

TAX POLICY CENTER
URBAN INSTITUTE & BROOKINGS INSTITUTION

**BOOSTING WAGES OR HELPING CHILDREN?
UNDERSTANDING HOW NEW EARNINGS AND CHILD TAX
CREDIT PROPOSALS IMPACT INCOME INEQUALITY AND
VULNERABLE CHILDREN**

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ABSTRACT

The earned income tax credit (EITC) and child tax credit (CTC) provide substantial benefits to working families with children. The EITC also provides modest benefits to workers without custodial children, often called “childless workers” for tax purposes. Because the amount of credit childless workers can qualify for is modest, almost all benefits from both credits flow to families with children. Together, the credits lift almost 9 million people out of poverty each year (Fox 2019).

Policymakers are looking to build on the success of these credits and further address the joint issues of income inequality between very high-income people and everyone else (Congressional Budget Office 2019) - fueled in part by wage stagnation (Mishel et al 2018) and relatively poor outcomes for low-income children (Duncan, Ziol-Guest, and Kalil 2010; Ratcliffe 2015). Coupled with the CTC increase that was enacted in 2017 being set to expire after 2025, legislators are considering the next phase of work and child subsidies.

We analyze four expansions to the credits: The Working Families Tax Relief Act (WFTRA) – introduced by Senators Bennet (D-CO), Brown (D-OH), Durbin (D-IL), and Wyden (D-OR); The LIFT (Livable Incomes for Families Today) the Middle Class Act (LIFT) – introduced by Senator Harris (D-CA); The American Families Act (AFA) – introduced by Senators Bennet (D-CA) and Brown (D-OH) and Representatives DelBene (D-WA) and DeLauro (D-CT); and The Cost-of-Living Refund (CLR) – introduced by Senator Brown and Representatives Khanna (D-CA), Watson-Coleman (D-NJ), and Tlaib (D-MI).

All the proposals analyzed in this paper (as is this case with the EITC and CTC) would provide benefits to both families with children and those with very low-incomes, illustrating that a proposal can focus primarily on one goal but still accomplish others, something we discuss in detail. However, the starting point has implications for how broad the policy will be and likewise, how much the proposal will cost. For instance, a policy focused on low-income children could simultaneously reduce income inequality and improve outcomes for children, but not affect income inequality among people without children.

As choices are made, policymakers must keep in mind that any effort to increase the relative benefits for one group inevitably means a decrease in the relative, though not necessarily the absolute benefits, for other groups. Along with analyzing the proposals, we modify important parameters of each proposal to illustrate how different choices would alter inherent trade-offs.

ABSTRACT

ABOUT THE TAX POLICY CENTER

The Urban-Brookings Tax Policy Center aims to provide independent analyses of current and longer-term tax issues and to communicate its analyses to the public and to policymakers in a timely and accessible manner. The Center combines top national experts in tax, expenditure, budget policy, and microsimulation modeling to concentrate on areas of tax policy that are critical to future debate.

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INTRODUCTION

The earned income tax credit (EITC) and child tax credit (CTC) provide substantial benefits to working families with children.ⁱ The EITC also provides modest benefits to workers without custodial children, often called “childless workers” for tax purposes.ⁱⁱ Because the amount of credit childless workers can qualify for is modest, almost all benefits from both credits flow to families with children. Together, the credits lift almost 9 million people out of poverty each year (Fox 2019).

Policymakers are looking to build on the success of these credits and further address the joint issues of income inequality between very high-income people and everyone else (Congressional Budget Office 2019) - fueled in part by wage stagnation (Mishel et al 2018) and relatively poor outcomes for low-income children (Duncan, Ziol-Guest, and Kalil 2010; Ratcliffe 2015). Coupled with the CTC increase that was enacted in 2017 being set to expire after 2025, legislators are reconsidering the next phase of work and child subsidies.

We analyze four large-scale proposals that have been introduced in 2019:

- The Working Families Tax Relief Act (WFTRA) – introduced by Senators Bennet (D-CO), Brown (D-OH), Durbin (D-IL), and Wyden (D-OR);
- The LIFT (Livable Incomes for Families Today) the Middle Class Act (LIFT) – introduced by Senator Harris (D-CA);
- The American Families Act (AFA) – introduced by Senators Bennet (D-CA) and Brown (D-OH) and Representatives DelBene (D-WA) and DeLauro (D-CT); and
- The Cost-of-Living Refund (CLR) – introduced by Senator Brown and Representatives Khanna (D-CA), Watson-Coleman (D-NJ), and Tlaib (D-MI).

One can evaluate options for modifying the earnings and child tax credits along many dimensions, including work incentives, marriage penalties, simplicity, and administrability, as described in Maag et. al 2019. For each proposal, this analysis focuses on total fiscal cost and the distribution of benefits to see how well policies either reduce income inequality or provide additional resources to low-income families with children – a step towards ameliorating relatively poor outcomes for low-income children.

In the proposals we analyze, policymakers essentially consider three choices: increasing the child tax credit, placing primary focus on the problem of relatively poor outcomes for low-income children; increasing the EITC for households with children, which means focusing on income inequality for families with children; and increasing the EITC for childless workers, essentially focusing on income inequality for a portion of the population largely excluded from tax benefits today.

All the proposals analyzed in this paper (as is this case with the EITC and CTC) would provide benefits to both families with children and those with very low-incomes, illustrating that a proposal can focus primarily on one goal but still accomplish others, something we discuss in detail. However, the starting point has implications for how broad the policy

will be and likewise, how much the proposal will cost. For instance, a policy focused on low-income children could simultaneously reduce income inequality and improve outcomes for children, but not affect income inequality among people without children.

As choices are made, policymakers must keep in mind that any effort to increase the relative benefits for one group inevitably means a decrease in the relative, though not necessarily the absolute benefits, for other groups. If, for example, the childless EITC was expanded and no other changes to the EITC were made, the share of total EITC benefits going to families with children would decline, even though the absolute level of benefits going to families with children would be unchanged. Along with analyzing the proposals, we modify important parameters of each proposal to illustrate how different choices would alter these inherent trade-offs.

HOW THE TCJA TEMPORARILY AFFECTED TAX BENEFITS FOR WORK AND FAMILY

Prior to the Tax Cuts and Jobs Act (TCJA) of 2017, both Republicans such as then Speaker Ryanⁱⁱⁱ and Democrats such as President Obama (Executive Office of the President and US Treasury Department 2014 and Matthews 2015) had proposed expanding the “childless” EITC. The TCJA, however, left the EITC—and, consequently, the incomes of low-income childless families—largely unchanged. That is, the TCJA delivered an average annual tax cut of \$1,610 (across all families) at a cost of \$1.9 trillion over the ten-year budget window, but childless families in the bottom one-fifth of the income distribution saw their taxes decline by an average of about \$25 in 2018, relative to prior law (Congressional Budget Office 2018; Tax Policy Center Table T17-0312).^{iv} Very low-income families without children generally do not owe federal income tax and therefore would only have benefited from an expansion of refundable credits or a reduction in the other taxes that they pay.

Families with children generally fared better under the TCJA. Those in the lowest one-fifth of the income distribution saw their taxes drop, on average, by \$210 in 2018. In part, this was due to changes in how families are taxed (Maag 2019). The maximum benefit from the CTC was temporarily increased from \$1,000 per qualifying child under 17 to \$2,000 per child under 17, and the income range eligible for benefits was increased. Up to \$1,400 of this credit could be received as a refund (up from \$1,000 under prior law, but less than the full amount of the credit). Other dependents became eligible for a new \$500 nonrefundable credit. These changes continued the tax code’s recognition that families raising children have less ability to pay tax than those not raising children. Offsetting some of these changes, the TCJA temporarily eliminated the personal exemption for dependents, a tax benefit that allowed families to exempt from taxation a fixed amount of income for each child and other dependents.

Additional changes in the TCJA included an increase in the standard deduction (which allows taxpayers to exempt a fixed amount of income based on whether the tax unit is a single person, a single parent, or a married couple filing a joint return), limitations to certain itemized deductions, and reduced tax rates. Most of these changes did not further increase benefits or reduce taxes for low-income families.

Almost all the changes in the TCJA directed at individuals are scheduled to expire at the end of 2025, limiting the fiscal cost of the bill but raising the likelihood that additional legislation might continue some of the ‘temporary’ changes or spur a new set of tax policies directed at low- and middle-income workers, families with children, or both.

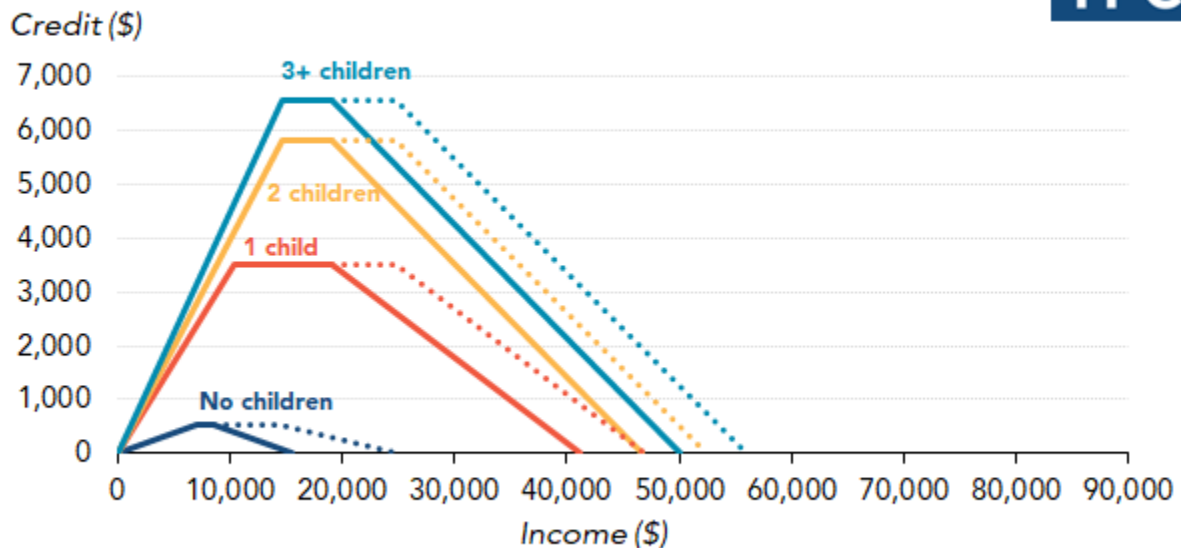
We use the Tax Policy Center’s microsimulation model to describe current benefits from the CTC and EITC for families with and without children. Estimates from proposals that follow build on these existing benefits.

