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House Ways and Means Committee Legislation Would Expand EITC and Child Tax Credit Bill Also Would Boost Child Care Assistance

By Chuck Marr, Yixuan Huang, and Vincent Palacios

New legislation from House Ways and Means Chairman Richard Neal would strengthen the Earned Income Tax Credit (EITC) for workers not raising children in the home and extend the full Child Tax Credit to low-income families.¹ The Ways and Means Committee approved this legislation on June 20, along with several other measures, including one to extend a series of temporary tax provisions that have expired or will soon expire.

Numerous studies show that the EITC increases employment, raises incomes, and reduces poverty. It does relatively little for “childless adults,”² however, because their EITC is extremely limited, especially compared to the credit for families with children. The lack of a meaningful EITC for this group means that the federal tax code taxes more than 5 million childless adults aged 19-65 into poverty or deeper into poverty. The Ways and Means bill’s expansion of the EITC would reduce that number by approximately 97 percent. It would raise the after-tax incomes of 16 million childless adults, of whom about 9 million are non-Latino white, 3 million are Latino, 3 million are Black, and 700,000 are Asian American. (See Appendix for state-by-state EITC figures.)

In addition, the committee-passed Child Tax Credit proposal would address a significant shortcoming of the 2017 tax law, which raised the credit by \$1,000 per child but excluded 26 million children in low- and moderate-income working families from the full increase. The bill would make the credit fully refundable, meaning that families whose tax credit amount exceeds their federal income tax liability would receive the balance as a refund. This would enable children in the poorest families, including those with little or no income — who benefit the most from additional family income, studies show — to receive the full credit for the first time. The bill would also create a new Young Child Tax Credit that would effectively increase the overall Child Tax Credit by \$1,000 for each child under age 4 (i.e., children under 4 would receive a \$3,000 credit rather than a \$2,000

¹ H.R. 3300, The Economic Mobility Act of 2019.

² The term “childless adults,” as used here, refers to adults — including non-custodial parents — who work or whose spouses work and who are not raising minor children in their home. The figures related to childless workers that are cited in this paragraph do not include full-time students between ages 19 and 24, many of whom can be claimed by their parents or guardians as “qualifying children” for the larger EITC for families with children.

credit). The bill's Child Tax Credit changes would benefit more than 42 million children under age 17 — including 19 million non-Latino white children, 12 million Latino children, 7 million Black children, and 2 million Asian American children. (See Appendix for state-by-state Child Tax Credit figures.)

Other parts of the legislation would provide federal matching funds to enable Puerto Rico to expand the modest EITC it implemented this year, and would provide similar matching funds to other U.S. territories. Puerto Rico and the other territories also would benefit from the bill's Child Tax Credit expansion.

Finally, the legislation would make child care more affordable for many families by expanding the Child and Dependent Care Tax Credit (CDCTC) and making it refundable. A companion bill introduced by Rep. Danny Davis (H.R. 3298) would increase federal funding for the Child Care and Development Block Grant.

The Ways and Means Committee passed the Neal and Davis bills along with two additional bills on June 20. One would continue roughly 30 expired or soon-to-expire tax provisions (so-called “tax extenders”) and provide tax relief to victims of certain natural disasters (see box). The other includes important provisions for same-sex married couples, such as removing gendered language in the tax code.

Lawmakers are considering these bills in the wake of the 2017 tax law, which was costly and heavily tilted in favor of wealthy households, while doing little for low- and moderate-income families.³ Policymakers should restructure that law when the opportunity arises by rolling back or modifying various costly, regressive provisions; recapturing as much of the lost revenue as possible; and reallocating part of that revenue for tax-credit improvements for households struggling to make ends meet, featuring the type of improvements in the Ways and Means-passed bill.

The bill's tax-credit improvements would be slated to expire after 2020. But given the strong case for these measures, sound policy would entail enacting them now and making them permanent in 2021 as part of an overhaul of the 2017 tax law. Policymakers should offset the cost of the improvements over the initial two years (an estimated \$131.2 billion, according to the Joint Committee on Taxation)⁴ and then offset the cost of making them permanent. Accordingly, policymakers should add “pay-fors” before the Ways and Means legislation reaches the House floor. These tax-credit improvements should not become new “tax extenders” that need to be extended

³ Chuck Marr, Brendan Duke, and Chye-Ching Huang, “New Tax Law Is Fundamentally Flawed and Will Require Basic Restructuring,” CBPP, August 14, 2018, <https://www.cbpp.org/research/federal-tax/new-tax-law-is-fundamentally-flawed-and-will-require-basic-restructuring>.

