Briefing Paper

TAX BENEFITS FOR LOW INCOME FAMILIES WITH CHILDREN: TWO COMPETING PROPOSALS

This briefing paper presents a comparison of the impact on family incomes of two currently proposed bills that increase tax credits for low-income working families with children: S.5 in the U.S. Senate, the Act for Better Child Care, and H.R.3 in the House of Representatives, the Early Childhood Education and Development Act. The emphasis in IWPR's briefing paper is on the effect of the proposed tax measures on lower- and moderate-income families, i.e. those with incomes up to about $26,000. To avoid unnecessary complexity, this comparison does not take account of the Senate-proposed benefit for health insurance expenses, but it does model *the combined effect of the two remaining aspects of the Senate bill: the refundability of the dependent care tax credit and the supplement to the earned income tax credit for young children*. It then compares the effects of the Senate bill with those of the House bill (which is limited to changes in the earned income tax credit) for varying family types at several income levels.

In general, the proposed Senate legislation is tilted toward an increase in benefits for child-care expenses and is therefore of particular assistance to single-parents who work and to families with two working parents. The House bill, on the other hand, provides the largest increase in benefits to large families with young children, many of which have a mother at home. In view of the different approaches taken by the House and by the Senate, the comparative benefits to eligible families would depend on many factors: family income and tax deductions, number and age of children, and expenditures for child-care.

INSTITUTE FOR WOMEN'S POLICY RESEARCH ♦ 1400 20TH STREET N.W. ♦ SUITE 104 ♦ WASHINGTON, D.C. ♦ 20036 ♦ (202) 785-5100

Under current law, tax benefits to lower-income working families with children are provided by two separate measures: the dependent care tax credit and the earned income tax credit. The combined effect of proposed changes in both measures must be considered in order to determine the impact for eligible families.

KEY PROVISIONS OF THE SENATE AND HOUSE BILLS BRIEFLY DESCRIBED

Currently, the earned income tax credit (EITC) is provided to low earning families with children; it is "refundable" in the sense that, if the family has no or low tax liability because of low earnings, families receive the amount of the credit as a "refund" check from the Internal Revenue Service. The amount of the credit varies according to earned income, but not by family size. The dependent care tax credit, generally referred to here as the child care credit, provides a tax credit to working parents who incur qualified child care expenses (in a two-parent family both must be working or in-school full-time to qualify); the amount of the credit rises by income and the size of the qualifying expense and is larger for two children than for one. Qualifying expenses eligible for the credit are $2400 for one child and $4800 for two children. Unlike most other monetary standards in the tax code (the personal exemption, standard exemption, etc), these ceilings are not indexed for inflation. Under current law, the child care credit is not refundable; it is available only as an offset to income tax liability. Low-earning parents with no or little tax liability who incur child care expenses cannot take advantage of the credit; consequently it is of no benefit to the poorest working families, those most in need of governmental assistance.

The Senate bill liberalizes the dependent care tax credit by providing that the credit be 90 percent refundable for taxpayers whose income tax liability is less than the available tax credit. Thus it will provide a cash benefit to very low income working parents. *The Senate bill leaves the current structure of the earned income tax credit alone, except for providing a supplement for* *families with young children* under age four (with a family having two young children receiving a larger supplement--up to a maximum of $711--than a family having only one--up to a maximum of $498). The Senate bill does not provide for full inflation indexing of the young child supplement.

The House bill makes no change in the dependent care tax credit at lower income levels, nor does it make it refundable. (H.R.3 scales down and eventually phases out entirely the available credit for families with incomes above $70,000.) On the other hand, *the House bill raises the earned income tax credit for all eligible families, expands it by size of family up to and including three children, and provides a supplement for having a young child* under age six (which does not vary by family size). The maximum *increase* from current law is $214 for one child, $498 for two children, and $783 for three children. In addition, families with at least one young child (under age six) receive an additional credit (with a maximum value of $427, which is indexed for inflation).

It should be noted, with respect to the earned income tax credit, that the House bill provides larger increases for two children than for one and a further increase for three or more children, regardless of the ages of the children. Under the Senate bill the increase (applicable *only* where there are young children) is higher for two children then for one, but does not rise further for three or more children. The House bill's young child supplement would be extended to a larger number of families since it covers children up to and including age 5, whereas the Senate bill is limited to children 3 and under.

Also, neither bill extends the income range at which families qualify for the earned income tax credit. The income levels at which the credit begins to phase out and phase completely out remain the same. The Senate's proposed young child supplement, however, phases out at lower income levels than the current EITC and at lower levels than the House's proposed young child credit.

IWPR COMPARISON OF EFFECTS OF TWO BILLS

We have computed the benefits available to different types of families under the Senate and House bills, taking account of the existing tax liability and dependent care tax credit, and combining refundability for the dependent care tax credit (for the Senate version) and changes in the earned income tax credit. Our computations assume that the taxpayer takes the standard deduction for income tax purposes.[1] It is further assumed that paid child care (for single parents or families with two working parents) amounts to 20 percent of income with a minimum of $1500 and maximums of $2400 for one child and $4800 for two children.

The calculations show that where child care expenses are incurred, the Senate bill provides a larger benefit than the House bill at lower income levels. On the other hand, where there are no child care expenses, the House bill provides the larger increase in benefits at all income levels.

Table 1 shows the *maximum benefit increases* (from current law) allowable under the two bills and summarizes the comparative increases in benefits for different types of families under the assumptions noted above.

Table 2 shows the *increases* from current law in the benefits under proposed Senate and House legislation, for *selected income levels and types of families*.

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1 The computations of the tax liability are based on 1991 rates, standard deductions, and personal exemptions, using a projected inflation rate of 4.4 percent as estimated by the Congressional Budget Office.

Table 1

Summary of Compared Effects and Maximum Increase in Benefits Allowable
(by Family Type and Income Level) under
Proposed Senate and House Legislation
Compared to Current Law

FAMILY TYPE	*COMPARISON*	*APPROXIMATE MAXIMUM INCREASE* S.5	H.R.3
Single Parent			
One Child	Senate Greater through $12,000	$ 486	$ 214
One Young Child	Senate Greater through $11,000	984	641
Two Children	Senate Greater through $11,000	574	498
Two Young Children	Senate Greater through $12,000	1233	925
Two Working Parents			
One Child	Senate Greater through $15,000	598	214
One Young Child	Senate Greater through $13,000	1020	641
Two Children	Senate Greater through $20,000	680	498
Two Young Children	Senate Greater through $17,000	1233	925
Two Parents, One Working (No Paid Child Care)			
One Child	Senate Lower at All Income Levels	0	214
One Young Child	Senate Lower at All Income Levels	498	641
Two Children	Senate Lower at All Income Levels	0	498
Two Young Children	Senate Lower at All Income Levels	711	925

Note: For the purposes of calculating the amount of child care tax credit that would be available under the Senate version, it was assumed that paid child care amounts to 20 percent of income, with a minimum of $1500 per year and a maximum of $2400 per year for one child and $4800 for two or more children. The health insurance tax credit under the Senate version is not included in these calculations.

Table 2

Increase (from Current Law) in Benefits under
Proposed Senate and House Legislation
(by Family Type and Income Level

SINGLE PARENT

INCOME LEVEL	One Child		One Young Child		Two Children		Two Young Children	
	S.5	H.R.3	S.5	H.R.3	S.5	H.R.3	S.5	H.R.3
$ 5,001	$ 405	$ 150	$ 755	$ 450	$ 405	$ 350	$ 905	$ 650
8,001	432	214	930	641	432	498	1143	925
11,001	324	214	722	641	574	498	1135	925
14,001	0	158	98	466	309	359	420	667
17,001	0	98	0	278	20	209	20	389
20,001	0	38	0	91	0	59	0	112
23,001	0	0	0	0	0	0	0	0
26.001	0	0	0	0	0	0	0	0

TWO WORKING PARENTS

	One Child		One Young Child		Two Children		Two Young Children	
	S.5	H.R.3	S.5	H.R.3	S.5	H.R.3	S.5	H.R.3
$ 5,001	$ 405	$ 150	$ 755	$ 450	$ 405	$ 350	$ 905	$ 650
8,001	432	214	930	641	432	498	1143	925
11,001	574	214	972	641	574	498	1135	925
14,001	306	158	404	466	680	359	791	667
17,001	0	98	0	278	397	209	397	389
20,001	0	38	0	91	60	59	60	112
23,001	0	0	0	0	0	0	0	0
26,001	0	0	0	0	0	0	0	0

TWO PARENTS, ONE WORKING

	One Child		One Young Child		Two Children		Two Young Children	
	S.5	H.R.3	S.5	H.R.3	S.5	H.R.3	S.5	H.R.3
$ 5,001	$ 0	$ 150	$ 350	$ 450	$ 0	$ 350	$ 500	$ 650
8,001	0	214	498	641	0	498	711	925
11,001	0	214	398	641	0	498	561	925
14,001	0	158	98	466	0	359	111	667
17,001	0	98	0	278	0	209	0	389
20,001	0	38	0	91	0	59	0	112
23,001	0	0	0	0	0	0	0	0
26,001	0	0	0	0	0	0	0	0

Note: For the purposes of calculating the amount of child care tax credit that would be available under the Senate version, it was assumed that paid child care amounts to 20 percent of income, with a minimum of $1500 per year and a maximum of $2400 per year for one child and $4800 for two or more children. In the case of the family with two parents and only one working, it is assumed there are no paid child care expenses. The health insurance tax credit under the Senate version is not included in these calculations.

