

Trump's Plans to Subsidize Childcare in the Federal Income Tax System

Lily Batchelder, Elaine Maag, Chye-Ching Huang, and Emily Horton

Presentation for NTA

May 19, 2017

emaag@urban.org

[@ElaineMaag](https://twitter.com/ElaineMaag)

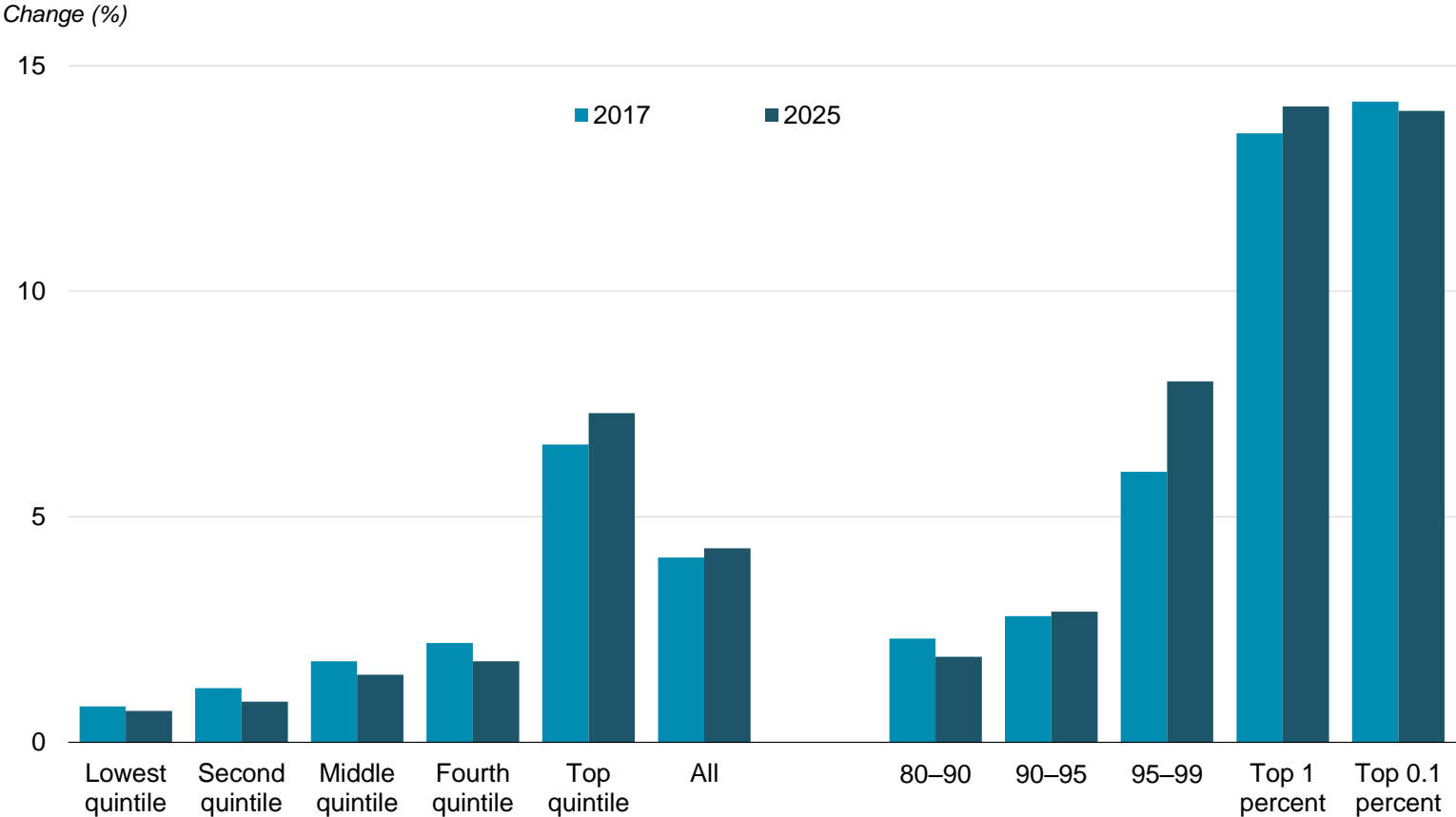


TAX POLICY CENTER
URBAN INSTITUTE & BROOKINGS INSTITUTION

Trump tax reform



FIGURE 1
Percent Change in After-Tax Income under Revised Trump Plan
By expanded cash income percentile, 2017 and 2025