⁴ The Joint Tax Committee estimated on June 18, 2019 that the initial legislation would cost \$100.7 billion over the 2019-2029 period (<https://www.jct.gov/publications.html?func=startdown&id=5198>). *Politico* reported on June 20, 2019 that the Young Child Tax Credit expansion amendment, which the committee adopted, would cost an additional \$29.5 billion (<https://subscriber.politicopro.com/tax/whiteboard/2019/06/neals-increase-in-tax-credit-for-young-children-to-cost-295b-3464691>). This brings the total cost to \$131.2 billion.

every couple of years; moreover, some of the extenders are of dubious merit and have too often been extended without being paid for.

Providing Childless Workers a More Adequate EITC

Childless adults are the lone group that the federal tax code taxes into, or deeper into, poverty. Significantly increasing their EITC — which is now a small fraction of the EITC for families with children — would largely address this issue and has attracted some bipartisan support. For example, former House Speaker Paul Ryan long championed such a measure.⁵

The Ways and Means legislation would, for the next two years, raise the maximum EITC for childless adults from roughly \$530 to \$1,460 and raise the income limit to qualify for the childless workers' EITC from about \$16,000 a year for a single individual to about \$21,000. It would also expand the age range of childless workers eligible for the credit from its current ages 25-64 to ages 19-65, making workers aged 19-24 who aren't full-time students, as well as workers aged 65, eligible for the first time. It would benefit 16 million working childless adults across the country, from 32,000 in Wyoming to 2 million in California.

As noted, the EITC is a proven tool for fighting poverty among lower-income working families with children, boosting their incomes in the face of a long period of wage stagnation for workers who lack a college degree. For many years, families with children whose incomes are at or below the poverty line haven't had net federal income and payroll tax liability. As a result, no families with children are taxed into (or deeper into) poverty.

For adults *without* children, however, the story is different. Their EITC is small or non-existent. They begin owing federal income tax when their earnings are still below the poverty line, and they face significant payroll taxes as well. That's why the federal tax code taxes more than 5 million workers aged 19-65 into, or deeper into, poverty.

Consider, for example, a 25-year-old single woman who works roughly 35 hours a week throughout the year as a retail salesperson and earns the federal minimum wage of \$7.25 an hour. Her annual earnings of \$13,340 are just at the poverty line. But federal taxes push her down into poverty:

- Some \$1,021 — 7.65 percent of her earnings — are withheld from her paychecks for Social Security and Medicare payroll taxes.
- On the income tax side, she can claim a \$12,200 standard deduction, which leaves her with \$1,140 in taxable income. Since she is in the 10 percent tax bracket, she owes \$114 in federal income tax.
- Thus, her combined federal income and payroll liability (before the EITC) is \$1,135. (This counts the employee but not the employer share of her payroll taxes.) She is eligible for a small EITC of \$172. So, her net federal income and payroll tax liability is \$963.

FIGURE 1

⁵ Chuck Marr, "Ryan Adds Momentum to Expanding EITC for Childless Workers," CBPP, July 24, 2014, <https://www.cbpp.org/blog/ryan-adds-momentum-to-expanding-citc-for-childless-workers>.

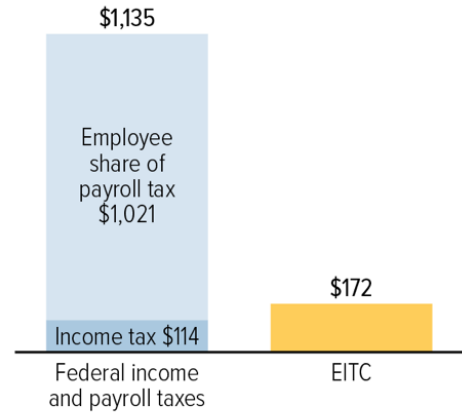
In other words, federal taxes drive this woman making poverty-level wages about \$963 *below* the poverty line. (See Figure 1.) The Ways and Means legislation would increase her EITC to \$1,156, raising her income after federal income and payroll taxes to \$21 *above* the poverty line. She would no longer be taxed into poverty.

