



## FACT SHEET: The American Family Act

### *Major Expansion of Child Tax Credit Would Provide Boost to Middle-Class Families and Cut Child Poverty by 38 Percent*

On March 6, 2019, U.S. Senators Michael Bennet (D-CO) and Sherrod Brown (D-OH) introduced the *American Family Act of 2019* to overhaul the existing Child Tax Credit (CTC) and make it a dramatically more effective tool for supporting middle-class families with kids and reducing child poverty. U.S. Representatives Rosa DeLauro (D-CO) and Suzan DelBene (D-WA) introduced a companion bill of the same name in the House of Representatives.

This fact sheet provides additional background on the new credit, as well as the evidence that supports this expansion.

### Summary of the Legislation

The *American Family Act* would replace the current Child Tax Credit with an expanded version based on the latest research about what works to improve outcomes for children. The Columbia University Center on Poverty and Social Policy recently released a [report](#) that found the *American Family Act* would cut child poverty by 38 percent.

Specifically, the legislation would:

- **Create a New Expanded Credit for Children under 6.** The bill would create a new Young Child Tax Credit (YCTC) of \$300 per month (\$3,600 per year) for children under 6 years of age, up from the current maximum of \$2,000 per year.
- **Increase the Maximum Child Tax Credit for All Children under 17.** The bill would expand the Child Tax Credit (CTC) to \$250 per month (\$3,000 per year) for children 6 years of age or older, up from the current maximum of \$2,000 per year.
- **Make Both Credits Fully Refundable.** The bill would make both the YCTC and CTC fully refundable, meaning that all low-income families would receive the full credit for each child. The current CTC only begins to phase-in after a taxpayer has earned \$2,500 of

income and at a rate of 15 cents for every dollar of additional income. In addition, only \$1,400 of the \$2,000 credit is refundable. For these reasons, one-third of all children – [27 million](#) – do not currently receive the full \$2,000 CTC credit.

- **Benefit the Middle Class.** The bill would provide a tax credit for all individuals with children who earn less than \$150,000 per year and all married couples with children who earn less than \$200,000 per year.
- **Index the Credit for Inflation.** The bill would index both YCTC and CTC levels for inflation (rounding to the nearest \$50) to preserve the value of the credit going forward. The current CTC is not indexed for inflation.
- **Set Up Advance Payments on a Monthly Basis.** The bill would call on the Treasury Secretary to set up monthly advance payments for the YCTC and CTC no later than a year after passage for taxpayers anticipated to receive a refund. Monthly payments would smooth families' incomes and spending levels over the course of a year, helping them make ends meet during difficult months.

### **Costs of Raising a Child are a Substantial Burden for Families Across Income Levels**

According to [the latest analysis by the United States Department of Agriculture](#), in 2015, middle-class families in the United States spent an average of \$233,610 – or \$13,000 per year – raising a child through his or her 18th birthday. In 2015, families in the lower third of the income distribution (with before-tax incomes below \$59,200) in married-couple, two-child households spent between \$9,330 and \$9,980 per-year, per-child, while two-child families in the middle third of the income distribution (with before-tax incomes between \$59,200 and \$107,400) spent between \$12,350 and \$13,900 per-year, per-child. A substantial boost to the Child Tax Credit would help these families defray the substantial – and rising – costs of raising a child, allowing them to make the investments in their kids that pay off for our economy and society over the course of their lifetimes.

A broad array of Americans also report that they are unable to meet the cost of even a modest financial shock and that their incomes vary substantially from month-to-month. According to the [Federal Reserve](#), in 2017 four in ten American adults say they either could not cover an emergency expense costing \$400, or would cover it by selling something or borrowing money. In that same survey, more than one-fifth of adults said they are not able to pay all of their bills each month and one-fourth of adults skipped necessary medical care due to being unable to afford the cost. Providing monthly cash support for parents with modest or middle-class incomes will help families avoid falling into deep hardship if they are hit with a relatively small financial shock.