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

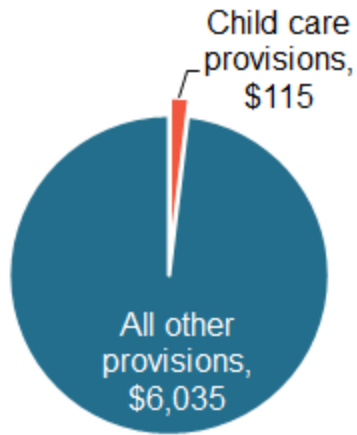
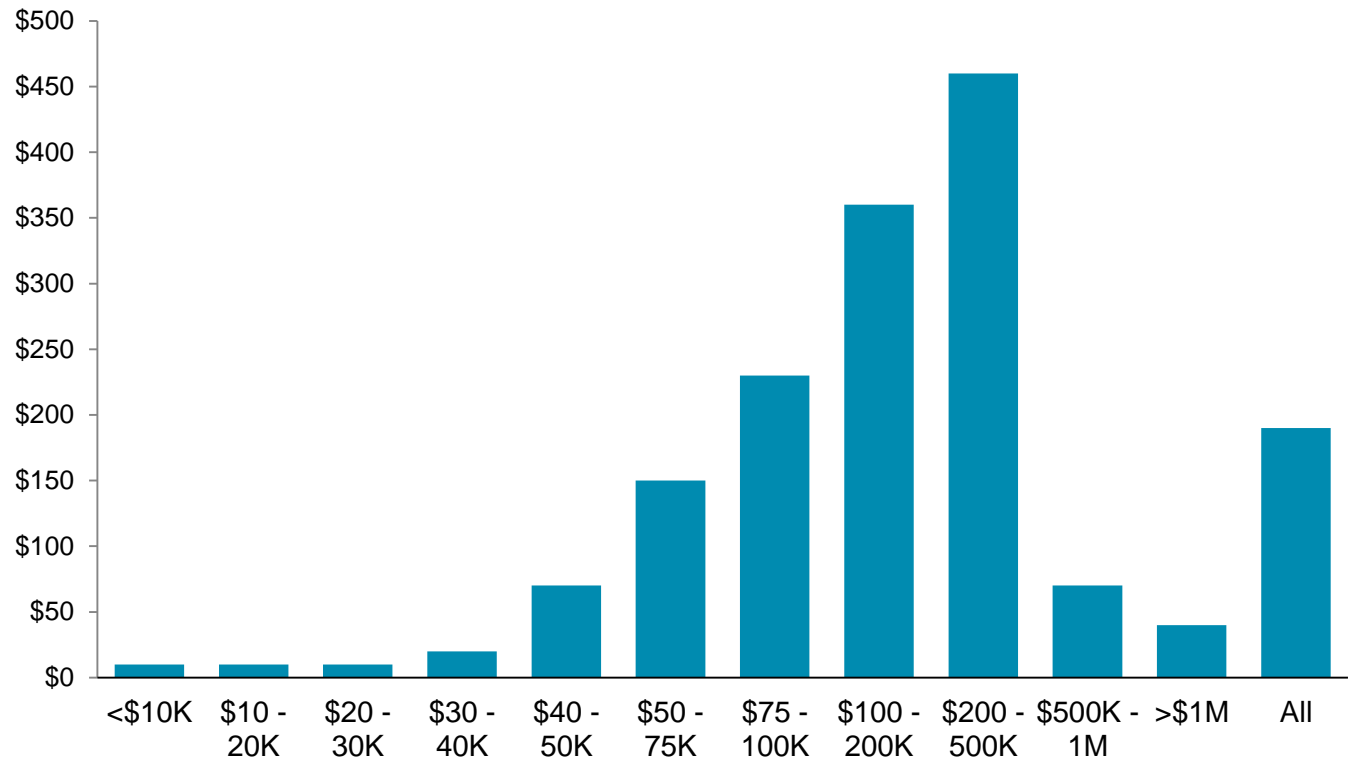


