the income cutoffs for each rate bracket — mirror those in the House Republican “Better Way” plan. If the figures in the examples were calculated assuming only the new CTC proposal, the earnings needed to benefit would be even higher for these example families.

Yet the children who would be left out of the proposed CTC improvements are those for whom, extensive research indicates, a CTC boost could make the most difference.

- **Research indicates that income from the Earned Income Tax Credit (EITC)⁵ and the CTC yields benefits for many children at virtually every stage of life, including improved school performance, higher college enrollment, and increased work effort and earnings in adulthood.⁶** Starting from infancy — when larger refundable tax credits have been linked with more prenatal care, less maternal stress, and signs of better infant health — children who benefit from tax-credit expansions have been found to do better than similar children who don't benefit. They have higher odds of finishing high school and therefore going on to college, and the added income from the credits has been linked to significant increases in college attendance by making college more affordable for families with high-school seniors. Researchers note that the education and skill gains associated with the EITC and CTC are likely to keep paying off through higher earnings and employment in adulthood.
- **Research also shows that income gains from sources that include tax credits matter the most for the poorest children.** “[T]here is very strong evidence that increases in income have a bigger impact on outcomes for those at the lower end of the income distribution,” a systematic review of the research literature on the effects of income during childhood, conducted by researchers at the London School of Economics and Political Science, concluded. All 13 of the relevant studies the researchers examined supported this finding.⁷ One study found, for example, that the EITC's effect in increasing children's math and reading test scores was almost three times larger for the lowest quartile of its sample than for other low- and moderate-income families.⁸ These findings are consistent with the view of many experts that the adverse effects of poverty on children are most pronounced for children who live below half of the poverty line.⁹

⁵ The EITC is older and more studied than the CTC, but the CTC, like the EITC, is available only to working families and phases in as earnings rise.

⁶ For an extended discussion of the research, see Chuck Marr *et al.*, “EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children's Development, Research Finds,” Center on Budget and Policy Priorities, updated October 1, 2015, <https://www.cbpp.org/research/federal-tax/eitc-and-child-tax-credit-promote-work-reduce-poverty-and-support-childrens>.

⁷ Kerris Cooper and Kitty Stewart, “Does money affect children's outcomes?,” Joseph Rowntree Foundation, October 22, 2013, <https://www.jrf.org.uk/report/does-money-affect-children%E2%80%99s-outcomes>.

⁸ Gordon B. Dahl and Lance Lochner, “The Impact of Family Income on Child Achievement: Evidence from the Earned Income Tax Credit,” *American Economic Review* 102, No. 5, May 2012, 1927-56. The lowest quartile consisted of families earning less than \$18,031 (in 2000 dollars). The middle two quartiles consisted of families earning between \$18,031 and \$41,790, while the fourth quartile included families earning more than \$41,790.

⁹ Jeanne Brooks-Gunn and Greg J. Duncan, “The Effects of Poverty on Children,” *The Future of Children*, Vol. 7, No. 2, Summer/Fall 1997.

Cohn's Justification for Omitting Working-Poor Families From the CTC Increase Does Not Withstand Scrutiny

As this paper explains, the increase to the CTC in Republican leaders' tax plan is entirely non-refundable, so only families with incomes high enough to owe federal income taxes would benefit, and millions of low-income working families with children would be left out. Justifying the proposal, White House National Economic Council Director Gary Cohn implied that boosting low-income working households' CTC would discourage work, saying, "[The existing credit] is refundable today and will stay refundable. The additional money that we put into the credit will be non-refundable. We want to encourage people to work. We want to have people have taxable income to take the credit against."^a This rationale for excluding the poorest children in working families doesn't hold up under scrutiny.

