Nicole R. Rabner

01/27/2000 09:20:06 AM

Record Type: Record

To: Bruce N. Reed/OPD/EOP@EOP

cc: Ruby Shamir/OPD/EOP@EOP, Ann O'Leary/OPD/EOP@EOP, Eric P. Liu/OPD/EOP@EOP
Subject: CDCTC explanation

We just discussed this -- but in case you want it on paper . . .

The Child and Dependent Care Tax Credit (CDCTC) is equal to a percentage of the taxpayer's employment-related expenditures for child or dependent care, with the amount of the credit depending on the taxpayer's income. Our base CDCTC proposal modifies the credit by raising the top rate and moving the phase-out range. We raise the top rate from 30 percent (current law) to 50 percent and move the phase-out range from $10,000-$28,000 (current law) to $30,000-$59,000, indexed for inflation thereafter. Presently, the CDCTC phases down from a high of 30 percent at $10,000 or less of income to 20 percent at more than $28,000 of income (a phase out rate of one percentage point per $2,000 of income). Under our proposal, the credit would phase-out at a rate of one percentage point per $1,000 of income, from a high of 50 percent at $30,000 or less of income to 20 percent at more than $59,000. Our proposal also increases the amount of allowable expenses to $2,400 for one child and $4,800 for two children.

By making the CDCTC refundable, we enable low-income families to get money back if they don't have enough (or any) tax liability to claim the full credit. So, if a family making under $30,000 has two children and child care expenses of $4,800 and zero tax liability, they would get back $2,400 -- 50 percent of their total expenses. If they had $100 of tax liability, they would get a credit for the $100 and get back $2,300. As long as the family makes $30,000 or under, they get 50 percent of up to the max of their child care expenses back. If they make $32,000, they get 48 percent back (2 percentage points less for every $1,000 more they make, up to $60,000); if they make $40,000, they would get 40 percent of up to the max of their child care expenses back, etc. If families don't have sufficient tax liability to claim their full allowed credit, they get it back as a refund.

Final at 1·26·2000
12:34 pm

THE CLINTON-GORE ADMINISTRATION
ENSURING AFFORDABLE, ACCESSIBLE AND SAFE CHILD CARE

January, 2000

President Clinton's FY 2001 budget includes a comprehensive child care initiative to address the struggles our nation's working parents face in finding child care they can afford, trust and rely on. Through unprecedented tax relief and subsidy support the President's balanced budget includes a package of proposals to help working families pay for child care, improve the safety and quality of care, and promote early learning.

Today, More Than Ever, Working Families Struggle With Child Care. Today, the number of children with parents that work outside of the home is higher than ever before. In 1996, three out of four mothers with young children worked outside of the home, compared to one in four in 1965. Additionally, studies have shown that that child care expenses are often the second or third largest item in a low-income working family's household budget, and that the availability of child care subsidies enables more low-income parents to work. During the Clinton-Gore Administration funding for child care has more than doubled. Despite these efforts, many eligible children do not receive assistance. In FY 1999, states provided child care assistance to approximately 1.75 million children, or only 12 percent of the roughly 15 million low-income children eligible for assistance under federal law.

The President's Initiative Significantly Expands Access to Quality, Affordable Child Care and Early Learning Programs by:

Proposing the Largest Head Start Expansion in History. The President's budget boosts funding for Head Start by $1 billion – the largest funding increase ever proposed for the program -- to provide Head Start and Early Head Start slots to approximately 950,000 children, nearing the President's goal of serving one million children in 2002. Head Start is our nation's premier early childhood development program preparing low-income children for a lifetime of learning and development by providing early, continuous and comprehensive child development and family support services. Early Head Start, created by the Clinton-Gore Administration in 1994, brings Head Start's successful comprehensive services to families with children ages zero to three and to pregnant women, and works to enhance children's overall development and enable parents to be better caregivers of and teachers to their children. Since 1993, this Administration has already boosted funding for Head Start by 90 percent.

Helping Low-Income Families Afford Child Care. The President's budget expands the Child Care and Development Block Grant to help working families struggling to afford child care: The President's budget request will increase funding for child care subsidies by $817 million in FY 2001, enabling the program to serve nearly 150,000 more children next year. These new funds, combined with the child care funds provided in welfare reform, will enable the program to serve over 2.2 million children in 2001, an increase of nearly one million since 1997. The block grant is part of the Child Care and Development Fund, the primary federal subsidy program that helps families pay for child care, thereby enabling low-income parents to work. Today, millions of families who are eligible for assistance with their child care costs do not receive any help; in

1999, only about 12 percent of the 15 million low-income children eligible for assistance under federal law, received subsidies.

Assisting Over 8 Million Families with Child Care Expenses. The Child and Dependent Care Tax Credit (CDCTC) provides tax relief to taxpayers who pay for the care of a child under 13 or a disabled dependent or spouse in order to work. In his FY 2001 budget, President Clinton is proposing to expand the Child and Dependent Care Tax Credit by making it refundable for families who earn too little to claim the credit today, but who also do not feel the full benefit of child care subsidies; increasing the credit for families earning up to $60,000; and helping stay-at-home parents meet their added expenses. The President's budget includes $30 billion over 10 years, benefiting over 8 million families with their child care expenses and includes:

(really $30.3 billion and $7.49 billion over 5 years)

- **Making the Tax Credit Refundable for Nearly Two Million Working Parents.** Many low-income families with significant child care costs currently are not eligible for the maximum Child and Dependent Care Tax Credit (CDCTC). A typical family of four with an income below $25,000 does not have any income tax liability and thus is not eligible for much-needed relief from their often-significant child care expenses. To help these low-income families, the President is proposing to make the CDCTC refundable. This proposal, when combined with the President's other CDCTC expansion proposals, will provide an average tax cut of $902 to help offset the costs of child care. For example, a single mother who has one child, earns an annual salary of $15,000, and spends about $2,400 per year on child care, will receive a tax credit of $1,200, an increase of $817 over current law. The President's budget proposal to make the Child and Dependent Care Tax Credit refundable will assist nearly two million families.

