ASSESSING PRESIDENT TRUMP’S CHILD CARE PROPOSALS

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During the presidential campaign, Donald Trump proposed three new tax benefits related to child care. While these proposals laudably bring attention to the burden child care costs can place on low- and middle-income families, they provide a case study in how not to reform child care policy. They are unduly complicated, arbitrarily exclude certain low-income families, deliver support well after child care payments are due, and provide the smallest benefits to low- and middle-income families for whom child care expenses tend to represent the largest financial burden.

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I. INTRODUCTION

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This paper explains who would benefit from the child care proposals the president released during his campaign, both overall and through stylized examples. Trump’s

1 An earlier version of this paper was published as Batchelder et al. (2017).
campaign proposals include three new tax benefits: (1) an above-the-line deduction based on expected child care expenses, including for those who do not actually pay for child care but instead rely on a stay-at-home parent or grandparent; (2) a refundable credit for some lower-income families, which would only apply to families who both pay for child care and have no parent staying at home; and (3) an expansion of child care savings accounts, which would allow families to save tax-free for child care expenses, private school tuition, and some extracurricular activities (Donald J. Trump Campaign, 2016a). The president’s child care proposals would cost about $115 billion over ten years, about 2 percent of the total net cost of his campaign tax plan of about $6 trillion over ten years (Nunns et al., 2016).2

On average, the president’s proposed child care benefits would be much larger for higher-income families than for low- and middle-income families, both in dollar terms and as a share of household income.3 The proposals would increase the after-tax income of families with children by an average of 0.2 percent ($190) in 2017. But those with income below $40,000 would benefit by just 0.1 percent of their after-tax income ($20 or less). Their benefits represent about 3 percent of the total cost of the proposals. In contrast, those with income between $100,000 and $200,000 would see their after-tax incomes increase by an average of 0.3 percent ($360). We find that more than 70 percent of the total tax benefits would go to families with income above $100,000, and more than 25 percent to families with income above $200,000.4

Lower-income families would benefit less than higher-income families from President Trump’s proposals for several reasons. The primary proposal is a deduction, which is worth more per dollar of child care expense to higher-income filers who face higher marginal tax rates, and is worth nothing to families in the zero bracket. The proposed credit is available to lower-income families, but it is generally worth much less per dollar of child care expense than the deduction. As the stylized examples will show, even if families with different incomes have the same child care costs, the proposals are worth much less for low- and middle-income families. But, in fact, lower-income families tend to spend much less on child care than higher-income families because they cannot afford expensive (and, often, higher-quality) care (Chaudry et al., 2011), further tilting the proposals towards the more affluent.

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2 Since the presidential campaign, the president released an outline of his tax plan, which was generally consistent with his campaign plan but provided less detail (The White House, 2017). Tax Policy Center (TPC) estimated that the proposals in this outline, including possible revenue raisers, would cost $3,473 billion overall over the next 10 years (TPC Staff, 2017). Unless otherwise noted, references to the president’s tax plan throughout this paper are to his campaign tax plan, which is the most detailed tax plan he has released as of October, 2017.

3 These estimates do not include the savings account benefit. However, as explained later, this component would likely increase the tilt of Trump’s child care proposals toward higher-income households. This analysis also does not include the president’s proposals for elder care subsidies, expanded tax credits for businesses that provide child care services, and six weeks of partially paid parental leave for birth mothers (but not fathers, adoptive parents, or foster parents).

4 Households with income under $40,000 represent 30 percent of all families with children. Households with income over $100,000 represent 36 percent of all families with children, and those with income above $200,000 represent 13 percent of all families with children.
The paper proceeds as follows. Section II lays out the rationale for subsidizing child care. Section III explains why and how existing child care subsidies are insufficient. Section IV summarizes the president’s child care proposals, presents examples and estimates of their effects, and details the ways in which they are a model for how not to reform child care policy. Section V briefly offers suggestions for reforms that policymakers should consider instead.

II. RATIONALE FOR SUBSIDIZING CHILD CARE

Child care costs are a significant financial burden on working families, especially those with low and moderate incomes. In 2015, the annual average cost of center-based care for a 4-year-old ranged from $4,439 in Mississippi to $17,863 in the District of Columbia (Child Care Aware, 2016). Given that a full-time minimum wage worker earns about $15,000 a year, center-based child care is unaffordable for many low-wage parents. Those without access to child care subsidies often seek lower-quality care or rely on informal arrangements instead (Chaudry et al., 2011).

