

December 11, 1995

BALANCED BUDGET TALKING POINTS #5: CLINTON'S \$300-PER-CHILD TAX CUT PLAN DENIES TAX RELIEF TO 23 MILLION CHILDREN

Scott A. Hodge
Grover M. Hermann Fellow
in Federal Budgetary Affairs

Now, what the Congress wants to do is to roll back that working family's [Earned Income Tax Credit], in a way that will impose a tax increase averaging \$500 a family on families least able to pay it. This is a tax hike that literally will push many working families back into poverty.

— President Bill Clinton, October 7, 1995

The White House charged in October that Congress's balanced budget and tax cut plan would raise taxes on families earning below \$30,000, because of the proposed congressional reforms in the Earned Income Tax Credit (EITC). Yet a comparison of President Clinton's just-released budget (with its provision for a \$300-per-child tax credit for dependent children below age 13 in families with annual incomes below \$75,000¹) and the Balanced Budget Act vetoed by Clinton on Wednesday (with its \$500-per-child tax cut for all children in families earning up to \$110,000²) shows that the congressional plan would benefit 5.4 million more low-income working families with children than the Clinton plan. This is so even after accounting for the changes in the EITC in the Balanced Budget Act. The group especially hit under the Clinton budget are many families with children earning below \$24,000 per year, who would be denied the \$300 child credit under the Clinton plan (receiving only the EITC) and who would be eligible for both the \$500 child credit and the EITC under the congressional plan. JYI #78/95

¹ The Administration's \$300 per-child credit begins phasing out for families with incomes above \$60,000 and reaches zero at \$75,000 in family income. The credit increases in value to \$500 per child after 1998.

² For taxpayers filing jointly with incomes above \$110,000 the credit phases out at a rate of \$25 for each \$1,000 above the threshold (a range of \$20,000), thus fully phasing out at \$130,000 in income. For families with two children, the two credits this family is eligible for are fully phased out at \$150,000 in income. For single filers, the credit begins to phase out at \$75,000 in income.

Overall, the \$500-per-child tax credit in Congress's balanced budget and tax cut plan would benefit 23 million more children than the Administration's \$300-per-child credit.

Congress's plan would give tax relief to 10.4 million families with children who would

receive no tax relief under the Clinton plan. In addition, there would be millions of families in which at least one sibling would receive tax relief under Clinton but other siblings would not. Taken together, the total number of children not qualifying for any tax relief under Clinton would be 23 million less than under Congress's plan. These children would receive \$15.4 billion in tax relief under Congress's plan but nothing under Clinton's plan.

There are three major reasons why the Clinton tax cut plan ends up denying tax relief to so many families with children:

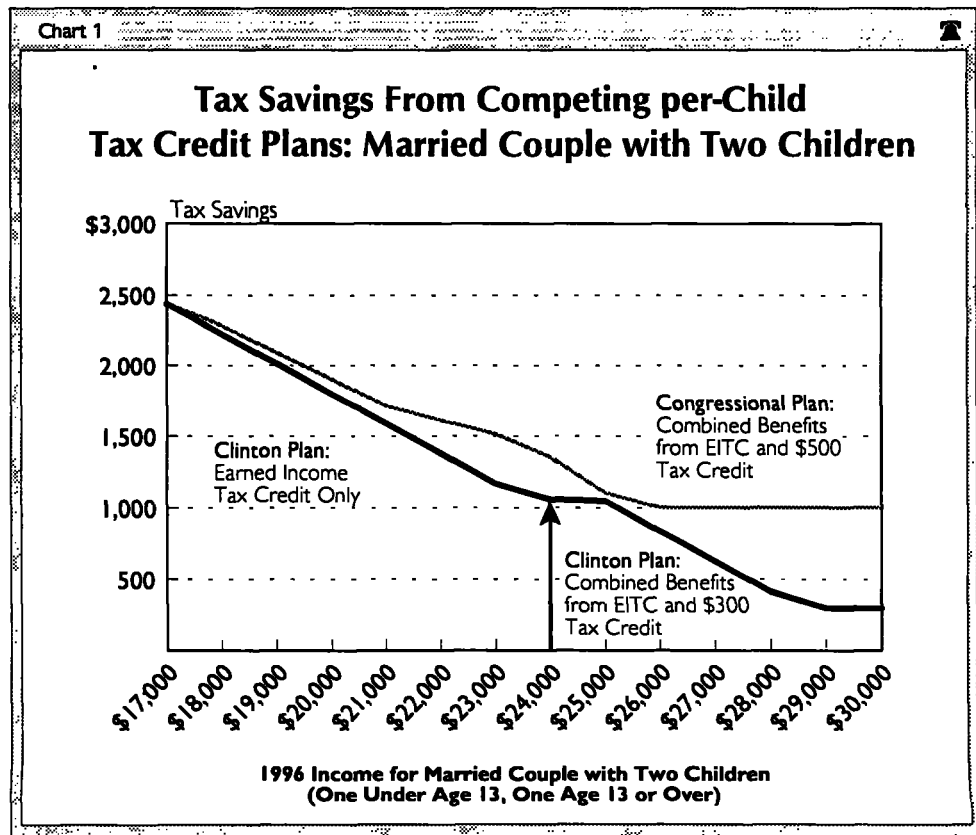
Reason #1: Clinton's tax cut only benefits families with children under age 13. Since roughly 25 percent of all children are over age 12, millions of families are denied a tax cut just when the cost of raising that child becomes more expensive. This provision alone denies tax relief to the