FIGURE 3

Average Tax Cut Among Families with Children of Trump Child Care Proposals, 2017



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

- Child care costs are substantial for many families
 - Average center-based care (2015) ranged from \$4,440 in MS to \$12,800 (MA) and \$17,900 (DC)
 - Between 1985 and 2011, Pew estimates weekly child care costs grew 70 percent (inflation adjusted)
- Single moms spent about 15 percent of median earnings; Married parents spent 6 percent of median earnings

- Child and Dependent Care Tax Credit

- Child < 13
- \$3,000 per child; \$6,000 max per return
- Credit rate varies from 20 – 35 percent (in theory)

- Flexible Spending Accounts

- Child < 13
- Set aside up to \$5,000 of pre-tax compensation in childcare expenses
- Tied to lower spouse's earnings
- Value linked to marginal tax rate

Some people qualify for both benefits; Treasury estimates together, these benefits reduced taxes by \$5.3 billion in 2016.

Trump Proposal – Three main elements



- Deduction for child care expenses
- Refundable add-on to the EITC
- Substantial expansion to child care savings accounts
 - \$115 billion over 10 years; 2 percent of total \$6 trillion plan
 - Total plan benefits tilt heavily toward higher income families
 - 44% to families with incomes between \$100,000 - \$200,000
 - 25% to families with incomes between \$200,000 - \$500,000

Trump: Deduction for childcare expenses



- Deduct actual expenses or average expenses in your state for your same-aged child
 - Capped at \$250,000 (single); \$500,000 (married)
 - Benefits workers and stay at home parents
 - Problem – these numbers don't exist
 - Person with expenses may be worse off than person without expenses

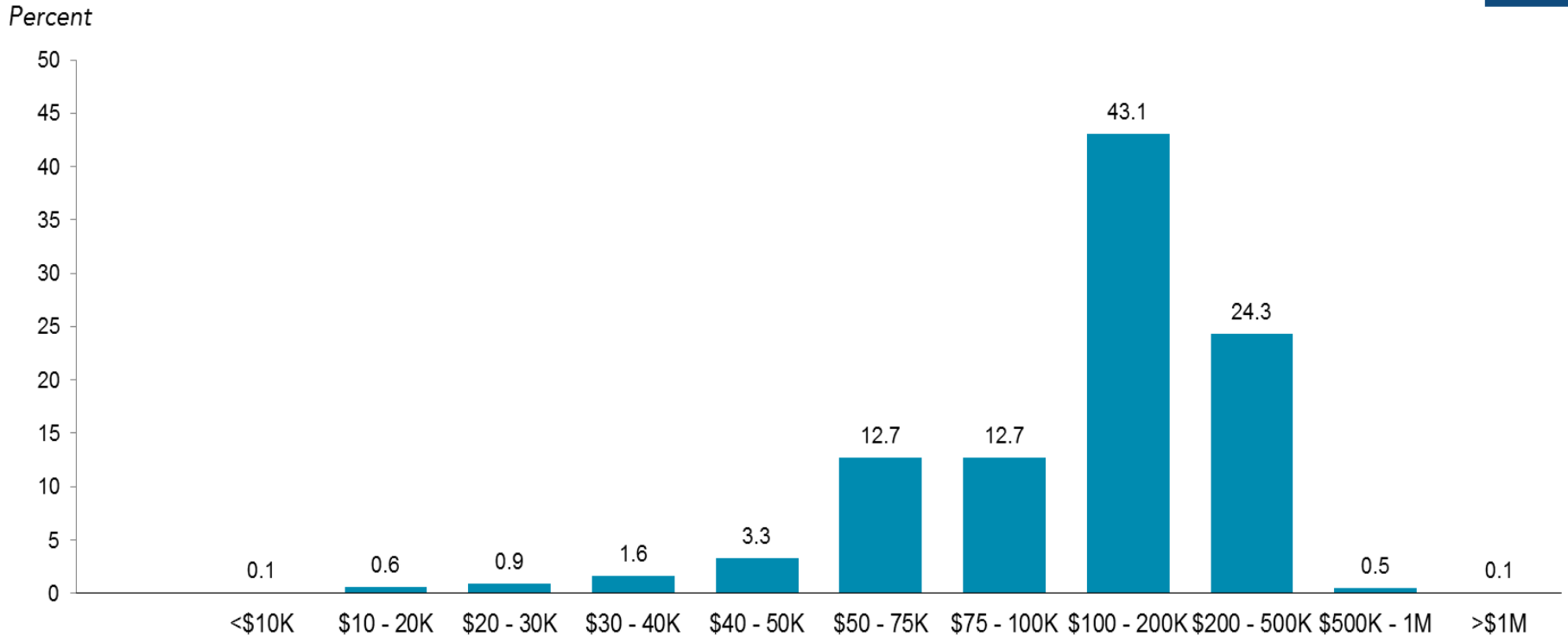
- Add on to the EITC
 - Lesser of 7.65 percent of child care expenses or 3.825 percent of the earnings of the lesser earning spouse
 - Married couples with one earner not eligible
 - Capped at \$31,200 (single) \$62,400 (married)