As noted, the bill’s EITC expansion would reduce the number of workers aged 19-65 (other than full-time students) whom the federal tax code taxes into, or deeper into, poverty by about 90 percent — from more than 5 million such individuals to roughly 500,000. It would accomplish this, in part, by extending the EITC to workers aged 19-24 (including many people entering the workforce after high school or community college) and workers aged 65, as well as by raising the amount of the tax credit.

The bill also would extend the EITC to childless workers with earnings a bit too high to qualify today. Under current law, a childless adult working full-time, year-round for \$7.50 an hour makes too much to qualify for the EITC. Under the proposal, a childless adult working full-time, year-round for \$9 an hour would qualify, receiving an EITC of about \$300.

EITC Does Little to Offset Federal Taxes for Low-Income Childless Workers

Single childless adult with poverty-line earnings of \$13,340, 2019



Note: Estimated poverty line of \$13,340 is produced using the 2018 Census poverty line, adjusted for inflation as estimated by the Congressional Budget Office. Economists generally concur that workers also pay the employer share of payroll taxes in the form of lower wages.

Source: CBPP estimate based on IRS data

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Companion Bill Would Continue “Tax Extenders”

A bill (H.R. 3301) introduced by Rep. Mike Thompson, which the Ways and Means Committee passed alongside the Neal bill, would extend through 2020 various tax provisions that have already expired or are scheduled to expire at the end of 2019.

For many decades, Congress routinely extended these so-called “tax extenders” for a year or two at a time. In 2015, Congress made some of the highest-profile extenders permanent, such as the Research and Experimentation Tax Credit, ostensibly with the goal of subsequently letting some others expire, especially those judged ineffective or no longer needed. This bill and similar efforts underway in the Senate, however, would continue nearly all the extenders, although H.R. 3301 would pay for the extensions of these measures.

The Thompson bill, as amended in committee, includes roughly 30 tax extenders at a cost of \$33.1 billion, according to Joint Committee on Taxation estimates. To offset the cost of these and other tax extenders, the bill would modify a provision of the 2017 tax law that cut taxes for the wealthiest estates in the country. Even before the 2017 law, only the largest 2 of every 1,000 estates faced any estate tax, because policymakers had already greatly weakened the tax. The 2017 law weakened the tax further, doubling the amount of an estate that is exempt from the tax so that an individual can bequeath \$11 million, and a couple can bequeath \$22 million, entirely tax free. The Thompson bill would take a first step toward restoring the estate tax by returning the exemption levels after 2022 to their prior amounts. (The 2017 tax law sunsets its estate tax cut after 2025; H.R. 3301 would accelerate the sunset by three years.) This would raise \$37.6 billion, or about \$4 billion more than the cost of the extenders.

The Thompson bill also includes several provisions to provide tax relief to taxpayers in areas that were affected by specified natural disasters in 2018 and 2019. These measures cost \$9.3 billion.

Extending 2017 Law’s Full Child Tax Credit Boost to Low-Income Children

The 2017 tax law increased the maximum Child Tax Credit from \$1,000 per child to \$2,000. But it left 26 million children in lower-income working families partially or entirely out of this increase.

- Some 11 million children saw a token increase in the credit of \$75 or less because their families’ earnings were too low. As an example, a single mother with two children who works full time as a cashier and earns \$14,500 received a \$75 Child Tax Credit increase, or \$37.50 per child.
- Another 15 million children received an increase larger than \$75 but less than the full \$1,000 per child because the 2017 law capped the refundable portion of the Child Tax Credit at \$1,400 per child.⁶ As a result, millions of children in low- or moderate-income working families received a tax credit increase of no more than \$400 per child and often much less.

And even as it restricted the Child Tax Credit increases for lower-income families, the 2017 law extended the Child Tax Credit for the first time to many *higher*-income families, enabling families with incomes up to \$480,000 for a married couple with two children to qualify (as compared to

⁶ Chuck Marr *et al.*, “Working Families Tax Relief Act Would Raise Incomes of 46 Million Households, Reduce Child Poverty,” CBPP, April 10, 2019, <https://www.cbpp.org/research/federal-tax/working-families-tax-relief-act-would-raise-incomes-of-46-million-households>.