families of at least 2.8 million children earning under \$30,000 per year. This restriction also reduces the average tax cut per family because many families have children below age 13 and children age 13 or older. Indeed, the average tax cut per family under the Clinton plan is \$442, but the average tax cut under Congress's plan is \$856 per family.

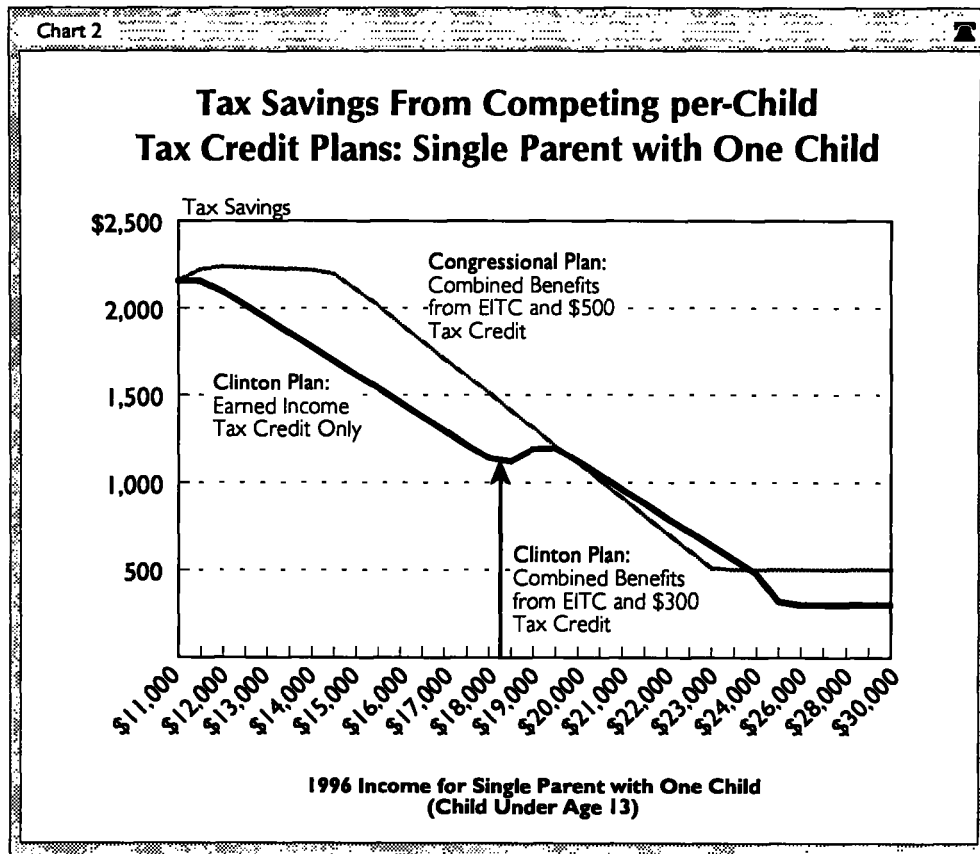
Table 1

Income at Which Family Becomes Eligible for Tax Cut

Family Structure	Congressional \$500 per Child	Clinton \$300 per Child
1 Parent, 1 Child	\$ 11,500	\$ 18,500
2 Parents, 1 Child	14,000	20,000
2 Parents, 2 Children	17,000	24,000