Child care costs often consume a significant portion of household earnings, especially for lower-income and single parents. For example, among families that pay for child care and have children under 5, those earning less than $50,000 spend more than 3 times as much on child care as a share of their income as those earning more than $50,000 (22 percent compared to 7 percent) (Chaudry et al., 2017). Between 2012 and 2013, the median out-of-pocket cost for single parents with children under 5 was $3,000, or more than 15 percent of their median earnings. Among similar married parents, the median cost was $5,400, or roughly 6 percent of their median earnings (Ziliak, 2014). Child care costs have grown sharply over time, rising 70 percent in inflation-adjusted terms between 1985 and 2011 (DeSilver, 2014).

This paper assumes that child care policy should strive to reduce child care costs to a manageable share of family income. While offering a detailed normative argument for this objective is not the focus of this paper, this goal does find support in a number of equity and efficiency claims.

For example, some argue that child care should be subsidized in order to imperfectly correct biases in the tax code in favor of stay-at-home care. These include that child care is arguably a cost of earning income but non-deductible, and that imputed income from household labor is untaxed (e.g., Alstott, 1996; Heen, 1995). Some also argue that child care should be subsidized in order to support caregivers engaged in market work and mitigate gender imbalances within the family (e.g., Alstott, 1996).

Many also argue that child care should be subsidized to enhance economic efficiency and growth because — especially for low- and moderate-income families — affordable, quality child care increases labor force participation among parents and has positive, long-term effects on the child’s productivity and earnings. High child care expenses make it more difficult for parents, especially mothers with younger children, to work. The effects on female labor force participation can be substantial. Based on a review of the literature, the Council of Economic Advisers (2014) concluded that a 10 percent reduction in child care costs increases maternal employment by 0.5 to 4.0 percent.
In addition, access to high-quality, affordable child care has significant developmental advantages for children. Research has shown that access to high-quality, center-based care is linked to better school performance, higher graduation rates, and higher earnings in the long run (Ziliak, 2014). Research further suggests that boosting low- and moderate-income parents’ resources (whether through child care subsidies or more general transfers) benefits their children throughout their lives, through improved infant and maternal health, better school performance, and increased work and earnings in the next generation (Marr et al., 2015).

III. EXISTING CHILD CARE SUBSIDIES ARE INSUFFICIENT

Despite the substantial returns from investing in children in low- and moderate-income families, existing federal child care policies do relatively little to assist the vast majority of such children. The federal government provides states funding for child care assistance programs through two main streams, the Child Care and Development Fund (CCDF) and the Temporary Assistance for Needy Families (TANF) block grant. CCDF subsidies are limited to families earning up to 85 percent of their state median income. In 2014, roughly 80 percent of families who received subsidies had incomes below 150 percent of the federal poverty level. Federal government expenditures for CCDF totaled about $6.3 billion (GAO, 2016).

However, these direct spending programs are chronically underfunded. In 2014, total federal spending on child care through CCDF and TANF was $11 billion, the lowest level since 2002, even before adjusting for inflation. The Department of Health and Human Services estimates that only about 15 percent of children eligible for CCDF and TANF child care benefits actually received subsidies because of insufficient funding (Matthews and Walker, 2016).

In addition to direct spending programs, two existing tax benefits subsidize certain families’ child care costs: the Child and Dependent Care Tax Credit (CDCTC) and a partial exclusion from taxable income of some child care expenses. In 2017, they cost about $5.6 billion per year (OMB, 2017). The CDCTC is a nonrefundable tax credit that subsidizes child care expenses based on a family’s income. Families receive a credit of between 20 and 35 percent of child care costs up to $3,000 per child under age 13 ($6,000 per family). The higher credit rates apply to families with lower incomes. Families with incomes under $15,000 qualify for the full 35 percent credit; families with incomes of $43,000 or more qualify for the 20 percent credit. In 2014, the average value of the CDCTC among those who claimed it was roughly $550 (IRS, 2016). However, only 13 percent of families with children actually benefit from the credit (Tax Policy Center, 2016a). This is partially because, in order to claim the credit, families must have child care expenses and all parents present must be working or in school. But the CDCTC also excludes lower-income families. Because it is nonrefundable, the 35 percent of families in the zero bracket receive no benefit from it whatsoever (Tax Policy Center, 2016b).

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5 Individual states may choose to adopt stricter income limits.
6 For a family of four in 2014, 150 percent of the federal poverty level was $36,012 (ACF, 2016).
The exclusion, administered through dependent care flexible spending accounts (FSAs), is only available to parents whose employers offer this benefit, making it inaccessible to nearly two-thirds of workers (Stoltzfus, 2015). Moreover, income exclusions generally benefit higher-income households more because the value of the exclusion rises with the household’s marginal tax rate.

IV. President Trump’s Child Care Proposals Exacerbate the Problems with Existing Programs

Despite a hefty price tag, President Trump’s child care proposals would do little to address the uneven coverage and poor targeting of existing programs. While most families with child care expenses would receive some assistance, the benefits would be much larger for higher-income households who need the least help. This section summarizes the president’s proposals, illustrates how they would work for hypothetical families, provides estimates of their overall distributional effects, and explains the ways in which they represent a case study in how not to reform child care policy.