Tax Cut: because while most of these ppl don't pay income tax, since they are wkg ppl - and all wkg ppl are taxpayers - they pay payroll taxes including unemployment, medicare, excise, etc taxes

- **Greater Tax Relief for Child Care to 4.4 Million Working Families.** The Child and Dependent Care Tax Credit is equal to a percentage of the taxpayer's employment-related expenditures for child or dependent care, with the amount of the credit depending on the taxpayer's income. The President is proposing to increase the credit for families earning up to $60,000, providing an additional average tax cut of $249 for these families and eliminating income tax liability for nearly all families with incomes below 200 percent of poverty that claim the maximum allowable child care expenses. For example, a family of four with an annual salary of $35,000, and child care expenses of $3,100, would receive a tax credit of $1,395, an increase of $775 over current law. The President's Child and Dependent Care Tax Credit expansion proposal will assist over four million working families paying for child care.

- **Providing Tax Relief to Parents Who Stay at Home.** The President believes that we should support parents in whatever choice they make for the care of their children. Therefore, he is proposing to enable parents who stay at home with children under one to take advantage of the Child and Dependent Care Tax Credit by claiming assumed child care expenses of $500. The President's budget will provide an average tax cut of $154, benefiting almost 2 million parents.

Creating New Child Care Tax Incentives for Businesses. To encourage employers to provide child care services for their employees, the President is proposing the creation of a new tax credit

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all wkg ppl are taxpayers
- payroll tax burden is
- unemployment, excise
- medicare
- excise
- property

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Creating New Child Care Tax Incentives for Businesses. To encourage employers to provide child care services for their employees, the President is proposing the creation of a new tax credit

to businesses that provide child care services for their employees, such as building or expanding child care facilities, operating existing facilities, training child care workers, or providing child care resource and referral services. The credit covers 25 percent of qualified costs (and 10 percent of resource and referral service expenses), but may not exceed $150,000 per year per business. The President's budget includes $1.4 billion over 10 years for this tax credit.

→ 1.425 billion over 10 yrs or $~~3~~ 539 million over 5 yrs

Promoting Early Learning. High quality early childhood programs can significantly improve children's success in school, boosting grade retention, achievement, and even high school graduation rates. To ensure that children have access to early childhood programs that promote their cognitive development, the President's budget includes $3 billion over five years for the Early Learning Fund to help improve child care quality and early childhood education for children under five years old. The Early Learning Fund will provide community grants for activities that foster cognitive development, improve child care quality and promote readiness for school. Resources could be used, for example, to help child care providers get training or certification, support licensing or accreditation of child care facilities, and reduce child-to-staff ratios -- factors associated with positive developmental outcomes for young children.

Supporting High-Quality Early Childhood Educators. The President's budget includes $30 million to ensure that well-trained professionals are teaching our young children. We know that the training and education of early childhood educators and caregivers are directly related to the quality of the early education they provide, and the quality of their service, in turn, is directly related to children's readiness for school. As a result, early childhood educators with more education and training provide the higher-quality language stimulation and literacy experiences that are critical for children's success in schools. The Early Childhood Professional Development initiative will provide competitive grants to local partnerships that provide professional development for teachers such as universities, local school districts that provide pre-school, and child care providers such as Head Start. The initiative would focus on equipping early childhood educators with the tools they need to help children develop the language and literacy skills that are the foundations for academic success.

Encouraging the Pursuit of Higher Education by Offering College Campus Based Child Care. To encourage low-income parents to pursue higher education, the President's budget includes $15 million – a $10 million increase over last year's funding level -- to provide an additional 150 college campuses with grants to support the establishment or expansion of child care services. States may also use a share of the Child Care and Development Block Grant for this purpose.

Jason Furman
01/26/2000 02:10:21 AM

Record Type: Record

To: Ruby Shamir/OPD/EOP@EOP
cc:
bcc:
Subject: Re: CDCTC

see comments in red on your draft. I think you should use 10-year cost numbers. I also don't think you need seperate costs for each piece of the proposal.
Ruby Shamir

Ruby Shamir
01/24/2000 06:37:14 PM

Record Type: Record

To: Janet.holtzblatt@do.treas.gov @ inet, Jason Furman/OPD/EOP@EOP
cc: Nicole R. Rabner/WHO/EOP@EOP, Ann O'Leary/OPD/EOP@EOP
Subject: CDCTC

Janet and Jason:

Below is a draft of our press paper on the Tax Credit proposal [NOT to be released before the State of the Union]. There are clearly some holes in it. Please help us fill those spaces and make changes where necessary. I would like to have a final draft ready tomorrow afternoon, so it would be helpful to get your edits by noon tomorrow. Thanks very much.

Ruby
456-5696

Assisting Over 8 Million Families with Child Care Expenses. The Child and Dependent Care Tax Credit (CDCTC) provides tax relief to taxpayers who pay for the care of a child under 13 or a disabled dependent or spouse in order to work. In his FY 2001 budget, President Clinton is proposing to expand the Child and Dependent Care Tax Credit making it refundable for families who earn too little to claim the credit today, but who also do not feel the full benefit of child care subsidies; to increase the credit for families earning under $60,000; and to help stay-at-home parents meet their added expenses. The President's budget includes **[I strongly prefer $30 billion over 10 years]** $7.49 billion over five years, benefiting over 8 million families with their child care expenses and include:

• **Making the Tax Credit Refundable for Nearly Two Million Working Parents.** Many low-income families with significant child care costs currently are not eligible for the maximum Child and Dependent Care Tax Credit (CDCTC). **A typical family of four with an income below $25,000 does have any income tax liability and thus would not be eligible for much-needed relief for the burden of their childcare expenses.** To **ensure that families who need the most help will get it,** ~~alleviate the burden of child care costs for families making $25,000 or less,~~ the President is proposing to make the CDCTC refundable for these working families, for an average**tax relief of** ~~return of~~ $902 **to help offset the costs of childcare.** TK -- For example, **under the President's proposal a family of four making less than $___ would get $___ in tax relief to help pay for $___ in childcare costs.** The President's budget includes $4 billion over five years to make the Child and Dependent Care Tax Credit refundable for nearly two million families.

• **Greater Tax Relief for Child Care to 4.4 Million Working Families.** The Child and Dependent Care Tax Credit is equal to a percentage of the taxpayer's employment-related expenditures for child or dependent care, with the amount of the credit depending on the taxpayer's income. The President is proposing to increase the credit for families earning ~~under~~ **up to** $60,000, providing an additional average tax cut of $249 for these families and eliminating income tax liability for nearly all families with incomes below 200 percent of poverty that claim the maximum allowable child care expenses. TK: For example, a family of four with an annual salary of $35,000, would receive a $____ tax credit. The President's budget includes over $__ billion over five years to expand the Child and Dependent Care Tax Credit for over four million working families paying for child care.