THE EITC

The EITC benefits low- and moderate-income working families by providing them with a tax credit equal to a fixed percentage of earnings, starting with their first dollar of earnings until the credit reaches its maximum (figure 1). The credit rate varies based on the number of children in the family. For a single worker with one child, for example, the credit increases by 34 cents for each additional dollar of earnings until it reaches a maximum credit of around \$3,500, which represents earnings of a bit more than \$10,000. The maximum credit is paid until earnings or income reach a higher threshold, at which point the credit begins to phase out. For a worker with one child, any income above roughly \$19,000 reduces their credit by about 16 cents for each dollar of additional income. Workers with one child receive no credit once their income reaches roughly \$41,100. Married couples can earn about \$6,000 more than single people before their benefits begin to phase out. Otherwise, the EITC does not vary based on marital status. Workers with two or three qualifying children have a larger credit rate and can receive a larger maximum credit. Workers with no children have a lower, modest, credit rate.

The EITC is refundable. This means that workers receive the full value of the credit, regardless of how much income tax they owe. The credit first offsets any income taxes owed, any additional amount a person qualifies for will be paid out as a tax refund, along with any other tax refund amounts the worker might be owed.

FIGURE 1
Earned Income Tax Credit, 2019



Source: Urban-Brookings Tax Policy Center.

Note: Assumes all income comes from earnings. Dotted lines represented married couples.

DESCRIPTION OF THE EITC AND CTC

Each year, the maximum amount of income eligible for the credit and the point where the credit begins to phase out increase with inflation. The pace of those future increases was slowed by the Tax Cuts and Jobs Act of 2017, which indexes most income tax parameters to the chained Consumer Price Index for urban consumers (C-CPI-U), a price index that typically increases more slowly than the regular CPI-U.

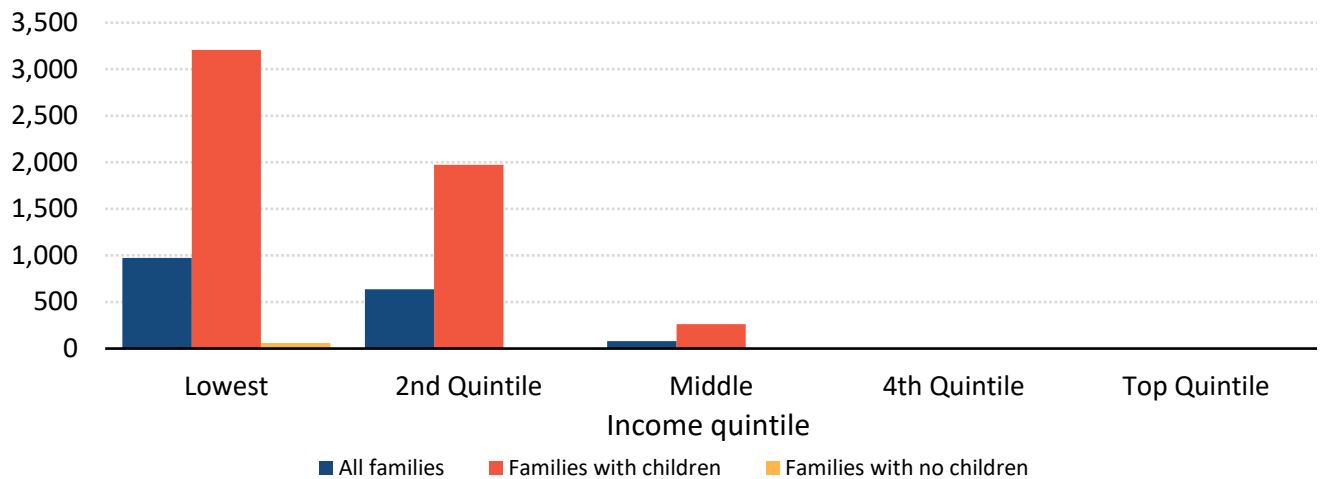
About 15 percent of all families benefit from the EITC. Among families with children, 37 percent of families receive benefits from the credit.⁹ Families with children receive the highest average benefits, and these decline as income increases (figure 2). Families with no custodial children receive very small benefits from the EITC. Across all groups, families in the lowest income quintile receive the largest average benefits. Each income quintile represents families in a 20 percent segment of the income distribution.

FIGURE 2

Average EITC Benefits

Families with children vs. families without children

Average credit (\$)



Source: Tax Policy Center microsimulation model 0319-1.

Note: Each quintile represents families in a 20 percent segment of the income distribution. Lowest quintile represents families in the lowest 20 percent of the income distribution.

THE CHILD TAX CREDIT (CTC)

The CTC grants taxpayers a credit of up to \$2,000 for each child under age 17 who is a citizen. Typically, the child must reside with the taxpayer, though there are exceptions to this rule. The CTC is partially refundable: if the credit exceeds taxes owed, taxpayers can receive up to \$1,400 per child of the balance as a refund, known as the additional child tax credit (ACTC) or refundable CTC. Benefits of the ACTC are calculated as 15 percent of earnings in excess of \$2,500. For the most

DESCRIPTION OF THE EITC AND CTC

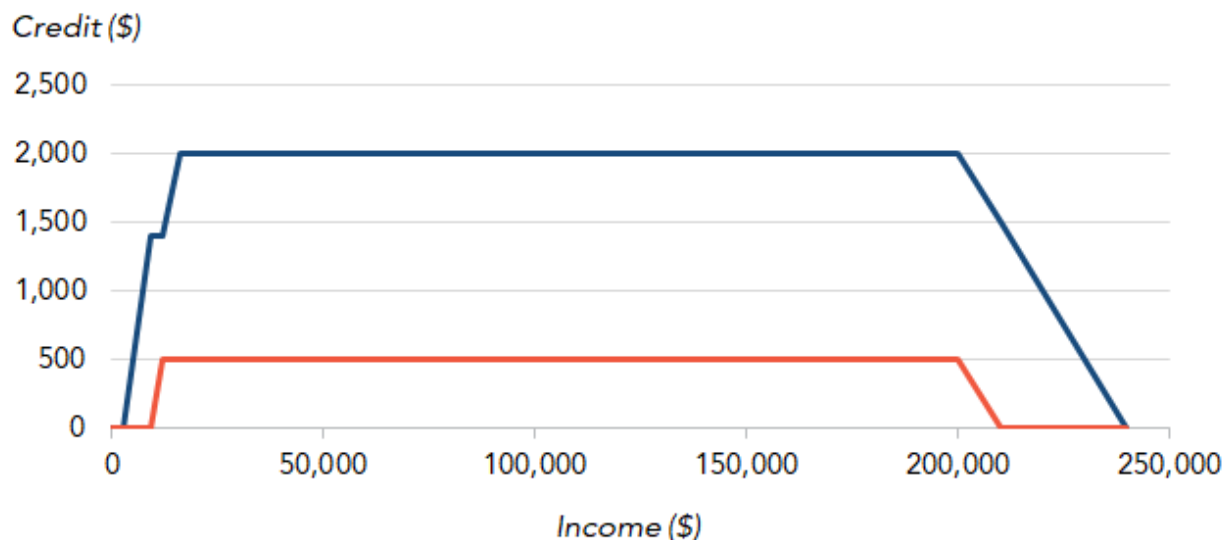
part, the CTC is not indexed for inflation so the real value of this benefit will decline over time. How much of the credit can be received as a refund is indexed for inflation. The credit is reduced by 5 percent of adjusted gross income (AGI) in excess of \$200,000 for single parents and \$400,000 for married couples (figure 3).

The CTC also provides a parallel \$500 nonrefundable credit to dependents who are not eligible for the \$2,000 CTC, known as the credit for other dependents. Before 2018, these individuals would not have qualified for a CTC but would have qualified for a personal exemption for dependents. Dependents who now qualify for the other dependent credit include children ages 17–18, children ages 19–24 and in school full time in at least five months of the year, and older dependents.

About 90 percent of families with children receive a benefit from the CTC. Those not receiving a benefit are families with no earnings, earnings under \$2,500, or incomes too high to benefit from the credit. This phase-in for non-taxpayers indicates that Congress wanted to focus the credit on workers with children, not to every family with children. Some reform proposals seek to shift focus and make the credit fully refundable, even to those who do not work in the paid labor force during the year.

FIGURE 3

Child Tax Credit, Single Parent One child, 2019



Source: Urban-Brookings Tax Policy Center calculations.

Note: Assumes all income comes from earnings, and child meets all tests to be a CTC-qualifying dependent. Credit for married parents begins to phase out at \$400,000 of income. Only citizen children qualify for the \$2,000 CTC for children under 17. Noncitizens under age 17 who meet the dependency tests of eligibility can qualify for the credit for other dependents.

DESCRIPTION OF THE EITC AND CTC

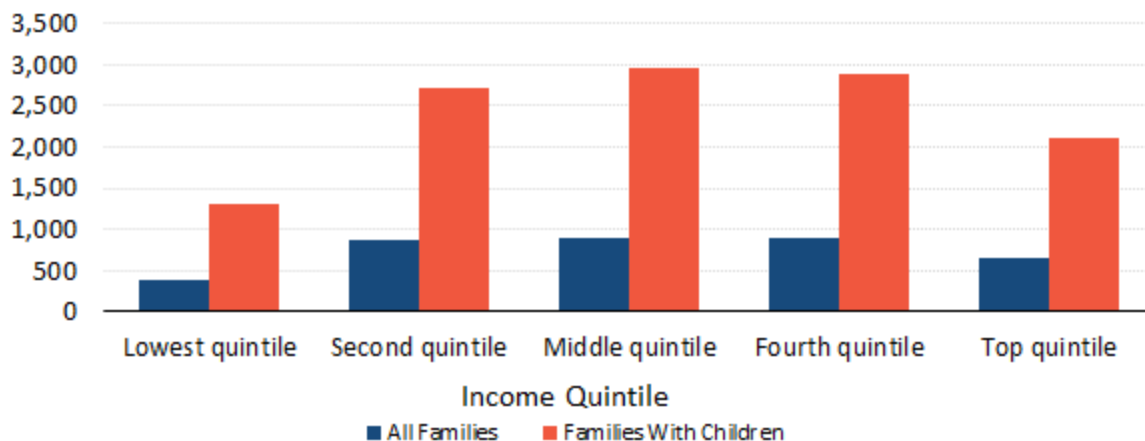
On average, families with children in the bottom 20 percent of the income distribution (lowest income quintile) receive \$1,304 from the credit. Families with children in the top two income quintiles receive benefits averaging over \$2,900 (figure 4). Benefits can average more than \$2,000 because families can have more than one child eligible for the CTC.

FIGURE 4

Average CTC Benefits, 2019 All families and families with children



Average credit (\$)



Source: Tax Policy Center microsimulation model version 0319-1.

Note: Each quintile represents families in a 20 percent segment of the income distribution. Lowest quintile represents families in the lowest 20 percent of the income distribution.

COMPARISON OF EITC AND CTC

Primary differences between the EITC and the CTC include the following: the CTC is available to taxpayers with much higher incomes than the EITC; workers must earn at least \$2,500 to be eligible for CTC benefits; and the size of the CTC scales for many families proportionately with the number of children, while the EITC provides the largest per child benefit for families with one child, with decreasing amounts for second and third children – and no additional benefit available for families with more than three children.