\$150,000 under prior law). A family with two children that makes \$400,000 a year received a Child Tax Credit increase of \$4,000, or 53 times the \$75 increase that a single mother with two children working full time at the federal minimum wage received. (See Figure 2.)

FIGURE 2

Low-Income Families Get Little or Nothing From 2017 Tax Law's Child Tax Credit Increase

Increase in 2019 relative to prior law

Single mother with two children earning \$14,500 (full-time, minimum wage)

\$75

Married couple with two children earning \$24,000

\$800

Married couple with two children earning \$100,000

\$2,000

Married couple with two children earning \$400,000

\$4,000

Source: CBPP analysis

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The Neal legislation would, for the next two years, make the Child Tax Credit fully refundable, so that low- and moderate-income families would receive the full \$2,000 per child.⁷ It would also introduce a new Young Child Tax Credit worth an additional \$1,000 for a child under age 4, which would bring the Child Tax Credit to \$3,000 per young child.

Thus, a single mother with children ages 3 and 11 and earning \$14,500, who received a \$75 increase in her Child Tax Credit under the 2017 law, would receive a \$3,200 increase from the Ways and Means proposal. And a married couple making \$32,000, where one spouse works as an auto mechanic and the other cares full time for their two young children, would receive an increase of about \$2,400.

⁷ A fully refundable Child Tax Credit would allow families that lack earnings in a given year to receive the credit. However, as a forthcoming CBPP analysis shows, most families with children who don't have earnings in a given year work in subsequent years. For example, among families with children under age 17 where neither the family head nor the spouse worked in 1999, more than half worked in a majority of the subsequent observed years between 2001 and 2017, and most of the rest experienced a work-limiting disability. This likely reflects, in part, the fact that many people temporarily exit the labor force when they have young children, either by choice or necessity (due to limited child care options or inflexible job hours, for example), and then return to work within a few years.

A Child Tax Credit with the Ways and Means bill's improvements would be a powerful tool for fighting poverty among children and could have lasting benefits. Poor children suffer the worst outcomes when their poverty is "deep and persistent, especially during a child's early years," experts have noted.⁸ Research indicates that toxic stress — the activation of the body's stress response system when a child experiences frequent, persistent, or excessive fear or anxiety due to abuse, neglect, violence, or severe hardship — can pose serious risks for young children, whose brains are in a critical stage of development. Leading researchers at Harvard's Center on the Developing Child explain that the early years of life are a "period of both great opportunity and great vulnerability."⁹ Poor children have significantly higher rates of toxic stress than other children, research shows.¹⁰

Boosting the incomes of poor young children could therefore make a lasting difference. A National Academy of Sciences (NAS) expert committee recently concluded that "the weight of the causal evidence indicates that income poverty itself causes negative child outcomes, especially when it begins in early childhood and/or persists throughout a large share of a child's life. Many programs that alleviate poverty...have been shown to improve child well-being."¹¹

The NAS panel explained that reducing child poverty — and especially reducing deep or prolonged poverty among young children — should provide longer-term benefits for both children and society by leading to reductions in future medical spending and other costs related to poverty and by leading to increases in the children's earnings and contributions to the economy in adulthood.

⁸ Jeanne Brooks-Gunn and Greg J. Duncan, "The Effects of Poverty on Children," *The Future of Children*, Vol 7. No. 2, Summer/Fall 1997.

⁹ Center on the Developing Child at Harvard University, "From Best Practices to Breakthrough Impacts: A Science-Based Approach to Building a More Promising Future for Young Children and Families," May 2016, <http://developingchild.harvard.edu/resources/from-best-practices-to-breakthrough-impacts/>.

¹⁰ Greg Duncan, Katherine Magnuson, and Elizabeth Votruba-Drzal, "Boosting Family Income to Promote Child Development," *The Future of Children*, Vol. 24, No. 1, Spring 2014, p. 109, https://www.fcd-us.org/assets/2014/07/24_01_05.pdf.

¹¹ National Academies of Sciences, Engineering, and Medicine, *A Roadmap to Reducing Child Poverty*, National Academies Press, 2019, <https://www.nap.edu/read/25246>.

EITC, Child Tax Credit Provisions Would Assist Puerto Rico Families

The Ways and Means legislation would substantially benefit families in Puerto Rico.