- **The proposed policy would lock out millions of hard-working families with children.** Only working families can get earn the CTC, including the part that's refundable. A working married couple with two children making \$24,000 or less, and single parents raising two children and making less than \$18,000, wouldn't benefit at all from a CTC increase unless it were refundable. Such families may be working hard at low-wage jobs for as many hours as they can find.
- **Improving the CTC for low-wage working families would be pro-work for many.** For low-wage workers, and working-class parents generally, the CTC and its sibling, the Earned Income Tax Credit, have similar designs and have been studied rigorously for years. They phase in, rising as earnings increase, plateau at their peak, and then gradually phase out. These tax credits affect work primarily by drawing people into the workforce, the research strongly demonstrates.^b If policymakers raised the CTC for low-wage workers by raising the phase-in rate and starting the phase-in at the first dollar of earnings (rather than starting at \$3,000 in earnings, as it now does), that would boost the incentive it provides for workers to join the labor force at low wages even if they can't find a full-time job.
- **CTC increases for low-income families are still more pro-work when one accounts for their likely long-term impacts on children.** The case for extending a CTC increase to the lowest-income families is even stronger when one accounts for the credit's positive impact on low-income children over the long term, which appears to include improved health as infants and children, better school performance, and higher expected earnings as adults, the research suggests. These positive effects are clearest for the poorest children.^c

^a Office of the Press Secretary, "Press Briefing by Press Secretary Sarah Sanders, 9/28/17, #17," The White House, September 28, 2017, <https://www.whitehouse.gov/the-press-office/2017/09/28/press-briefing-press-secretary-sarah-sanders>.

^b Marr *et al.*, 2015.

^c Chuck Marr, Chloe Cho, and Arloc Sherman, "A Top Priority to Address Poverty: Strengthening the Child Tax Credit for Very Poor Young Children, Center on Budget and Policy Priorities, August 10, 2016, <https://www.cbpp.org/research/federal-tax/a-top-priority-to-address-poverty-strengthening-the-child-tax-credit-for-very>.

Many Families With Six-Figure Incomes Would Be Made Newly Eligible for the Credit or Receive the Largest CTC Increases

While the lowest-income working families wouldn't get anything from the CTC proposal in the GOP leaders' plan, those who earn more would qualify for the maximum CTC boost (see Table 2). Of particular note, the proposal would increase the income level at which the CTC begins to phase out, making more filers with six-figure incomes eligible for the credit.

Although the GOP framework doesn't specify how far up the income spectrum the new CTC would extend, the House GOP's earlier "Better Way" tax plan would have increased the level at

which the CTC begins to phase out from \$110,000 to \$150,000 for a married couple. That would mean:

- Married couples with two children and incomes between \$150,000 and \$210,000 would become *newly* eligible for a CTC. (Currently, the CTC phases out at \$150,000 for married filers with two children.)
- Earners with incomes at or close to \$150,000 would become eligible for the maximum CTC, and they would be the families getting the largest CTC increase. A married couple with two children and earnings at \$150,000 would receive a \$3,000 CTC increase; its CTC would rise from zero today to \$3,000 under the plan.

TABLE 2

Increase in Child Tax Credit, 2017

	Current CTC	CTC increase under Trump/GOP leaders' framework	Total CTC under Trump/GOP leaders' framework
Single mother with two children earning \$14,500 (working full time at the federal minimum wage)	\$1,725	\$0	\$1,725
Married couple with two children earning \$25,000	\$2,000	\$120	\$2,120
Married couple with two children earning \$50,000	\$2,000	\$1,000	\$3,000
Married couple with two children earning \$150,000	\$0	\$3,000	\$3,000

Note: Assumes unspecified details are as in the House GOP "Better Way" plan.

Other Provisions in Republican Leaders' Tax Plan Would Largely Cancel Out the CTC Increases for Many Moderate- and Middle-Income Families

Moderate- and middle-income families would be eligible for an increased CTC under the GOP plan. But because the plan changes various other individual income tax provisions, the end result would likely be close to a wash for a large share of low- and middle-income families. The benefits of the larger CTC and the proposed increase in the standard deduction would, in many cases, be offset by other provisions in the tax plan, such as its elimination of personal exemptions and the increase in the bottom marginal tax rate from 10 percent to 12 percent for some filers.