The EITC encourages many people to work because only people who are working can receive the credit and the credit phases in as income increases. The original legislation establishing the credit in 1975 was intended to offset payroll taxes and offer an alternative to the then-prevailing welfare program, Aid to Families with Dependent Children (AFDC), that gave the highest benefit to non-workers. Since inception, the EITC has been expanded many times, for many offsetting far more than payroll taxes; the largest expansions occurred in legislation in 1986, 1990, and 1993.

DESCRIPTION OF THE EITC AND CTC

Unlike AFDC (the predecessor to the Temporary Assistance for Needy Families program) and some other in-kind transfer programs which were criticized for reducing work incentives particularly among single mothers (Moffitt 1992) but also some married couples (Hoynes 1996), analyses of the EITC shows that the net effect of the credit is to encourage people to work (Eissa and Liebman 1996, Meyer and Rosenbaum 2001). This is particularly true among single parents, the large majority of people eligible for the EITC. Very few studies of how the CTC affects labor supply have been conducted, but the goal of the CTC – particularly today’s incarnation which provides benefits, as did the personal exemption for dependents, relatively high up the income scale – may be simply to support families with children. In addition, tax law has always recognized the difference in ability to pay taxes of families of different sizes. For instance, at \$75,000 of income, a one-person family may be able to live better while paying more taxes than an equal-income family of four, whose average income per person is \$18,750. The child credit, quite simply, could be thought of as an adjustment for ability to pay taxes.

Over the 10-year budget window, the current law EITC will deliver about \$700 billion in benefits. Almost 90 percent of benefits from the EITC go to workers in the bottom 40 percent of the income distribution (figure 5).

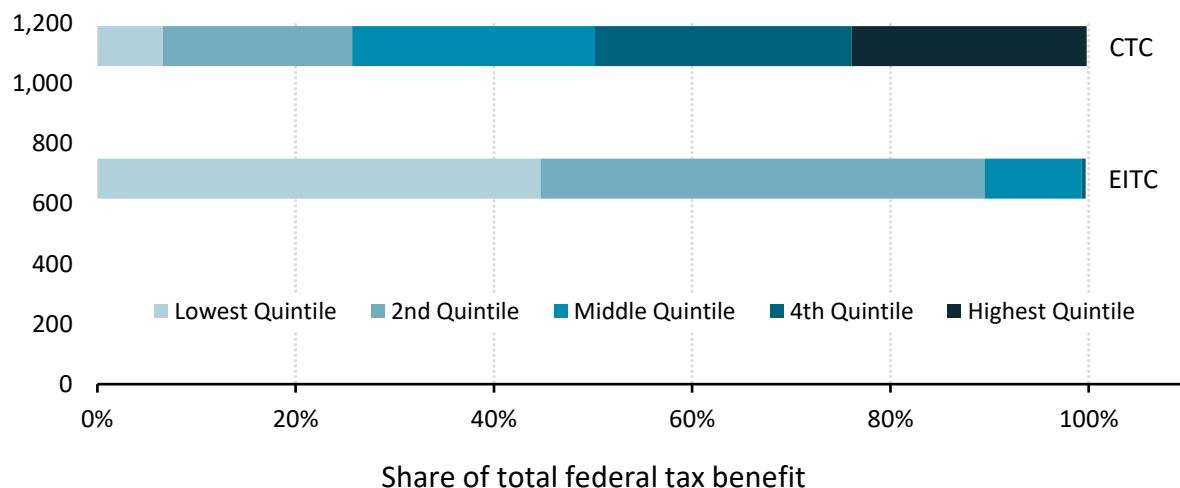
Over the 10-year budget window, the current law CTC will deliver about \$1,100 billion in benefits. Less than 10 percent of all benefits go to families in the bottom 20 percent of the income distribution and almost half of all benefits from the CTC go to families in the top 40 percent of the income distribution (figure 5).

FIGURE 5

Distribution of Total EITC and CTC Benefits, 2019 By income quintile



Estimated 10-year expenditures (\$ billions)



Source: Tax Policy Center microsimulation model version 0319-1, Tables T19-0026 (EITC) and T19-0062 (CTC).

Note: Expenditures estimated over fiscal years 2019-2028. Each quintile represents families in a 20 percent segment of the income distribution. Income for quintiles is defined as expanded cash income.

DESCRIPTION OF THE EITC AND CTC

Ignoring employment effects of the EITC and treating EITC and CTC as cash benefits in the supplemental poverty measure (SPM), the EITC and CTC lift more people out of poverty than any other means-tested program (Fox 2018). They do this in large part because they are refundable. Taxpayers can receive the entire EITC for which they qualify, even if they owe no income tax or less than their EITC. Taxpayers can receive up to \$1,400 per child under age 17 as a refundable CTC.

Several members of Congress and Democratic Presidential hopefuls have designed proposals that would use the tax code to provide additional assistance to low- and moderate-income workers and families with children. This, coupled with several major provisions affecting families being set to expire after 2025, makes future changes to these aspects of the tax code seem likely. To date, these proposals call for broad expansions to work and family tax credits, but have been largely proposed or discussed independently from specifying a way to offset the costs. Obviously, significant new revenue losses would further increase future budget deficits, which could force Congress to consider adjustments to these types of proposals.

We examine four major proposals and estimate their cost over the 10-year budget window from fiscal years 2019-2028. Given concerns about income inequality and poor outcomes for lower income children, we focus especially on how people in the bottom one-fifth of the income distribution will be affected by the various proposals, noting the differences among families with and without children. We also consider the total revenue costs of the proposals. These distributional and revenue results reveal some of the types of tradeoffs every proposal must consider.

All the proposals we examine satisfy several goals – including reducing income inequality and providing additional resources for families with children. All the policies, whether oriented more toward children or work will support many families with children in the bottom one-fifth of the income distribution because many parents work.

Because the current CTC provides benefits for almost all families with children, policies that simply augment this credit tend to be more expensive and provide benefits further up the income distribution than a policy that only focuses on low-income children. Child-focused policies will not address income inequality for families without children.

Policies that focus on increasing the benefits to work can end up providing benefits higher up the income distribution than the existing EITC, simply because at any given phase-out rate, it takes higher levels of income for the benefit to eventually be eliminated. Thus, simple EITC benefit expansions also tend to rise further up the income distribution, though not as far as CTC benefit expansions. The analysis we provide helps portray these inevitable trade-offs in cost, efficiency, and equity.

We provide a brief summary of each proposal analyzed, including a figure that illustrates the benefits (highlighting existing benefits in grey). We then include additional details about each proposal in a concluding table (Table 1).

THE LIVABLE INCOMES FOR FAMILIES TODAY (LIFT) THE MIDDLE CLASS ACT

Senator Kamala Harris (D-CA) proposes to raise the incomes of working families through a new tax proposal called the LIFT (Livable Incomes for Families Today) the Middle Class Act, which would add a new worker credit on top of the existing earned income tax credit (EITC). This new refundable tax credit would match up to \$3,000 of earnings for single people and

\$6,000 for married couples (see figure 6, table 1) who are at least 18 years old. Students who receive Pell grants could consider Pell grants as earnings when calculating their credit. The bill is designed primarily to reduce income inequality.

Unlike other credits designed to reward work – including the earned income tax credit – this new tax credit would deliver substantial benefits to workers without children at home. Unlike proposals to expand the childless portion of the EITC, it supports workers with low earnings who marry other low earners, rather than potentially increasing the marriage penalties for such workers.

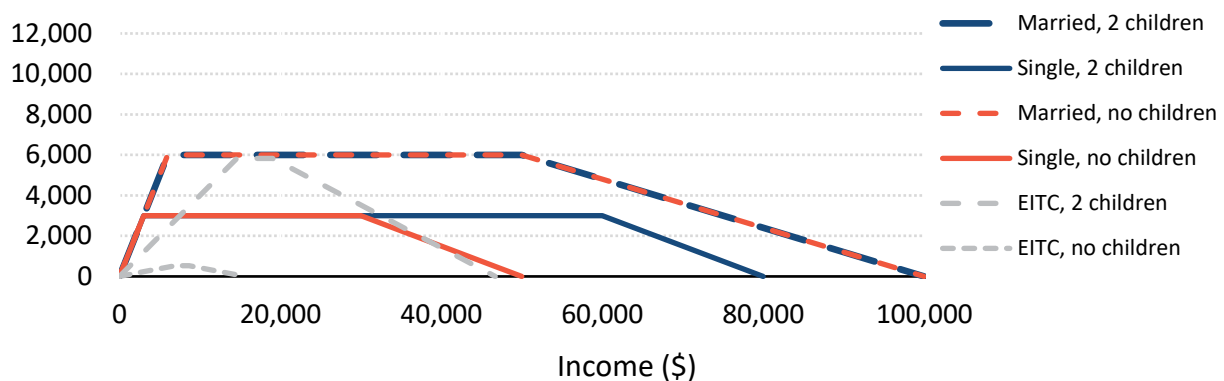
Because the credit is based on income and marital status – but not number of children, it should be more predictable to many people. This could make the credit easier to claim monthly, or on another regular schedule throughout the year – a schedule that could help stabilize often volatile incomes. Unlike the other proposals analyzed in this report, the LIFT Act benefits would be in addition to existing tax credits (figure 7). The LIFT Act does not make any changes to the CTC.

FIGURE 6

LIFT Act

Credit by filing status and number of children

Credit (\$)



Source: Authors' calculations.

Note: LIFT credit would supplement, not replace, existing EITC for eligible families. These calculations assume all income comes from earnings.

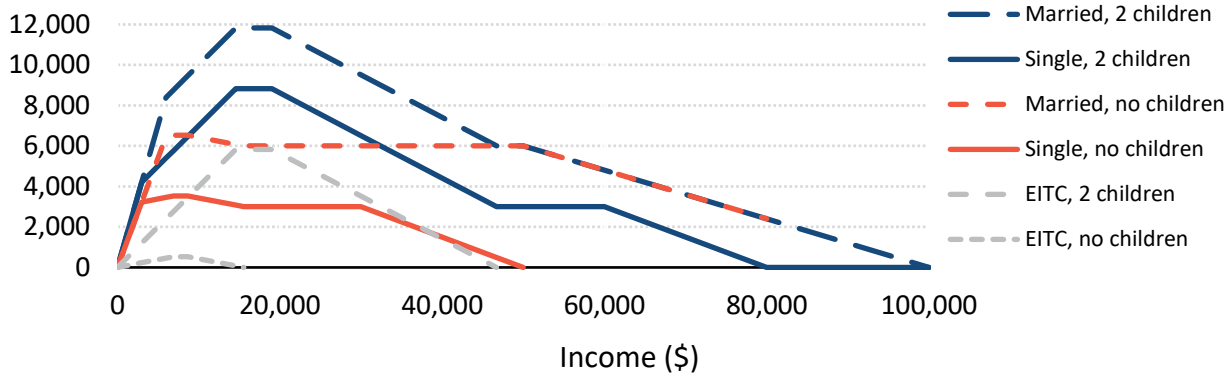


FIGURE 7

LIFT Credit Plus Existing EITC
Credit by filing status and number of children



Credit (\$)



Source: Authors' calculations.