• **Providing Tax Relief to Parents Who Stay at Home.** The President believes that we should support parents in whatever choice they make for the care of their children. Therefore, he is proposing to enable parents who stay at home with children under one to take advantage of the Child and Dependent Care Tax Credit by claiming assumed child care expenses of $500. The President's budget will provide an average tax cut of $154, benefiting almost 2 million parents, at a cost of $___ million over five years.

Creating New Child Care Tax Incentives for Businesses. To encourage employers to provide child care services to their employees, the President proposed to create a new tax credit to businesses that provide child care services for their employees, by building or expanding child care facilities, operating existing facilities, training child care workers, or providing child care resource and referral services. The credit covers 25 percent of qualified costs, but may not exceed $150,000 per year per business. The President's budget includes $__ over five years for this tax credit.

Department Of The Treasury

Office of Tax Analysis
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

To: Name: Ruby Shamir
Firm/Organization: DPC

Fax Number: 456-2878
Phone Number: 456-6275

Number of pages (including this cover sheet):

Date; Time: January 25, 2000; 12:47PM

From: Janet Holtzblatt
Phone: 202/622-1327 Fax: 202/622-0236

Comments:

456-
2878
6687

From: ex.mail."Ruby_Shamir@opd.eop.gov"
To: ex.mail("Janet.holtzblatt","Jason_Furman@opd.eop.g...
Date: 1/24/00 6:37pm
Subject: CDCTC

Janet and Jason:

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Creating New Child Care Tax Incentives for Businesses. To encourage employers to provide child care services to their employees, the President proposed to create a new tax credit to businesses that provide child care

For example, a family of four with an annual salary of ~~$3,100~~ $35,000 and $3,100 of child care expenses will receive a tax credit of $1,395, an increase of $775 over current law services for their employees, by building or expanding child care facilities, operating existing facilities, training child care workers, or providing child care resource and referral services. The credit covers 25 percent of qualified costs, but may not exceed $150,000 per year per business. The President?s budget includes $__ over five years for this tax credit.

(10 percent of resource & referral service expenses)

539 million

CC: ex.mail("Nicole_R._Rabner@who.eop.gov","Ann_O'Lear...

1/25/2000
edits from
Janet Holtzblatt

Could show Htx in sly cred refundable or new Htx of

② A single mom w/ 1 child earning $15,000
$2400 on cc
tax cred $1200, ↑ of
$817 over current law

avg tax cut
combined Htx
& ret plus
50% credit

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low + moderate income families
with an expansion that today is also proposing

- **Making the Tax Credit Refundable for Nearly Two Million Working Parents.** Many low-income families with significant child care costs currently are not eligible for the maximum Child and Dependent Care Tax Credit (CDCTC). To alleviate the burden of child care costs for ~~families making $25,000~~ or less, the President is proposing to make the CDCTC refundable for these working families, for an average ~~return~~ of $902. TK ① For example, a family of 4, earning $35,000 annually would get a ~~return~~ of $ 1,395. The President's budget includes $4 billion over five years to make the Child and Dependent Care Tax Credit refundable for nearly two million ~~families~~.

hyp. based on

tax credit
tax cut
an ↑ of 775 over current law

+ $3100 cc expenses

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expand tax

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$539 million
(10% of resource & referral svc expenses)

all these estimates are relative against current law

		FY 2001 Proposal, 2001 Levels, (Against Current Law as of 1/2000)	FY 2000 Proposal, 2000 Levels, (Against Current Law as of 1/1999)
es t 2\ 3\			
	Amount of tax decrease ($ mill)	($1,086)	($1,139)
	Taxpayers with decrease in liability (mill)	4.4	3.3
	Average decrease ($)	($249)	($345)
Effect of Stay-at-Home piece 4\			
	Amount of tax decrease ($ mill)	($299)	($303)
	Taxpayers with decrease in liability (mill)	1.9	1.7
	Average decrease ($)	($154)	($178)
Effect of Above Two Items			
	Amount of tax decrease ($ mill)	($1,385)	($1,442)
	Taxpayers with decrease in liability (mill)	6.3	5.1
	Average decrease ($)	($220)	($289)
Effect of Refundability			
	Amount of tax decrease ($ mill)	($1,747)	n.a.
	Taxpayers with decrease in liability (mill)	1.9	n.a.
	Average decrease ($)	($902)	n.a.
TOTAL effect			
	Amount of tax decrease ($ mill)	($3,132)	n.a.
	Taxpayers with decrease in liability (mill)	8.2	n.a.
	Average decrease ($)	($380)	n.a.

Department of the Treasury 01/21/00

Office of Tax Analysis 07:12PM

RED:Bull/Hrung; ITD:Holtzblatt; EMCA:Gillette

e n efi t by m or e fig in Fo ot no te 5.) vi du al fig in Fo ot no te 5) Bw is e do so).

Feb 9, 2000

Stay at home

$972 million/ 5yrs

$2.329 Billion/ 10yrs

Jan 24, 2000 From Conversation w/ Warren Hrung

$2.423/ Bill 5yrs

$8.481/ B 10yrs

$3,395 / 5yrs

4.095 / 5yrs

7.49 billion / 5yrs

1-21-2000

Bruce –

Nicole asked me to pass along the following information. Attached are the numbers for the CDCTC from Treasury. The chart reflects each piece of the tax credit individually, and then totals them at the end.

Greater Tax Relief for Child Care for 4.4 Million Working Families. The Child and Dependent Care Tax Credit provides tax relief to taxpayers who pay for the care of a child under 13 or a disabled dependent or spouse in order to work. The average tax credit would be $249.

Providing Tax Relief to 1.9 Million Parents Who Stay at Home. The average tax cut for parents who stay at home with children under one would be $154.

Making the CDCTC Refundable for 1.9 Million Taxpayers. The average return would be $902.

8.2 million taxpayers in total would feel the effects of the CDCTC.

