FACT SHEET: Bennet-Brown American Family Act

Major Expansion of Child Tax Credit would Provide Boost to Middle-Class Families and Reduce Child Poverty by Nearly Half

U.S. Senators Michael Bennet (D-CO) and Sherrod Brown (D-OH) introduced the *American Family Act of 2017* to overhaul the existing Child Tax Credit (CTC) and make it a dramatically more effective tool for supporting middle-class families with kids and reducing child poverty. This fact sheet provides additional background on the new credit, as well as the evidence that supports this expansion.

Costs of Raising a Child are a Substantial Burden for Families across Income Levels

According to the latest analysis by the United States Department of Agriculture, in 2015, middle-class families in the United States spent an average of $233,610 – or $13,000 per year – raising a child through his or her 18th birthday. In 2015, families in the lower third of the income distribution (with before-tax incomes below $59,200) in married-couple, two-child households spent between $9,330 and $9,980 per-year, per-child, while two-child families in the middle third of the income distribution (with before-tax incomes between $59,200 and $107,400) spent between $12,350 and $13,900 per-year, per-child. A substantial boost to the Child Tax Credit would help these families defray the substantial — and rising — costs of raising a child, allowing them to make the investments in their kids that pay off for our economy and society over the course of their lifetimes.

A broad array of Americans also report that they are unable to meet the cost of even a modest financial shock and that their incomes vary substantially from month-to-month. According to the Federal Reserve's 2016 Survey of Consumer Finances, 44 percent of adults say they either could not cover an emergency expense costing $400, or would cover it by selling something or borrowing money. In that same survey, 32 percent of adults reported that their income varies to some degree from month to month, with 13 percent saying they struggle to pay bills in some months due to income volatility. Providing monthly cash support for parents with modest or middle-class incomes will help families avoid falling into deep hardship if they are hit with a relatively small financial shock.

Child Poverty in America Today

According to recent research, in addition to being contrary to the American ideal of equality of opportunity, child poverty harms the American economy by: 1) reducing productivity and economic output by 1.3 percent of GDP, 2) raising the costs of crime by 1.3 percent of GDP, and 3) increasing health costs and impacts totaling 1.2 percent of GDP. These three factors lead child poverty to cost roughly 3.8 percent of GDP, an amount representing $730 billion per year in today's economy.

The United States has the fourth-highest rate of child poverty among the 35 advanced economies, according to the Organization for Economic Cooperation and Development

(OECD) in 2014.[1] Even after accounting for the effect of tax credits like the Earned Income Tax Credit (EITC) and the Child Tax Credit, as well as other federal income support programs through what is known as the Census Bureau's Supplemental Poverty Measure (SPM), nearly one in six children in the United States today lives in poverty. Nearly one in twenty American kids lives in deep poverty, meaning their families earn less than half the SPM.[2] And, under the SPM, 1.3 million children are living in extreme poverty, with cash incomes falling below $2 per person, per day. That metric is usually reserved as a barometer for third-world conditions, but it is unfortunately relevant in the United States today. Poverty rates are also significantly higher for young children (under age 6) than for older children.

Progress Reducing Child Poverty and the Role of the CTC and other Federal Policy

As recent work out of Columbia University has shown, after accounting for the effects of federal policy, the child poverty rate in the United States has been cut nearly in half since the 1960s — from 28.4 percent in 1967 to a record low of 15.6 percent in 2016. Today, federal support for low-income families through programs like SNAP, housing subsidies, and — most significantly — the EITC and CTC, keeps 40 percent of kids above the poverty threshold who would otherwise live in poverty.

Without incorporating these policies, the child poverty rate would be nearly 10 percentage points higher at 25.1 percent, roughly in line with the 27.4 percent rate in 1967. While family poverty rates that do not take into account policies that support low-income families rose significantly during the recent financial crisis, the Supplemental Poverty Measure that incorporates the effect of policy held relatively steady through the crisis and has declined in recent years as incomes rose at all levels in 2015 to 2016. So, federal policy — including the Child Tax Credit — both brings down absolute rates of poverty substantially and acts as a shock absorber to prevent families from falling off the edge during economic downturns.