It includes a federal matching mechanism that would enable Puerto Rico to expand its new, Commonwealth-funded EITC, with the federal government covering the cost of the expansion. The Puerto Rico EITC, which took effect in January 2019, represents an important step to help address the island's stunningly high poverty rate and alarmingly low labor-force participation rate.^a This new EITC is modest in size, however, limiting its effect on poverty and labor-force participation. Its maximum credit for a family with two children is \$1,500, compared to \$5,830 for the federal EITC (for which Puerto Rico residents do not qualify).

The EITC expansion the legislation would support should increase labor-force participation by providing more incentive for people to work in the formal economy rather than to work in the informal economy or be unemployed. That would strengthen Puerto Rico's formal economy and thus its revenue collections, while also doing more to reduce poverty.

The Ways and Means Committee legislation also would erase a longstanding disparity in the Child Tax Credit for families in Puerto Rico. Today, families there must have three or more children to qualify, and those who do qualify generally get a smaller credit than families on the mainland. The proposal would make families in Puerto Rico, including those with one or two children, eligible for the same Child Tax Credit benefits as families on the mainland.

The legislation also would make the new federal support for the EITC and Child Tax Credit in Puerto Rico available to the other U.S. territories (such as Guam and the U.S. Virgin Islands). These provisions, unlike most of those in the bill, would be permanent.

^a Puerto Rico's poverty rate is 44 percent, its child poverty rate is 58 percent, and its labor-force participation rate is 41 percent. U.S. Census Bureau, "Puerto Rico Quick Facts," <https://www.census.gov/quickfacts/PR>; American Community Survey, "Poverty Status in the Past 12 Months," 2017 American Community Survey one-year estimates; Puerto Rico Institute of Statistics, "Employment and Unemployment," <https://estadisticas.pr/en/inventario-de-estadisticas/empleo-y-desempleo>.

Expanding Child and Dependent Care Tax Credit and Child Care Assistance

The Ways and Means proposal would expand for two years the Child and Dependent Care Tax Credit (CDCTC), which subsidizes child care expenses. The current CDCTC is non-refundable, meaning that filers can receive it only to the extent that they have federal income-tax liability to offset.

Today, families with incomes up to \$15,000 can claim the credit for 35 percent of qualifying childcare expenses, though it is extremely rare for families with this level of income to claim the credit because it isn't refundable. The 35-percent rate phases down as income rises above \$15,000, reaching 20 percent for families with incomes over \$43,000. The maximum credit is \$3,000 for one child and \$6,000 for two or more children. For example, a couple with two children, an income of \$80,000, and \$10,000 of qualified expenses can receive a CDCTC of \$1,200 (20 percent of \$6,000).

The Ways and Means bill would make the CDCTC refundable so that it would be available to lower-income families who now are excluded because they have no federal income tax liability to offset. It would also expand the credit so families with incomes up to \$120,000 (indexed for

inflation) could claim a credit for 50 percent of qualifying expenses, before the rate begins phasing down at higher income levels. In addition, it would double the maximum credit to \$6,000 for one child and \$12,000 for more than one child.¹²

Because the current CDCTC is not refundable, has no upper income limit to qualify,¹³ and applies only to the cost of formal child-care arrangements, middle- and high-income families are much likelier than low-income families to claim it. The bill's refundability provision should make the credit more useful to low-income families.

Relatedly, the Ways and Means Committee passed a bill from Rep. Danny Davis that would increase mandatory funding for the Child Care and Development Fund, the federal government's principal source of support for child care for families with low or modest incomes. (The Child Care and Development Fund includes both mandatory funding and discretionary funding provided through the annual appropriations process.) Child care assistance is seriously underfunded, assisting only about 1 in 6 eligible children because of inadequate resources.¹⁴ The Davis bill would raise mandatory funding for this program by \$1 billion a year each in 2020 and 2021, from \$2.9 billion to \$3.9 billion. (In 2019, discretionary funding for child care is \$5.3 billion.)