Note: LIFT credit would supplement, not replace, existing EITC for eligible families. These calculations assume all income comes from earnings.

COST-OF-LIVING REFUND

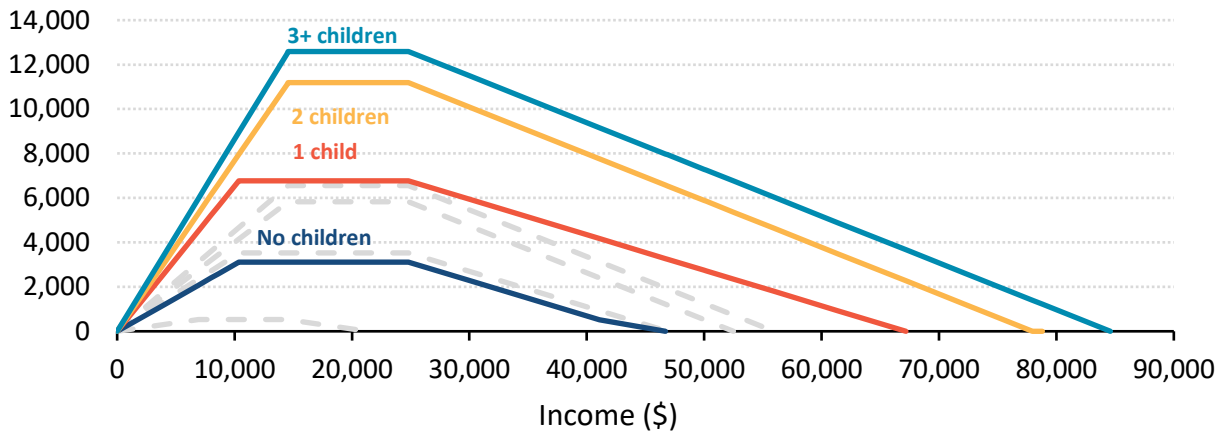
Senator Sherrod Brown (D-OH) and Representatives Ro Khanna (D-CA), Bonnie Watson-Coleman (D-NJ), and Rashida Tlaib (D-MI) have proposed an expansion of the EITC called the Cost-of-Living Refund (CLR). A similar bill was previously introduced as the Grow American Incomes Now (GAIN) Act. The bill was designed to help make up for slow wage growth experienced by workers over the last generation. Sponsors discussed how much the EITC would have needed to grow so that wages at the bottom of the income distribution would have grown as much as income grew for those with very high income. The bill would roughly double EITC benefits for families with children and increase benefits by as much as six-fold for workers without children (Figure 8 and Table 1). Importantly, the bill would aid those much higher up the income scale than under current law simply because increasing the maximum credit – while maintaining the phase-out rate – means the credit would take longer to phase out. The bill would allow EITC filers to claim a \$500 advance payment on their credit once a year (prior to filing a tax return). The CLR would not alter the current law CTC.



FIGURE 8

Cost-of-Living Refund
Impact on EITC for married couples

Credit (\$)



Source: Authors' calculations.

Note: Dotted lines represent current law EITC for married taxpayers. Credit phases out \$5,790 earlier for single taxpayers. These calculations assume all income comes from earnings.

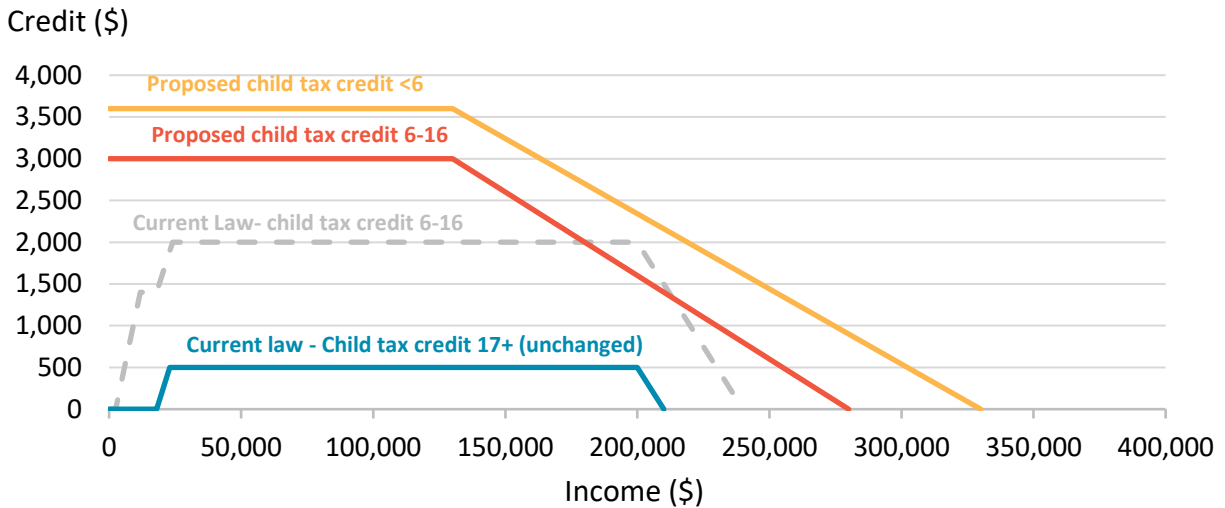
AMERICAN FAMILY ACT

Senators Michael Bennet (D-CO) and Sherrod Brown (D-OH) and Representatives Rosa DeLauro (D-CT) and Suzan DelBene (D-WA) propose to expand the Child Tax Credit (CTC) for all children under 17, with an extra bonus for children under 6. The American Family Act (AFA) would increase the CTC in two ways with the goal of lifting more children out of poverty and providing a substantial benefit for even very low-income children. The AFA would increase the maximum credit for children ages 6 to 16 from \$2,000 per child to \$3,000 per child and further increase the credit for children under 6 to \$3,600. It would also provide the full benefit to low-income families, regardless of earnings, by making the credit fully refundable. The AFA would not alter the \$500 nonrefundable portion of the CTC for dependents not eligible for the CTC. Just as under current law, this \$500 credit would expire after 2025. The credit for families with children under 17 would start phasing out at a lower income threshold than current law, though, at a rate of 2 percent for families with one child and income over \$130,000 (\$180,000 if married). That rate would increase by two percentage points for each additional child (Figure 9, Table 1). The AFA would not alter the current law EITC.



FIGURE 9

American Families Act, Single Parent
One child, 2019



Source: Urban-Brookings Tax Policy Center calculations.

Note: Assumes all income comes from earnings, and child meets all tests to be a CTC-qualifying dependent. Credit for married parents begins to phase out at \$400,000 of income. Only citizen children qualify for the \$2,000 CTC for children under 17. Noncitizens under age 17 who meet the dependency tests of eligibility can qualify for the credit for other dependents.

WORKING FAMILIES TAX RELIEF ACT

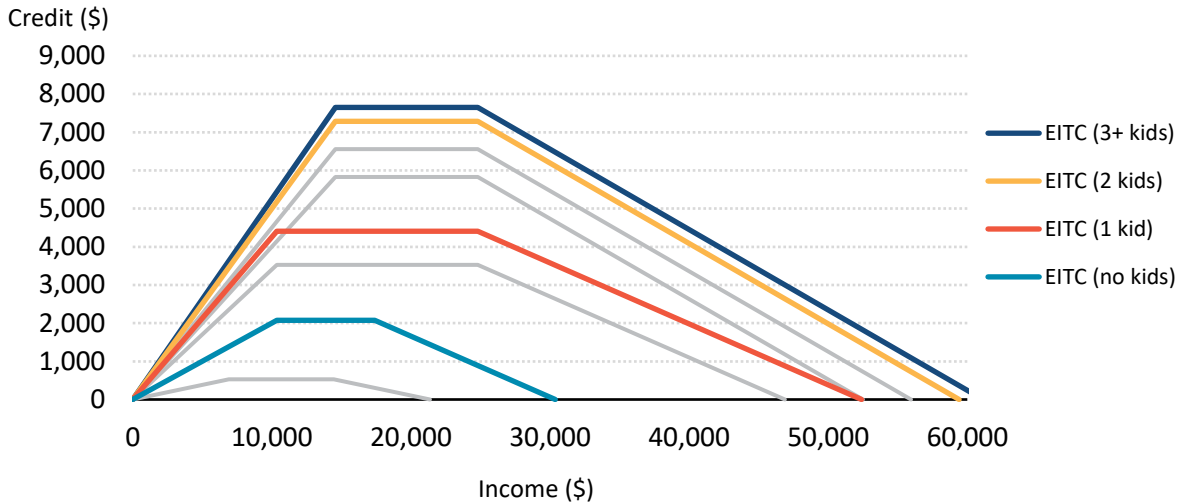
The WFTRA attempts to address the issues of income inequality and relatively poor outcomes for low-income children jointly by increasing both the EITC and CTC. Roughly speaking, WFTRA would increase the maximum EITC for families with children by about 25 percent and quadruple the relatively small credit for workers without resident children. The bill also would significantly broaden the income range over which childless workers could receive a credit so they would be treated much like workers with one child (Figure 10 and Table 1). Age limits for workers without children would be expanded from 25 – 64 under current law to 19 – 67 under the WFTRA.

With respect to the CTC, the bill would allow families to receive the full \$2,000 law credit for each child under 17 unless their income exceeded \$200,000 (married couples) or \$150,000 (single parents) - at which point the credit would begin to phase out. Families with children under age six would also get an additional \$1,000 young child tax credit. The CTC would be made fully refundable, meaning that the entire credit would be paid to families, regardless of whether they had income tax liability (Figure 11 and Table 2).