Senate Bill Helps Low Earning Working Parents More and Rewards Greater Work Effort

The Senate measure provides the greatest increase in benefits to low-income families who incur child care expenses. In view of the continued growth in labor force participation of mothers, increased governmental assistance, especially in defraying child care costs, is particularly needed. In 1988, wives worked outside the home in 69 percent of married couple families with children in which the husband also worked; and 69 percent of female single parents worked outside the home.[2] On the other hand, the Senate bill phases out the increase in benefits at extremely low income levels. The Senate measure would thus be strengthened if it provided for increased benefits for families with incomes up to $20,000 or $25,000. One way to do this would be to increase the size of the credit from the current range of 30 to 20 percent to, for example, 50 to 40 percent of qualifying child care expenditures.[3] Another way would be to lengthen the income range over which the young child supplement phases out (in essence making it more similar to the House structure).

House Bill Generally Helps Those With Earnings Between $14,000 - $20,000 More, Helps Large Families, Does Not Reward Greater Work Effort, And Is Not Neutral Between Working and At-Home Mothers

An important advantage of the House bill is that it generally provides larger benefit increases at income levels ranging from approximately $14,000 to $20,000. It also provides increased benefits to a broader range of family types, including those with no child care

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[2] U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 166, Money Income and Poverty Status in the United States: 1988, Table 9, Table 22.

[3] Currently child care expenses up to a maximum of $2400 for one child or $4800 for two children (or more) qualify for the credit. Families with incomes of $10,000 or below, receive a credit of 30 percent of expenditures (up to the maximum); between $10,001 and $28,001, the credit decreases to 20 percent, and remains at 20 percent for incomes above $28,000.

expenses and no young children. A disadvantage is that its benefits do not increase according to the work effort of the parents. As shown in both Tables 1 and 2, the House benefits are the same whether the family consists of a single working parent, two working parents, or two parents with only one working. Arguably, however, at *given* income levels, those families with all parents working are worse off economically than those with a parent at home: they have less time to meet family care needs and they must pay for family care out of *the same size income* as the family with a parent at home. The greater the work effort required to earn the same income level (eg. mother working full-time vs. working part-time vs. not working outside the home) the worse is the time deficit for the family and the larger are the work-related expenses. This is the justification for providing such families with a child care tax credit--which the Senate measure would now do for the lowest earning families. The House bill, which many describe as neutral in its effects between working and at-home mothers is *not* neutral. To be neutral, it would have to provide larger benefits to those families who must work more hours to earn the same income, as the Senate bill does for the families it affects.

The provision of larger benefits to families with more than two children, as in the House bill, also tends to benefit at-home mothers more than mothers in the labor force, because mothers who work outside the home tend to have fewer children; they will rarely be eligible for the three-child credit. In fact, a small minority of families of any type have three or more children. In 1988, according to the Census Bureau's Current Population Survey, the average number of children per married couple who had children under age 18 was 1.86, and the average number for female single parent families was 1.81; 80 percent of families with children had only one or two children, while 20 percent had three or more children.[4]

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[4] U. S. Bureau of the Census, Current Population Reports, Series P-60, No. 166, Money Income and Poverty Status in the United States: 1988, Table 22.

POLICY RECOMMENDATIONS

The House bill provides a larger and broader earned income tax credit. The Senate bill provides a refundable child care credit. The Senate bill gives more to single parents with incomes of $11,000 - $12,000 or below. It also gives more to two-earner families with larger incomes, i.e. up to $13,000 - $20,000 depending on family composition. The House bill generally gives more help to single parents with incomes between $13,000 and $20,000 and to families without paid child care at all income levels.

In fashioning a proposal that retains the best features of both bills, the following demographic and child rearing trends should be kept in mind:

- o the labor force participation of mothers continues to grow, especially mothers of young children;
- o 69 percent of mothers, whether married or single, worked for wages in 1988; 56 percent of mothers of children under 6 and 53 percent with children under 3 worked;
- o the use of paid child care services is growing at all income levels;
- o working mothers with young children and those who work more hours (full- or nearly full-time) are more likely to use paid child care services and less likely to use relatives;
- o families are becoming smaller and more uniform in size; smaller proportions of families have no children or 3 or more than in 1950;
- o 80 percent of families with children under 18 have 1 or 2 children; 20 percent have three or more.

In view of these trends, it seems to us important that the child care credit be expanded, indexed for inflation, and made refundable.

Another advantage (besides potentially higher benefits to lower income working parents) to making the child care tax credit refundable, as in the current Senate bill, is that it may encourage low-income parents to come forward and claim both types of credits. One problem with attempting to transfer money to poor people using the income tax system is that they must file and claim the credits. Child care centers can educate working parents about their benefits under the tax law and encourage them to file (indeed, the Senate bill requires that the IRS begin a public outreach program about the tax credits). Renaming these tax credits so that the average person might understand them would also help. For example, the "earned income tax credit" could be renamed the "working parent tax credit" and the "dependent care tax credit" could be renamed the "child care/adult care tax credit."

Finally, it must be noted that several categories of poor are not helped by either bill. Fully one-half of the working poor have no children under 18 and are not eligible for the earned income tax credit. In addition, the 4 million working poor families are matched by an equal number of non-working poor, many of whom, like single mothers, are attempting to survive on welfare benefits that are well below the poverty level. Thus while these proposals are an important step forward in reducing the poverty of some, they also leave many others desperately poor.

Prepared by:

Heidi Hartmann and Celia Star Gody
Institute for Women's Policy Research
(202) 785-5100

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METHODOLOGY

The computations in Tables 1 and 2 were derived using the methodology outlined below.

The basic source document for the application of proposed legislative changes at different income levels was a memorandum issued by the National Women's Law Center, dated May 1990, which used a projected inflation rate of 4.4 percent as estimated by the Congressional Budget Office, and presented data for 1991.

In computing the amount of the available child care credit (dependent care tax credit) we calculated the tax liability using the estimated 1991 personal exemption and standard deductions for each family type. We assumed child care expenses equal to 20 percent of adjusted gross income with a minimum of $1500 and a maximum of $2400 for one child and $4800 for two or more children.

We computed the "theoretical" child care credit, using these assumed expense levels, the allowable percentage credits at each income level, and the maximum eligible dollar amounts. For the House bill, the available credit is the same as under current law. For the Senate bill, the actual credit (or benefit) is equal to the "theoretical" credit where the tax liability exceeds the credit. Where the tax liability is less than the credit, the actual credit was derived by adding (1) the tax liability and (2) 90 percent of the difference between the "theoretical" child care credit and the tax liability. As a final step we calculated the increase in the child care credit as compared with current law.

For those family types eligible for the child-care credit, the increase in benefits under the Senate bill was derived by adding the increase in the child-care credit to the applicable increase in the earned income credit. For families not eligible (and for all families under the House bill) the increase is based on the applicable change in the earned income credit, including the special allowances for young children where appropriate. The increases in the earned income credit are taken from the National Women's Law Center memorandum.

INSTITUTE FOR WOMEN'S POLICY RESEARCH
1400 20th Street, NW, Suite 104
Washington, DC 20036

TAX BENEFITS FOR LOW INCOME FAMILIES WITH CHILDREN: TWO COMPETING PROPOSALS PART 2

In our first briefing paper on this subject we calculated new tax benefits that would be available to working parents under two current legislative proposals, and showed that, while the House bill, the Early Childhood Education and Development Act (H.R.3), provides new benefits to a broader range families, the Senate bill, the Act for Better Child Care (S.5), delivers higher per family benefits to those families with low incomes who have child care expenses amounting to about 20 percent of income. The research described below leads us to conclude in this briefing paper that there are approximately 1.0 million low-income families with such child care expenses who are likely to receive greater benefits from the Senate bill than they would from the House bill.[1] Because the House bill extends new benefits to some 10 million families (six million more than the Senate bill), we conclude that both the broader approach of the House bill and the specific assistance to families who use child care in the Senate bill should be maintained in any final legislation.

The main reason the Senate bill provides higher benefits to some working poor families is that it makes the dependent care tax credit refundable; that is, those families with income so low they owe no taxes would receive a check for the amount of the credit that would be due

1 As in our first briefing paper, we exclude the provision in the Senate bill of a 50 percent tax credit for health insurance from our analysis.