- Ruby

BR: example of return over $1,000

Child and Dependent Care Tax Credit

	FY 2001 Proposal, 2001 Levels, (Against Current Law as of 1/2000)	FY 2000 Proposal, 2000 Levels, (Against Current Law as of 1/1999)
es t 2\ 3\		
Amount of tax decrease ($ mill)	($1,086)	($1,139)
Taxpayers with decrease in liability (mill)	4.4	3.3
Average decrease ($)	($249)	($345)
Effect of Stay-at-Home piece 4\		
Amount of tax decrease ($ mill)	($299)	($303)
Taxpayers with decrease in liability (mill)	1.9	1.7
Average decrease ($)	($154)	($178)
Effect of Above Two Items		
Amount of tax decrease ($ mill)	($1,385)	($1,442)
Taxpayers with decrease in liability (mill)	6.3	5.1
Average decrease ($)	($220)	($289)
Effect of Refundability		
Amount of tax decrease ($ mill)	($1,747)	n.a.
Taxpayers with decrease in liability (mill)	1.9	n.a.
Average decrease ($)	($902)	n.a.
TOTAL effect		
Amount of tax decrease ($ mill)	($3,132)	n.a.
Taxpayers with decrease in liability (mill)	8.2	n.a.
Average decrease ($)	($380)	n.a.
Department of the Treasury		01/21/00
Office of Tax Analysis		07:12PM
RED:Bull/Hrung; ITD:Holtzblatt; EMCA:Gillette		

Jason Furman
01/21/2000 07:59:03 PM

Record Type: Record

To: Ruby Shamir/OPD/EOP@EOP

cc:

Subject: Description

Increase, expand, and simplify child and dependent care tax credit.

Under current law, taxpayers may receive a nonrefundable tax credit for a percentage of certain child care expenses they pay in order to work. The credit rate is phased down from 30 percent of expenses (for taxpayers with AGI of $10,000 or less) to 20 percent (for taxpayers with AGI above $28,000). The Administration believes that the maximum credit rate is too low. Moreover, because it is nonrefundable, many families who have significant child care costs and relatively low incomes are not eligible for the maximum credit. To alleviate the burden of child care costs for these families, the Administration proposes to make the credit refundable. Under the proposal, the maximum credit rate would be increased from 30 percent to 40 percent in 2003, and to 50 percent in 2005 and subsequent years. The credit would become refundable in 2003. Eligibility for the maximum credit rate would be extended to taxpayers with AGI of $30,000 or less. The credit rate would be reduced by one percentage point for every $1,000 of AGI above $30,000 but would not be less than 20 percent.

Under current law, no additional tax assistance under the child and dependent care tax credit is provided to families with infants, who require intense and sustained care. Furthermore, parents who themselves care for their infants, instead of incurring out-of-pocket child care expenses, receive no benefit under the child and dependent care tax credit. In order to provide assistance to these families, the Administration proposes to supplement the credit with an additional, nonrefundable credit for all taxpayers with children under the age of one, whether or not they incur out-of-pocket child care expenses. The amount of additional credit would be the applicable credit rate multiplied by $500 for a child under the age of one ($1,000 for two or more children under the age of one).

The Administration also proposes to simplify eligibility for the credit by eliminating a complicated household maintenance test. Certain credit parameters would be indexed. The proposal would be effective for taxable years beginning after December 31, 2000.

Provide tax incentives for employer-provided child-care facilities.

The Administration proposes to provide taxpayers a credit equal to 25 percent of expenses incurred to build or acquire a child care facility for employee use, or to provide child care services to children of employees directly or through a third party. Taxpayers also would be entitled to a credit equal to 10 percent of expenses incurred to provide employees with child care resource and referral services. A taxpayer's credit could not exceed $150,000 in a single year. Any deduction the taxpayer would otherwise be entitled to take for the expenses would be reduced by the amount of the credit. Similarly, the taxpayer's basis in a facility would be reduced to the extent that a credit is claimed for expenses of constructing or acquiring the facility. The credit would be effective for taxable years beginning after December 31, 2000.

Jason Furman
01/23/2000 04:19:59 PM

Record Type: Record

To: Joshua S. Gottheimer/WHO/EOP@EOP
cc: jeffrey a. shesol/who/eop@eop, terry edmonds/who/eop@eop, Ruby Shamir/OPD/EOP@EOP
bcc:
Subject: Re: fact check please. thanks

For the first TK, my suggestion would be "For families that make less than $25,000 a year." If you want a number, pick anything $25K or below. For the second TK, I would use "up to $2,400" unless you prefer "an average of $900..." FYI, Treasury projects this will help 1.9 million families, if you want to work that into the sentence. (I'm pretty sure these are the correct numbers, but I will verify them with Treasury and get back to you if they need to change.)
Joshua S. Gottheimer

Joshua S. Gottheimer
01/23/2000 02:56:25 PM

Record Type: Record

To: Jason Furman/OPD/EOP@EOP
cc: Jeffrey A. Shesol/WHO/EOP@EOP, Terry Edmonds/WHO/EOP@EOP
Subject: fact check please. thanks

To help millions of parents with moderate incomes, we should expand the child care tax credit. And let's take the next big step. Let's make the tax credit refundable for low-income families. For those making $TK a year – too little to earn a refund today – that means $TK more for child-care costs. Let's get this done. Parents should be able to balance work and family – not have to choose between them.

Bill draft

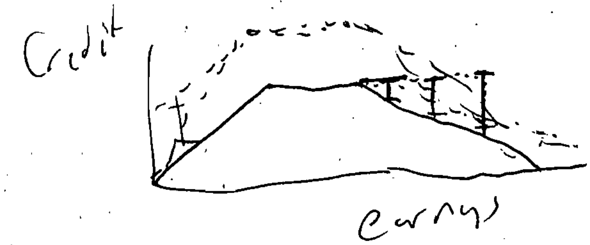
THE CHILD AND DEPENDENT CARE TAX CREDIT AND REFUNDABILITY
December 20, 1999

- Currently, the Child and Dependent Care Tax Credit (CDCTC) is <u>not</u> refundable, meaning that only families with incomes high enough to have a tax liability can benefit from it. For a single parent with 2 children, that would be $14,000. However, because of interactions with other refundable or partially-refundable tax credits (*e.g.* the EITC and the Child Tax Credit, which are claimed first), families do not actually benefit from the CDCTC unless they make roughly $21,000.

- While subsidies for child care are the most effective mechanism to help families with child care costs, we know that the Child Care and Development Block Grant (CCDBG) serves a fraction of the need. In 1998, the CCDBG served 1.5 of the 15 million children who are eligible under federal law. And, states set eligibility levels far below what is allowed by federal law.