FIGURE 10

Working Families Tax Relief Act

Impact on EITC for married couples



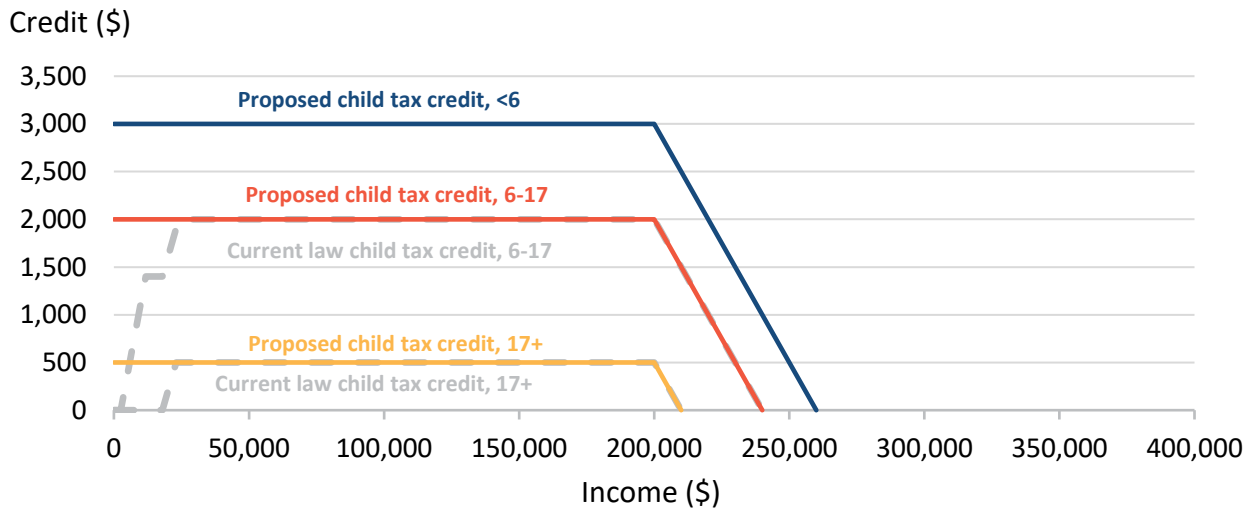
Source: Author's calculations

Note: Assumes all income comes from earnings. Gray lines are EITC for married couples under current law.

FIGURE 11

Child Tax Credit, Single Parent under WFTRA

One child, 2019



Source: Urban-Brookings Tax Policy Center calculations.

Note: Assumes all income comes from earnings, and child meets all tests to be a CTC-qualifying dependent. Credit for married parents begins to phase out at \$400,000 of income. Only citizen children qualify for the \$2,000 CTC for children under 17. Noncitizens under age 17 who meet the dependency tests of eligibility can qualify for the credit for other dependents.

TABLE 1

Basic Worker Credit Parameters
Current Law and Various Proposals, 2019



	Credit rate (percent)	Minimum income for maximum credit	Maximum credit	Phaseout rate (percent)	Phaseout range [1]	
					Beginning income	Ending income
Current Law, Earned Income Tax Credit						
No children	7.65	6,920	529	7.65	8,650	15,570
One child	34	10,370	3,526	15.98	19,030	41,094
Two children	40	14,570	5,828	21.06	19,030	46,703
Three children	45	14,570	6,557	21.06	19,030	50,162
LIFT (Livable Incomes for Families Today) the Middle Class Act (LIFT) [2]						
S.4 (Harris)						
Single	100	3,000	3,000	15	30,000	50,000
Head of Household	100	3,000	3,000	15	60,000	80,000
Married	100	6,000	6,000	15	60,000	100,000
Cost-of-Living Refund Act (CRA) [3]						
S. 1849; H.R. 1431 (Brown, Khanna)						
No children	30	10,370	3,111	15.98	19,030	15,270
One child	65.28	10,370	6,770	15.98	19,030	40,320
Two children	76.80	14,570	11,190	21.06	19,030	45,802
Three children	86.40	14,570	12,588	21.06	19,030	49,194
American Family Act (AFA)						
Would not change EITC in current law						
Working Families Tax Relief Act (WFTRA) [3]						
S. 1138 (Bennet, Brown, Durbin, Wyden)						
No children	20	10,370	2,074	15.98	11,600	24,579
One child	42.5	10,370	4,407	15.98	19,030	46,608
Two children	50	14,570	7,285	21.06	19,030	53,622
Three children	52.5	14,570	7,649	21.06	19,030	55,349

[1] The values of the beginning and ending points of the phase-out range are \$5,800 higher in 2019 for no children and \$5,790 for families with children, except for the LIFT Act. Married parameters for LIFT differ substantially and are separately included in the table.

[2] Maximum benefit of \$1,200 allowed for non-dependents who either receive a Pell grant or have incomes less than 250 percent of poverty and for certain caregivers. Benefits of the LIFT Act do not vary based on the number of qualifying children in the tax unit and are in addition to current law benefits. Pell grant considered earnings for purposes of credit calculation.

[3] The Cost-of-Living Refund Act and WFTRA would replace existing EITC parameters with the above parameters, while the LIFT Act would implement an independent credit in addition to the existing EITC.

Sources: Current law: 2019: Internal Revenue Service, [Revenue Procedure 2018-57](#) downloaded August 5, 2019;

Cost-of-Living Refund Act: H.R. 1431, 116th Congress and S. 527, 116th Congress;

LIFT: S. 4, 116th Congress;

WFTRA: S. 1138, 116th Congress.

TABLE 2

Child Tax Credit Parameters
Current Law and Various Proposals, 2019



	Minimum earnings to qualify for credit	Does credit phase-in?	Maximum credit refund	Maximum credit per child	Phaseout rate (percent)	Phaseout range [2] Beginning income Ending income	
Current Law							
Child under 17	\$2,500	Yes; 15 percent rate	\$1,400	2,000	5	200,000	240,000
LIFT (Livable Incomes for Families Today) the Middle Class Act (LIFT) [1]							
Would not change CTC in current law.							
Cost-of-Living Refund Act (CRA) [1]							
Would not change CTC in current law.							
American Family Act (AFA)							
S. 690; H.R. 1560 (Bennet, DeLauro)							
Child under 6	\$0	Full credit allowed to all with incomes under the beginning of the phase-out	\$3,600	3,600	5	130,000	190,000
Child 6 - 16	\$0		\$3,000	3,000	5	130,000	190,000
Working Families Tax Relief Act (WFTRA)							
S. 1138 (Bennet, Brown, Durbin, Wyden)							
Child under 6	\$0		\$3,000	3,000	5	200,000	260,000
Child 6 - 16	\$0		\$2,000	2,000	5	200,000	240,000

[1] CLR and LIFT do not amend the existing CTC or add a new child credit; AFA and WFTRA would amend the existing CTC.

[2] Phaseout range is for a family with one child. The credit phases out over a longer range for families with more children. The beginning of the phaseout range stays the same, but it takes longer to phase out.

Source: Current law, 2019: IRS Publication 972, Child Tax Credit, 2018, and IRS Revenue Procedure 2018-57.

American Family Act: S. 690, 116th Congress and H.R. 1560, 116th Congress.

WFTRA: S. 1138, 116th Congress.

To compare the four proposals, we estimate the cost of each plan and how benefits from the plan would be distributed across income groups, followed by numerous variations of the plans. This allows us to consider not just the proposals as constituted, but ways in which they can be altered by simple changes to their parameters.

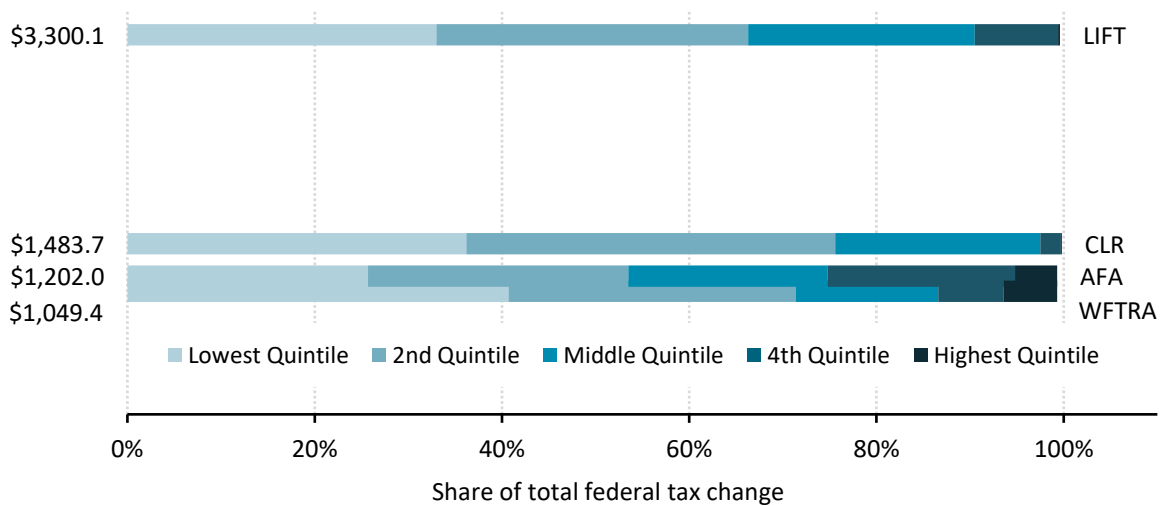
How much the plans would reduce income inequality depends partly on how large the benefits are for low-income people relative to high-income people. This, of course, does not take into account who pays for the credits or effects on behavior. Still, distributing larger shares of the plan’s benefits to lower income quintiles and smaller shares to higher income quintiles likely will reduce income inequality more than plans that distribute benefits more evenly. Already, higher income families pay a larger share of federal income taxes than lower income families (Congressional Budget Office 2019). These plans would likely cause higher income families to pay an even greater share of that total tax burden.

FIGURE 12

Distribution of 2019 EITC/CTC Proposals By share of net benefits distributed by income quintile



Proposal by estimated 10-year expenditures (billions)



Source: Tax Policy Center microsimulation model version 0718-1, T19-0027/0029 (LIFT), T19-0006/0008 (AFA), and preliminary estimates (CLR and WFTRA).

Note: Cost of proposals estimated over fiscal years 2019-2028. Income for quintiles is defined as expanded cash income.

In 2019, the WFTRA would deliver the largest share of total benefits to people in the lowest income quintile (bottom 20 percent of the income distribution). Almost 42 percent of the proposal’s total benefits would flow to this group (the lightest colored portion of the bar in Figure 12). An additional 30 percent of benefits would flow to units in the second income quintile. The proposal would deliver only a small share (5.6 percent) of total benefits to families in the highest income quintile (top 20 percent of the income distribution). Total benefits distributed by the plan are the lowest of the four

proposals (reducing revenues by \$1.049 billion over the 10-year budget window from FY2019–FY 2028). Average benefits for the lowest income quintile are high in 2019— about \$800 relative to average benefits for the highest income quintile— about \$200 (Figure 13). Note, we show the 2019 cost of the proposals in figure 13, which are ordered the same as the 10-year revenue cost of the proposals.