Telephone: (202) 785-5100 Fax: (202) 833-4362

them, based on their actual, reported child care expenditures. If their child care expenses are on the order of 20 percent of income, about average for their income level, and if they file for the credit, the benefits due them would be larger than under the House bill, for many family types at several income levels. The House bill expands the current earned income tax credit (EITC) for all currently eligible working parents and thus provides new benefits for many more families (including those without child care expenses) but does not make the child care credit refundable. The House bill, therefore, offers no specific help target at child care expenditures. Both the House and Senate bills provide a supplemental benefit for having a young child, but the Senate bill does not increase any other aspect of the EITC. The House EITC expansion is more generous.

IWPR's conclusion, that some low-income families are likely to receive more new benefits under the Senate bill despite its more limited targeted population, is confirmed by a staff memorandum from the Joint Tax Committee.[2] According to their analysis, families with incomes below about $20,000 who receive benefits will receive more per family under the Senate bill than under the House bill. For example, at incomes below $10,000, recipient families are projected to receive an average of $513 under the Senate bill (a weighted average of $360 for the young child supplement, $716 for the 90 percent refundable dependent care credit, and $232 for the 50 percent health insurance tax credit), while under the House bill, an average recipient family is projected to receive $400 (a weighted average of $286 for the young child supplement and $284 for the expanded EITC).[3] The Joint Tax Committee memorandum estimates the usage of the Senate bill at 1.8 million families for the new child care credit benefits and 1.9 million families for the new young child supplement (with some overlap between the two categories so the total number of families projected to receive these credits is less than 3.7

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2 Joint Committee on Taxation Staff Description (JCX-14-90), "Distributional Effects of Certain Tax Provisions of Child Care Bill (HR 3) as passed by the House," Preliminary, Released May 18, 1990. As reported in the Bureau of National Affairs, Daily Tax Reporter, May 21, 1990 (No. 98), pps. L-1 through L-8.

3 The concept of income used in the Joint Tax Committee memorandum is adjusted gross income plus various nontaxable items; in our analyses we use the combined earnings of parents.

million); the House bill usage is estimated at 10.4 million families for the expanded EITC, of whom 4.4 million would also receive the young child supplement. Because it provides new benefits to so many more families, the House bill is projected to cost $18.5 billion over the first five years, while the Senate bill is projected to cost $7.7 billion (excluding the health insurance credit).

In our first briefing paper we calculated the increase in benefits under the two bills (compared to current law) for different family types at different income levels. These results are shown in Tables 1 and 2 of this paper; they are expanded here to include calculations for families with three or more children, most of whom fare better under the House bill than the Senate bill (because the House bill provides for a larger EITC both for families with two children and for those with three or more children, while the Senate bill provides nothing additional for families with three or more children).

In this briefing paper we examine the *empirical* evidence to see *how many* families, of which type and at which income levels, are eligible to be helped under the differing definitions of the two bills (these results can be found in Tables 3 and 4). IWPR's calculations are based on tabulations produced by us from the Census Bureau's Current Population Survey Public Use Tape for March 1988 and available Census Bureau data on child care. The March 1988 tape contains annual earnings and work experience data for 1987 and family composition information as of the survey date. Using published data from the U.S. Bureau of the Census from 1972 through 1986, we also examine what is known about who uses paid child care. We use this information to estimate how many of the "Senate-eligible" families are actually likely to have paid child care expenses in 1991 and so be able to take advantage of the refundable child care credit. Our calculations differ in some respects from the Joint Tax Committee's estimates of the likely usage of both bills. In particular our estimates of the usage of the Senate bill's refundable child care tax credit and the young child supplement are considerably higher.

In this briefing paper we also present one scenario for combining desirable features of both bills (see Table 7). This scenario combines the Senate-proposed refundability of the child care tax credit with the generally more generous benefits of the proposed House EITC expansion.

The bottom line of IWPR's analysis of the alternative proposals before the House and the Senate is that the Senate-proposed refundability of the child care credit is an important feature that should be included in the final legislation. It will help approximately 1.0 million families who would not receive as much under the proposed House bill. These families, among the poorest, are those in which the mother must hold a job to bring in family income and who therefore incur child care expenses. On the other hand, the House bill provides new benefits to nearly six million families who would receive nothing, and larger benefits to some three million families who would receive less, under the Senate bill; these families too are deserving of added assistance.

HOW THE BILLS DIFFER

The Senate bill is more narrowly targeted. It provides new benefits to those low-income families in which the mother works for pay and incurs child care expenses and to those families with young children (defined as children under four years of age), whether or not there is a working mother. It does nothing new for all other low-income families, those with children four and up who have no child care expenses. As estimated by both IWPR and the Joint Tax Committee, the Senate bill will provide greater per family benefits than the House bill to low earning families who also have child care expenses. The Senate bill provides targeted child care assistance to some of the neediest families.

The House bill is broader. It seeks to provide increased benefits to all those who are currently eligible for the EITC, that is families with children with at least one earning parent. It is not limited to those who use paid child care or have young children and is, therefore, not targeted at those families who most need child care assistance. It is less a child care bill and more a bill to help all working parents. Because it provides added benefits for larger families (those with up to three or more children), it does more for most of these families than does the Senate bill.

The House bill increases the size of the basic credit and provides new credits for those with more than one child. Qualifying families with two children will receive a larger credit than those with one, while families with three children will receive a larger credit than those with two. The size of the credits is the same whether it takes one or two parents to earn the income, and it does not make the child care tax credit refundable. As we pointed out in our first briefing paper, this provision of the House bill means its benefits are not neutral between employed wives and at-home wives. Those families that must have both parents working for pay in order to the earn the *same* income that another family can earn with only one parent working necessarily have greater work-related expenses (which they must meet out of the same income) and substantially less time for family care, leisure, and community participation. To be neutral in its effects on these two types of families, tax legislation would have to provide more to the families with working wives, as the Senate bill does through the refundability of the dependent care tax credit (usually referred to as the child care credit in this paper).

Thus, the bills differ not only in the ***number*** of families they reach but also in ***which*** families they help most. The Senate bill provides the greatest dollar increases (up to $1233 at an income of $10,001) to those families with young children, working mothers, and child care expenses. It is more of a child care bill. The House bill provides the greatest dollar benefits (up to $1210) to large families, those with three children at least one of whom is young, whether or not the mother works outside the home. It is more of a general poverty prevention bill, since its benefits extend to a broader range of working poor.

Tables 1 and 2 compare the size of the new benefits provided by the House and Senate bills to each of three types of families (those with a single working parent, those with two working parents, and those with two parents of whom one works for pay), with different numbers and ages of children and incomes ranging from $5,001 to $23,001 annually. (Note that the ages at which children are eligible for various benefits differ under the two bills). The

Table 1

Summary of Compared Effects and Maximum Increase in Benefits Allowable
(by Family Type and Earnings Level) under
Proposed Senate and House Legislation
Compared to Current Law

FAMILY TYPE	*COMPARISON*	APPROXIMATE MAXIMUM INCREASE S.5	H.R.3
Single Parent (With Paid Child Care)			
One Child	Senate Greater through $12,000*	$ 486	$ 214
One Young Child	Senate Greater through $11,000	984	641
Two Children	Senate Greater $5-6,000 and $9-11,000* Lower Above	574	498
Two Children, One Young	Senate Greater through $11,000	1020	925
Two Young Children	Senate Greater through $12,000*	1233	925
Three or More Children	Senate Lower through $12,000, Greater $13-15,000* Lower Above	655	783
Three or more Children, One Young	Senate Lower at All income Levels	1020	1210
Three or more Children, At Least Two Young	Senate Generally Lower at All Income Levels (Some Exceptions)	1233	1210
Two Working Parents (With Paid Child Care)			
One Child	Senate Greater through $15,000*	598	214
One Young Child	Senate Greater through $13,000*	1020	641
Two Children	Senate Generally Greater through $20,000 (Some Exceptions)	680	498
Two Children, One Young	Senate Greater through $17,000	1020	925
Two Young Children	Senate Greater through $17,000	1233	925

Table 1, Continued

FAMILY TYPE	COMPARISON	APPROXIMATE MAXIMUM INCREASE S.5	H.R.3
Two Working Parents (cont.) (With Paid Child Care)			
Three or More Children	Senate Lower through $12,000* Greater Above	749	783
Three or More Children, One Young	Senate Lower through $15,000* Greater Above	1020	1210
Three or More Children, At Least Two Young	Senate Generally Lower through $15,000* Greater Above	1233	1210
Two Parents, One Working (No Paid Child Care)			
One Child	Senate Lower at All Income Levels	0	214
One Young Child	Senate Lower at All Income Levels	498	641
Two Children	Senate Lower at All Income Levels	0	498
Two Children, One Young	Senate Lower at All Income Levels	498	925
Two Young Children	Senate Lower at All Income Levels	711	925
Three or More Children	Senate Lower at All Income Levels	0	783
Three or More Children, One Young	Senate Lower at All Income Levels	498	1210
Three or More Children, At Least Two Young	Senate Lower at All Income Levels	711	1210

Source: Based on IWPR calculations.

Notes:

* These income and benefit levels fall between the point estimates shown in Table 2.