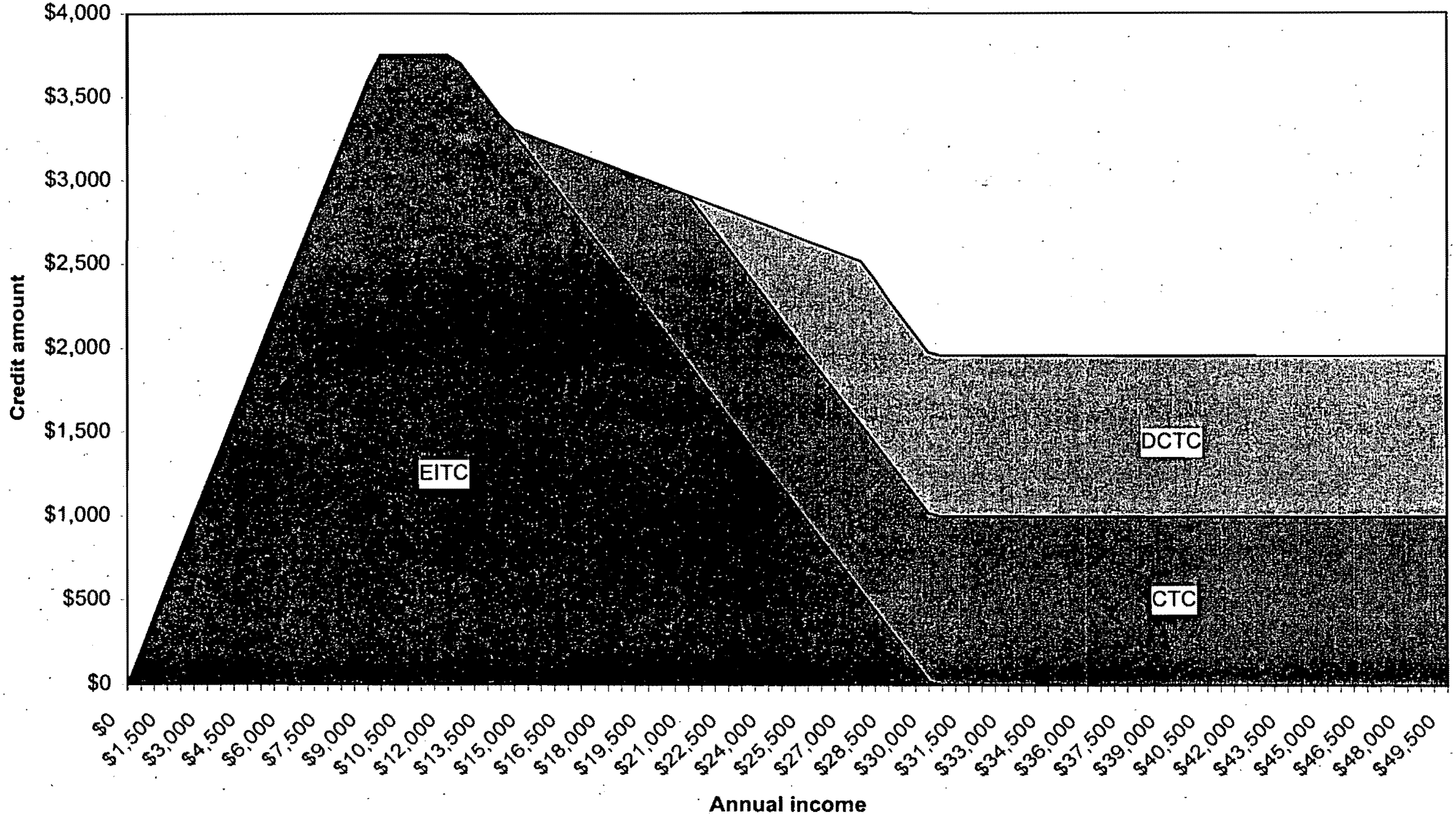
- Therefore, there is a real gap in assisting working families with the high costs of child care. The CCDBG today effectively provides subsidies to the very lowest end of the income ladder. And, the CDCTC serves moderate to higher income families. Families between 100-200 percent of poverty, however, can receive no assistance with child care costs through either mechanism. Making the CDCTC refundable could help to close that gap and ensure that these working families can stay afloat and out of poverty.