Overall, the Tax Policy Center estimates that by 2027, low- and moderate-income families with children would receive little or no tax cuts, on average, and many could face tax increases. Families with children with incomes below \$75,000 would receive tax cuts worth just \$20, on average. Only high-income families would receive large average tax cuts. Families with children with incomes above \$1 million would receive tax cuts averaging more than \$200,000, increasing their after-tax incomes by more than 8 percent.¹⁰

¹⁰ TPC table T17-0226.

For example, assuming an increase of \$500 in the maximum CTC:

- A married couple with two children claiming the standard deduction would get no net tax cut if it earned less than about \$28,900.
- A single parent with one child claiming the standard deduction would get no net tax cut if she earned less than \$17,400. (This assumes that the standard deduction for single parents who file under the “head of household” status will be increased to \$18,000, as in the “Better Way” plan. If the head of household status is eliminated, as under the Trump campaign tax plan, many single parents could face tax *increases*.)
- A married couple with one child earning \$48,700 (the median income in 2015 for a working-class family of that size¹¹) and claiming the standard deduction would get a net tax cut of \$180. While the couple would benefit from a \$500 increase in the CTC and the standard deduction increase, those gains would largely be offset by the loss of personal exemptions and changes in the lower-bracket tax rates.
- Many middle-income families that receive a CTC increase but itemize their deductions would face tax increases. For example, a married couple with one child earning \$60,000 that claims \$20,000 in itemized deductions would receive a \$500 CTC boost but face an overall tax increase of \$570.¹²

Changes to CTC Proposal Wouldn't Materially Alter the GOP Plan's Overall Impact on Low- and Middle-Income Families

As noted, the GOP framework doesn't specify the size of its proposed CTC increase. Actual legislation might increase the maximum CTC by more than \$500, increasing the benefit for middle-income families. But unless the increase were made refundable, the proposal would still leave out at least 16 million children in low-income families.

At the same time, a larger credit increase also would deliver greater benefits to the higher-income families that the GOP proposal makes newly eligible for the CTC with a higher maximum CTC. Married couples with two children and incomes somewhat *above \$210,000* would become newly eligible for the CTC, unless the CTC phase-out rate were increased. (\$210,000 is the income level at which the CTC would phase out entirely under the GOP plan if the CTC increase were set at \$500 per child.)

¹¹ Chuck Marr, Brandon DeBot, and Emily Horton, “How Tax Reform Can Raise Working-Class Incomes,” Center on Budget and Policy Priorities, updated October 13, 2017, <https://www.cbpp.org/research/federal-tax/how-tax-reform-can-raise-working-class-incomes>.

¹² The majority of filers at this income level claim the standard deduction; IRS data show that in 2014, 28 percent of married filers with incomes between \$50,000 and \$75,000 claimed itemized deductions. Among filers in this income range who itemized, the average amount of itemized deductions was roughly \$20,000. IRS Statistics of Income table 1.2.

Rubio-Lee Proposal Would Help But Still Fall Short

A reported proposal from Senators Rubio and Lee would modestly increase the amount of the CTC that would be refundable, in addition to providing a substantial increase in the maximum credit.¹³ The proposal thus would provide some increase in the CTC to the poorest working families. Even so, those families still would receive the smallest increases in the credit.

The Rubio-Lee proposal would change the refundable amount of the CTC to 15.3 percent of a family's *total* earnings — that is, it would start phasing in with the first dollar of earnings — instead of the credit equaling 15 percent of earnings *over \$3,000*, as at present. The impact of these changes would be positive but modest. For example, if the Rubio-Lee refundability proposal were added to Republican leaders' tax plan, a single parent with two children working full time at the federal minimum wage (and earning \$14,500 annually) would see a CTC increase of \$494, rather than zero as under the GOP leaders' plan. But this would be only a quarter of the \$2,000 CTC increase that two-child families at higher income levels would receive under the Rubio-Lee CTC design.