For the purposes of calculating the amount of child care tax credit that would be available under the Senate version, it was assumed that paid child care amounts to 20 percent of income, with a minimum of $1500 per year and a maximum of $2400 per year for one child and $4800 for two or more children. The health insurance tax credit under the Senate version is not included in these calculations.

It should be noted that the definition of eligibility for young children and children are different in the two bills. In the House bill, a young child is under six; a child (who is not young) is six or older. In the Senate, a young child is under four; a child (who is not young) is four through twelve; children thirteen and over are not included because they ordinarily do not qualify for child-care-related tax benefits.

Table 2

Increase (from Current Law) in Benefits under
Proposed Senate and House Legislation
by Family Type and Earnings Level

ANNUAL EARNINGS	One Child S.5	One Child H.R.3	One Young Child S.5	One Young Child H.R.3	Two Children S.5	Two Children H.R.3	Two Children One Young S.5	Two Children One Young H.R.3	Two Young Children S.5	Two Young Children H.R.3	Three or More Children S.5	Three or More Children H.R.3	Three or More One Young S.5	Three or More One Young H.R.3	Three or More Two + Young S.5	Three or More Two + Young H.R.3
SINGLE PARENT																
$ 5,001	$ 405	$ 150	$ 7[illegible]	$ 450	$ 405	$ 350	$ 755	$ 650	$ 905	$ 650	$ 405	$ 550	$ 755	$ 850	$ 905	$ 850
8,001	432	214	930	641	432	498	930	925	1143	925	432	783	930	1210	1143	1210
11,001	324	214	722	641	574	498	972	925	1135	925	574	783	972	1210	1135	1210
14,001	0	158	98	466	309	359	407	667	420	667	592	559	690	867	703	867
17,001	0	98	0	278	19	209	19	389	19	389	302	319	302	500	302	500
20,001	0	38	0	91	0	59	0	112	0	112	0	79	0	132	0	132
23,001	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TWO WORKING PARENTS																
$ 5,001	$ 405	$ 150	$ 755	$ 450	$ 405	$ 350	$ 755	$ 650	$ 905	$ 650	$ 405	$ 550	$ 755	$ 850	$ 905	$ 850
8,001	432	214	930	641	432	498	930	925	1143	925	432	783	930	1210	1143	1210
11,001	574	214	972	641	574	498	972	925	1135	925	574	783	972	1210	1135	1210
14,001	306	158	404	466	680	359	778	667	791	667	680	559	778	867	791	867
17,001	0	98	0	278	397	209	397	389	397	389	680	319	680	500	680	500
20,001	0	38	0	91	60	59	60	112	60	112	344	79	344	132	344	132
23,001	0	0	0	0	0	0	0	0	0	0	27	0	27	0	27	0
TWO PARENTS, ONE WORKING																
$ 5,001	$ 0	$ 150	$ 350	$ 450	$ 0	$ 350	$ 350	$ 650	$ 500	$ 650	0	$ 550	$ 350	$ 850	$ 500	$ 850
8,001	0	214	498	641	0	498	498	925	711	925	0	783	498	1210	711	1210
11,001	0	214	3[illegible]	641	0	498	398	925	561	925	0	783	398	1210	561	1210
14,001	0	158	[illegible]	466	0	359	98	667	111	667	0	559	98	867	111	867
17,001	0	98	0	278	0	209	0	389	0	389	0	319	0	500	0	500
20,001	0	38	0	91	0	59	0	112	0	112	0	79	0	132	0	132
23,001	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Source: IWPR calculations.

Notes: For the ages of eligible children under the two bills see note on Table 1.

For these illustrations it is assumed that single parent families and families with two working parents use paid child care. To calculate the amount of child care tax credit that would be available under the Senate version, it was assumed that paid child care amounts to 20 percent of income, with a minimum of $1500 per year and a maximum of $2400 per year for one child and $4800 for two or more children. In the case of the family with two parents and only one working, it is assumed there are no paid child care expenses. The health insurance tax credit under the Senate version is not included in these calculations.

benefits shown in the tables assume that those families with working mothers are spending 20 percent of their income annually on child care, with a minimum of $1500 and maximums of $2400 for one child and $4800 for two children or more. For example a family earning $10,000 with one child who needs care is assumed to be paying $2,000 for child care; a family earning $15,000 with two children needing care is assumed to be paying $3000. Although it is difficult to know how typical such expenditures are, Census Bureau data suggest that poor families using paid child care do spend about 20 percent of their income on child care, with the proportion falling at higher income levels.[4]

THE NUMBER OF ELIGIBLE FAMILIES UNDER THE TWO BILLS

IWPR's calculations of the numbers of potentially eligible families under the two bills, based upon the March 1988 Current Population Survey, are summarized in Table 3. Our estimates take into account the different ages of eligibility for children in the two bills. That is, in the Senate, families eligible for the young child supplement are those with children under four years of age (0 through 3), while in the House, they are those with children under six (0 through 5). In the Senate, those without young children are eligible for the refundable child care tax credit if they have children under thirteen years of age (4 through 12) and child care expenses. In the House bill, those not eligible for the young child supplement are nonetheless eligible for the expanded EITC if they have children six or older. (The full set of estimates, by income level, are shown in Appendix Table I, and the methodology used to create the estimates is discussed in the Appendix.)

We estimate there are 5.6 million families potentially eligible for new tax benefits under the Senate bill (not including the health insurance provisions); 0.78 million are eligible for the

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[4] Census Bureau Data show that the percent of income spent on child care by annual income level is as follows: less than $15,000--17.8 percent, $15,001-$30,000--8.7 percent, $30,001-$45,000--6.6 percent, more than $45,000-4.4 percent. The most striking difference is seen between those above and below the poverty line, who are paying 6.2 percent and 21.7 percent respectively. See U.S. Bureau of the Census "Child Care Costs Estimated at $14 billion in 1986, Census Bureau Shows," Press Release, July 27, 1989.

Table 3

Estimated Number of Eligible Families by Family Type
Compared for Senate and House Bills

FOR S.5

Unadjusted for Use/Nonuse of Paid Child Care	Single Parent	Two Working Parents	Two Parents One Working	All Family Types
1. Eligible Only for YCS	0	0	778,105	778,105
2. Eligible for Both YCS and RCCC	1,237,134	895,178	0	2,132,312
Total for Young Child Supplement (Lines 1 & 2)	*1,237,134*	*895,[illegible]8*	*778,105*	*2,910,417*
3. Eligible Only for RCCC (Families with Children 4-12)	1,712,505	940,835	0	2,653,340
Total for Child Care Credit (Lines 2 & 3)	*2,949,639*	*1,836,013*	*0*	*4,785,660*
TOTAL ELIGIBLE	**2,949,639**	**1,836,013**	**778,105**	**5,563,757**
Each Family Type as % of All Eligible	53.0%	33.0%	14.0%	100.0%
Eligible Families with 3+ Children	370,401	415,595	250,778	1,036,774
3+ Families as % of All Eligible	12.6%	22.6%	32.2%	18.6%

FOR H.R.3

	Single Parent	Two Working Parents	Two Parents One Working	All Family Types
Eligible for YCS & Expanded EITC	2,100,431	1,554,158	1,511,441	5,166,030
Eligible Only for Expanded EITC (Families with Children 6-17)	2,813,851	1,480,803	729,359	5,024,013
TOTAL ELIGIBLE	**4,914,282**	**3,034,961**	**2,240,800**	**10,190,043**
Each Family Type as % of All Eligible	48.2%	29.8%	22.0%	100.0%
Eligible Families with 3+ Children	666,470	683,565	652,363	2,002,397
3+ Families as % of All Eligible	13.6%	22.5%	29.1%	19.6%

Source: IWPR calculations based on the March 1988 Current Population Survey Public Use Tape.

Notes:

YCS Young Child Supplement
RCCC Refundable Child Care Credit

young child supplement alone, 2.13 million for both the young child supplement and the refundable child care credit, and 2.65 million are potentially eligible for the refundable child care credit alone. These numbers are larger than those estimated by the Joint Tax Committee for two reasons. First, we have not adjusted them downward to eliminate those who do not use paid child care (see the next section for these adjustments); we estimate 4.78 million families (2.13 plus 2.65) who have working mothers who potentially could use paid child care services, whereas the Joint Tax Committee estimates a usage of 1.8 million. Even with a downward adjustment for the nonuse of paid child care, our number is likely to be higher than the JTC number. Second, we estimate 2.91 million families (2.13 plus 2.78) who have young children (under four years old), whereas the Joint Tax Committee estimates usage of only 1.9 million.[5]

We estimate there are 10.2 million families eligible for new tax benefits under the House bill; 5.2 million for the House young child supplement (compared to the Joint Tax committee's 4.4 million) and 5.0 million for expanded benefits to families with children 6 to 17 years old (compared to the JTC estimate of 6.0 million).[6]

Besides providing benefits for more families, the House bill differs somewhat in its distributional impact from the Senate bill. According to IWPR's estimates, of the families served by each bill, the two bills provide new benefits to about equal proportions of families with three or more children (18.6 percent,about 1 million, of the Senate's potentially eligible families have three or more children, while 19.6 percent, or about 2 million, of the House's eligible families are that size; see Table 3). This result may seem surprising because only the

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[5] We cannot explain the large discrepancy in the estimated number of families with eligible young children. Part of the difference could be due to our eligibility definitions. We include any family that has an earning parent as potentially in the eligible population. Some such parents, who do not provide more than half of their children's support by their earnings, are not eligible under current law. Part of the difference could be due to our definition of income, which is based only on the earnings of the parents. Because of other sources of income, some of these families may not be eligible. Also the earnings data are from 1987 while the JTC estimates are for 1990; since money incomes will have risen by 1990, our estimates may overstate the number of eligible families. On the other hand, population growth at all income levels, but especially at the bottom, would have an offsetting effect.