- \$2,000 per year, per child
- Contributions are tax deductible and grow tax free
 - Big sheltering opportunity
- Match 50 percent of first \$1,000 in contributions for low-income families
 - Earlier analysis of savings program with this match rate had 14 percent participation

Most benefits go to families with at least \$100,000



Share of Benefits from Trump Deduction and Credit for Families with Children , 2017



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

Trump credit and deduction

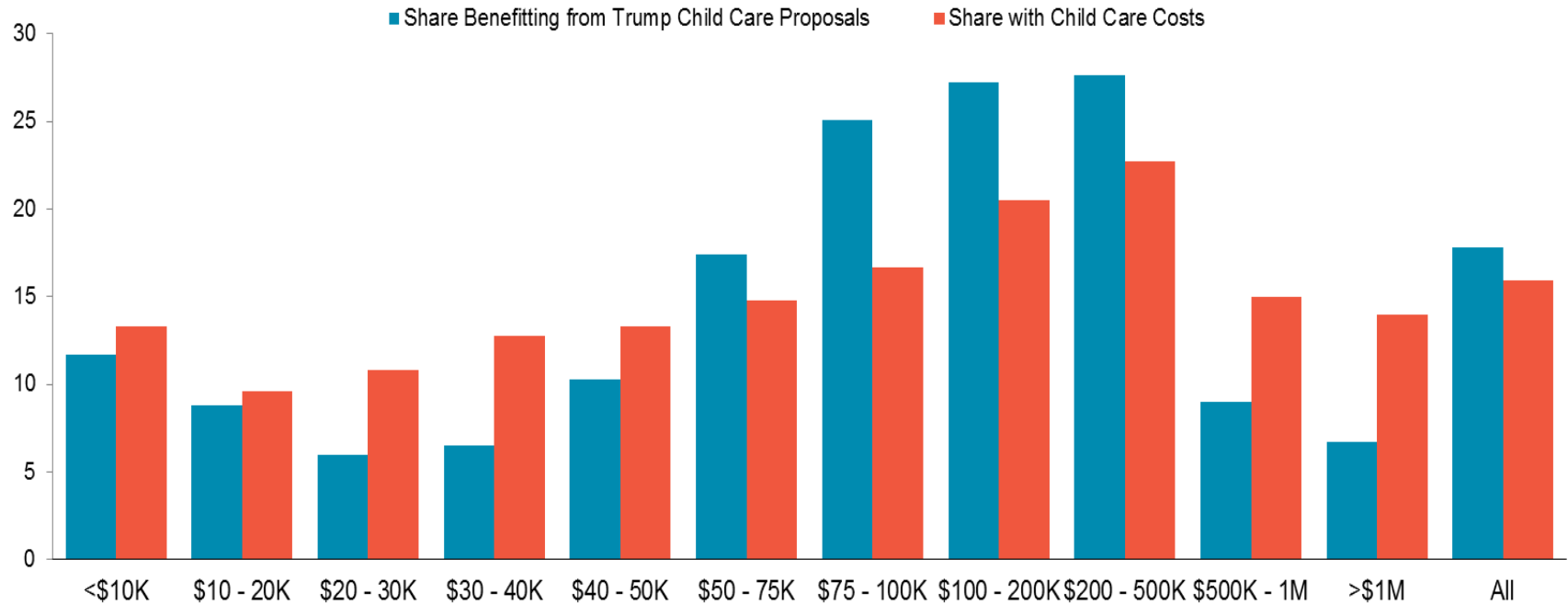


FIGURE 2

Share of Families with Children Benefitting Versus Share with Child Care Costs, 2017