deduction
- ppl who don't itemize

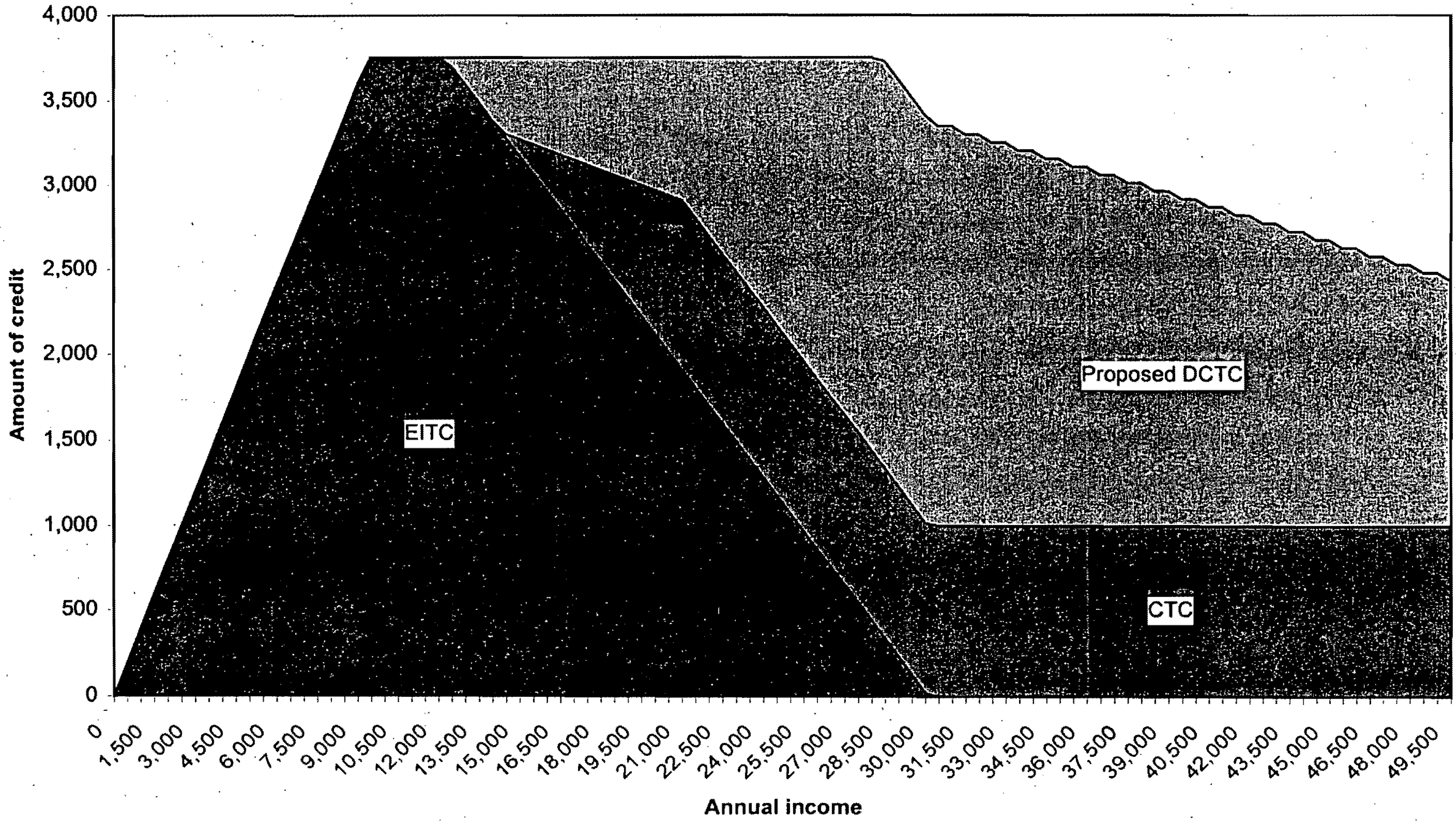


- sm business
- tax cred. for N offered by employer
- LT care

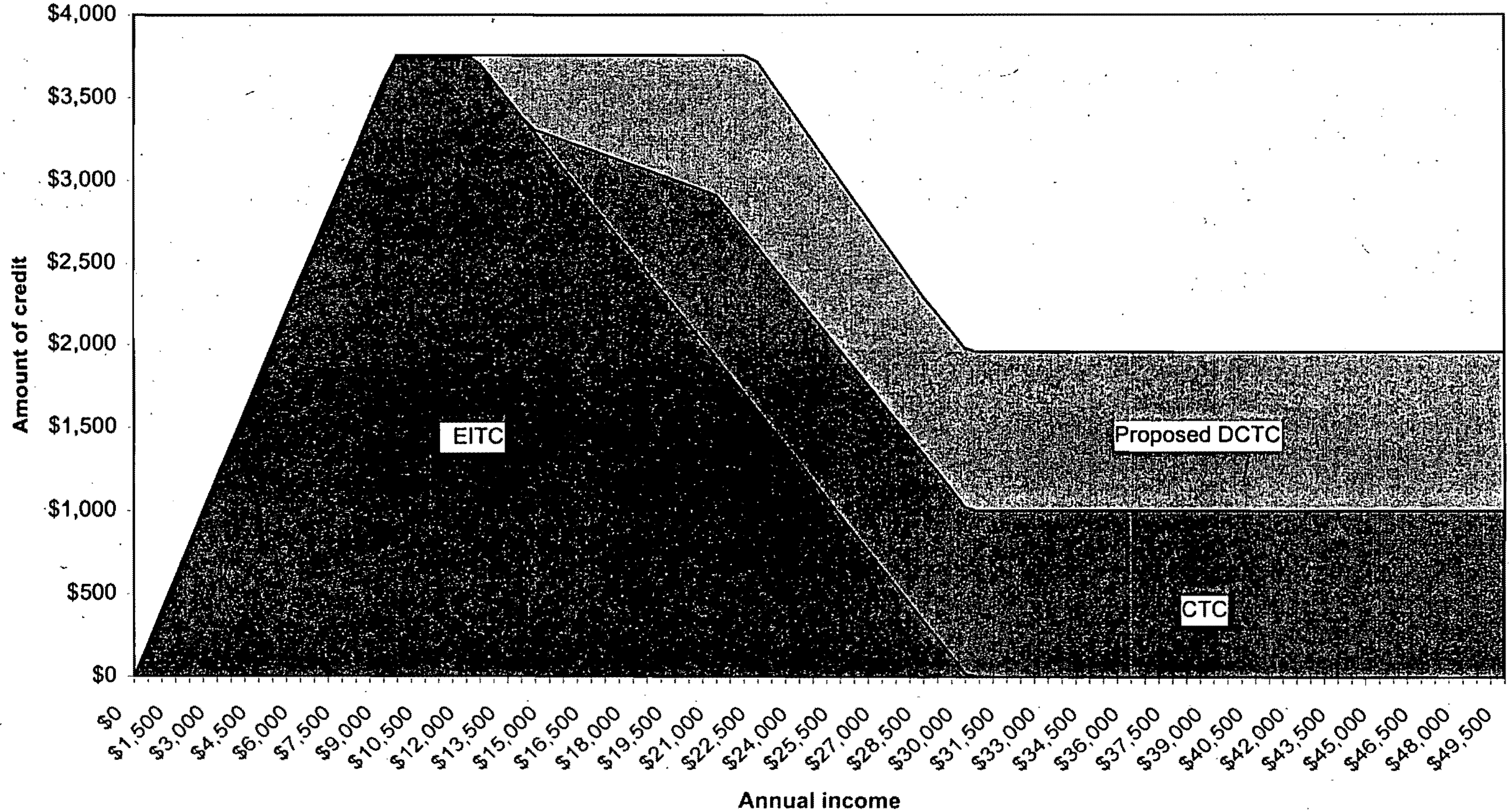
Current Law Interaction of EITC, CTC, and DCTC (single parent with two children)



Interaction of EITC, CTC, and DCTC under Combined Proposal
(single parent with two non-infant children)



Proposed Interaction of EITC, CTC, and Refundable DCTC
(single parent with two children)



[redacted]

No 23, 1999

CC Refundability

DCTC refundability - big picture

Len Burman: do it through tax code or somewhere else

probs w/ refundable credit:

1) risk creating a tax-welfare budget - could threaten eitc

2) in terms of timing - cash flow paying for tax credit - $ coming at end of the yr. vs cost of cc as they are confirming it

Janet: 1) (continued) as consistent w/ eitc offsets tax paid by low income families.

80% of cost offsets those

hard to argue credit to offset cc costs offsets taxes

eitc remains vulnerable to attack

do refundability through eitc - based on criteria known to IRS

cons

it's more difficult for ↓ income ppl to get loans - liquidity argument

Bowsher: If you got rid of it ?

Pros: delay phase out range for marriage penalty

or

we'd assist larger families - simplification,

Bowsher: how would that help 1st argument that eitc is threatened?