Reason #2: Clinton's tax cut only benefits families earning up to \$75,000 per year. While some 88 percent of all children live in families earning below \$75,000 per year, this income restriction denies \$2.6 billion in tax relief to nearly 6 million families with children, compared with Congress's plan. Many of these families would by no means consider



themselves "rich." For example, a federal worker earning \$40,000 per year and his school teacher spouse earning \$35,000 could easily find themselves denied tax relief under the Clinton plan.

Reason #3: The Clinton plan requires low-income families to deduct their EITC benefits from their income tax bill before they can take the \$300-per-child tax credit. By contrast, Congress's plan allows a low-income family to take the \$500-per-child tax credit first, and then receive the full measure of the EITC on top of the child credit. As the following table shows, as a result of this difference in which the tax credit is taken versus the EITC, a family with two children would have to earn \$24,000 annually before becoming eligible for the Clinton credit. By contrast, under the Balanced Budget Act this family would become eligible for the credit at roughly \$17,000 in annual income.

Example: Say a married couple with two children earning \$23,000 per year pays \$908 in income taxes. To calculate how much of a tax cut they would receive under the Clinton plan, this family must first deduct roughly \$1,170 in EITC benefits from their \$908 income tax bill, which results in zero available income taxes from which to deduct the \$600 tax credit they might otherwise be eligible to receive. However, under Congress's \$500-per-child tax credit plan, this family would first take a tax deduction of \$908 (although their two children would otherwise give them \$1,000 tax credit, the value of the tax deduction cannot exceed their income tax liability). Then they would receive, in addition, their full \$1,170 in EITC benefits (\$1,514 after the congressional reforms).

Combined, these three elements of the Clinton plan make it substantially inferior to Congress's \$500-per-child tax credit, even considering the reforms in the EITC. Specifically:

- Clinton's \$300-per-child tax credit plan would benefit 23 million fewer children, than Congress's \$500-per-child tax credit plan. Some 10.4 million families would get no tax relief under Clinton but would under Congress's plan. Millions of other families would receive reduced tax relief because some of their children would qualify under Congress's plan but not under Clinton's. Taken together, these families would be denied \$15 billion per year in tax cuts.
- Compared with Congress's \$500-per-child tax cut plan, the Clinton plan would deny tax relief to 5.4 million children in families earning below \$30,000 per year in income. Under Congress's plan, these same families would receive \$2.3 billion in tax cuts.
- Under the Clinton plan, a single parent with one child would have to earn over \$18,500 per year to become eligible for the \$300-per-child tax cut. Under Congress's plan, this parent would begin getting tax relief with just over \$11,500 in annual income.
- Under the Clinton plan, a married couple with two children would have to make \$24,000 per year to become eligible for the \$300-per-child tax cut. Under Congress's plan, this family would begin getting tax relief at \$17,000 in annual income.
- Even after accounting for reforms in the Earned Income Tax Credit, families with two children earning below \$30,000 per year would, on average, receive \$132 more each year in tax cuts than under the Clinton plan. Single parents with one child earning below \$30,000 annually would receive \$187 more tax relief on average than under the Clinton plan. Even this assumes that both of these families have children under age 13 (and thus eligible for the Clinton credit). Since 25 percent of all children are above the age of 12, many of these families would receive far less tax relief on average under the Clinton plan. Congress's plan gives an average of \$856 in tax relief per family, whereas the Clinton plan gives an average of \$442 per family.