Percentage



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

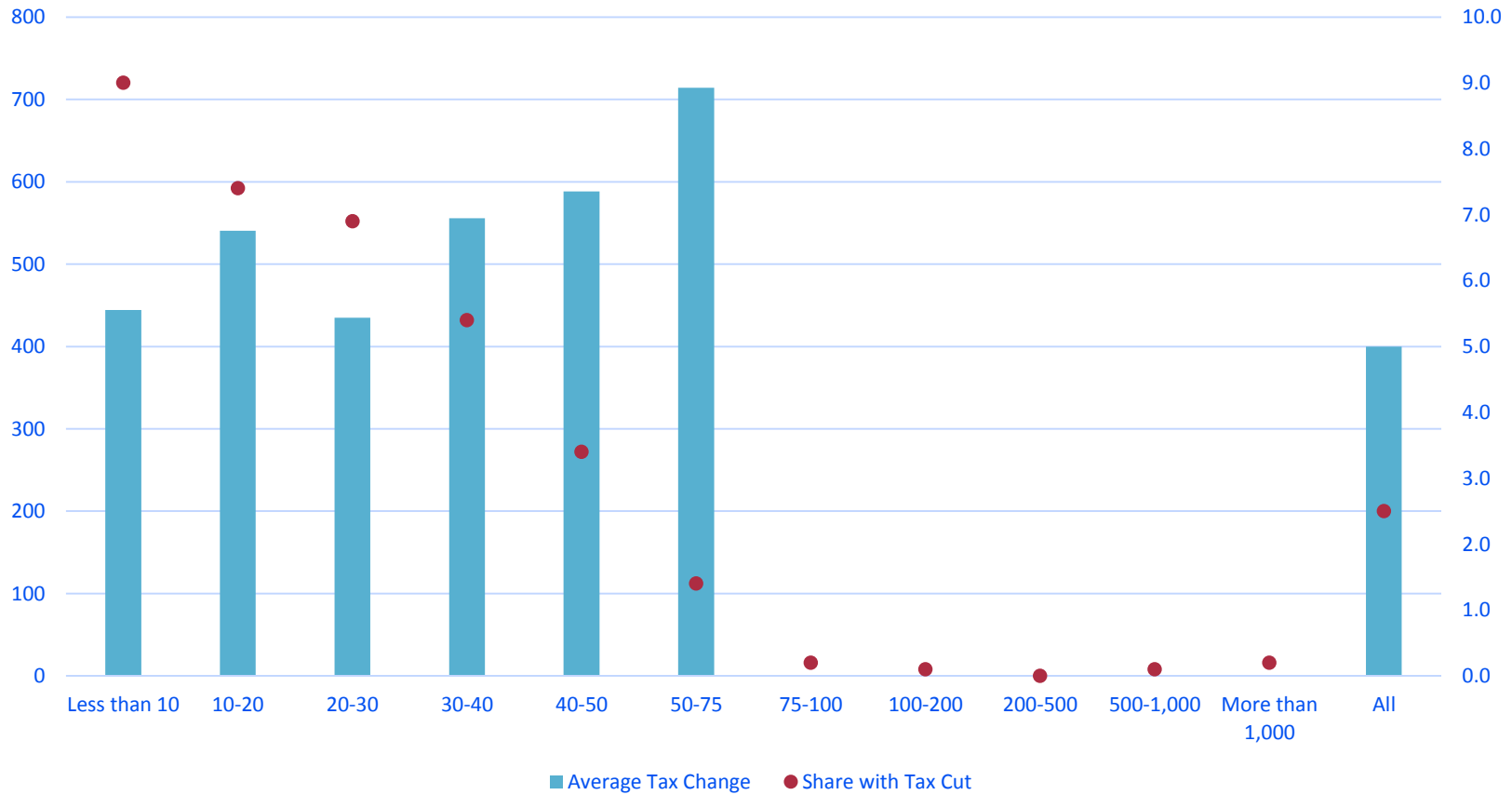
Issues to consider



- Use of deduction tilts benefits to high-income families
- Credit much smaller than deduction
 - Unlike deduction, both partners in a married couple must work to benefit
- People who pay for care may get lower benefits
- Savings accounts likely add to regressivity
- Confusion among benefits
- Timing

- Fully fund subsidy program
- Create refundable CDCTC
- Develop Young Child Tax Credit (YCTC)

Refundable CDCTC



- Young child tax credit