### **Child Poverty in America Today**

The United States [has the fifth-highest rate of relative child poverty among the 35 advanced economies](#), according to the Organization for Economic Cooperation and Development (OECD) in 2016. A report released last Thursday by the National Academy of Sciences shows that [more](#)

[than 9.6 million American children live in poverty](#), even after accounting for the effects of tax credits like the Earned Income Tax Credit (EITC) and the Child Tax Credit, as well as other federal income support programs through the Supplemental Poverty Measure (SPM). Poverty rates for Black children (18 percent) and Hispanic children (22 percent) are more than twice as high as for White children (8 percent). Millions of American children live in deep poverty, meaning their families earn less than half the SPM poverty line. And hundreds of thousands of American children are living in extreme poverty, with cash incomes falling below \$2 per person, per day. That metric is usually reserved as a barometer for third-world conditions, but it is unfortunately relevant in the United States today. Poverty rates are also [significantly higher for young children](#) (under age 6) than for older children.

The National Academy of Sciences report also shows that nearly 36 percent of children live in households in poverty or near-poverty (i.e. below 150% of the SPM). More than half of all Black and Hispanic children live in poverty or near-poverty. So, even a large share of children in households that are technically not in poverty are living very close to the edge.

### **Progress Reducing Child Poverty and the Role of the CTC and other Federal Policy**

As [recent work out of Columbia University](#) has shown, after accounting for the effects of federal policy, the child poverty rate in the United States has been cut nearly in half since the 1960s — from 28.4 percent in 1967 to a record low of 15.6 percent in 2017. Today, federal support for low-income families through programs like SNAP, housing subsidies, and — most significantly — the EITC and CTC, keeps 36 percent of children above the poverty threshold who would otherwise live in poverty.

Without incorporating these policies, the child poverty rate would be nearly 10 percentage points higher at 24.5 percent, much closer to the 28.4 percent rate in 1967. Family poverty rates that do not take into account policies that support low-income families rose significantly during the recent financial crisis, from 23.9 percent in 2007 to 29.7 percent in 2012. But the Supplemental Poverty Measure, which incorporates the effects of policy, held relatively steady through the crisis (from 17.5 percent to 18.1 percent over the same period) and has declined in recent years as incomes rose (to 15.6 percent in 2017). So, federal policy — including the Child Tax Credit — both brings down absolute rates of poverty substantially and acts as a shock absorber to prevent families from falling off the edge during economic downturns.

According to the [Columbia Center on Poverty and Social Policy](#), the current Child Tax Credit — insufficient as its current version may be — already lifts about 4.1 million Americans, including about 2.2 million children under age 17, out of poverty, while lessening poverty for 12.3 million more people, including 6.1 million children. That is, by itself, the current CTC lifts approximately 1 in 6 previously poor children and their families above the poverty line. Combined with the EITC, these tax credits lift 5.4 million children out of poverty and lessened poverty for another 6.8 million kids.

The *American Family Act* would provide a substantial boost to the CTC's ability to meet these goals. According to [new analysis by poverty researchers at Columbia University](#) on the effects of

the AFA bill, a CTC of this magnitude would reduce child poverty by 38 percent and deep child poverty by 50 percent, while virtually eliminating extreme (i.e. less than \$2 per day) child poverty in America. The bill would lift a total of 4.0 million children out of poverty and 1.6 million out of deep poverty, while boosting incomes of millions of additional families.

### **Larger Child Tax Credit for Children Under the Age of 6**

Among tax filers, families with young children under the age of six are 37 percent more likely to be too poor to get the full child tax credit than families with older children. At the same time, pediatricians, child development experts, and economists have documented the importance of additional income to the life outcomes of young children at an early age. The AFA provides an additional \$50 per month for children under 6 years of age to account for the increased need and efficacy of cash income support for families with young children.