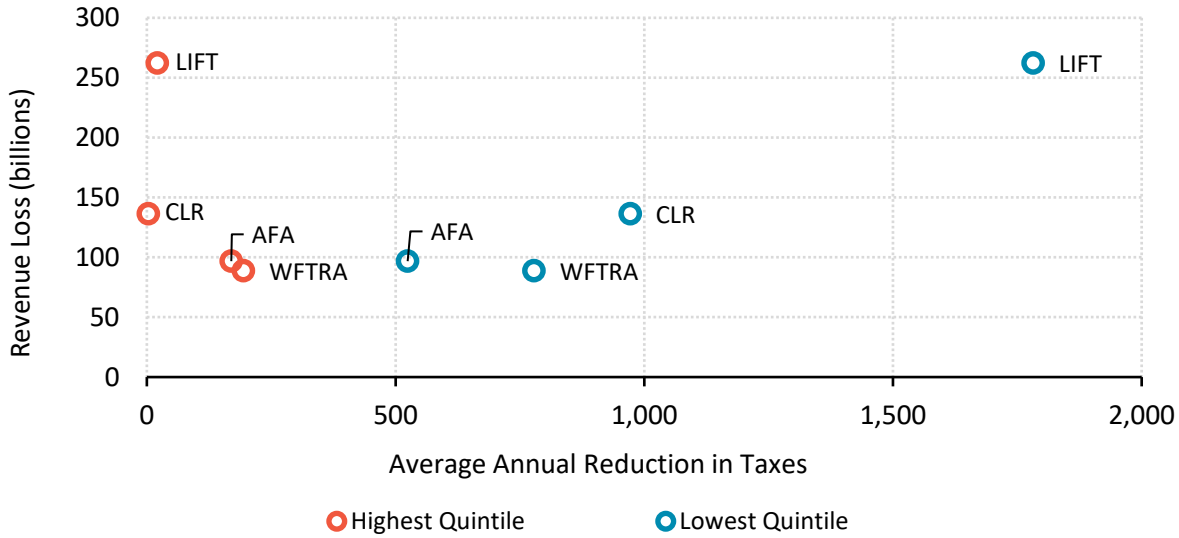
The CLR would provide almost as large a share of total plan benefits to families in the lowest income quintile, about 36 percent. Almost 40 percent of total benefits to families in the second income quintile. The CLR would provide less than 1 percent of benefits to families in the highest income quintile and less than 3 percent of total benefits to those in the top two income quintiles. The 10-year revenue cost of the CLR is higher than the WFTRA—and the difference between average benefits delivered to the lowest and highest income quintiles is also larger. CLR would provide, on average, about \$1,000 per year to each family in the bottom income quintile and almost no benefit to the highest income quintile. As a result, the CLR does a better job reducing income inequality, but at higher revenue cost than the WFTRA.

The LIFT Act distributes about one-third of total benefits to families in each of the bottom two income quintiles and almost no benefit to families in the highest income quintile. The LIFT Act is the most expensive proposal we analyzed, and the difference in average benefits for the highest and lowest income quintiles is also the largest. The relatively large difference in average benefits for highest and lowest income quintiles allows the LIFT Act to be most effective at reducing income inequality, at least by that measure, but at the highest revenue cost.

By design, the American Families Act (AFA) focuses on providing benefits to families with children—rather than focusing more broadly on reducing income inequality. Across all families in the lowest income quintile, benefits average about \$500—and benefits to families in the highest income quintile average about \$200. As can often be the case in child-focused plans, the AFA provides almost one quarter of benefits to families in the highest two income quintiles, though just under 5 percent of benefits would go to families in the highest income quintile. Child benefits, the focus of the AFA, tend to be distributed over a larger share of the population because children are present for families in all income categories. Despite having a revenue cost similar to WFTRA, the AFA would be less effective at reducing overall income inequality.

FIGURE 13

Total Revenue Loss vs Tax Cut for Families in the Lowest and Highest Quintiles, 2019

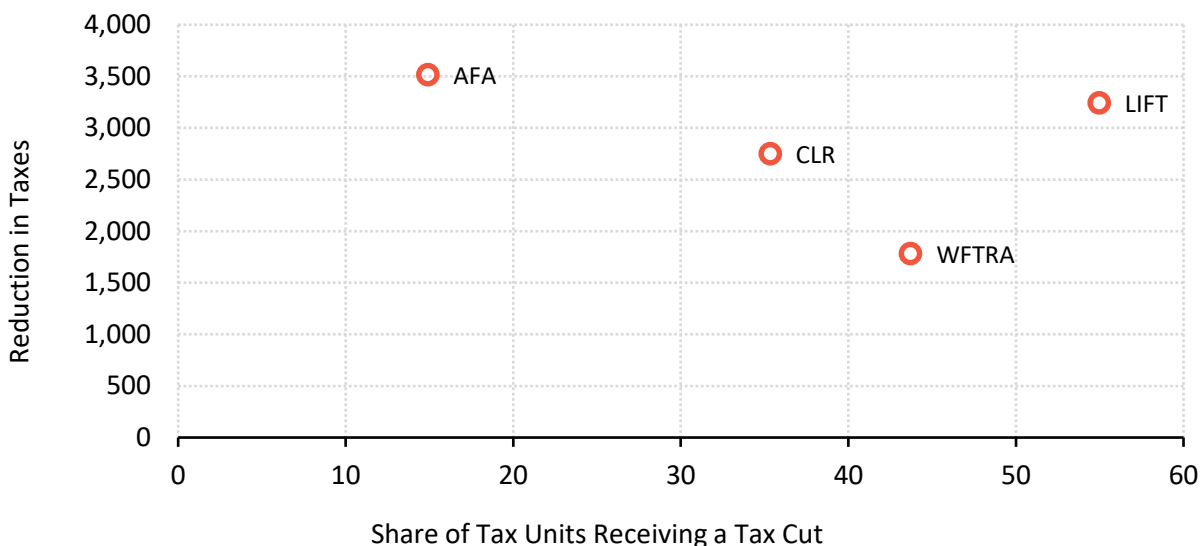


Source: Tax Policy Center microsimulation model version 0718-1.

Evaluating these proposals by the average change in taxes can be misleading because not all people in a given quintile would benefit. For example, the AFA would provide the largest benefit per family receiving benefits, but to the smallest number of families (Figure 14). In contrast, WFTRA would provide benefits to a larger share of families and a smaller average benefit to those families. LIFT provides benefits to the largest share of families with an average benefit nearly as large as the AFA, and the two factors in combination lead to the highest revenue cost.

FIGURE 14

Share Receiving Tax Cut vs Reduction in Taxes for Families in the First Quintile

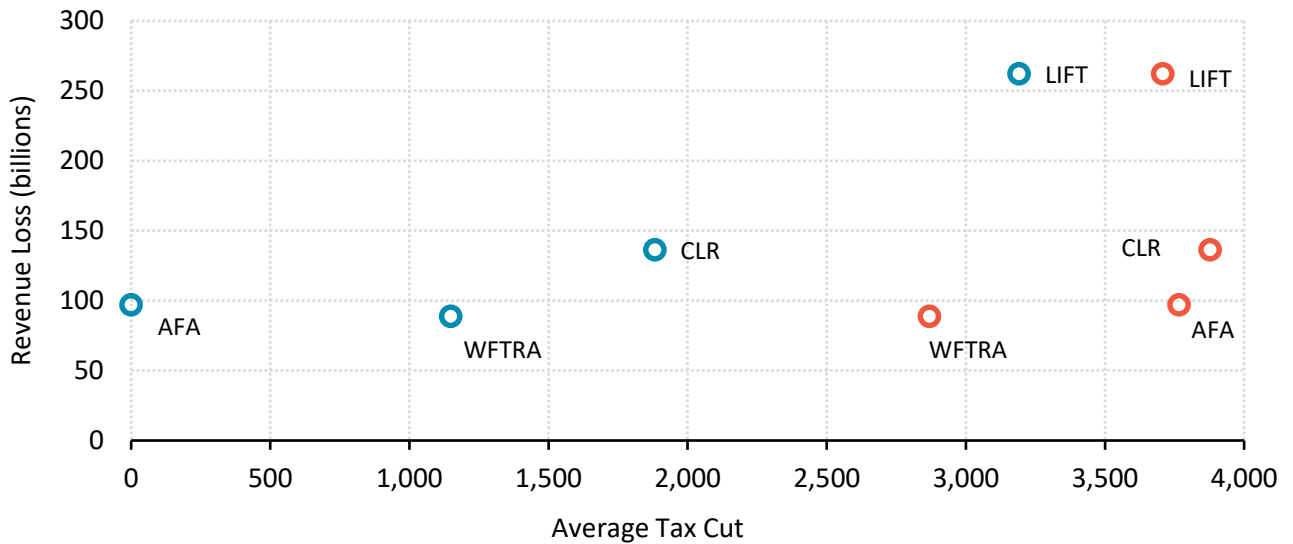


Source: Urban-Brookings Tax Policy Center Microsimulation Model version 0718-1.

Benefits to families in the first quintile can also be separated into families with and without children (figure 15). The AFA would provide almost no benefit to families without children, and the WFTRA and CLR provide very modest benefits – on average – to families without children. Although LIFT bases benefits largely on marital status, rather than presence of children, families without children have much lower benefits – on average – because many in this group are elderly and do not qualify for benefits because they do not work. Families with children tend to be younger and more likely to be working. Thus, LIFT would provide the largest average benefit – relative to other plans analyzed – both for those with children and those without children, but at the largest revenue cost.

FIGURE 15

Total Revenue Loss vs Average Tax Cut For All Families With and Without Children



Source: Tax Policy Center microsimulation model version 0718-1

TRADE-OFFS AMONG PROPOSALS

While each proposal places a different emphasis on helping low-income families and families with children, the exact elements of the provisions can seem somewhat arbitrary. For example, the AFA proposes to phase out the CTC starting at adjusted gross income of \$180,000 for married couples filing jointly, but the sponsors could have chosen a phase-out that started at \$160,000. This lower phase-out would reduce the revenue loss without reducing the benefits received by families in the lowest income quintile with children (though of course benefits for those higher income families affected by the new phaseout range would be reduced). We show a set of reasonable variations of each plan in the appendix.

We evaluate a number of variations for each plan—described in the appendix, emphasizing three features. First, increasing the CTC and EITC for any targeted set of taxpayers has a cost to the federal treasury. Second, for any proposed plan, there are alternatives that cost no more to the federal government in foregone revenue, yet can be more beneficial to specific target groups by being less beneficial to other groups. Third, and in a similar vein, there are alternatives that are less costly to the treasury that are at least as beneficial to a target group, but, again, would be less beneficial to other groups.