[6] Our estimate of the number of families receiving expanded benefits for older children under the House bill, which is lower than the JTC estimate, does not include families with children 18 and older (and no younger children) who are dependent on their parents. While it is difficult to estimate their number, there may be several hundred thousand such families in the eligible income ranges.

House bill contains specific provisions to help families with three or more children. This result comes about because many such families have one or two young children (who receive new benefits under the Senate bill as well as under the House bill) and because many use paid child care. However, for most three-child families, the House provides larger benefits, as noted above in Table 2, and, because the House bill provides new benefits to more families overall, it also reaches more three-child families.

The House and Senate bills differ more in their benefits to families with one parent not working for pay (usually with mothers at home); 22 percent of the House bill's eligible families are two-parent/single earner families, while only 14.0 percent of Senate-eligible families are two-parent/single earner families (adjusted for the nonuse of paid child care, the Senate proportion is 17.8 percent). The Senate bill helps mothers at home with young children; the House bill helps mothers at home with older children as well.

The bills also differ as to the proportions of families receiving new benefits who are at lower income levels. According to the JTC estimates, 33 percent of the Senate families who receive the young child supplement are expected to have incomes below $10,000 in 1990; and 23 percent of those receiving the refundable child care credit are expected to have incomes at that level. For the House bill, 20 percent of all families receiving benefits are expected to have incomes below $10,000. IWPR's estimates show a total of 68 percent of the potentially eligible Senate families with earnings below $11,000 and 50 percent of House-eligible families with earnings that low (see Appendix Table 2).[7]

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[7] The generally larger proportion of IWPR families at low incomes could be due to differences in the definitions of income between the JTC and IWPR (see n. 5), the ineligibility of some low income families, or the possibility that many low income families may not file tax returns. Very low-earning families are included in the IWPR estimates. For example for Senate-eligible single parents, approximately 40 percent of those earning below $5000 are earning below $2500 per year. Most of these single parents are mothers. Over time these mothers can be expected to increase their work effort and earn at levels high enough to become eligible for substantial benefits under the proposed legislation. IWPR research shows that mothers have increased their work effort substantially in the past decade, both in the proportion of mothers working and in the number of hours they work each year. Poor mothers can be expected to continue to do so. See the Institute for Women's Policy Research and Displaced Homemakers Network, Low Wage Jobs and Workers: Trends and Options for Change, Final Report submitted to the U.S. Department of Labor, November 1989, and Martha Hill and Heidi Hartmann. "The Employment of Mothers and the Prevention of Poverty," SIPP Working Papers Series No.8826, U.S. Bureau of the Census, Washington, D.C., November 1988.

Nevertheless, the House bill helps a larger number of families at every income level, including low levels, because it helps a larger number of families and more types of families (eg. those with children over 12 years of age, those without child care expenses). The Senate bill targets a higher proportion of its resources at the lower-income families, and as noted above, for many families with working mothers and child care expenses, provides larger benefits than would be available to them under the House bill.

THE USE OF PAID CHILD CARE

How many of the *theoretically eligible* families would *actually* receive a larger tax credit under the Senate bill than the House bill does, of course, depend on how many have substantial child care expenses. This cannot be determined precisely. Data on child care use or payments by families with different numbers and ages of children at different income levels, and for different marital statuses of the mother, for a sufficiently large number of families to be confident about the estimates are so far not available. Data on child care arrangements available from the Census Bureau likely seriously understate the number of families using paid child care; in addition the most recent data analyzed are from 1986. Since the use of paid child care is likely to grow, as is the proportion of all families who need child care, we have both updated and adjusted 1986 proportions to estimate the likely usage of paid child care among the Senate-eligible families identified above.

In both 1984-85 and 1986, the Census Bureau's analysis of the Survey of Income and Program Participation (SIPP) showed that about 1/3 of employed mothers, with children of all ages, used paid child care during the month prior to the interview. The data also show that the use of paid child care varies most by the age of the child. For employed mothers with children under age five, 58.8 percent used paid child care during one month in the fall of 1986, the last period for which child care data have been analyzed by the Census Bureau.[8] For those families with children 5 through 14 years old, the proportion was 13.1 percent in the same data set. (A 1984-85 breakdown by age, also based on SIPP data, shows a substantial difference in the use of paid care between the age groups 5 through 11 and 12 through 14, with the younger group having three times the proportion in paid care as the older group.) The use of paid child care also varies by family income, with poorer families, not surprisingly, making less use of paid child care than better-off families; 21.1 percent of those below poverty and 33.1 percent of those above used paid child care in one month of the fall to 1986. There is less variance in the use of paid child care once family income is above the poverty level. For those with annual incomes ranging between $15,000 and $45,000, the proportion using paid child care varied only from 27.4 percent to 33.4 percent in the same data set.

According to the Census Bureau, the number of employed mothers reporting the use of paid child care in the SIPP in 1984-85 (5.3 million out of a total of 15.7 million) was considerably smaller than the number of families who claimed the child care tax credit on their income tax returns in 1984 (7.5 million). The Bureau notes that the IRS returns would also include mothers who are students and single fathers, but they suggest that the bulk of the discrepancy may be due to the fact that fewer people use paid child care in any one month (the time period reported in the SIPP) than use it over the course of the year (the period reported on tax returns).[9] The IRS returns themselves likely do not reflect the full number of families using paid child care since those with incomes so low they owe no taxes would not file. Thus, data from the SIPP likely substantially underreport the number and proportion of families using paid child care.

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[8] Data for 1984-85 are from U.S. Bureau of the Census, Current Population Reports, Series P-70, No. 9, Who's Minding the Kids? Child Care Arrangements: Winter 1984-85, U.S. Government Printing Office, 1987. Data for 1986 are from "Child Care Costs Estimated at $14 Billion in 1986, Census Bureau Shows," Press Release, July 27, 1989, U.S. Bureau of the Census. A new Census Bureau report using 1987-88 SIPP data is expected to be released shortly.

[9] See Who's Minding the Kids? pp. 10-11. It should be noted that families with dependent adults (living in the taxpayer's household) who use paid care are also included in the number of IRS returns.

For mothers whose youngest child was under 5 years old, and who reported using someone other than the child's father or siblings for child care, the June 1982 Current Population Survey (CPS) reported a higher proportion paying for child care (77 percent) than did the SIPP in 1984-85 (72 percent),[10] again suggesting underreporting in the SIPP since use of paid child care has more likely increased rather than decreased over time. When we used CPS data to derive consistent estimates for the proportion paying of *all* working mothers (including those who use their immediate family) whose youngest child was under five, we found an increase of 6.7 percentage points between 1982-86.[11] But the CPS data on paid care are also based on the numbers paying for care in only one month, the month of the survey, not throughout the year, and are also likely to be underestimates compared to those reporting paid care to the IRS. The proportion of families using paid care, then, is likely to be higher than Census Bureau data indicate and is likely to be increasing over time.

To estimate the proportions of families likely to use paid child care in 1991, it is also useful to take into account the high, and growing labor force participation rate of mothers.

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10 See Who's Minding the Kids?, p. 10.

11 We derived our estimates by using the proportions paying for care for each type of child care (relative care in child's home, nonrelative care in home, nonrelative care outside home, etc.) reported in 1982 and applying those percentages to numbers shown using the same types of care in 1984-85. See U.S. Bureau of the Census, Current Population Reports, Series P-23, No. 129, Child Care Arrangements of Working Mothers: June 1982, issued November 1983. In other words, we assumed the proportion paying within each type of care had not changed; what changed between the two years was the distribution across types of care used, with more parents shifting to types of care in which higher proportions are paid arrangements. Our estimates show a consistent modest increase in the proportion of employed mothers (whose youngest child is under age five) using paid child care:

	Percent Using Paid Care
1982	56.7
1984/85	62.5
1986	63.4

Data from an earlier period, 1958 through 1977, show a large shift toward the use of forms of child care more often involving payment. Of all forms of child care used by working ever married mothers of children under six, the proportion using care by relatives (a category which includes the father and siblings as the child care provider while the mother works) fell dramatically between 1958 and 1977, some 14 percentage points; the proportion using family day care (a nonrelative in another home) increased by 14 percentage points and the proportion using organized group care increased by 10 percentage points. One paid form of child care, the sitter (a nonrelative in the child's home) fell nearly 8 percentage points as a share of all child care. See Table A, p. 6, and Table C, p. 13, in U.S. Bureau of the Census, Current Population Reports, Series P-23, No. 117, Trends in Child Care Arrangements of Working Mothers, issued June 1982.