### **Full Refundability and Cash Support**

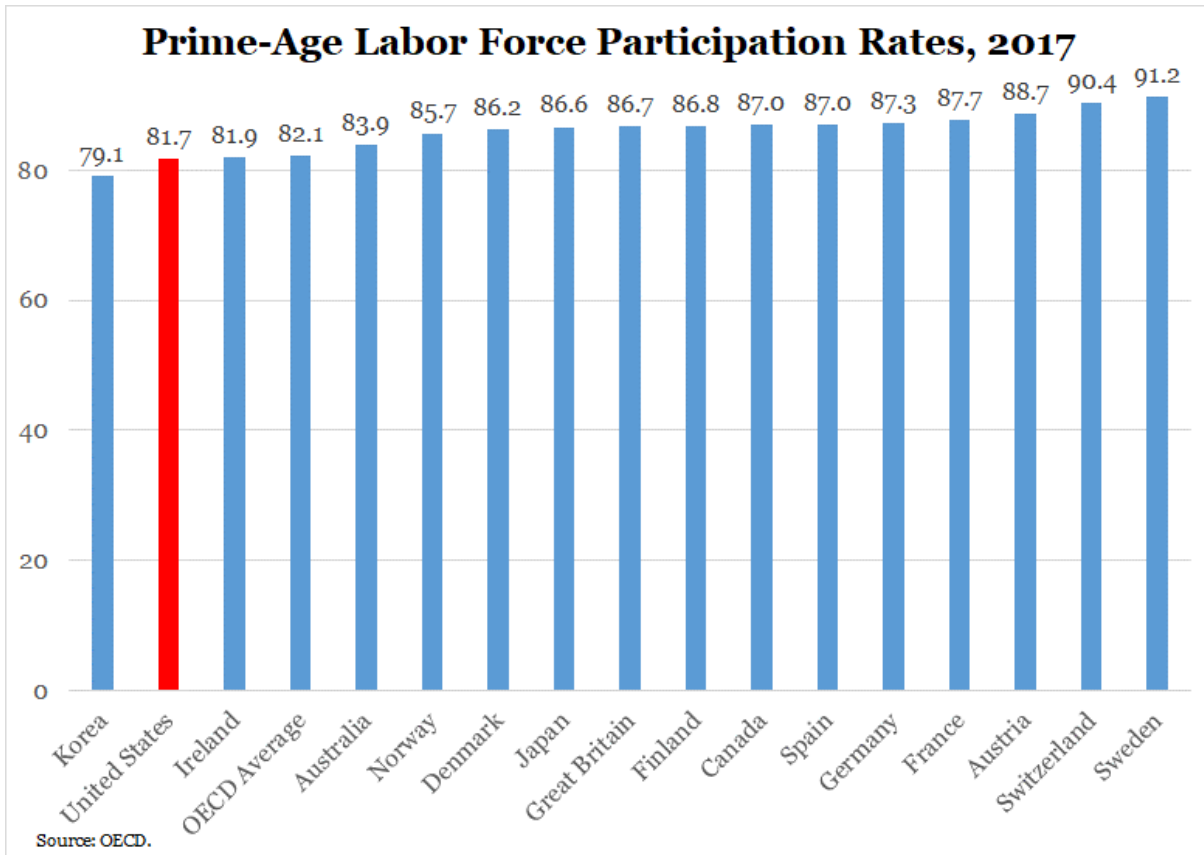
For the first time, the AFA proposal would make the Child Tax Credit fully refundable, meaning that families at low incomes would receive the entire credit for each eligible child (rather than having the credit phase in at a certain percentage of each dollar of income beyond a minimum threshold of \$2,500 of earnings, as under current law). This is especially important for families in rural areas and families with multiple children who are disproportionately left out of eligibility for the full per-child tax credit simply because they earn too little. Full refundability aligns with a substantial body of research showing the high rate of return on providing cash support to low-income and very low-income families with children. For example, Raj Chetty, John Friedman, and Jonah Rockoff [found that every \\$1,000 of additional cash income provided to low-income families through the EITC resulted in more than double that amount in returns](#) over the course of that child's lifetime. This impact also offsets a substantial fraction of the costs of the credits, according to the researchers.

A [review of the literature](#) shows that expanding cash income to families with low-income children results in those children being in better health; doing better in school; working more hours per year and earning more as adults; as well as being less likely to end up in the criminal justice system. [In addition, a survey of 19 studies](#) of cash transfer programs found that – contrary to misconceptions – increased cash transfer income did not increase consumption of “temptation goods” such as alcohol and cigarettes by parents. Remarkably, [in a study of Canada's experience](#), parents were found to *reduce* spending on tobacco by 6 cents and on alcohol by 7 cents per dollar of increased child benefit received.

### **Effects on Labor Force Participation**

Concerns are often expressed about expanded support for families reducing the incentive for parents to work. [However, almost all other advanced economies have a child allowance](#) or similar programs that are much more generous to parents than current support in the United States, and almost all of these countries have higher prime-age (i.e. 25 to 54 year-old) labor force participation rates than the U.S. In fact, the United States currently [falls in the bottom fifth for](#)

[prime-age labor force participation](#) among OECD countries. The U.S. has prime-age labor force participation rates far below other G-7 countries such as Canada, Germany, France, and the United Kingdom, as well as a number of others that have more generous child allowances or child tax benefits, not to mention universal health care and additional support for parents beyond their child allowances and tax credits.