 - Increase credit for children < 6 from \$1,000 to \$1,500 and phase in faster (\$130 billion)
- Reduce refundability threshold
 - Start to phase credit in starting at first dollar of earnings (\$13 billion)
- Broad benefits, similar to proposed deduction

Elaine Maag
EMaag@urban.org

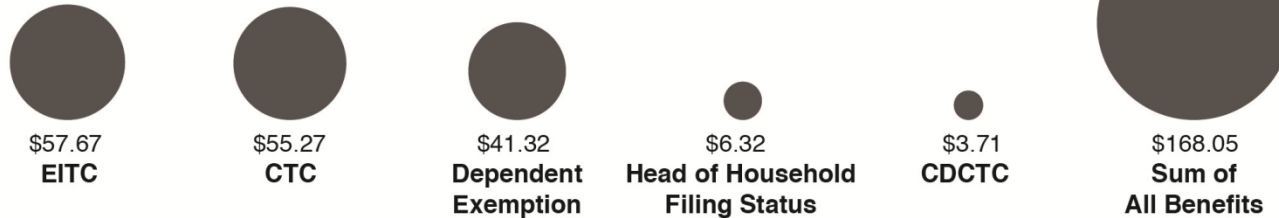
View TPC analysis on the Child and Dependent Care Tax Credit at
www.taxpolicycenter.org



Relative size and distribution of child benefits

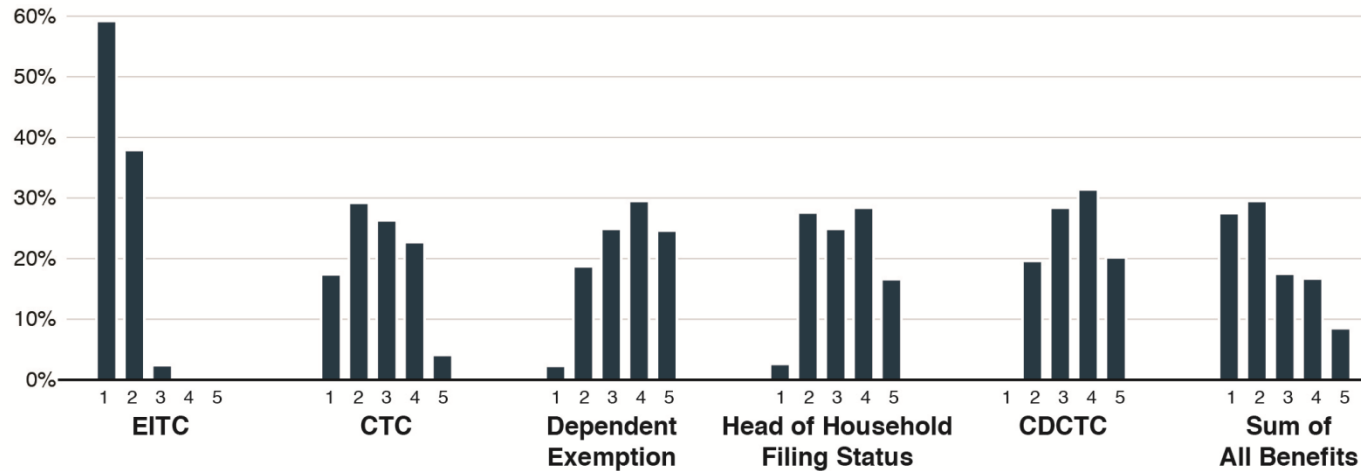
Families with children – current law, 2013