Based on the March 1988 Current Population Survey data shown in Appendix Table 1, we estimate that mothers work for pay in 57.5 percent of all married couples with earnings under $20,000, the approximate universe of eligible families under both bills.[12] For those with children three and under, and family earnings under $20,000, the proportion of married employed women is 45.7 percent, and for those with children five and under, the proportion of employed wives is 50.7.[13] Since the proportions of mothers who work for pay have been rising rapidly, by 1991 the proportions of working mothers can be expected to be even higher.

Considering all the foregoing information, and projecting some increase in the proportions of mothers working and using paid care by 1991, we estimate that approximately 1.46 million working mothers with children between 4 and 12 (out of an estimated potential Senate-eligible population of 2.65 million) will use paid child care, while 1.41 million mothers with at least one child under four will use paid child care (out of an estimated potential Senate-eligible population of 2.13 million).[14] (See Table 4.) Thus we estimate a total of 2.87 million families using the new refundable child care credit in the Senate bill, whereas the Joint Tax Committee estimate is 1.8 million. Of the 2.87 million likely user families estimated by IWPR, we estimate that at least half can be expected to have child care expenditures at levels high enough to entitle them to the credits shown in Table 2. Of these, approximately 1.0 million families would likely receive higher per family benefits under the Senate bill than under the House bill. As noted above, these families are those with low incomes, all available parents in

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12 If only those families actually eligible (adjusted for income eligibility and the nonuse of paid child care) for the benefits under the Senate bill are considered, about 61 percent of the wives in married couple families are working for pay.

13 The eligible population for the Senate and House bills extends to families with incomes up to about twice the poverty level. When only poor families are considered, a lower proportion have employed mothers. Current Population Survey data for mothers with children under six show 34.6 percent of poor married mothers working for pay and 37.6 percent of poor single mothers working during 1987 (calculated by IWPR from Table 23 in U.S. Bureau of the Census, Current Population Reports, Series P-60, No 163, Poverty in the United States: 1987). Unfortunately data on the proportion of poor mothers working reported in a recent paper from the Center on Budget and Policy Priorities (Robert Greenstein and Isaac Shapiro, "New Data Underscore Importance of House Earned Income Tax Credit Expansion," July 2, 1990) was seriously misleading because it was based on data for only one month. The proportions cited there were only half as large.

14 We believe these estimates are conservatively low. We used proportions paying for care that are consistent with the CPS data, which are also based on experience in one month out of twelve, and so likely underestimates. The potential failure of eligible families to file for the credit, however, obviously works in the opposite direction.

the labor force, and child care expenditures amounting to about 20 percent of income. (Some low income families with three children and child care expenditures would fare better in the House bill; others who fare better under the House Bill have incomes at the higher end of the eligible income range.)

POVERTY RATES FOR FAMILIES AND CHILDREN

Some families in the population eligible for assistance under the two bills may have greater needs than others.

Using 1987 data from the Current Population Survey, the Center on Budget and Policy Priorities reports high rates of poverty among working families with three children or more:

Family Type	Poverty Rate
One-Child	7.5%
Two-Children	9.1
Three-or-More-Children	20.3

The Center also notes that 60 percent of poor children with working parents live in families with three or more children.[15] Our calculations based on the same data set for families *eligible* for benefits under H.R.3 show that approximately 19.7 percent of families earning under $20,000 annually have three children or more; approximately 37.6 percent of the children in eligible families earning under $20,000 live in families with three children or more. (See Appendix Table II.)

Poverty rates among families differ as well on other dimensions than the number of children. Table 5, which also presents 1987 data from the CPS, shows that the marital status of the mother is equally important in determining which children are poor. Women-maintained families are an increasing proportion of all families with children and a rapidly growing proportion of all families in poverty. Between 1959 and 1986, the proportion of all families in

[15] Robert Greenstein and Isaac Shapiro, " New Data Underscore Importance of House Earned Income Tax Credit Expansion," Center on Budget and Policy Priorities, Washington, D.C., July 2, 1990.

Table 4

Senate Eligible Families Adjusted for Use of Paid Child Care

Number of Families	Total Eligible for All Family types	Adjusted for Use/Nonuse of Paid Child Care
Eligible for Both Young Child Supplement and Refundable Child Care Credit	2.13 million	1.41 million
Eligible Only for Refundable CCC (Families with Children 4-12 only)	2.65 million	1.46 million
Total Eligible for RCCC	*4.78 million*	*2.87 million*
Eligible Only for Young Child Supplement (Families Not Using Paid Care)	.78 million	1.50 million
ESTIMATED TOTAL ELIGIBLE FOR S.5	**5.56 million**	**4.37 million**

Source: Estimates by IWPR based upon data from the U.S. Bureau of the Census.

the labor force, and child care expenditures amounting to about 20 percent of income. (Some low income families with three children and child care expenditures would fare better in the House bill; others who fare better under the House Bill have incomes at the higher end of the eligible income range.)

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[15] Robert Greenstein and Isaac Shapiro, " New Data Underscore Importance of House Earned Income Tax Credit Expansion," Center on Budget and Policy Priorities, Washington, D.C., July 2, 1990.

poverty maintained by women grew from 23.0 percent to 51.5 percent.[16] Data in Table 5 are only for those families in which the mother is working; even for these families, the poverty rates are very high: 29.3 percent of all families with a working single mother were poor in 1987.[17]

Table 5 also shows that the age of the children has as an important effect on poverty rates. Working-mother families with younger children are somewhat poorer than others overall (a poverty rate of 11.5 for those families with at least one child under six versus a poverty rate of 8.3 for families with only older children). But the age of the children makes the most difference for single-mother families. The families of working single mothers with children under six have a poverty rate of 42.3 percent compared to a poverty rate of 23.3 percent for those single-mother families who have only older children. Working mothers with children in both age groups have the highest poverty rates; they probably have more complex child care arrangements and somewhat larger families than other mothers.

In Table 6, the same data are presented from the point of view of the children. It is clear that children under three in families with working single mothers are among the poorest, with a poverty rate of 44.6 percent. Moreover, as both Tables 5 and 6 show, poor children are disproportionately concentrated in the families of single mothers.

These data, then, suggest that single-mother families, large families, and families with young children are all especially deserving of assistance.

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16 Diana M. Pearce, "The Feminization of Poverty: A Second Look," Paper presented at the American Sociological Association Meetings, San Francisco, California, August 1989.

17 Data for married couple families in which only one parent works (most likely the father, with the mother at home) are not as readily available in the published CPS data as are data for working-mother families. IWPR calculations (based on Table 20 in Poverty in the United States: 1987) show that married couple families in which only one spouse works have substantially higher poverty rates than those families in which both spouses work but considerably lower poverty rates than working single-parent families. For families with children under 18, two-parent/one-earner families had a poverty rate of 13.2 percent in 1987, while those with children under 6 had a poverty rate of 16.3. If measures of the poverty line included child care expenditures, families with two working parents would have higher poverty rates than they do now.

Table 5

Poverty Rates for Families of Working Mothers
by Age of Children

Families With:	Single Mothers	Married Mothers	All Mothers
Children Under 18	29.3%	4.0%	9.7%
Children Under 6	42.3	4.9	11.5
Only Children Under 6	39.2	4.0	10.7
Children Under 6 and 6-17	46.8	6.4	12.6
Only Children 6 to 17	23.3	3.2	8.3
Number of Poor Families of Each Family Type	1,276,000	708,000	

Source: U.S. Bureau of the Census, Current Population Reports, Series P-60, No.163, Poverty in the United States: 1987, issued February 1989, Table 23.

Table 6

Poverty Rates of Children in Families with Working Mothers
by Age of children

Children in Families With:	Single Mothers	Married Mothers	All Mothers
All Children Under 18	33.6%	5.3%	11.2%
Children Under 3	44.6	6.2	12.5
Children 3 to 5	37.5	5.6	12.1
Children 6 to 14	33.6	5.5	11.7
Children 15 to 17	23.1	3.5	7.9
Number of Poor Children in Each Type of Family	2,802,000	1,648,000	

Source: U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 163, Poverty in the United States, 1987: issued February 1989, Table 24.