**FAMILIES AND CHILDREN DENIED TAX RELIEF
UNDER CLINTON \$300 PER-CHILD TAX CREDIT PLAN**

STATE	Number of Families Receiving Tax Relief Under Congress's Plan, But No Tax Relief Under Clinton's Plan	Number of Children Qualifying for Tax Relief Under Congress's Plan, But Not Under Clinton's Plan*	Amount of Tax Relief The Families of These Qualifying Children Would Receive Under Congress's Plan
Alabama	167,619	337,656	\$200,308,581
Alaska	27,994	65,389	\$44,483,086
Arizona	157,461	312,071	\$209,607,828
Arkansas	91,883	195,403	\$116,783,516
California	1,259,990	2,852,282	\$1,832,657,737
Colorado	116,390	299,573	\$214,098,665
Connecticut	149,995	306,258	\$207,284,595
Delaware	31,484	65,423	\$41,481,069
DC	19,020	36,810	\$18,671,719
Florida	480,996	1,016,218	\$678,554,361
Georgia	311,409	662,558	\$413,187,715
Hawaii	48,758	109,772	\$71,914,710
Idaho	40,585	119,969	\$77,253,634
Illinois	459,891	1,130,102	\$784,549,950
Indiana	239,120	507,517	\$337,635,124
Iowa	99,697	257,303	\$180,088,535
Kansas	104,876	228,709	\$159,132,744
Kentucky	146,044	299,464	\$204,914,313
Louisiana	175,427	388,689	\$239,877,993
Maine	45,663	112,566	\$77,705,168
Maryland	228,574	440,041	\$291,763,713
Massachusetts	259,614	556,677	\$380,695,719
Michigan	385,074	881,090	\$594,279,003
Minnesota	201,702	437,115	\$297,569,502
Mississippi	79,463	186,366	\$123,262,847
Missouri	168,677	370,909	\$247,840,047
Montana	28,879	69,674	\$54,229,514
Nebraska	57,738	153,349	\$102,235,553
Nevada	53,237	111,557	\$84,807,641
New Hampshire	46,669	106,627	\$73,661,338
New Jersey	391,023	860,676	\$560,381,354
New Mexico	76,046	162,118	\$101,888,871
New York	733,904	1,609,683	\$1,052,513,704
North Carolina	305,591	577,635	\$381,848,262
North Dakota	23,945	60,255	\$39,548,791
Ohio	432,951	990,318	\$704,449,974
Oklahoma	147,312	302,086	\$191,974,223
Oregon	118,071	274,160	\$188,777,116
Pennsylvania	469,142	1,179,040	\$798,131,697
Rhode Island	31,032	78,171	\$50,179,961
South Carolina	161,532	329,089	\$204,056,716
South Dakota	29,727	73,758	\$45,219,635
Tennessee	179,510	428,266	\$271,587,356
Texas	734,450	1,663,955	\$1,041,091,287
Utah	62,308	232,187	\$160,292,329
Vermont	22,318	44,626	\$35,960,357
Virginia	348,092	679,442	\$448,176,136
Washington	202,648	475,739	\$359,770,405
West Virginia	52,807	125,238	\$81,507,963
Wisconsin	201,567	457,518	\$329,781,706
Wyoming	20,290	48,945	\$35,389,234
Total	10,428,195	23,270,042	\$15,443,062,997

* These numbers include children who receive no tax relief under Clinton but are in families where a sibling qualifies for tax relief.

**TAX RELIEF DENIED TO FAMILIES EARNING
BELOW \$30,000 UNDER CLINTON PLAN**

State	Children in Families Earning Below \$30,000 Not Qualifying for Tax Relief Under Clinton Plan	Tax Relief These Families Would Get Under Congress's Plan
Alabama	137,853	\$46,457,494
Alaska	11,557	\$5,340,927
Arizona	100,630	\$41,678,905
Arkansas	84,069	\$34,057,245
California	649,655	\$269,977,318
Colorado	76,396	\$35,617,667
Connecticut	40,383	\$20,706,756
DC	14,334	\$5,842,660
Delaware	15,326	\$5,502,418
Florida	309,951	\$128,281,662
Georgia	178,844	\$75,501,089
Hawaii	20,560	\$7,752,955
Idaho	22,380	\$9,356,513
Illinois	205,553	\$103,202,942
Indiana	113,009	\$49,469,708
Iowa	68,323	\$34,554,199
Kansas	63,393	\$23,885,298
Kentucky	62,737	\$36,037,256
Louisiana	102,349	\$44,422,373
Maine	35,244	\$14,866,233
Maryland	104,645	\$38,401,509
Massachusetts	75,485	\$33,868,723
Michigan	190,534	\$77,043,897
Minnesota	61,177	\$27,151,656
Mississippi	65,411	\$27,478,846
Missouri	106,433	\$37,138,477
Montana	16,805	\$9,263,216
Nebraska	33,263	\$12,295,636
Nevada	31,284	\$14,148,952
New Hampshire	27,056	\$11,149,796
New Jersey	130,932	\$62,446,131
New Mexico	48,036	\$16,309,844
New York	363,200	\$156,411,546
North Carolina	167,171	\$75,915,133
North Dakota	11,927	\$4,446,928
Ohio	212,323	\$98,351,276
Oklahoma	120,686	\$46,833,370
Oregon	54,097	\$27,644,625
Pennsylvania	191,791	\$91,660,889
Rhode Island	21,885	\$9,699,586
South Carolina	100,180	\$34,489,776
South Dakota	20,538	\$7,410,588
Tennessee	105,302	\$43,259,282
Texas	427,275	\$196,537,354
Utah	35,043	\$15,219,397
Vermont	15,016	\$7,201,848
Virginia	154,738	\$75,738,033
Washington	42,429	\$27,154,759
West Virginia	41,339	\$17,078,628
Wisconsin	82,320	\$35,147,891
Wyoming	9,552	\$5,479,166
Total	5,380,419	\$2,334,888,376