A. Trump’s Child Care Proposals

The president’s child care package laid out during the 2016 presidential campaign (Donald J. Trump Campaign, 2016a; Donald J. Trump Campaign, 2016b) contains three components:

1. An above-the-line deduction for child care costs for children under age 13. Taxpayers could deduct child care expenses from their adjusted gross income. The deduction would be capped at the average cost of child care for the child’s age in the taxpayer’s state and could be claimed for no more than four children. Dual-earner married parents and working single parents would deduct their actual expenses, subject to the cap. According to a Trump campaign fact sheet, stay-at-home parents and grandparents would receive the same tax deduction as working parents. Because stay-at-home caregivers are allowed to benefit, it appears that families with no child care expenses and one parent with no labor earnings can claim a deduction equal to the average cost of child care for their children’s age in their state, even if this is more than some other families who pay for child care can deduct (Batchelder, 2016; Nunns et al., 2016). Unmarried filers with income over $250,000 and married filers with income over $500,000 could not claim the deduction. Because the deduction does not rely on actual expenses for some families, it is effectively an additional per child deduction on top of the existing dependent exemption, but one that varies by the child’s age and state of residence.

2. A refundable credit for child care costs for children under age 13. Filers would receive either 7.65 percent of child care expenses or 3.825 percent of the lesser-earning spouse’s income, whichever is less. Unmarried filers with income over $31,200 and married filers with income over $62,400 could not claim the credit. Like the deduction, claimable expenses would be capped at the average cost of child care for the child’s age in the taxpayer’s state for up to four children.
However, in stark contrast to the deduction, families with a stay-at-home parent or grandparent could not claim the credit.\(^7\)

3. A new tax-preferred dependent care savings account (DCSA). Families could contribute up to $2,000 per year per child to the new accounts, with no limits on the income of eligible families. Contributions would be tax deductible and the accounts would grow tax-free indefinitely, provided families eventually spend the funds on child care, after-school enrichment programs, private school tuition, or higher education. It appears that withdrawals would also be tax-free (National Women’s Law Center, 2017). This extremely favorable tax treatment — akin to combining an IRA with a Roth IRA — only exists in one other place in the tax code, for Health Savings Accounts. For low-income families, the president’s proposal would match 50 percent of their first $1,000 in contributions, similar to the effect of a 50 percent tax credit.

The president’s campaign proposal would retain the current-law CDCTC. Taxpayers could claim the child care provision that benefits them the most, but could not claim multiple child care benefits for the same spending.\(^8\)

**B. Effects of Child Care Proposals on Hypothetical Families**

The effects of the president’s child care proposals can first be seen by considering several hypothetical families and whether his proposals achieve the goal posited by this paper of reducing child care costs to a manageable share of the family’s budget. Suppose, for example, a married couple with a 4-year-old child lives in Michigan, where child care costs for toddlers are roughly the national median. The average, annual cost of center-based child care for children age 4 is $8,238 in Michigan (Child Care Aware, 2016). We initially assume, unrealistically, that each of the hypothetical families spend this amount on child care. We also assume that both parents in the family are in the paid labor force, they earn the same amount as each other, and they claim the tax provision that benefits them the most among the proposed deduction, the proposed credit, and the current CDCTC.

If the couple works full-time at the federal minimum wage, earning $30,000 a year combined, the president’s child care proposals would reduce their tax liability by $574 (Table 1). This would have a relatively small impact on the heavy burden that child care costs place on this family’s budget and their incentive to engage in market work.

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\(^7\) Stay-at-home parents are ineligible for the refundable credit because it (but not the deduction) is limited to a percentage of the lesser-earning spouse’s income, and because the Trump campaign fact sheet states “Mr. Trump’s plan will ensure stay-at-home parents will receive the same tax deduction as working parents…” (emphasis added), but does not specify that stay-at-home parents receive the same credit as working parents (Donald J. Trump Campaign, 2016b).

\(^8\) The Trump campaign fact sheet states, “The only restriction would be that the same child care spending cannot be used for multiple benefits programs — no double-dipping” (Donald J. Trump Campaign, 2016b). This could be interpreted in two ways: limiting taxpayers to one child-care-related tax benefit or allowing them to claim multiple such benefits, as long as the benefits apply to different portions of their child care spending. The analysis and estimates here adopt the latter assumption, which is more generous to taxpayers.
The proposals would reduce child care costs as a share of their earnings only from 27 percent to 26 percent. The family would continue to gain relatively little economically from both parents working full time instead of one staying home. After child care costs and the associated new tax benefits (and disregarding other taxes and work-related expenses), the second earner would only net $7,336.