Prime-age male labor force participation has been declining for more than 50 years in the United States, and perhaps even more alarmingly, [prime-age female labor force participation began declining in the early 2000s in the U.S.](#), a trend that is out of step with other advanced economies that have seen women continue to enter the workforce at higher rates. Expanding the Child Tax Credit (CTC), expanding paid sick and family leave, and additional funding for high-quality early childhood education could help reverse this trend, especially for married women.

Following the introduction of the expanded child benefit in Canada – worth about \$4,800 per child per year in U.S. dollars for young children and \$4,000 for older children – married women were [significantly more likely to participate in the labor force, be employed, and work longer hours](#). Meanwhile, married men did not reduce their labor force participation or employment rates after the credit. As shown in the chart above, Canadian prime-age labor force participation is 5 percentage points higher than the United States. For the U.S. to achieve this level of prime-age participation, about 5.5 million more Americans would have to join the workforce.

## **Expanding the Child Tax Credit Adds Flexibility for Parents**

By providing cash to families, the fully-refundable CTC allows the “parents to do the paternalism,” determining how best to allocate a family’s resources across expenses. These funds can help pay for child care for two-parent working families, or help a stay-at-home parent or a grandparent afford necessities such as diapers, transportation, access to the Internet, or educational materials for a child. By providing parents or guardians the opportunity to spend the money as they see fit across all household needs, cash also gives the family more bargaining power as a supplement to other income support that is provided for specific kinds of purchases. These are some of the reasons why, in addition to enjoying strong support from a wide array of progressive anti-poverty advocates, conservatives [at institutions like the Niskanen Center](#) have also embraced a significantly expanded and universal child allowance.

## **Bennet-Brown Fixes a Major Problem with the December 2017 Tax Legislation**

This design of the Child Tax Credit in the December 2017 tax legislation [denied about one-third of low- and moderate-income children – a total of 27 million kids – the full \\$2,000 credit](#), while Members of Congress receive the full \$2,000 credit per child. By providing the credit to all low- and moderate-income families in the same amount as their Members of Congress, the *American Family Act* fixes one of the biggest problems with the December 2017 tax legislation.

## **Cost of Bennet-Brown Can Easily Be Offset**

While an official score of the AFA by the Joint Committee on Taxation is not yet available, researchers at Columbia University have placed the first-year cost at roughly \$90 billion. For context, that makes the permanent cost [far less than half of the true cost of the December 2017 Republican tax legislation](#) when all gimmicks and sunsets are considered. Senator Bennet has expressed support for paying for the legislation, and it is well within Congress’s capacity to do so.

## **Impact on Illustrative Families**

- 1. Army Private:** The starting base pay for a private in the Army is about \$19,180 per year (and even less in the first four months of service). If that private is married with three children, he or she would not receive the full current CTC of \$2,000 per child, given that it only phases in at a rate of 15 percent starting at \$2,500 of income and only \$1,400 of the credit is refundable. Instead, that private’s family would get only \$2,502, or \$3,498 below the full \$6,000 amount that a Member of Congress with three children would receive.

Under the Bennet-Brown proposal, that military family would receive \$3,600 per child under 6 and \$3,000 per child over 6, so between \$9,000 and \$10,800.

- 2. Full-Time Minimum Wage Workers:** Families with a full-time minimum wage worker earning \$14,500 per year do not currently receive the full Child Tax Credit, as the maximum they can receive is \$1,800.

Under Bennet-Brown, families would receive the full credit for each child – \$3,000 per child 6 years of age or older and \$3,600 for children younger than 6 – until their income exceeded \$130,000 for single parents or \$180,000 for married parents.

### **A Technical Note on the Phase-Down: How it Works**

The rate of the new phase-out range in the bill is calculated by aggregating total Young Child Tax Credits (YCTC) and CTC amounts for which a filer is eligible and then phasing that total down based on the following calculation for each \$1,000 of income above the threshold:  $(\text{Total YCTC} + \text{CTC amount}) / (20 \times \text{the total number of YCTC and CTC-eligible dependents})$ . For example, if a family has two children under 6 years of age that are eligible for the \$3,600 per-child YCTC, that credit would phase down at a rate of  $\$7,200 / 40$ , or \$180 per \$1,000 of income above \$130,000 for single or head of household filers and \$180,000 for joint filers.