Total Benefit
BILLIONS OF DOLLARS



Who Benefits

SHARE OF TOTAL BENEFIT BY INCOME QUINTILE



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0412-8), tables T13-0114, T13-0116, T13-0118, T13-0137, T13-0149m and T13-0151.

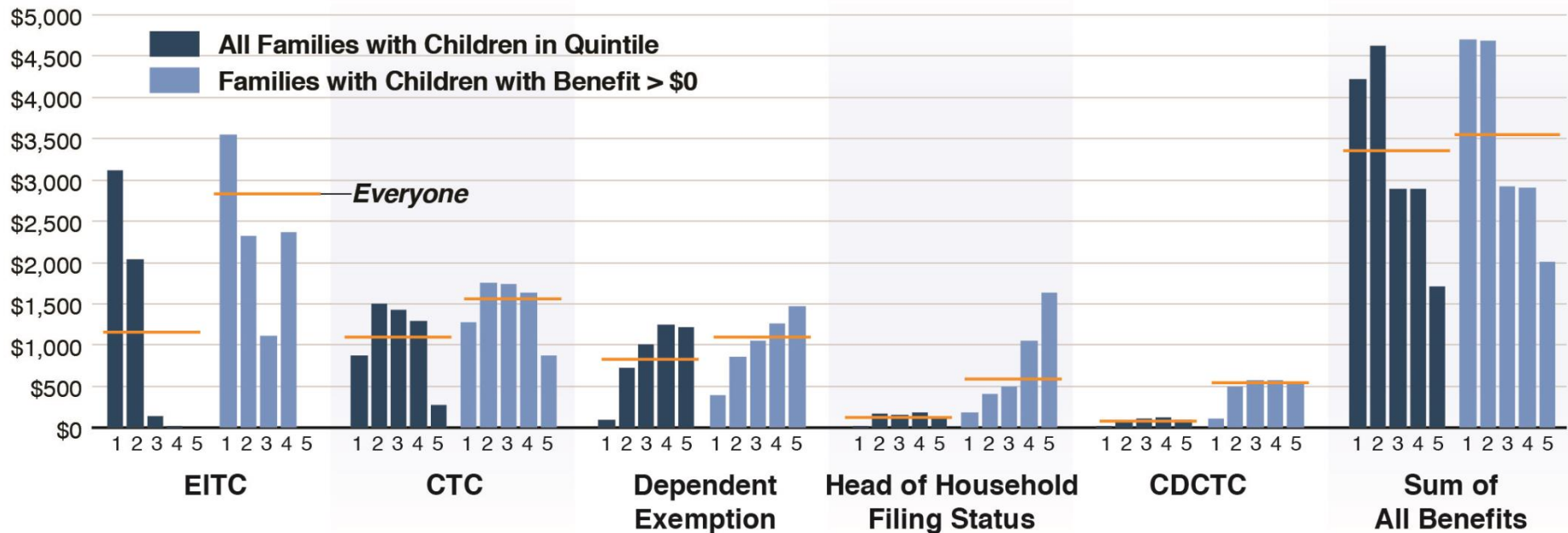
Note: Figure excludes flexible spending accounts. Figure shows annual benefits.

Average benefits and share of families benefiting from child benefits; 2013



Average Benefit of Child Tax Provisions for Families with Children at Various Income Levels

BY INCOME QUINTILE



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0412-8), tables T13-0114, T13-0116, T13-0118, T13-0137, T13-0149m and T13-0151.