Table 7

Hypothetical Scenario
Increase in Credit: House EITC Plus Senate Refundable Child Care Credit
by Family type and Earnings Level
(Maximum Combined Increase = $1210)

SINGLE PARENTS

Earnings Level	One Child	One Young Child	Two Children	Two Children 1 Young	Two Young Children	Three + Children	Three + Children 1 Young	Three + Children 2+ Young
$ 5,001	$ 555	$ 855	$ 755	$1,055	$1,055	$ 955	$1210	$1210
8,001	646	1073	930	1210	1210	1210	1210	1210
11,001	538	965	1072	1210	1210	1210	1210	1210
14,001	158	466	668	976	976	1151	1210	1210
17,001	98	278	229	408	408	621	802	802
20,001	38	91	59	112	112	79	132	132
23,001	0	0	0	0	0	0	0	0

TWO WORKING PARENTS

	One Child	One Young Child	Two Children	Two Children 1 Young	Two Young Children	Three + Children	Three + Children 1 Young	Three + Children 2+ Young
$ 5,001	$ 555	$ 855	$ 755	$1055	$1055	$ 955	$1210	$1210
8,001	646	1073	930	1210	1210	1210	1210	1210
11,001	788	1210	1072	1210	1210	1210	1210	1210
14,001	464	772	1039	1210	1210	1210	1210	1210
17,001	98	278	606	786	786	999	1180	1180
20,001	38	91	119	172	172	423	476	476
23,001	0	0	0	0	0	27	27	27

TWO PARENTS, ONE WORKING

	One Child	One Young Child	Two Children	Two Children 1 Young	Two Young Children	Three + Children	Three + Children 1 Young	Three + Children 2+ Young
$ 5,001	$ 150	$ 450	$ 350	$ 650	$ 650	$ 550	$ 850	$ 850
8,001	214	641	498	925	925	783	1210	1210
11,001	214	641	498	925	925	783	1210	1210
14,001	158	466	359	667	667	559	867	867
17,001	98	278	209	389	389	319	500	500
20,001	38	91	59	112	112	79	132	132
23,001	0	0	0	0	0	0	0	0

Source: Calculated by IWPR.

Note: This table shows the increase in tax credits which would result from combining the EITC in H.R. 3 with the refundability of the child care credit in S.5, with the limitation that the total increase be limited to $1210 (the maximum provided by H.R.3). The assumptions with respect to child care expense are the same as for Tables 1 and 2.

COMBINED BILL

As a matter of public policy, it would be highly desirable to combine the best features of both the House and Senate bills. We attach particular importance to the refundability of the child care credit provided in the Senate Bill, for several reasons. First, as a matter of equity, low-income families who incur child care expenses should receive benefits equivalent to those now being provided to higher-income tax payers. (Higher-income tax payers can use the child care credit as an offset to their tax liability; those families too poor to pay taxes cannot claim the credit). Second, those families that must have all the available parents earning work a larger portion of the available adult hours to reach a given income level; their greater work-related expenses should be compensated and their extra work effort should be rewarded. Third, a growing proportion of the working poor and near poor are families with working mothers. Working mothers must have child care in order to work to support their families. The recently enacted Family Support Act provides one year of subsidized child care to women making the transition from welfare to paid work. After the year is up, these women face returning to welfare if they have no child care assistance. Near poor, as well as poor, mothers are expected to increase their work effort. Across all incomes, the labor force participation of mothers continues to grow, especially mothers of young children. In 1988, 69 percent of mothers, whether married or single, worked for wages.

While the importance of assisting families with child care costs is already great and can be expected to grow, we also think it desirable to provide increased assistance to a broader range of families, including others especially deserving of assistance. IWPR's scenario combines the refundability of the child care credit (as specified by the Senate bill) with the expanded EITC, including the young child supplement, provided by the House bill. We assigned the maximum total credit a ceiling of $1210, the ceiling (as of 1991) in the House bill.

The hypothetical credit under such a scenario, for different family types and income levels, is shown in Table 7. As is indicated by the table, such a proposal would accomplish the objective of offering meaningful assistance to the poorest families--especially to those with child care expenses, to families with young children, and to large families.

Of course, adding the Senate child care credit to the House package would raise the cost of the legislation. H.R. 3 is estimated to cost $18.5 billion over a five year period (before deducting the offset resulting from the phaseout of the credit for high-income taxpayers). The refundability of the child care credit is estimated to cost $4.9 billion dollars, and would thus increase the cost of the House bill by about 25 percent, before giving effect to the impact of the $1210 ceiling.

We do not think this is an excessive national expenditure, given the objective of ameliorating the economic situation of poor and near poor working families with children. However, if political realities dictate limiting the total cost of the legislation, a number of alternatives, that still combine refundability with most of the House EITC features, could be considered:

1. The young-child supplement in H.R. 3 is estimated to cost $5.2 billion over a five year period; it could be eliminated or reduced. The increase in benefits would be as in Table 7, but with no or smaller supplements for families with young children.

2. The size of the expansion of the EITC in H.R. 3 could be scaled back by scaling back the proposed increases in the credits for one-, two-, and three-children families. The effect of these changes would be to generally maintain the structure of benefits as shown in Table 4; benefits for all families would be reduced across the board, but those with child care expenditures would experience a lesser proportionate reduction.

3. All expansions could be phased in over time to reduce costs in the first five years.

We believe the structure of benefits as shown in Table 7, that is the relative sizes of benefits to the various types of families at the income levels shown, is a desirable structure. It rewards the greater work effort of those families who must have all available parents in the labor market, and it provides substantial benefits to very low-income single parent households and families with three children, both of whom are groups with very high poverty rates.

One issue that we have not been able to examine in our research is the extent to which increasing earned income tax credits may discourage employers from raising wages and fringe benefits. This may be a particular problem for the Senate-proposed health insurance credit, which may further discourage employers from providing health insurance for dependent coverage, a fringe benefit they are already cutting back on. While subsidies directed to the working poor with children are certainly worthwhile amelioratives in the short run, the necessity for them does raise the question of what can be done to improve the wage structure in the U.S. Wage subsidies cannot substitute for policies aimed at raising wages. Higher wages would increase tax revenues, reduce the need for subsidies, and increase the nation's overall ability to provide subsidies to those who remain in need. Full-time wage earners should not be in need of subsidies to rise above poverty. Increasing the minimum wage (beyond the recently enacted schedule), mandating minimum benefits, and exploring labor law reform are all strategies that are likely to help the working poor more in the long run. In addition, policies aimed at raising women's wages are especially important, since many working women support families on their own, and their wages are well below men's (even when workers with the same educational level and work experience are compared). Such policies include pay equity, equal employment opportunity policies, and family and medical leave.

In the short run, however, many families with low earnings and high child care expenses who need assistance now can be helped by the proposed legislation.

Prepared by:

Heidi Hartmann and Celia Star Gody,
with the assistance of
Linda Andrews and Elizabeth Freeze
Institute for Women's Policy Research
(202) 785-5100

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APPENDIX

METHODOLOGY

IWPR's method of calculating the tax benefits likely to be received by families under both the Senate and the House proposals is described in our first briefing paper on this subject (June 1990).

The new research reported in this paper, the calculations of the numbers of eligible families for various provisions of both bills (excluding the health insurance credit in the Senate bill), are based on the Public Use Tape of the March 1988 Current Population Survey, which is made available by the U.S. Bureau of the Census. The Current Population Survey interviews approximately 60,000 households monthly and a total of about 240,000 different households during a year; among other purposes, these data are used by the Bureau of Labor Statistics to report monthly employment and unemployment statistics. The March tape includes annual earnings data for 1987, as well as the usual monthly data items, such as family size and composition, hours of work, and so on.

Working families were defined as those that had at least one parent earning more than $0 in 1987 and one child under 18 years of age in March of 1988. These were divided into family types based on the marital status of the family reference person, either single (including never married, divorced, separated, or spouse absent) or married (spouse present). Families with a married family reference person were further divided into those with only one parent who earned more than $0 in 1987 and those in which both parents earned more than $0 in 1987. (In some cases the working adult in the family is not the parent, but the effective parent, such as a guardian or grandparent.) Our method excluded those families who had older dependent children (18 or over) but no younger children (under 18); some of these families are eligible for the Earned Income Tax Credit but the Census data provided no easy way to identify which older children are dependent and which are not.

For the House bill, a child is someone in the household in March 1988, who was 17 years old or less at the time of interview. Families of various types had one, two, or three or more children, as indicated. A young child was one who was under six years old (0 to 5), the age group qualifying for the Young Child Supplement in the House bill. A family who had two children one of whom was a young child, had exactly one child between 0 and 5 and one between 6 and 17, and so on for the other family compositions. The data shown in Appendix Table 2 are based on the House definition of a child (someone under 17, either young or not).

For the Senate bill, only children under 13 were counted as children for the purposes of allocating families to the various family types and sizes shown. This is because the Senate bill provides no new benefits for children 13 and older. In our analysis, a family counted as having one child had one child (and only one) between 4 and 12, but could have had any number of additional children between 13 and 17. In other words, such a family counted as having one "eligible" child; a family with two children, one of whom was young, had exactly one child between 0 and 3 (since the Senate defines eligibility for the Young Child Supplement as a child under four) and exactly one between 4 and 12, but could have also had any number of children between 13 and 17. The families having the numbers of children shown in Appendix Table 1 should be thought of as having that number of eligible children.

The net effect of this procedure for the Senate bill is to shift families down toward the smaller end of the family-size distribution; thus the number of three-child families shown in Table 3 as being served by the Senate bill is an underestimate of the number of families who actually have 3 (or more) children under 18. Some of those families with three children under 18 who are served by the Senate bill are not counted as such, because they are counted as having only one or two eligible children.