This increase in child care funding is important, though modest relative to the need. For many poor and low-income families, child care assistance programs like the Child Care and Development Fund are better suited than the CDCTC to helping them afford quality child care. Child care assistance programs typically provide poor families and those modestly above the poverty line with significantly deeper subsidies than the tax credit does, or would do under the proposed CDCTC expansion. In addition, child care assistance programs help participants meet child care costs each month rather than requiring families to have the resources to pay hefty child care bills up front and receive a subsidy at the end of the year at tax time. Child care assistance programs also have quality standards, can help families identify higher-quality care (parents can have difficulty determining which child care providers have higher quality), and invest in child care providers to help them improve the quality of care they provide. To be sure, expanding the CDCTC can help low- and middle-income families with child care costs, but ensuring that poor and low-income children have access to affordable, quality care will also require significant increased investment in child care assistance programs.

¹² The Ways and Means proposal also would raise, from \$5,000 to \$10,500, the amount that employees can set aside in employer-sponsored, tax-advantaged flexible savings accounts each year to cover child care expenses. Every dollar put into such an account reduces a household's allowable expenses for the CDCTC by a dollar to avoid "double dipping" between these two child care tax subsidies. Higher-income households are likelier to take advantage of employer-sponsored child care benefits, both because they receive a larger tax break for each dollar placed in a flexible savings account (since they are in higher tax brackets) and because these benefits "are more widely available to higher-compensated employees at larger establishments," as the Congressional Research Service has observed. See Margot L. Crandall-Hollick, Congressional Research Service, "Child and Dependent Care Tax Benefits: How They Work and Who Receives Them," March 1, 2018.

¹³ The Committee passed an amendment to the legislation that would limit CDCTC eligibility to households with \$1 million or less of adjusted gross income.

¹⁴ Douglas Rice, Stephanie Schmit, and Hannah Matthews, "Child Care and Housing: Big Expenses With Too Little Help Available," CBPP and CLASP, April 26, 2019, <https://www.cbpp.org/research/housing/child-care-and-housing-big-expenses-with-too-little-help-available>, p. 1.

APPENDIX TABLE 1

Childless Adults Who Would Benefit from Ways and Means EITC Expansion, and Children Under 17 Who Would Benefit from Child Tax Credit Expansion, by State

State	Childless Adults Benefiting From EITC Expansion	Children Under 17 Benefiting From Child Tax Credit Expansion
Total U.S.	16,293,400	42,325,200
Alabama	277,600	664,900
Alaska	37,800	104,600
Arizona	362,900	1,006,500
Arkansas	167,400	440,600
California	1,895,300	5,374,600
Colorado	276,800	653,700
Connecticut	137,800	352,000
Delaware	42,000	110,000
Dist. of Columbia	31,400	82,400
Florida	1,206,200	2,467,100
Georgia	541,900	1,495,000
Hawaii	63,900	170,200
Idaho	106,500	256,200
Illinois	567,200	1,616,400
Indiana	358,700	914,100
Iowa	160,200	382,800
Kansas	145,500	400,300
Kentucky	258,700	619,500
Louisiana	279,500	717,100
Maine	83,800	133,800
Maryland	229,400	691,100
Massachusetts	273,800	662,300
Michigan	551,800	1,243,800
Minnesota	258,500	660,500
Mississippi	167,400	466,900
Missouri	341,500	798,600
Montana	76,800	127,400
Nebraska	88,400	267,300
Nevada	156,900	407,700
New Hampshire	59,000	113,400
New Jersey	334,100	1,007,600
New Mexico	127,800	321,300
New York	930,000	2,412,000
North Carolina	553,100	1,356,900
North Dakota	34,500	96,600
Ohio	628,700	1,499,700
Oklahoma	220,000	590,100

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Childless Adults Who Would Benefit from Ways and Means EITC Expansion, and Children Under 17 Who Would Benefit from Child Tax Credit Expansion, by State

State	Childless Adults Benefiting From EITC Expansion	Children Under 17 Benefiting From Child Tax Credit Expansion
Oregon	251,000	484,600
Pennsylvania	623,400	1,475,400
Rhode Island	45,500	112,400
South Carolina	293,600	658,400
South Dakota	45,100	118,000
Tennessee	373,600	901,200
Texas	1,298,700	4,448,200
Utah	130,200	529,900
Vermont	33,800	60,800
Virginia	392,500	983,100
Washington	346,100	890,300
West Virginia	104,500	228,900
Wisconsin	290,400	676,400
Wyoming	32,200	72,700

Source: CBPP estimates based on 2015-2017 American Community Survey data, March 2018 Current Population Survey data, and Tax Policy Center data.