According to the Center on Budget and Policy Priorities, the current Child Tax Credit – insufficient as its current version may be – already lifts about 2.8 million Americans, including about 1.6 million children, out of poverty, while lessening poverty for 13.3 million more people, including 6.6 million children, in 2015. Combined with the EITC, these tax credits lifted 5.1 million children out of poverty and lessened poverty for another 8 million kids.

The Bennet-Brown bill would provide a substantial boost to the CTC's ability to meet these goals. According to new analysis by poverty researchers Christopher Wimer and Sophie Collyer at Columbia University on the effects of the Bennet-Brown bill, a CTC of this magnitude would reduce child poverty by 45 percent and deep child poverty by 50 percent, while virtually eliminating extreme (i.e. less than $2 per day) child poverty in America. The

[1] Note that this measurement differs from domestic-only measurements (both the Official Poverty Measure and Supplemental Poverty Measure) as it counts children as living in poverty if they live in households earning below 50 percent of the country's median income, which is the common benchmark used for cross-country comparisons.

[2] According to the Bureau of Labor Statistics, the 2016 SPM thresholds for two adults and two children were $26,336 for homeowners with mortgages, $26,104 for renters, and $22,298 for owners without mortgages. SPM thresholds are based on expenditures for food, clothing, shelter, utilities and other basic goods and services.

Bennet-Brown bill would lift a total of 5.3 million children out of poverty and 1.9 million out of deep poverty, while boosting incomes of millions of additional families.

Larger Child Tax Credit for Children Under the Age of 6

Young children are nearly 50 percent more likely to be in families too poor to get the full child tax credit than families with older children. At the same time, pediatricians, child development experts, and economists have documented the importance of additional income to the life outcomes of young children at an early age. The Bennet-Brown proposal provides an additional $50 per month for children under 6 years of age to account for the increased need and efficacy of cash income support for families with young children.