If the family earns roughly the median income of $65,000, child care expenses would also account for a substantial share of their income, though not nearly as much. The president’s proposals would reduce their tax liability by $629. The couple would continue to claim a CDCTC worth $600 on part of their child care expenses, but they would claim Trump’s new child care deduction for their remaining expenses. This would reduce child care costs as a share of the couple’s earnings from 12 percent to 11 percent.

In contrast, if the family earns $250,000 (roughly the 95th percentile of earnings), child care costs already account for a relatively small share of the family’s earnings at 3 percent. Nevertheless, this family would receive the largest new child care benefits under the president’s plan, claiming a deduction worth $1,460 more than the current CDCTC. This would reduce the couple’s child care costs as a share of their earnings to 2 percent.

The value of the president’s child care proposals for these stylized families rises quite consistently with income. As child care costs become more manageable because income is higher, the dollar value of the proposed child care benefits rises instead of falling. As a result, the proposals do little to address the outsized burden that child care costs impose on lower-income families (Figure 1).

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Table 1

<table>
<thead>
<tr>
<th>Income ($)</th>
<th>Existing Tax Benefits from CDCTC ($)</th>
<th>Additional Tax Benefit under Trump Plan ($)</th>
<th>Child Care Costs after CDCTC as Share of Earnings (Percent)</th>
<th>Child Care Costs after CDCTC and New Tax Benefits as Share of Earnings (Percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>30,000</td>
<td>0</td>
<td>574</td>
<td>27</td>
<td>26</td>
</tr>
<tr>
<td>65,000</td>
<td>600</td>
<td>629</td>
<td>12</td>
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<td>250,000</td>
<td>600</td>
<td>1,460</td>
<td>3</td>
<td>2</td>
</tr>
</tbody>
</table>

Notes: Assumes that the family claims the standard deduction, the child is a toddler, and the family pays the average child care costs for center-based care in Michigan ($8,238). It also assumes that the President’s proposed tax rates and changes to the standard deduction and personal exemption have been enacted. Source: Authors’ calculations

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Figure 1
Value of Trump Child Care Proposals to Married Couple with One Child in Michigan and Average Child Care Costs as a Share of Income, 2017

Notes: This assumes that the family claims the standard deduction, the child is a toddler, and the family pays the average child care costs for center-based care in Michigan. It also assumes that the President’s proposed tax rates and changes to the standard deduction and personal exemption have been enacted.
Source: Author’s calculations
The effects of the president’s proposals would be similar if one parent works and the other provides stay-at-home care, with one critical difference. The president proposes to allow stay-at-home parents to claim the new tax deduction but not the new refundable credit. The result is that many low- or middle-income families with a stay-at-home parent would be excluded. For example, a family earning $15,000 with one parent working full time at the minimum wage and one stay-at-home caretaker would not benefit at all from the president’s child care proposals (Table 2). But if the family earned $65,000 or $250,000, they would receive an even larger incremental benefit than if both parents were in the labor force because families who do not pay for child care would be eligible for the tax deduction but are not eligible for the current CDCTC.11

Turning to single parents, the president’s child care proposals would again provide the largest benefits to those who need help the least. If a single mother works full time at the minimum wage and purchases average-cost care, the president’s proposals would only reduce her tax liability by $574 (Table 3). After these new benefits, child care expenses would still represent an astonishing 51 percent of her income, providing her little incentive to work in the paid labor force instead of caring full time for her child. But if she decides to be a stay-at-home parent or relies on unpaid care from family or friends, she will get no benefit from the proposals.

<table>
<thead>
<tr>
<th>Income ($)</th>
<th>Existing Tax Benefits from CDCTC ($)</th>
<th>Additional Tax Benefit under Trump Plan ($)</th>
<th>Child Care Costs after CDCTC as Share of Earnings (Percent)</th>
<th>Child Care Costs after CDCTC and New Tax Benefits as Share of Earnings (Percent)</th>
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</thead>
<tbody>
<tr>
<td>15,000</td>
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<td>0</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>65,000</td>
<td>0</td>
<td>989</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>250,000</td>
<td>0</td>
<td>2,060</td>
<td>—</td>
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</tr>
</tbody>
</table>

Notes: Assumes that the family claims the standard deduction, the child is a toddler, and the average child care costs for center-based care in Michigan are $8,238. It also assumes that the President’s proposed tax rates and changes to the standard deduction and personal exemption have been enacted.

Source: Authors’ calculations

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11 The family earning $65,000 with a stay-at-home parent would receive a smaller overall child care benefit because they can only claim the president’s proposed deduction. If they both work and pay for child care, they would claim the CDCTC for part of their child care costs because it is more valuable than the deduction for them.
Like the married couple, the single parent’s benefits would be somewhat larger if she earned $65,000. Then her benefit would be $1,459, but child care expenses would still represent a sizable 10 percent of her income after accounting for these new benefits.

