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

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**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).*
Donald Trump’s plan focuses on child care costs

- 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 care Subsidies in the Federal Income Tax

- **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
Trump: expanded credit

- 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)
Trump: Expanded child care savings accounts

- $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

FIGURE 2
Share of Families with Children Benefitting Versus Share with Child Care Costs, 2017

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
Alternatives

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

- 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
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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

- $57.67 EITC
- $55.27 CTC
- $41.32 Dependent Exemption
- $6.32 Head of Household Filing Status
- $3.71 CDCTC
- $168.05 Sum of All Benefits

**Who Benefits**
SHARE OF TOTAL BENEFIT BY INCOME QUINTILE


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