Source: US Census Current
Population Survey, 1994

**CLINTON PLAN VS. CONGRESS'S PLAN:
MARRIED COUPLE WITH 2 CHILDREN, 1 CHILD OVER AGE 12**

Gross Earned Income for a Family of Four in 1996	Clinton's \$300 Per-Child Tax Credit Plan			Congress's \$500 Per-Child Tax Credit Plan		
	EITC Benefits in 1996 Under Current Law	Amount of Tax Relief from Clinton \$300 Per- Child Tax Credit	Combined Benefits from EITC and \$300 Per-Child Tax Credit	EITC Benefits in 1996 After Congressional Reforms	Amount of Tax Relief from Congress's \$500 Per-Child Tax Credit	Combined Benefits from EITC and \$500 Per-Child Tax Credit
\$11,000	\$3,564	\$0	\$3,564	\$3,564	\$0	\$3,564
\$11,500	\$3,564	\$0	\$3,564	\$3,564	\$0	\$3,564
\$12,000	\$3,486	\$0	\$3,486	\$3,486	\$0	\$3,486
\$12,500	\$3,381	\$0	\$3,381	\$3,380	\$0	\$3,380
\$13,000	\$3,275	\$0	\$3,275	\$3,275	\$0	\$3,275
\$13,500	\$3,170	\$0	\$3,170	\$3,170	\$0	\$3,170
\$14,000	\$3,065	\$0	\$3,065	\$3,065	\$0	\$3,065
\$14,500	\$2,960	\$0	\$2,960	\$2,959	\$0	\$2,959
\$15,000	\$2,854	\$0	\$2,854	\$2,854	\$0	\$2,854
\$15,500	\$2,749	\$0	\$2,749	\$2,749	\$0	\$2,749
\$16,000	\$2,644	\$0	\$2,644	\$2,643	\$0	\$2,643
\$16,500	\$2,538	\$0	\$2,538	\$2,538	\$0	\$2,538
\$17,000	\$2,433	\$0	\$2,433	\$2,433	\$8	\$2,440
\$17,500	\$2,328	\$0	\$2,328	\$2,283	\$83	\$2,365
\$18,000	\$2,222	\$0	\$2,222	\$2,123	\$158	\$2,281
\$18,500	\$2,117	\$0	\$2,117	\$1,954	\$233	\$2,186
\$19,000	\$2,012	\$0	\$2,012	\$1,784	\$308	\$2,092
\$19,500	\$1,907	\$0	\$1,907	\$1,615	\$383	\$1,997
\$20,000	\$1,801	\$0	\$1,801	\$1,445	\$458	\$1,903
\$20,500	\$1,696	\$0	\$1,696	\$1,276	\$533	\$1,808
\$21,000	\$1,591	\$0	\$1,591	\$1,106	\$608	\$1,714
\$21,500	\$1,485	\$0	\$1,485	\$981	\$683	\$1,664
\$22,000	\$1,380	\$0	\$1,380	\$856	\$758	\$1,614
\$22,500	\$1,275	\$0	\$1,275	\$731	\$833	\$1,564
\$23,000	\$1,169	\$0	\$1,169	\$606	\$908	\$1,514
\$23,500	\$1,064	\$0	\$1,064	\$481	\$983	\$1,464
\$24,000	\$959	\$99	\$1,058	\$356	\$1,000	\$1,356
\$25,000	\$748	\$300	\$1,048	\$106	\$1,000	\$1,106
\$26,000	\$538	\$300	\$838	\$0	\$1,000	\$1,000
\$27,000	\$327	\$300	\$627	\$0	\$1,000	\$1,000
\$28,000	\$116	\$300	\$416	\$0	\$1,000	\$1,000
\$29,000	\$0	\$300	\$300	\$0	\$1,000	\$1,000
\$30,000	\$0	\$300	\$300	\$0	\$1,000	\$1,000