In contrast, high-income single parents would benefit the most. If a single parent earns $150,000 (just before we assume the deduction begins phasing out), the president’s child care proposals would be worth $2,119 — more than three times as much in dollar terms as the minimum wage worker.

These hypotheticals underplay the regressivity of the president’s child care proposals in several respects. First, they disregard the president’s DCSA proposal. For reasons discussed later, this is likely to disproportionately benefit high-income households. They also assume no deduction for stay-at-home care by grandparents, which understates the tax benefits for higher-income but not lower-income households. Lower-income households only benefit from the proposed credit, which is unavailable for stay-at-home care.

Finally, these stylized examples unrealistically assume that families with different incomes spend the same amount on child care. In fact, families with lower incomes tend to spend much less on child care than higher-income families. Having lower child care costs would reduce their benefits from these proposals even more.

### C. Cost and Average Distributional Effects of Child Care Proposals

To develop a more comprehensive understanding of the president’s campaign proposals, we next estimated their cost and distributional effects after accounting for ways that families across the income spectrum differ in family structure, division of earnings,
Assessing President Trump’s Child Care Proposals

and actual spending on child care, among other factors. The estimates in this section are derived from TPC’s microsimulation model. The model, similar to those used by the Congressional Budget Office (CBO), Joint Committee on Taxation (JCT), and the Treasury’s Office of Tax Analysis (OTA) is a large-scale microsimulation model. Its primary data source is the 2006 public-use file (PUF) produced by the Statistics of Income Division of the Internal Revenue Service. The PUF contains 145,858 records with detailed information from federal individual income tax returns filed in the 2006 calendar year. The data have been aged to represent the current budget window.\(^{12}\)

Overall, TPC estimates that the president’s child care proposals would cost about $115 billion over 10 years. This represents just 2 percent of the cost of his overall campaign tax plan (Nunns et al., 2016).

As a share of after-tax income, the president’s child care proposals would provide a modest tax cut that generally rises with income until a family earns $200,000 (Table 4, Figure 2). Those with income below $40,000 would, on average, benefit by just 0.1 percent of their after-tax income ($20 or less). In contrast, those with income between

<table>
<thead>
<tr>
<th>Expanded Cash Income ($)</th>
<th>Full Trump Plan (Percent)</th>
<th>Trump Child Care Proposals (Percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 10,000</td>
<td>0.8</td>
<td>0.1</td>
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<tr>
<td>10,000–20,000</td>
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</tr>
<tr>
<td>20,000–30,000</td>
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<td>30,000–40,000</td>
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<td>40,000–50,000</td>
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<tr>
<td>50,000–75,000</td>
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<td>75,000–100,000</td>
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<td>1.2</td>
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</tr>
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<td>&gt;1,000,000</td>
<td>13.4</td>
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</tr>
<tr>
<td>All</td>
<td>3.6</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Note: For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm. Negative values indicate a tax increase. For the cap on claimable child care expenses, the model uses a weighted state average for child care expenses. Assumes families take the child care benefit that most reduces their tax liability.

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-2)

\(^{12}\) For additional information about the model, its data, and assumptions behind the estimates, see http://www.taxpolicycenter.org/resources/brief-description-tax-model.
Figure 2
Average Tax Cut Among Families with Children of Trump Child Care Proposals, 2017

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-2)
Families with lower incomes do not benefit as much in part because they do not benefit from the child care deduction. The credit is worth much less per dollar of child care expenses than the deduction for higher-income filers who face higher marginal tax rates.

In addition, lower-income families benefit less because, given their resource constraints, they tend to spend less on child care. For example, in 2011, families that paid for child care and were below the poverty line paid about 60 percent as much as those above 200 percent of the poverty line (Laughlin, 2013).

Further, higher-income families are more likely to have additional expenses for private school tuition or extracurricular enrichment activities such as music lessons (Duncan and Murnane, 2014), which are also eligible for child care subsidies under the president’s proposals.

Yet another factor contributing to the proposal delivering smaller benefits to low- and middle-income families is that families with stay-at-home parents or grandparents can only claim the deduction and not the credit. Partly for this reason, low- and middle-income families are much less likely to benefit at all from the proposals than higher-income families. More than 25 percent of families with income between $75,000 and $500,000 would benefit from the proposals, but less than 10 percent of families earning between $10,000 and $40,000 would benefit (Figure 3; Table 5). In addition, more higher-income families benefit than actually pay for child care (at least until the income limits are reached) because higher-income households can claim the tax deduction for stay-at-home parents and grandparents. The inverse is true for lower-income families. Fewer benefit than actually pay for child care because they cannot claim a corresponding credit for stay-at-home parents and grandparents, and because some are no better off under the new benefits than the existing CDCTC.