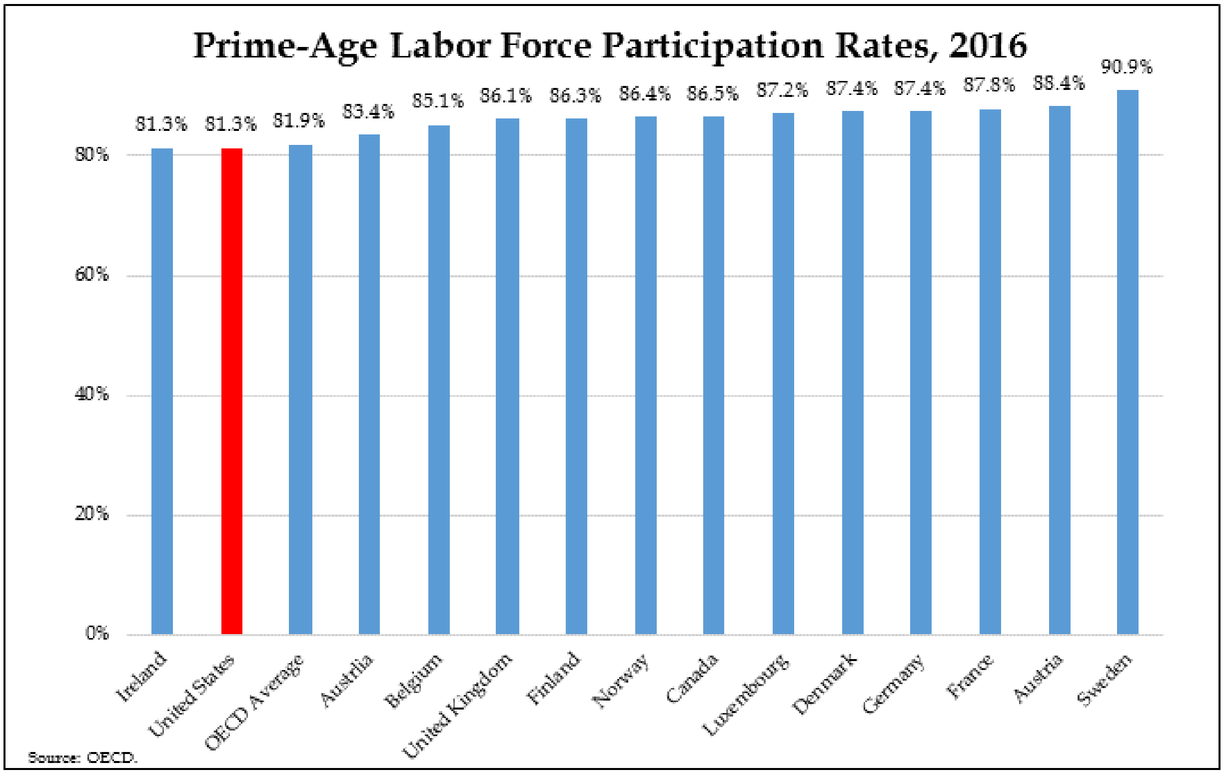
Full Refundability and Cash Support

For the first time, the Bennet-Brown proposal would make the Child Tax Credit fully refundable, meaning that families at low incomes would receive the entire credit for each eligible child (rather than having the credit phase in at a certain percentage of each dollar of income beyond a minimum threshold of $3,000 of earnings). This is especially important for families in rural areas and families with multiple children who are disproportionately left out of eligibility for the full per-child tax credit simply because they earn too little. Full refundability aligns with a substantial body of research showing the high rate of return on providing cash support to low-income and very low-income families with children. For example, Raj Chetty, John Friedman, and Jonah Rockoff found that every $1,000 of additional cash income provided to low-income families through the EITC resulted in more than double that amount in returns over the course of that child's lifetime. This impact also offsets a substantial fraction of the costs of the credits, according to the researchers.

A review of the literature shows that expanding cash income to families with low-income children results in those children being in better health; doing better in school; working more hours per year and earning more as adults; as well as being less likely to end up in the criminal justice system. In addition, a survey of 19 studies of cash transfer programs found that – contrary to misconceptions – increased cash transfer income did not increase consumption of "temptation goods" such as alcohol and cigarettes by parents. Remarkably, in a study of Canada's experience, parents were found to *reduce* spending on tobacco by 6 cents and on alcohol by 7 cents per dollar of increased child benefit received.

Effects on Labor Force Participation

Concerns are often expressed about expanded support for families reducing the incentive for parents to work. However, almost all other advanced economies have a child allowance or similar programs that are much more generous to parents than current support in the United States, and almost all of these countries have higher prime-age (i.e. 25 to 54 year-old) labor force participation rates than the U.S. In fact, the United States currently falls in the bottom fifth for prime-age labor force participation among OECD countries. The U.S. has prime-age labor force participation rates far below other G-7 countries such as Canada, Germany, France, and the United Kingdom, as well as a number of others that have more generous child allowances or child tax benefits, not to mention universal health care and additional support for parents beyond their child allowances and tax credits.



Prime-age male labor force participation has been declining for more than 50 years in the United States, and perhaps even more alarmingly, [prime-age female labor force participation began declining in the early 2000s in the U.S.,] a trend that is out of step with other advanced economies that have seen women continue to enter the workforce at higher rates. Expanding the Child Tax Credit (CTC), expanding paid sick and family leave, and additional funding for high-quality early childhood education could help reverse this trend, especially for married women.

Following the introduction of the expanded child benefit in Canada – worth about $4,800 per child per year in U.S. dollars for young children and $4,000 for older children – married women were [significantly more likely to participate in the labor force, be employed, and work longer hours]. Meanwhile, married men did not reduce their labor force participation or employment rates after the credit. As shown in the chart above, Canadian prime-age labor force participation is 5 percentage points higher than the United States. For the U.S. to achieve this level of prime-age participation, 6 million more Americans would have to join the workforce.

Expanding the Child Tax Credit Adds Flexibility for Parents

By providing cash to families, the fully-refundable CTC allows the "parents to do the paternalism," determining how best to allocate a family's resources across expenses. These funds can help pay for child care for two-parent working families, or help a stay-at-home parent or a grandparent afford necessities such as diapers, transportation, access to the Internet, or educational materials for a child. By providing parents or guardians the opportunity to spend the money as they see fit across all household needs, cash also gives the family more bargaining power as a supplement to other income support that is provided for specific kinds of purchases. These are some of the reasons why, in addition to enjoying strong support from a wide array of progressive anti-poverty advocates, libertarians at institutions like the Niskanen Center have also embraced a significantly expanded and universal child allowance.