CTC Changes Can't Overcome Larger Problems with GOP Leaders' Tax Plan

CTC reforms could be designed to strengthen the credit more for lower-income families. The current CTC could be made fully refundable so families with very low or no earnings could receive the full CTC.

A more modest improvement would begin phasing in the credit with the first dollar of earnings, as the Rubio-Lee proposal would do, *and* raise the phase-in rate significantly above 15 percent, at least for families with a young child, so that working-poor families would receive a more adequate CTC. The amount of the maximum CTC could also be increased, especially for young children. Children under 6 tend to be poorer than other children, and the research suggests they would benefit the most from the additional income that such CTC improvements could provide. These and other CTC improvements are included in bills introduced by Rep. Rosa DeLauro, Senators Sherrod Brown and Michael Bennet, and other lawmakers.¹⁴

Improvements like these would substantially improve the CTC proposal in the GOP plan. But they would not alter the two overriding shortcomings in the overall plan — its heavy tilt toward the highest-income households and large corporations, and its impact in substantially increasing budget deficits and debt (which likely would eventually lead to large budget cuts that would cause many or most low- and middle-income families to become net losers, even if the plan's CTC provisions are strengthened).

¹³ Nancy Cook, "Ivanka Trump Pitches Conservatives on Child Tax Credit," *Politico*, September 6, 2017, <http://www.politico.com/story/2017/09/06/ivanka-trump-child-tax-credit-conservatives-242400>.

¹⁴ Rep. Rosa DeLauro introduced legislation (H.R. 821) that would eliminate the CTC's \$3,000 earnings threshold, allowing the credit to phase in from the first dollar of earnings, and increase the phase-in rate to 45 percent for all families. The DeLauro proposal would also increase the maximum credit to \$3,600 for children under age 6. Senators Sherrod Brown and Michael Bennet have authored proposals that would increase the maximum CTC to \$3,000 for children under age 6 and phase in the credit at a rate of 45 percent from the first dollar of earnings for families with young children (S. 1371 and S.2264). Another proposal would create a supplement of \$1,000 per child under age 5 that phases in at a rate of 50 percent from the first dollar of earnings. See Elaine Maag and Julie B. Isaacs, "Analysis of a Young Child Tax Credit," Tax Policy Center, September 12, 2017, <http://www.taxpolicycenter.org/publications/analysis-young-child-tax-credit>.

Overall, the GOP tax framework is heavily skewed toward high-income households and profitable corporations.¹⁵ As noted, the Tax Policy Center estimates that 80 percent of the tax cuts in the GOP leaders' plan would go to the top 1 percent of households. Even a substantially improved CTC would only modestly mitigate this extreme tilt. Moreover, the swollen deficits that the plan would produce would force action sooner or later to address those higher deficits. And the subsequent budget cuts made to bring down the rising deficits would likely hit low- and middle-income Americans the hardest.

Indeed, the Senate- and House-passed fiscal year 2018 budget resolutions point to *existing* budget deficits — even before any new tax cuts are enacted — to justify proposed steep cuts in basic assistance programs on which struggling families rely to obtain health care and help make ends meet — as well as cuts in a broad set of programs important to children's future prospects such as education and job training. If such cuts were made to offset the cost of the tax cuts, most families with children would likely end up worse, rather than better, off.¹⁶

¹⁵ TPC table T17-0227, <http://www.taxpolicycenter.org/model-estimates/unified-framework-september-2017/t17-0227-unified-framework-distribution-federal-tax>.

¹⁶ Sharon Parrott, "Commentary: Republican Tax and Budget Agenda Would Leave Most Low- and Middle- Income Children Worse Off," Center on Budget and Policy Priorities, October 4, 2017, <https://www.cbpp.org/federal-tax/commentary-republican-tax-and-budget-agenda-would-leave-most-low-and-middle-income>.