If one accepts that the goal of reform is to reduce child care costs to a manageable share of family budgets, the president’s proposals do an exceedingly poor job. Among families who pay for child care, child care expenses represent a much larger share of the budget of low- and middle-income families than higher-income families. On average, such costs represent 7 to 17 percent of after-tax income for such families who earn less than $50,000, while they represent 3 to 4 percent of after-tax income for families who earn more than $100,000 (Table 6). Nevertheless, the president’s proposals provide the largest benefits as a share of income to those who need the least help.

The regressivity of the president’s child care proposals is also apparent on a dollar basis (Table 5). Families with children with incomes between $200,000 and $500,000 would receive an average annual benefit of $460. Meanwhile, families with incomes

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13 Similarly, Chaudry et al. (2017) finds using Survey of Income and Program Participation (SIPP) data that, among families that include children under 5 and pay for child care, those earning less than $50,000 spend 22 percent of their income on child care, while those earning more than $50,000 spend 7 percent.
Figure 3
Share of Families with Children Benefitting Versus Share with Child Care Costs, 2017

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-2)
between $50,000 and $75,000 would receive about one-third of that ($150). And families with incomes of $30,000 or less would receive average annual benefits of just $10.

As with the hypotheticals noted earlier, these estimates underplay the regressivity of the president’s child care proposals in several respects.

In line with all other estimates of the president’s campaign tax plan (including those his campaign cited and relied upon, Tankersley (2016)), these estimates disregard his proposal to expand DCSAs. As discussed later, including DCSAs would make his child care package somewhat costlier and probably slightly more regressive.

These estimates also assume that the president’s proposed deduction phases out between incomes of $400,000 and $500,000 for married couples and $150,000 and $250,000 for single parents. The estimates further assume that the proposed credit starts phasing out at one-half of the proposed income limits for the credit for the lower-earning spouse. The plan is silent on whether the deduction and credit phase out as opposed to ending abruptly at the income cap.

Because we lack information on relationships outside the tax unit, we are unable to estimate the benefits of allowing the deduction for stay-at-home care by grandparents. However, because deductions are worth more for higher-income households who face

<table>
<thead>
<tr>
<th>Expanded Cash Income ($)</th>
<th>Share with Tax Cut (Percent)</th>
<th>Share with Child Care Expenses (Percent)</th>
<th>Average Tax Cut ($)</th>
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<td>&lt; 10,000</td>
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<td>13.3</td>
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<td>22.7</td>
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</tr>
<tr>
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<td>15.0</td>
<td>70</td>
</tr>
<tr>
<td>&gt; 1,000,000</td>
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<td>14.0</td>
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</tr>
<tr>
<td>All</td>
<td>17.8</td>
<td>15.9</td>
<td>190</td>
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</tbody>
</table>

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-2)
higher marginal tax rates, incorporating this feature of his plan would increase the regressivity of his proposals.

Similarly, these estimates assume that families can only claim the proposed deduction for stay-at-home parents if one spouse has zero earnings and the family has zero child care costs.\footnote{This should be a relatively minor issue for single parents because the deduction is worthless to them if they are low income and in the zero percent bracket. However, it is possible that some wealthy single parents who provide stay-at-home care have enough capital income to fall above the zero percent bracket.} It is unclear whether this is the case. If families can claim the deduction for stay-at-home care even when both spouses have some earnings or the family has some child care costs, then more families will be able to claim larger deductions, which tend to benefit higher-income households.

In addition, these estimates assume that claimable child care expenses are capped at a weighted state average cost of child care for the child’s age due to data limitations. The president’s proposal actually varies the cap by state. Because the average cost of child care tends to be higher in states where incomes are higher on average, this should make his proposals appear less regressive than they would be with more fine-grained data.

<table>
<thead>
<tr>
<th>Expanded Cash Income ($)</th>
<th>Child Care Costs among Families Paying for Child Care (Percent)</th>
<th>Child Care Costs (Percent)</th>
<th>Tax Cut from Trump Child Care Proposals (Percent)</th>
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<tr>
<td>&lt; 10,000</td>
<td>16.8</td>
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<td>10,000–20,000</td>
<td>8.8</td>
<td>0.8</td>
<td>0.1</td>
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<tr>
<td>20,000–30,000</td>
<td>8.0</td>
<td>0.9</td>
<td>0.0</td>
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<tr>
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<td>7.6</td>
<td>1.0</td>
<td>0.1</td>
</tr>
<tr>
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<td>7.4</td>
<td>1.0</td>
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<td>6.2</td>
<td>0.9</td>
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<td>4.3</td>
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<tr>
<td>All</td>
<td>4.6</td>
<td>0.7</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-2)
Finally, these estimates assume that the child care proposals are enacted as part of the president’s overall tax plan. If they were instead enacted with no other changes to current law, the distributional effects would be slightly more regressive.