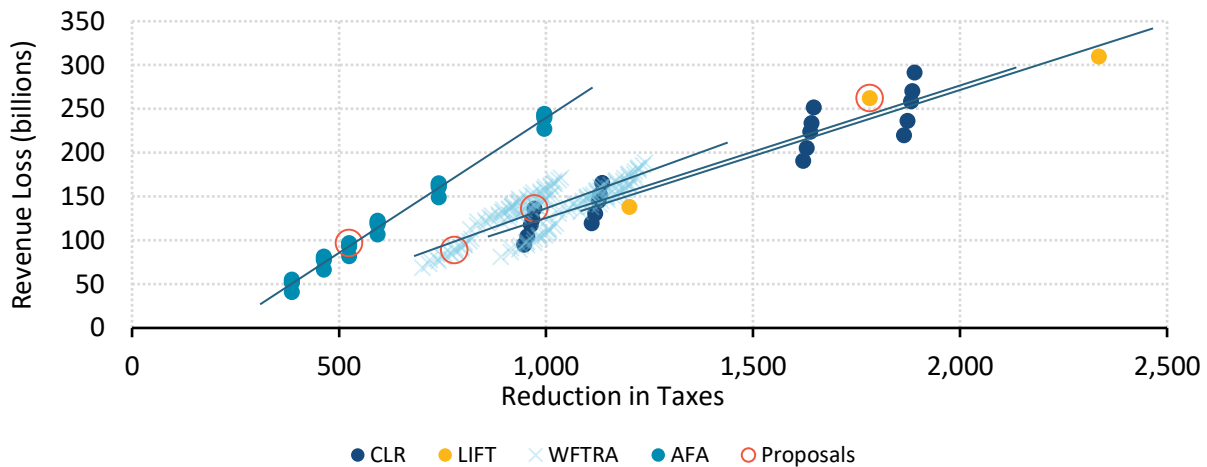
The changes considered in the various proposals were to the following parameters:

- WFTRA: CTC credit amounts, EITC childless phase-in rates; EITC income level at which benefits phase out & phase out rate;
- LIFT: maximum credit and phase out rate to the new earnings subsidy
- AFA: child credit phase-out rates and credit amounts
- CLR: EITC phase-in and phase-out rates

Here we focus on the consequences for two target groups, families in the lowest quintile of expanded cash income (our proxy for whether a plan addresses wage stagnation and economic inequality), and families with children (our proxy for whether a plan addresses the relatively poor outcomes for low-income children). Similar analyses can be conducted on other groups, such as families headed by someone at least 65 years of age or with a different level of income.^{vi}

FIGURE 16

Total Revenue Loss vs Tax Cuts for Households in the Lowest Quintile



Source: Urban-Brookings Tax Policy Center Microsimulation Model version 0718-1.

Note: Points represent variations on the proposals, with actual proposal circled in orange.

Considering reasonable alternatives reduces the stark differences in the original proposals (the circles in Figure 14). For example, some variations of WFTRA are similar to CLR in their overall revenue cost and in the benefits provided to families in the lowest income quintile. Variations of the CLR can provide more benefits than LIFT to families in the bottom quintile, although a variation of LIFT surpasses other plans in both benefits provided to families in the lowest quintile and in the overall loss of federal revenues.

In Figure 16, trendlines are added to show that there is generally a linear relationship between reduction of revenues and the benefits for families in the lowest income quintile (for the alternatives studied). The AFA alternatives form a steeper line than the other policies because the AFA does not focus benefits only on low-income families but rather on all families with children. Under the AFA, providing an additional \$100 of average annual benefits to families in the lowest quintile reduces federal revenue by about \$31 billion in 2019 because the structure of the act would provide similar benefits to many families in other parts of the income distribution. By comparison an additional \$100 of benefits to this same group of families in the lowest income quintile under CLR or LIFT costs about \$15 billion in 2019, while \$100 of average annual benefits to those families under WFTRA reduces revenues about \$17 billion in 2019.

For each proposal, there are also opportunities to either reduce the fiscal cost with no reduction in benefits to families in the lowest income quintile or increase benefits to this group of families at the same revenue cost. In the figure, these appear as alternatives that are below and to the right of a given proposal. We demonstrate with two alternative plans.

In the first, we find a plan that provides at least as much in benefits to families in the lowest income quintile as the CLR proposal but at a lower overall revenue cost. These are represented in Figure 16 by values below and to the right of the original, circled, CLR proposal. As shown in Table 3 Alternative 1, there is a variation of WFTRA that would cost about \$35 billion less per year than CLR: the CLR would lose \$136.1 billion in 2019 while the WFTRA alternative would only lose \$101.1 billion in that year. But the benefits provided to families in the lowest income quintile would be the same: about \$972. This saving is achieved by adjusting the WFTRA so that the childless EITC phases in at 30 percent per dollar of AGI rather than the proposed 20 percent (see Table A4). In addition, the overall EITC phases out 10 percent faster. This combination of faster phase in for the childless EITC and faster phase out for the overall EITC effectively concentrates the total benefits to lower income families while raising average benefits to the recipients. This allows the costs to decline without lowering benefits to families in the bottom quintile.

In the second variation, we find a plan that provides more benefits to families in the lowest income quintile than the LIFT Act, but at no higher cost in foregone revenue. Here, a variation of the CLR is made more generous to families in the lowest quintile by phasing in its EITC twice as quickly and applying a 50 percent higher phase-out rate (see Table A2). Consequently, this variation costs about the same amount as LIFT but provides an additional \$100 in average annual benefits to families in the lowest income quintile (alternative 1 in Table 4).

Of course, if these alternatives either cost less or the same as another plan and provide more benefits to families in the lowest quintile, other groups must receive lower benefits than in the original proposal. Thus, in the first comparison, families in the second and third quintile receive fewer benefits under the WFTRA alternative than under the CLR proposal. In the second comparison, families in the third and fourth quintile receive fewer benefits under the CLR alternative than under the LIFT proposal.

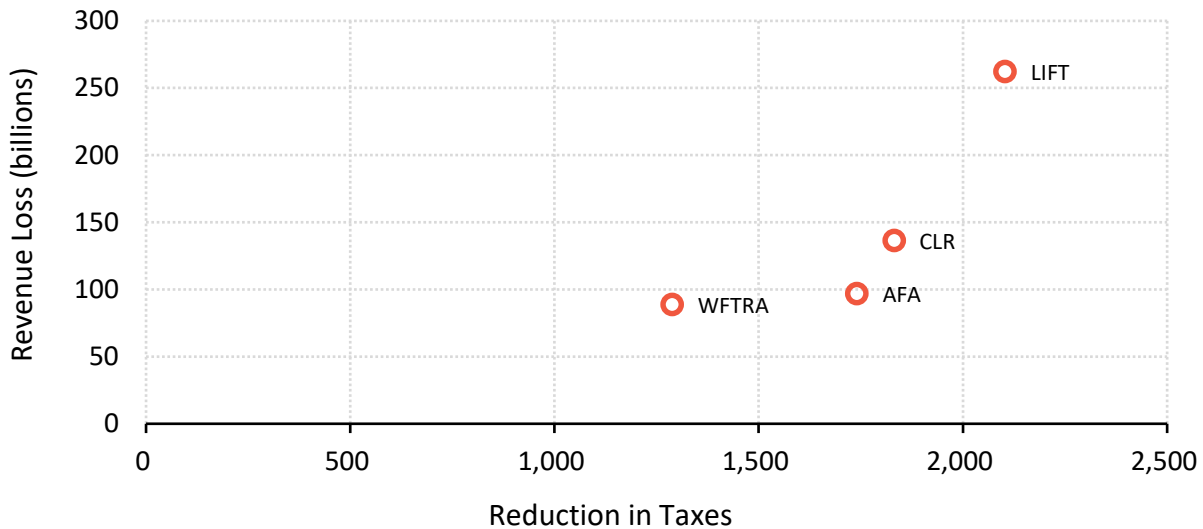
Further, even within the lowest income quintile each comparison creates winners and losers among families. In the first comparison, the WFTRA alternative provides more benefits to married couples in the lowest quintile that file their taxes jointly but it would provide smaller average benefits to taxpayers filing as heads of household (single parents). In the second comparison, taxpayers in the lowest quintile who file as head of household receive larger average benefits from the CLR alternative. Married couples in the lowest income quintile filing jointly would receive relatively smaller benefits, even if they claim dependent children.

Families with children, regardless of income, form our second focus. We plot the LIFT Act, the CLR, WFTRA, and the AFA in terms of their average effects on those families with children across all incomes, and the loss of revenue for 2019 (Figure 17). The WFTRA would be the least costly, reducing federal revenues by about \$88 billion in 2019 but, as one consequence, would provide the smallest average annual benefit to those families with children (an average of about \$1,300). The LIFT Act, on the other hand, would reduce federal revenues by about \$262 billion in 2019 while cutting annual taxes to units in the first income quintile by more than \$2,100 dollars on average. CLR lies approximately between these two, while the AFA lies substantially to the right of WFTRA. This shows that the AFA, while costing slightly more than WFTRA, provides much larger benefits to the target group of families with children.

These proposals could be modified to more closely resemble the others. For instance, by raising the credit level for families with children under 6, WFTRA could be modified so that the average family in the first quintile with children receives closer to \$3,500 and \$4,000 in benefits. Its overall revenue cost would then rise unless it also reduced benefits to families at higher income levels. Alternatively, LIFT could be made less costly by covering fewer workers.

FIGURE 17

Total Revenue Loss vs Average Tax Cut for All Families with Children



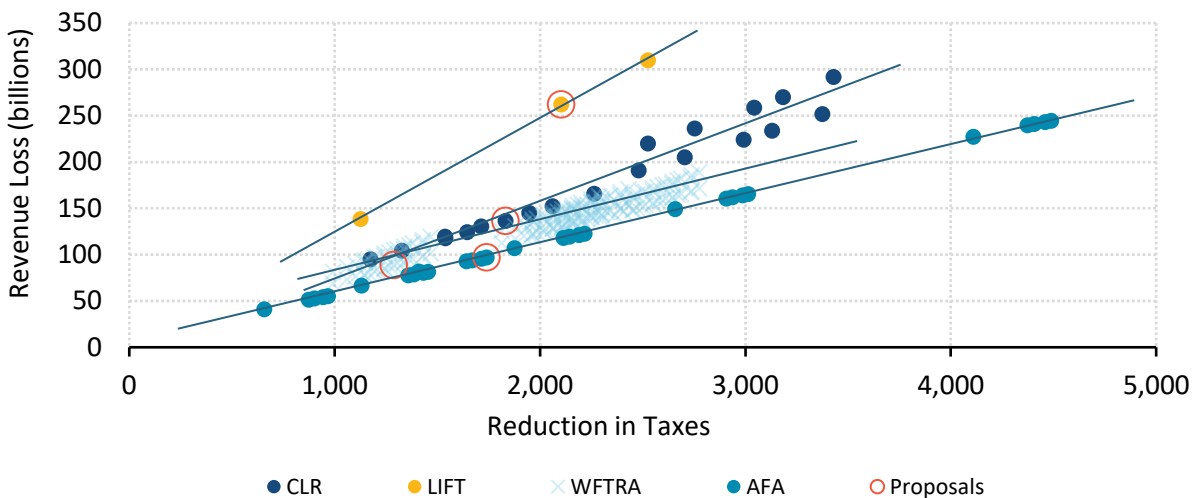
Source: Urban-Brookings Tax Policy Center microsimulation model version 0718-1.

This holds as well for the alternatives we consider (Figure 18). Because the AFA is focused exclusively on families with children, its variations are the least expensive method for providing any total level of benefits for those families. So even though WFTRA, as proposed, is the least costly, there are variations of the AFA that would cost still less while providing larger benefits to families with children.