Bennet-Brown Much Bigger Tax Cut for Middle-Class and Low-Income Families than Entire Republican Tax Framework, at Significantly Lower Cost

Private debates are reportedly ongoing among Republicans about whether to adopt the so-called Rubio-Lee expansion of the Child Tax Credit as part of their tax package. While Rubio-Lee would be an improvement on the existing Child Tax Credit were it to be passed in isolation, it has several shortcomings in the context of the Republican Tax Framework that would make it only a marginal improvement over the existing CTC for many working and middle-class families, while providing little for children in families most in need.

The current outline of the Rubio-Lee proposal suggests it would increase the maximum Child Tax Credit to $2,000 (from the current $1,000), phase it in beginning at the first dollar of income (as opposed to beginning after the first $3,000 of income), and phase it in at a slightly higher rate of 15.3 percent (versus the current phase-in rate of 15 percent). In isolation, this would be marginally positive, providing a benefit of a few hundred additional dollars for some low-income families. But it comes in the context of a tax plan that would be deficit-financed to the tune of $1.5 trillion, with well over half of the benefits accruing to the top one percent of taxpayers alongside the elimination of personal and dependent exemptions and other mostly unspecified tax savings. Additional burdens would likely be transferred onto the middle-class and working families once the necessary spending cuts or tax increases are made to pay down debt and interest costs generated by the high-income portion of the tax cuts.

Impact on Illustrative Families

1. **Army Private:** The starting base pay for a private in the Army is about $19,180 per year (and even less in the first four months of service). If that private is married with three children, he or she would not receive the full current CTC of $1,000 per child, given that it only phases in at a rate of 15 percent starting at $3,000 of income. Instead, that private's family would get only $2,427, or $563 below the full amount.

   Under a credit resembling Rubio-Lee that would phase in at a rate of 15.3 percent starting at the first dollar of income up to a maximum of $2,000, that private would only receive $2,935 (roughly an additional $500 beyond the current credit). In other words, that family would receive less than half of what a fully refundable $2,000 per-child credit would provide and less than half of what a family with an income over $39,215 would receive (the amount at which the credit fully phases-in for a family with three children).

Under the Bennet-Brown proposal, that military family would receive $3,600 per child under 6 and $3,000 per child over 6, so between $9,000 and $10,800.

2. **Full-Time Minimum Wage Workers:** Families with a full-time minimum wage worker earning $14,500 per year do not currently receive the full Child Tax Credit if they have two or more children, as the maximum they can receive is $1,725.

   Under a CTC resembling the Rubio-Lee proposal, that would phase in at a rate of 15.3 percent starting at the first dollar of income up to a maximum of $2,000, a family with one full-time, minimum wage worker and two kids would only receive $2,218 (roughly an additional $500 beyond the current credit). In other words, that family would receive only a little more than half of the $4,000 that a fully refundable $2,000 per-child credit would provide. Even a two-parent household with both parents working full-time at the minimum wage would not receive the full credit if they had three or more children.

   Under Bennet-Brown, families would receive the full credit for each child – $3,000 per child 6 years of age or older and $3,600 for children younger than 6 – until their income exceeded $75,000 for single parents or $110,000 for married parents.

A Technical Note on the Phase-Down: How it Works

The rate of the new phase-out range in the bill is calculated by aggregating total Young Child Tax Credits (YCTC) and CTC amounts for which a filer is eligible and then phasing that total down based on the following calculation for each $1,000 of income above the threshold: (Total YCTC + CTC amount) / (20 x the total number of YCTC and CTC-eligible dependents). For example, if a family has two children under 6 years of age that are eligible for the $3,600 per-child YCTC, that credit would phase down at a rate of $7,200 / 40, or $180 per $1,000 of income above $75,000 for single or head of household filers and $110,000 for joint filers.