D. Key Issues with the President’s Child Care Plan

The President’s child care plan focuses attention on an important issue: the high cost of child care for low- and middle-income families. But rather than providing a simple, timely benefit to the families who need help the most, it is in many respects a model for how not to reform child care policy. The plan would provide the largest benefits to families who generally spend the smallest share of their budget on child care. It would exclude some lower-income families most in need of assistance. It would create inequities between high- and low-income families who rely on a stay-at-home parent or other unpaid child care. And it would add complexity to an already overly complex system, while delivering benefits well after child care bills are due. For all these reasons, the president’s proposals would not meaningfully change low- and middle-income families’ ability to purchase higher-quality care. This section explains the features of his plan that produce these results.

As the estimates above illustrate, the plan would focus its benefits on higher-income families who already spend the smallest share of their budget on child care. This is largely driven by the plan’s heavy reliance on a new above-the-line deduction, which is intrinsically regressive. Because higher-income households face higher marginal tax rates, the deduction is worth much more per dollar spent for higher-income taxpayers who are below the income cap. Moreover, the deduction would be worth nothing to the roughly 35 percent of families who are in the zero bracket under the federal income tax in a given year (though almost all owe federal payroll tax or pay positive federal income taxes over time).15

Some of these families would benefit from the proposed refundable credit, and it is a positive feature of the package that even a portion of the tax benefits are refundable. However, the proposed credit would be worth much less than the proposed deduction. Taxpayers who claim the refundable credit would benefit by up to 7.7 cents per dollar spent on child care — and often much less than that. In contrast, taxpayers claiming the deduction would benefit by 10 to 39.6 cents per dollar spent on child care, depending on their income and whether the president’s proposed changes to the rate brackets were enacted at the same time.

In addition, the plan would completely exclude many low- and middle-income families or provide them with no new benefits. This is partially due to the fact that families would need to choose between the current CDCTC, the proposed deduction, and the

proposed credit, and many families would be better off continuing to claim the current CDCTC. It is also due to the fact that the proposed deduction, which tends to benefit high-income families, is available to families with a stay-at-home parent and no child care expenses. The proposed credit would only be available to families with child care expenses where all parents work.

The president’s proposed DCSA expansion would probably further tilt the plan’s benefits toward higher-income families. Unlike the president’s proposed deduction and credit, there would be no limit on the income of households eligible for DCSAs. Assuming his other campaign tax proposals were also enacted, a two-child family in the top tax bracket contributing $4,000 to a DCSA in the current year would see a tax benefit of up to $1,320. The family would also receive tax savings in future years. The most that a low- or moderate-income family could benefit in the current year would be $1,000.

In practice, low- and moderate-income families would probably benefit far less than this because they are unlikely to contribute in the first place. For example, in a study where low-income households were offered a 50 percent match for saving in an IRA and were even given assistance opening an account, only 14 percent elected to participate (Duflo et al., 2007). More generally, low- and middle-income families participate in tax-preferred savings programs much less often, and when they do participate, they do not contribute nearly as much as wealthier families (Marr et al., 2013). Partially as a result, the top 20 percent of households receive more than two-thirds of the benefits from tax preferences for retirement savings. This skewing toward the wealthy occurs because higher-income taxpayers can afford to save at higher rates and because they are more likely to take up complicated tax benefits. Moreover, to the extent lower-income families actually do contribute to DCSAs, they are more likely to spend the funds quickly and thus not benefit from tax savings on their account earnings.

Yet another inequity created by the president’s plan is that it appears to provide larger benefits to many stay-at-home parents than it does to those who engage in market work and actually incur child care expenses. The plan is silent on how much stay-at-home parents can deduct, but all analyses of which we are aware assume such parents can

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16 For an excellent discussion of the president’s DCSA proposal, see National Women’s Law Center (2017).
17 Under current law, the same family would receive a benefit of up to $1,590.
18 For this purpose, we are defining low- or moderate-income as adjusted gross income (AGI) under $255,000 if married and $127,500 if unmarried (the thresholds for the 25 percent bracket under the president’s campaign tax plan). We also assume that only families in the zero tax bracket are eligible for the president’s proposed match for DCSA savings by low-income families. The zero percent bracket applies to married parents with AGI under $30,000 and single parents with AGI under $15,000 under the president’s campaign tax plan.
20 Most American families have less than one month of income in liquid savings (Pew Charitable Trusts, 2015).
21 Further, like the president’s DCSA proposal, the actual value of tax preferences for saving is generally larger for wealthier taxpayers when one takes into account the associated deductions, exclusions, and credits.
deduct the average cost of child care for the child’s age in the parent’s state. In contrast, the plan would limit parents who are engaged in market work and pay for child care to claiming either the deduction or the credit based on the actual child care expenses they incur. As discussed in Section II, many argue that paid child care should be subsidized to mitigate other tax biases in favor of stay-at-home care, including that child care is arguably a cost of working but non-deductible, and that the imputed value of stay-at-home child care is untaxed (e.g., Alstott, 1996; Heen, 1995). But at a minimum, reforms should not exacerbate this bias by providing stay-at-home parents with larger subsidies than those who actually pay for child care.