A young child in the Senate bill is one who was under four (0 to 3) in March 1988 at the time of the interview. Because this was not an age category available on the Public Use Tape, the following procedure was used to estimate the number of families with children under four: All families with children in age group 0-2 were included. One-half of the families with children in the age group 3-4 were randomly selected to be included in the analysis, on assumption that half the families with a three or four year old had a three year old.

Also, because the category 0-12 was also not available on the public use tape, families with children 0 through 11 were chosen, one-third of the families with one child 12-14 and two-thirds of the families with two or more children 12-14 were randomly selected for inclusion in the analysis of families with children 0-12.

APPENDIX TABLE I. NUMBER OF ELIGIBLE FAMILIES BY FAMILY TYPE AND EARNINGS LEVEL

SINGLE PARENTS

Earnings Level	One Child		One Young Child		Two Children		Two Children One Young		Two Young Children		Three or More Children		Three or More One Young		Three or More Two + Young	
	S.5	H.R.3	S.5	H.R.3	S.5	H.R.3	S.5	H.R.3	S.5	H.R.3	S.5	H.R.3	S.5	H.R.3	S.5	H.R.3
1- 5000	479,141	388,895	385,879	502,013	192,006	242,006	105,874	91,027	56,868	122,508	90,072	124,443	58,692	82,630	53,495	102,743
5001- 8000	255,145	266,182	95,262	132,813	88,964	119,444	34,645	38,568	16,504	31,970	23,284	52,119	20,089	40,641	14,619	19,847
8001-11000	216,452	237,332	110,633	148,099	137,150	159,667	36,766	79,571	14,764	29,896	25,115	51,183	13,683	17,634	5,807	16,790
11001-14000	-	274,782	80,589	133,575	79,844	118,834	57,665	49,724	9,587	32,476	23,793	57,054	7,025	20,150	8,570	10,190
14001-17000	-	233,140	-	122,609	88,641	120,159	22,057	46,804	14,802	30,902	12,898	21,032	10,080	11,111	3,179	13,287
17001-20000	-	223,790	-	100,785	-	108,586	-	32,689	-	28,966	-	15,204	-	10,414	0	0
TOTAL	950,738	1,624,121	672,363	1,139,894	586,605	868,696	257,007	338,383	112,525	276,718	175,162	321,034	109,569	182,580	85,670	162,856

TWO WORKING PARENTS

Earnings Level	One Child		One Young Child		Two Children		Two Children One Young		Two Young Children		Three or More Children		Three or More One Young		Three or More Two + Young	
	S.5	H.R.3	S.5	H.R.3	S.5	H.R.3	S.5	H.R.3	S.5	H.R.	S.5	H.R.3	S.5	H.R.3	S.5	H.R.3
1- 5000	53,118	71,484	28,904	31,722	22,966	39,970	23,749	14,396	11,400	23,339	12,925	34,934	17,371	19,117	4,683	16,514
5001- 8000	59,518	84,322	46,462	45,726	34,319	45,997	18,347	22,534	19,926	31,116	19,487	30,639	7,484	20,533	8,783	16,180
8001-11000	114,371	83,504	78,747	102,389	45,788	63,991	28,214	31,065	17,299	28,938	21,846	35,871	18,451	30,532	17,635	29,682
11001-14000	121,632	147,425	111,268	133,802	97,415	75,914	53,209	50,433	24,797	54,024	33,365	58,722	35,730	36,899	11,036	35,806
14001-17000	-	152,452	-	157,833	119,222	125,460	58,325	59,634	25,739	59,805	34,048	65,184	29,642	28,077	22,564	48,503
17001-20000	-	153,321	-	185,663	106,824	155,871	63,493	59,859	35,367	59,410	43,993	55,742	49,838	61,935	26,713	58,694
TOTAL	348,638	692,508	265,383	657,135	426,533	507,203	245,337	237,920	134,527	256,631	165,664	281,092	158,517	197,093	91,414	205,379

TWO PARENTS, ONE WORKING

Earnings Level	One Child		One Young Child		Two Children		Two Children One Young		Two Young Children		Three or More Children		Three or More One Young		Three or More Two + Young	
	S.5	H.R.3	S.5	H.R.3	S.5	H.R.3	S.5	H.R.3	S.5	H.R.3	S.5.	H.R.3	S.5	H.R.3	S.5	H.R.3
1- 5000	-	67,469	89,078	97,646	-	42,130	18,890	14,211	36,593	51,541	-	30,961	32,883	33,905	20,980	40,193
5001- 8000	-	32,081	24,730	33,349	-	26,004	22,228	31,196	13,636	26,632	-	13,108	25,415	18,602	23,109	41,948
8001-11000	-	63,073	66,786	72,824	-	43,514	38,059	44,075	35,616	57,852	-	21,669	50,493	36,162	35,672	75,959
11001-14000	-	57,610	80,425	97,574	-	39,376	64,523	43,862	36,764	81,013	-	32,446	32,622	39,751	29,605	46,334
14001-17000	-	41,537	-	53,410	-	41,419	-	55,487	-	52,460	-	26,999	-	27,894	-	45,326
17001-20000	-	64,495	-	80,087	-	63,282	-	42,391	-	70,837	-	22,186	-	46,113	-	52,808
TOTAL	-	326,265	261,019	434,889	-	255,726	143,700	231,222	122,608	340,335	-	147,368	141,462	202,427	109,366	302,568

Source: IWPR tabulations of the March 1988 Current Population Survey Public Use Tape.

Notes: - Families at these income levels, or with this family composition, are not eligible for the bill.

It should be noted that the definition of eligibility for young children and children are different in the two bills. In the House, a young child is under six; a child (who is not young) is six or older. In the Senate, a young child is under four; a child (who is not young) is four through twelve; children thirteen and over are not included because they ordinarily do not qualify for child-care-related tax benefits.

APPENDIX TABLE II

FAMILIES AND CHILDREN ELIGIBLE FOR NEW BENEFITS UNDER H.R.3, BY FAMILY SIZE, FAMILY TYPE AND EARNINGS.

Panel A. Families with Earnings less than $11,000

NUMBER OF FAMILIES

Family Size	Single Parent	Two Working Parents	Two Parents One Working	All Family Types
1 child	1,675,334	419,147	366,442	2,460,923
2 children	914,657	301,345	337,157	1,553,159
3 or more	508,028	234,002	312,507	1,054,537
Total	3,098,019	954,494	1,016,106	5,068,619

NUMBER OF CHILDREN

Family Size	Single Parent	Two Working Parents	Two Parents One Working	All Family Types
1 child	1,675,334	419,147	366,442	2,460,923
2 children	1,829,314	602,690	674,314	3,106,318
3 or more	1,712,054	828,367	1,146,901	3,687,322
Total	5,216,702	1,850,204	2,187,657	9,254,563
Average Number of Children Per Family	1.7	1.9	2.2	1.8

PERCENT OF FAMILIES

Family Size	Single Parent	Two Working Parents	Two Parents One Working	All Family Types
1 child	54.10	43.90	36.10	48.60
2 children	29.50	31.60	33.20	30.60
3 or more	16.40	24.50	30.80	20.80
Total	100.00	100.00	100.00	100.00

PERCENT OF CHILDREN

Family Size	Single Parent	Two Working Parents	Two Parents One Working	All Family Types
1 child	32.10	22.70	16.80	26.60
2 children	35.10	32.60	30.80	33.60
3 or more	32.80	44.80	52.40	39.80
Total	100.00	100.00	100.00	100.00

PANEL B. Families with Earnings less than $20,000

NUMBER OF FAMILIES

Family Size	Single Parent	Two Working Parents	Two Parents One Working	All Family Types
1 child	2,764,016	1,349,643	761,155	4,874,814
2 children	1,483,797	1,001,755	827,283	3,312,835
3 or more	666,470	683,564	652,362	2,002,396
Total	4,914,283	3,034,962	2,240,800	10,190,045

NUMBER OF CHILDREN

Family Size	Single Parent	Two Working Parents	Two Parents One Working	All Family Types
1 child	2,764,016	1,349,643	761,155	4,874,814
2 children	2,967,594	2,003,510	1,654,566	6,625,670
3 or more	2,212,680	2,378,803	2,341,980	6,933,463
Total	7,944,290	5,731,956	4,757,701	18,433,947
Average Number of Children per Family	1.6	1.9	2.1	1.8

PERCENT OF FAMILIES

Family Size	Single Parent	Two Working Parents	Two Parents One Working	All Family Types
1 child	56.20	44.50	34.00	47.80
2 children	30.20	33.00	36.90	32.50
3 or more	13.60	22.50	29.10	19.70
Total	100.00	100.00	100.00	100.00

PERCENT OF CHILDREN

Family Size	Single Parent	Two Working Parents	Two Parents One Working	All Family Types
1 child	34.80	23.50	16.00	26.40
2 children	37.40	35.00	34.80	35.90
3 or more	27.90	41.50	49.20	37.60
Total	100.00	100.00	100.00	100.00

Source: IWPR calculations based on the March 1988 Current Population Survey Public Use Tape.