**CLINTON PLAN VS. CONGRESS'S PLAN:
SINGLE PARENT WITH 1 CHILD UNDER AGE 13**

Gross Earned Income for a Single Parent with One Child in 1996	Clinton's \$300 Per-Child Tax Credit Plan			Congress's \$500 Per-Child Tax Credit Plan		
	EITC Benefits in 1996 Under Current Law	Amount of Tax Relief from Clinton \$300 Per- Child Tax Credit	Combined Benefits from EITC and \$300 Per-Child Tax Credit	EITC Benefits in 1996 After Congressional Reforms	Amount of Tax Relief from Congress's \$500 Per-Child Tax Credit	Combined Benefits from EITC and \$500 Per-Child Tax Credit
\$11,000	\$2,156	\$0	\$2,156	\$2,156	\$0	\$2,156
\$11,500	\$2,156	\$0	\$2,156	\$2,156	\$68	\$2,223
\$12,000	\$2,096	\$0	\$2,096	\$2,096	\$143	\$2,239
\$12,500	\$2,017	\$0	\$2,017	\$2,017	\$218	\$2,234
\$13,000	\$1,937	\$0	\$1,937	\$1,937	\$293	\$2,229
\$13,500	\$1,857	\$0	\$1,857	\$1,857	\$368	\$2,224
\$14,000	\$1,777	\$0	\$1,777	\$1,777	\$443	\$2,219
\$14,500	\$1,697	\$0	\$1,697	\$1,697	\$500	\$2,197
\$15,000	\$1,617	\$0	\$1,617	\$1,611	\$500	\$2,111
\$15,500	\$1,537	\$0	\$1,537	\$1,511	\$500	\$2,011
\$16,000	\$1,457	\$0	\$1,457	\$1,411	\$500	\$1,911
\$16,500	\$1,377	\$0	\$1,377	\$1,311	\$500	\$1,811
\$17,000	\$1,297	\$0	\$1,297	\$1,211	\$500	\$1,711
\$17,500	\$1,218	\$0	\$1,218	\$1,111	\$500	\$1,611
\$18,000	\$1,138	\$0	\$1,138	\$1,011	\$500	\$1,511
\$18,500	\$1,058	\$60	\$1,118	\$911	\$500	\$1,411
\$19,000	\$978	\$215	\$1,193	\$811	\$500	\$1,311
\$19,500	\$898	\$300	\$1,198	\$711	\$500	\$1,211
\$20,000	\$818	\$300	\$1,118	\$611	\$500	\$1,111
\$20,500	\$738	\$300	\$1,038	\$511	\$500	\$1,011
\$21,000	\$658	\$300	\$958	\$411	\$500	\$911
\$21,500	\$578	\$300	\$878	\$311	\$500	\$811
\$22,000	\$498	\$300	\$798	\$211	\$500	\$711
\$22,500	\$419	\$300	\$719	\$111	\$500	\$611
\$23,000	\$339	\$300	\$639	\$11	\$500	\$511
\$23,500	\$259	\$300	\$559	\$0	\$500	\$500
\$24,000	\$179	\$300	\$479	\$0	\$500	\$500
\$25,000	\$19	\$300	\$319	\$0	\$500	\$500
\$26,000	\$0	\$300	\$300	\$0	\$500	\$500
\$27,000	\$0	\$300	\$300	\$0	\$500	\$500
\$28,000	\$0	\$300	\$300	\$0	\$500	\$500
\$29,000	\$0	\$300	\$300	\$0	\$500	\$500
\$30,000	\$0	\$300	\$300	\$0	\$500	\$500