Because the LIFT Act would provide benefits to families both with and without children, and in roughly equal measure, it is the most expensive per dollar reduction in taxes for families with children and consequently the most expensive approach to increase benefits for these families, as well. The steeper slope of the LIFT Act’s trend line reflects this idea. For variations on the LIFT Act, each additional \$100 in average annual benefits for families with children costs an additional \$12.4 billion per year. For the AFA, an additional \$100 in average annual benefits for families with children reduces federal revenue by about \$5.4 billion per year. There are several groups of variations for CLR and WFTRA, but across all options, an extra \$100 in average annual benefits to families with children from CLR reduces federal revenues by about \$8.4 billion per year and an extra \$100 in average annual benefits to these same families from WFTRA reduces federal revenues by about \$5.5 billion annually.

FIGURE 18

Total Revenue Loss vs Average Tax Cut for All Families with Children



Source: Urban-Brookings Tax Policy Center Microsimulation Model version 0718-1.

Note: Points represent variations on proposed credits, with actual proposals circled in orange.

As before, for each proposal there are alternatives that would provide either greater benefits to the target group (families with children) or would provide the same level of benefits to the target group at a lower overall revenue cost. In Table 3 we present a sample plan that provides the largest average annual benefits to families with children while costing no more than CLR. Alternative 2 is a variation of the AFA that would reduce revenue less than CLR yet would provide \$1,875 of benefits, on average, to families with children. Under this alternative the CTC would start to phase out at only \$120,000 of AGI for those filing jointly but the maximum credit amount would increase to \$3,600 (see Table A1).

In Table 5 we provide an estimate on a sample plan that costs no more than LIFT in foregone revenue but would provide larger average benefits to families with children. This alternative version of the AFA would more than double the average annual tax benefit among families with children (from \$2,104 to \$4,488) at nearly the same annual revenue cost (\$262.0 billion versus \$265.0 billion). Under this alternative, the CTC would be raised to \$4,000, while benefits would phase out as in the proposed AFA (See Table A1).

As before, alternatives that either cost less in foregone revenue or provide larger annual benefits to families with children must provide smaller benefits to other groups. Compared to the CLR, the AFA alternative in Table 3 would provide smaller benefits to single parents. Among those families with child dependents, the AFA alternative would provide larger benefits to families in the lowest, third and fourth income quintiles but smaller benefits to those families in the second and

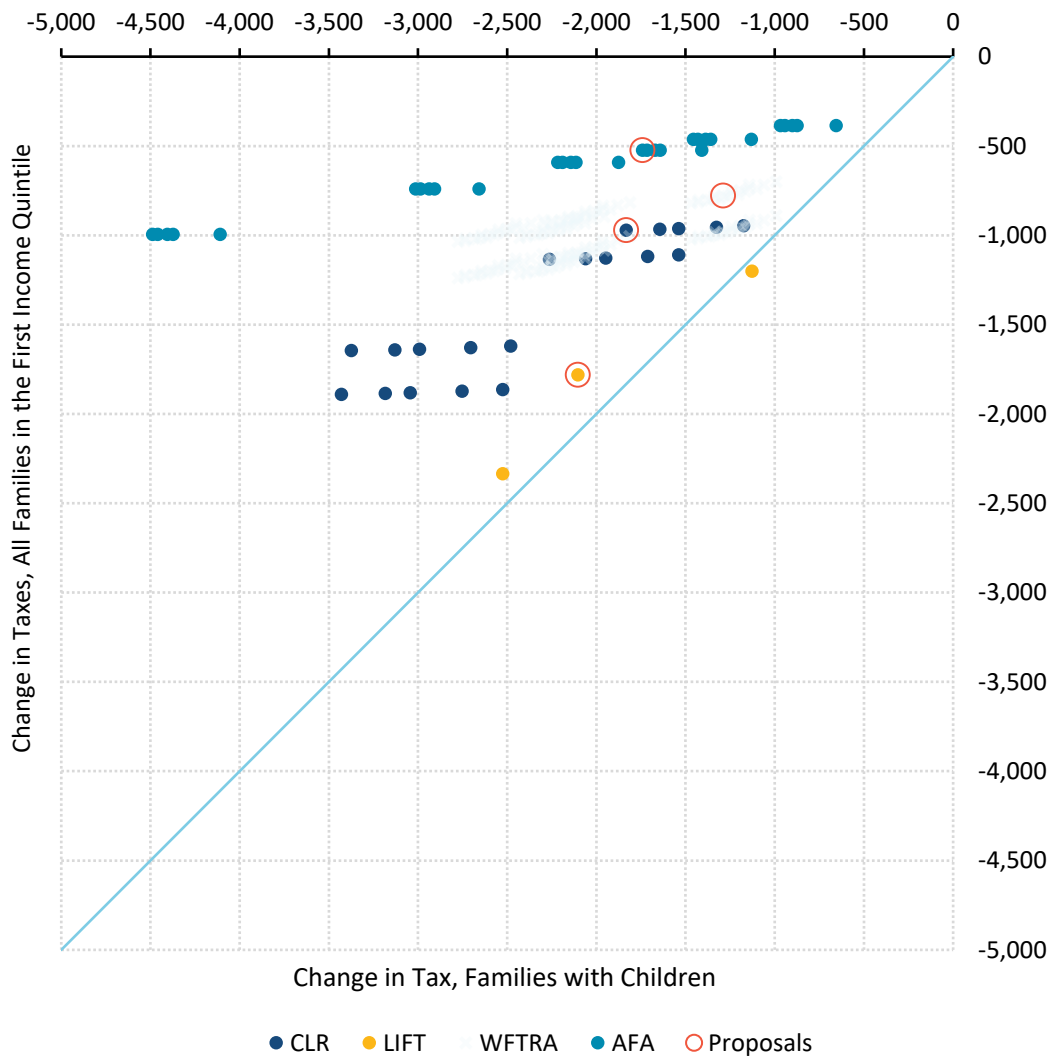
ANALYSIS

fifth quintiles. Compared to the LIFT Act, the AFA alternative in Table 4 would provide much smaller benefits to those families without children. However, it also provides larger average benefits to families with children in all five quintiles.

Finally, to emphasize the tradeoffs between families in the lowest quintile and families with children, in figure 19 we plot the results for one group against the other. Each point represents the change in taxes for two different populations: families with children on the horizontal axis and families in the bottom income quintile on the vertical axis. Along the 45 degree line the two groups receive similar tax cuts. Plans towards the bottom left provide more larger tax cuts to both groups, while plans on the upper right provide smaller tax cuts to both groups. Plans to the left of the 45 degree line provide larger tax cuts to families with children, while plans to the right provide larger tax cuts to families in the bottom quintile.

One variation of the LIFT Act lies to the right of the 45-degree line, indicating that it would provide about the same benefits to families with children and families in the first income quintile. All other plans, including the proposals would be more beneficial to families with children than to families in the lowest quintile.

FIGURE 19
 Change in Taxes for Families with Children vs
 Families in the Lowest Income Quintile



Source: Urban-Brookings Tax Policy Center microsimulation model 0718-1.
Note: Points represent variations on proposal, with actual proposals circled in orange.

TABLE 3

Plans That Benefit Families in the Lowest Quintile at Least as Much as the CLR but Cost Less
2019



Proposal	Alternative	Revenue Loss	Average Reduction in Taxes	
			Families with Children	Families in the First Income Quintile
CLR		136.2 billion	1,832	971
WFTRA	Alternative 1	101.1 billion	-	972
AFA	Alternative 2	106.8 billion	1,875	-

Source: Tax Policy Center Microsimulation Model version 0718-1

TABLE 4

Plans That Cost No More than LIFT with Greater Benefits to Families with Children.
2019



Proposal	Alternative	Revenue Loss	Average Reduction in Taxes	
			Families with Children	Families in the First Income Quintile
LIFT		265.5 billion	2,104	1,782
CLR	Alternative 1	258.4 billion	-	1,882
AFA	Alternative 2	262.0 billion	4,488	-

Source: Tax Policy Center Microsimulation Model version 0718-1

CONCLUSION

Policymakers have proposed several large-scale earnings and child subsidy expansions that build on the EITC and CTC. The four proposals examined here satisfy several goals, such as reducing income inequality, improving outcomes for children, and covering some low-earning workers now mainly excluded from wage subsidies. In practice, all grant the largest additional benefits to families with children. By focusing on low-income workers, two add modestly to benefits for childless workers, and one adds substantially both to those workers and low earners who marry other low earners. Yet even policies that only aim to subsidize work, regardless of whether children are present tend to provide substantial benefits to families with children because working families on average are more likely to be caring for children than retired and other nonworking families.

All other things being equal, proposals that build on the existing child credit, which is nearly universal among families with children, tend to have higher costs and be less progressive than those built on the EITC because the former apply to more families, including many middle-class families. On the other hand, it can easily cost more to raise benefits for both families with children and workers largely left out of the existing EITC and child credit than for only one of those groups. Focusing only on childless workers can be relatively modest in cost and provide large benefits to this group. If benefits for low income families are increased by extending the phase-out regions to higher income levels than under current law, benefits can extend beyond the first quintile and raise overall revenue costs. Inevitably, increasing benefits to one group without raising costs necessarily entails lowering benefits for other groups.

Trade-offs are neither easy nor avoidable. Ultimately legislators must decide which needs in society are most pressing and which policies, including the taxes or benefit cuts required ultimately to pay for those policies, address those needs most fairly and efficiently. This report lays out some of those tradeoffs by looking at the costs and distributional effects of four existing proposals and variations on these proposals.

NOTES

- ⁱ All analysis is based on a tax unit, including non-filing tax units. For ease of exposition, we use the term “family”.
- ⁱⁱ Some workers who are “childless” for tax purposes have noncustodial children, children over age 19 and not in postsecondary school full-time for at least five months of the year, or over age 24.
- ⁱⁱⁱ Dylan Matthews, “Paul Ryan’s Poverty Plan,” *Vox*. October 8, 2015. <https://www.vox.com/2014/7/24/18080430/paul-ryan-poverty>
- ^{iv} The TCJA adopted a new measure of inflation that applies to much of the federal income tax code, including the EITC. The maximum EITC will now grow at a slower rate of inflation each year. For more information, see [Tax Policy Center Table T17-0312](#), “Conference Agreement: The Tax Cuts and Jobs Act; Baseline Current Law; Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2018,” accessed October 17, 2019.
- ^v [Tax Policy Center Table T19-0025](#), “Tax Benefit of the Earned Income Tax Credit, Baseline: Current Law, Distribution of Federal Tax Change by Expanded Cash Income Level, 2019,” accessed October 21, 2019.
- ^{vi} Policymakers frequently measure the benefits of a proposal in terms of the change in taxes and so all of our analyses are presented in terms of total or average tax changes. Many economists, on the other hand, focus on changes in after-tax income, See Gale (2017) for more information

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