Janet: yes - same problem, but it's a one-phase - you don't face possibility that $ taken from eitc

dem proposals for 3 or more kids

GW Bush has talked about it eitc [illegible] treas: Unspent TANF $ for cc

CEA: does N help exposing eitc liquidity issue either

treas: given we're N going to enact something - what do we want to introduce

OMB: if we proposed independent cc tax cred, it thoroughly?

treas: strengthening eitc is N fighting a new battle
disab credit
LT care credit → does N help ppl w/ $ when they need it + it
cc cred is risky
refundability does N save you anything

~~DCTC is better~~

OMB: having a multi tiered approach is best

treas: we added stay at home piece last yr: would you make tax refundable as well

OMB: ~~can we do~~ very complex

OMB: can we make it simpler like CTC?

~~still many taxpayer~~
~~[illegible]~~

treas: CTC complex bec. have to compute how much tax liability incl SS taxes + eitc
it's hard - bec. it has a specific $ amt

NEC Gene is averse to ~~[illegible]~~ vulnerability

press :

fyi.

NATIONAL WOMEN'S LAW CENTER

25 YEARS
EXPANDING THE POSSIBILITIES

An Expansion of Both the Child Care and Development Block Grant and the Dependent Care Tax Credit Is Needed to Assist Low-Income Families with Their Child Care Needs

Expanding the Dependent Care Tax Credit (DCTC) by increasing the percentage of child care expenses credited, as proposed in the Senate Finance Committee tax bill, would increase the child care assistance provided to many families.[1] For example, a married couple with one child, an income of $37,000, and $2,400 in qualifying child care expenses (the maximum allowed) would receive a DCTC of $1,032 (up from a current credit of $480), resulting in a net tax benefit of $552. But such an expansion would not be as helpful to low-income families. An expansion of the Child Care and Development Block Grant (CCDBG), paired with a DCTC expansion, is necessary to increase the access of low-income families to affordable, quality child care.

- ***Although the DCTC helps some low-income families, the actual assistance that a low-income family receives is apt to be much lower than the maximum credit available to that family.*** First, a low-income family is not likely to be able to afford (and therefore to claim a credit based on) the maximum qualifying child care expenses. Second, since the DCTC is not refundable, a family will not benefit from the full value of the DCTC if the credit for which the family is eligible exceeds its tax liability.[2] For example, even though a single parent with one child, income of $15,800, and $2,400 in qualifying child care expenses is eligible for a $648 credit, she will achieve only $25 in net tax savings from the DCTC.[3]

- ***While the Senate Finance Committee DCTC proposal would provide some net tax benefit to some low-income families, it would not provide a net tax benefit to families with incomes below 133 percent of the poverty line.***[4] This proposal would not assist those families whose income tax liability is too low to take advantage of the benefits currently offered by both the DCTC and the child tax credit. Families with incomes below 133 percent of the poverty line would receive no net benefit from such an expansion. Some families with incomes between 133 percent and 202 percent of the poverty line would receive a net tax benefit from such an expansion, depending on their family configuration and level of child care expenses.[5] The size of the net tax benefit for families in this income range would run from zero to a nominal amount to several hundred dollars. (See attachments for examples and information about the income levels at which different families would begin to benefit.)

- ***The Child Care and Development Block Grant (CCDBG) is more effective than the DCTC in helping the lowest income families meet the high cost of child care.*** The CCDBG provides funding to states to help subsidize the child care expenses of low-income families. The subsidies offered through the CCDBG generally allow low-income families to offset more of the high cost of quality child care than do the benefits these families receive from the DCTC. For example, a family of three with a poverty level income ($13,287 in 1999) and one child in care can receive an annual child care subsidy ranging from $2,340 to $8,150 through the CCDBG, depending on the state in which the family resides.[6] The same family will receive no assistance from the DCTC.[7] Even if the percentage of child care expenses credited were increased to 50 percent and the DCTC were also made refundable, the highest net tax benefit this family could receive would be $1,200, well below the lowest state subsidy. The cost of quality child care can range from $4,000 to $10,000 per year per child.[8]

- ***The best way to help families get the child care assistance they need is to expand both the CCDBG and the DCTC.*** The number of low-income families eligible for CCDBG assistance far exceeds the number of families who receive it – currently, about one in ten eligible low-income families actually receives assistance.[9] Increasing the amount of CCDBG money available would allow states to serve more families and increase the amount of their subsidies. Expanding the DCTC would provide additional child care assistance to many low-income families to the extent subsidies do not cover their child care costs, including by helping families offset the often sizable co-payments they must make for subsidized care.

With the law on your side, great things are possible

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EXAMPLES

The following tables illustrate how families at different income levels (160 percent and 185 percent of the poverty line in calendar year 2001) would fare under the Senate Finance Committee DCTC expansion, which increases the percentage of child care expenses credited from current levels to 50 percent for families with incomes below $30,000, with the percentage decreasing by one percentage point for every thousand dollars above $30,000, not to be reduced below 20 percent. These calculations do not take into account the effect of the proposed DCTC expansion when combined with other relevant elements of the Senate Finance Committee tax plan.