In addition to providing the largest benefits to those who need the least help, the president’s plan would make an already overly complex system even more complex. It would add three new tax benefits (the proposed deduction, credit, and DCSAs) to the current two (CDCTC and dependent care FSAs). In the process, it would complicate tax filing for many families. Selecting the highest benefit could require calculating the potential benefit of the current CDCTC, the president’s new deduction, and the new refundable credit. Experience with other complicated tax provisions has shown that requiring taxpayers to optimize among several mutually exclusive tax benefits typically results in many taxpayers, and especially those who are low- or middle-income, leaving substantial tax benefits on the table (GAO, 2012).

Finally, the president’s child care plan focuses exclusively on tax-based benefits, but direct spending programs for child care have many advantages for lower-income families that the tax system cannot easily replicate. State child care assistance programs help parents pay each month as they need care, rather than making them wait for a tax refund many months after their child care bills are due to get any benefit. Direct subsidy programs also provide more assistance to families with lower incomes, phasing down the benefit as families’ earnings rise and they can better afford care. Unlike tax programs, which provide one-time benefits for an entire year of child care expenses, subsidies can adjust over the year based on families’ circumstances. For example, a child might live with one parent for half the year and another parent for the other half. Only one family could receive a tax benefit (even if both had child care expenses), but traditional subsidies can follow a child to his or her home. Finally, subsidy programs place quality standards on most forms of care subsidized by the program, providing better assurance that federal funding is used for quality care.

V. WAYS TO REDIRECT THE PRESIDENT’S CHILD CARE PROPOSALS TOWARD LOW- AND MIDDLE-INCOME FAMILIES

President Trump’s child care plan includes a refundable tax credit for child care expenses, which allows more low-income families to receive child care assistance than current benefits do. But despite this step forward, the package would direct most of its benefits toward higher-income households and would provide much smaller benefits for low- and middle-income families.

22 It is unclear whether the plan would repeal dependent care FSAs.
If policymakers are interested in improving child care policy exclusively through the tax code, they should instead consider restructuring the existing credits and deductions to provide a single, simple benefit focused on low- and middle-income families. One way to do so would be to replace the current CDCTC and dependent care FSAs with an expanded refundable credit that limits child care expenses to a certain share of family income, as proposed by several research organizations (Hamm and Martin, 2015; Ziliak, 2014; Maag, 2013). This expanded credit would provide the largest tax benefits to those who need help the most — families who spend a large portion of their budget on child care — the mirror image of the president’s proposals. Families would also find it much simpler to understand and claim.

However, unless the credit were advanceable, this approach would not deliver benefits when many families need help the most: at the time child care payments are due. Thus, an even better approach would be to expand and fully fund the CCDF so that every eligible family can receive subsidies to directly and immediately reduce their child care bills to a manageable share of their income, rather than just 15 percent of eligible families today (Chaudry et al., 2017, pp. 52–62; Murray and Scott, 2017). To ensure middle-class families with high child care costs also benefit, full CCDF funding could be coupled with CDCTC reforms, as proposed in President Obama’s budget and by other researchers (Chaudry et al., 2017, pp. 62–63; OMB, 2016).

VI. CONCLUSION

High child care costs present a substantial barrier to work, especially for low- and middle-income families. The federal income tax system already provides some assistance to offset these costs, but the current deduction and credit exclude most low- and middle-income families. During the campaign, the president proposed three additional tax benefits for child care, which would add complexity to an already complex system and disproportionately benefit higher-income families who generally need the least help affording child care.

Policymakers who seek to address the burden of child care costs should instead consider fully funding and expanding direct subsidies for child care and restructuring the CDCTC into a refundable tax credit so that both programs together limit child care expenses to a manageable share of family income.

It is also important to note that any child care reform proposals should be assessed as part of the broader package of which they are a part. While beyond the scope of this paper, the full impact of the president’s other tax and budget proposals — including on families’ taxes, spending programs for child care, programs that assist families, and the long-term fiscal path — could overwhelm the effects on child care and family budgets of the tax proposals examined here.

ACKNOWLEDGMENTS

The authors thank Jeff Rohaly and Philip Stallworth for their work modeling the tax plan. We are grateful to Stacy Dickert-Conlin, Mark Mazur, and Frank Sammartino for comments on an earlier draft.
DISCLOSURES

The authors have no financial arrangements that might give rise to conflicts of interest with respect to the research reported in this paper.

REFERENCES


