

**RUSH!**

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## TWO CHEERS FOR BUSH'S FAMILY TAX CUT

President George Bush's recent plan to cut taxes on families with young children is a major first step toward tackling one of the greatest problems facing American families: over-taxation. Unlike rival plans in Congress that would increase already heavy taxes to pay for government-approved professional day care, the Bush plan would return money to parents and allow them to choose how to raise their children.

In 1950, the average American family of four paid about 2 percent of its income in federal taxes. Today that same family pays 24 percent. Even poor families do not escape the tax. A young father trying to support a wife and two infant children on \$15,000 per year currently pays \$2,300 in federal taxes. These high taxes make it difficult for families to meet the cost of raising their children, and have triggered demands for federal aid for such expenses as child care.

To remedy this tax burden on families with young children, Bush has proposed a new "child tax credit" for low-income working families. The Bush plan would provide families with annual incomes between \$7,000 and \$15,000 with a credit against federal taxes of \$1,000 for each child under four. Families with incomes below \$7,000 would receive a credit of 14 percent of their earnings for each child under four. The child tax credit would be fully "refundable," meaning that if a family's tax liability was less than the full value of the credit, the family would receive money from the government in each paycheck. Parents could use the tax cuts to pay for the costs of raising their young children.

**Allowing Parents to Keep Their Money.** The key to the President's plan is parental choice. Parents would be allowed to choose how funds should be spent and how their children will be raised. This contrasts starkly with the Act for Better Childcare (ABC) introduced by Senator Christopher Dodd, the Connecticut Democrat, and Congressman Dale Kildee, the Michigan Democrat. For instance, while the Bush proposal allows parents to keep their own money and to decide how to use it, the ABC bill would add to the tax burden on families while channeling \$12 billion over the next four years to bureaucrats and government-sanctioned day care centers.

While the Bush plan, moreover, aids all young children from low-income working families, ABC excludes children cared for by parents, relatives, and neighbors. Because of this discrimination, ABC in practice would deny assistance to over 90 percent of pre-school children from low-income working class families. Further, the ABC bill is a case of "Robin Hood in Reverse," taking taxes from the poor to give benefits to the rich. Under ABC, a truck driver supporting his wife and two infant children on \$15,000 per year would receive no assistance, yet he would be taxed to subsidize professional day care for two-earner families earning up to \$45,000 per year.

**Danger to Church Day Care Centers.** By giving parents the right to choose how to use the tax credit, the Bush plan allows parents to select church-based day care. The ABC legislation, by contrast, is explicitly anti-religious. It would deny funds to day care centers that promote religious values to children. And by heavily subsidizing competing secular centers, ABC would drive many religious day care centers out of business.

Critics of the Bush plan claim it will not solve the day care "shortage." But studies by the U.S. Department of Labor and by scholars at major research groups, such as the Washington-based Urban Institute, have found no supply shortage in day care. What the studies do find is that low-income families have trouble affording professional day care. The Bush plan solves this directly by putting money in the pockets of parents. In addition, the Bush plan does not discriminate against low-income "traditional" families, in which one parent remains at home to care for young children while the other parent is employed. Polls indicate that families strongly prefer such home-based child care whenever they can afford it. Moreover, there are more low-income traditional families with young children than families with young children headed by employed single mothers. The Bush plan does not favor a particular family life style; the ABC legislation, on the other hand, discriminates against traditional families.

**More Generous Relief.** Although the thrust of the President's proposal is excellent, the only problem with the plan is that it does not go far enough in providing tax relief to families with young children. The "toddler tax credit" legislation (H.R. 1448) introduced by Representative Richard Schulze, the Pennsylvania Republican, is based on the same principles as the Bush plan but would give more generous relief. The Schulze bill would provide a \$1,000 tax cut for each child under five to families earning less than \$30,000. The Schulze proposal thus would provide even more tax relief to working class families. With other available federal day care subsidies, the Schulze measure would cover the full cost of professional day care for pre-school children in most low-income families.

The Bush and Schulze proposals differ fundamentally from the Dodd-Kildee ABC legislation. The two approaches to child care concerns reflect differing views of the role of families in American society. Proponents of ABC believe that the government, not parents, should determine how American children should be raised. The vast majority of Americans, with President Bush, recognize that parents and not bureaucrats know best how to address family needs.

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For further information:

Robert Rector, "The American Family and Day-Care," *Heritage Foundation Issue Bulletin* No. 138, April 6, 1988.

Robert Rector, "The 'ABC' Child Care Bill: An Attempt to Bureaucratize Motherhood," *Heritage Foundation Issue Bulletin* No. 145, October 6, 1988.

Sandra Hofferth, The Urban Institute, "What is the Demand for and Supply of Child Care in the U.S." Paper presented at the Family Impact Seminar, Washington, D.C., January 13, 1989.