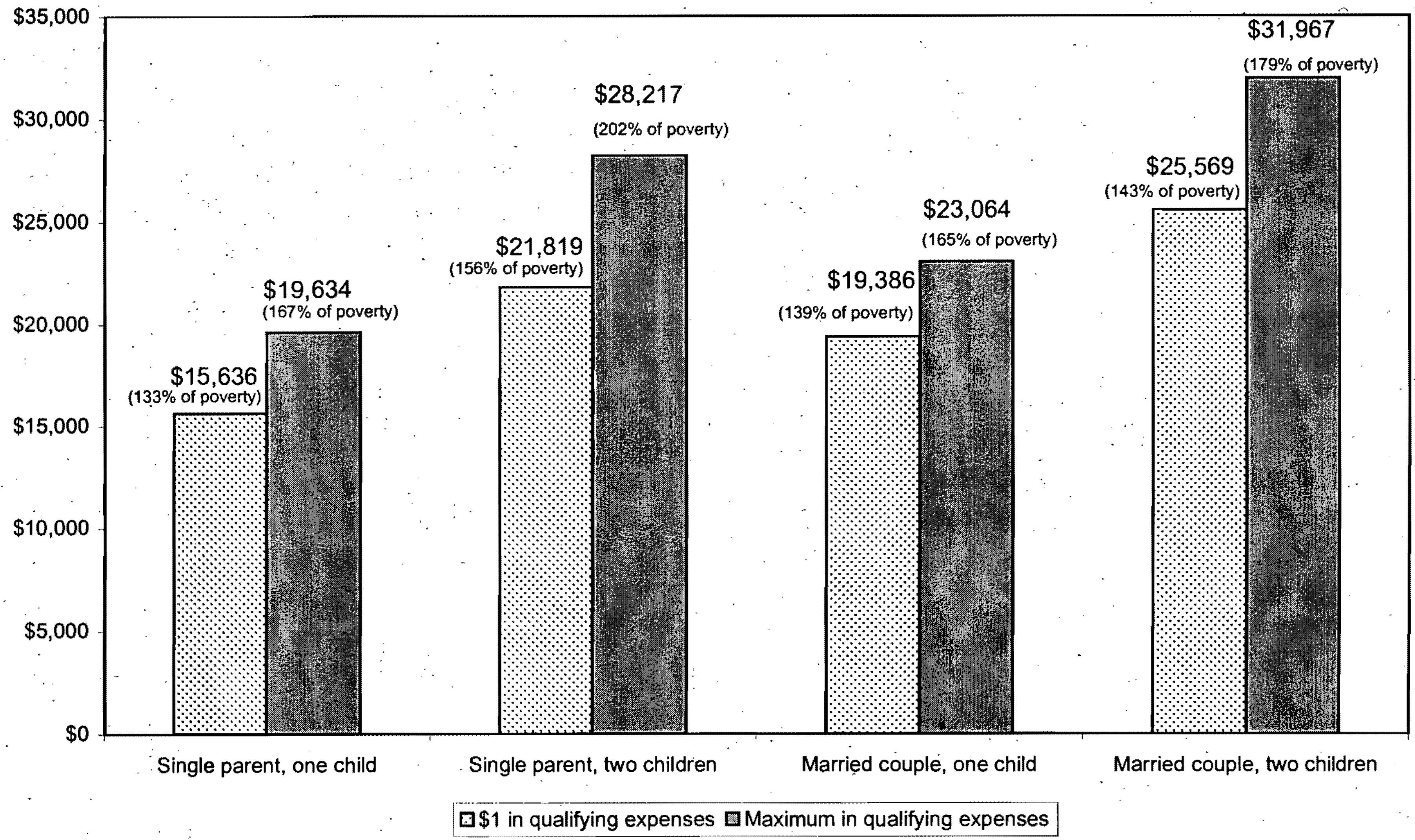
At these income levels, the net tax benefit would be quite small for some families and nonexistent for others.* The net tax benefit for families spending the maximum in qualifying child care expenses ($2,400 per child) ranges from zero for families with income at 160 percent of the poverty line to $438 for a married couple with one child and income at 185 percent of the poverty line. Even for families spending half the maximum in qualifying expenses ($1,200 per child), the net tax benefit from the expansion would range from zero for some families to $624 for a married couple with two children.

Family configuration	Income = 160% of poverty	Net benefit with $2,400 in child care expenses per child	Net benefit with $1,200 in child care expenses per child
Single parent, one child	$18,851	$0	$183
Single parent, two children	$22,335	$0	$0
Married couple, one child	$22,335	$0	$167
Married couple, two children	$28,613	$0	$0

Family configuration	Income = 185% of poverty	Net benefit with $2,400 in child care expenses per child	Net benefit with $1,200 in child care expenses per child
Single parent, one child	$21,799	$311	$300
Single parent, two children	$25,825	$0	$73
Married couple, one child	$25,825	$438	$336
Married couple, two children	$33,084	$168	$624

* Due to interactions with the child credit and the EITC, a family with low child care expenses may receive a net benefit while a similar family with the same income and high child care expenses may not.

Income Levels at Which Families Would Receive a Net Benefit* Under the Senate Finance Committee Proposal to Expand the DCTC to 50% of Qualifying Child Care Expenses, Calendar Year 2001



* The net tax benefits at these income levels for families with these qualifying expenses are quite small. Between the two income levels shown for each family configuration, some families would receive a net benefit and others would not, depending on their level of child care expenses. The calculations do not take into account the effect of the proposed DCTC expansion when combined with other relevant elements of the Senate Finance Committee tax plan.

National Women's Law Center, Washington, D.C., July 1999

NOTES

1. This proposal would take effect in 2001 and would increase to 50 percent the amount of child care expenses credited for families with incomes below $30,000. The percentage credited would then decrease by one percentage point for every thousand dollars above $30,000, not to be reduced below 20 percent. Families with incomes above $59,000 would receive a credit equal to 20 percent of qualifying expenses. All calculations in this paper are based on estimated tax parameters for tax year 2001. They do not take into account the effect of the proposed DCTC expansion when combined with other relevant elements of the Senate Finance Committee tax plan.

2. A non-refundable credit can only be used to offset a family's income tax liability. This has two implications. First, a family with no income tax liability cannot benefit from a non-refundable credit. Second, a family whose income tax liability is smaller than the non-refundable credits for which it is eligible can only benefit from a portion of these credits. Any credit amount that exceeds a family's tax liability is therefore forfeited.

3. Due to the interaction of the DCTC with the child credit and the refundable Earned Income Tax Credit (EITC), at low income levels the net tax savings a family receives from the DCTC is not necessarily the amount of the DCTC. In the example in the text, the $25 net tax savings is calculated as follows. A single parent with one child and $15,800 in income will owe $525 in income tax in tax year 2001. If the family did not qualify for the DCTC, it would receive a refund of $1,959 ($525 tax liability - $500 child credit - $1,984 EITC = -$1,959). If the family qualified for the DCTC, the $648 DCTC would eliminate its pre-EITC tax liability. Since neither the DCTC nor the child credit is refundable, the family loses the benefit of part of the DCTC and the entire value of the child credit. With the DCTC, the family will receive a refund of $1,984, the entire value of the EITC. The family's refund is $25 higher with the DCTC than without it.

4. A net tax benefit means that a family receives more tax savings or a larger refund under the proposal than under the current DCTC.

5. All families with incomes above this range and below $59,001 with qualifying child care expenses would receive a net tax benefit from such an expansion.

6. The lowest subsidy is offered in West Virginia and the highest subsidy is offered in New York. Subsidies are calculated based on figures provided in Locked Doors: States Struggling to Meet the Child Care needs of Low-Income Working Families, Children's Defense Fund, March 1998, Tables A6 and A8.

7. A family of this size at this income level owes no federal income tax and therefore cannot benefit from a non-refundable credit.

8. Locked Doors, p. 1.

9. Locked Doors, p. 1.