

## Combining Child Credits, the EITC, and the Dependent Exemption (Part 1 of 2)

### Part One: Is a New Momentum Being Created?

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The U.S. tax laws now provide several benefits to low-income taxpayers with children. Each has been adopted independently and, accordingly, this group of benefits is not rationally integrated, easily understood as a package, or simply administered. The "pro-family" set of provisions also has "anti-family" side effects such as marriage penalties, especially when considered in combination with welfare programs for low-income individuals.

Many people, both in and out of government, have been working to achieve a more coordinated tax law to help low-income families with children. The staff of the Office of Tax Analysis at Treasury, including Janet Holtzblatt and Janet McCubbin, has been providing a number of nonpartisan analyses of the current provisions. Some elected officials, such as Rep. Thomas E. Petri, R-Wis., have been laboring in this vineyard for a long time and have tried—as when the new child credit was adopted in 1997—to get Congress to give more thought to the combined tax structure that was being created.

A few academics, such as law professors Jon Barry Forman (University of Oklahoma) and George Yin (University of Virginia), have suggested valuable alternatives to the current structure in the pages of Tax Notes and in sessions organized by the American Tax Policy Institute.

Examinations of marginal tax rates and tax incentives have been done by such researchers as Linda Giannarelli, Robert Lerman, Gregory Acs, and myself at the Urban Institute, Stacy Dickert-Conlin of Syracuse University, John Karl Scholz of the University of Wisconsin, Iris Lav of the Center on Budget and Policy Priorities, James Alm of Georgia State University, Nada Eissa of Berkeley, Robert Moffitt of Johns Hopkins University, Leslie Whittington of Georgetown University, Daniel N. Shaviro of NYU, and Bruce Meyer of Northwestern University, as well as by the staff of the Joint Committee on Taxation.

Still others, such as Ron Mincy, a former colleague of mine now at the Ford Foundation, and Elaine Sorenson of the Urban Institute, have been trying to figure out how to bring fathers more into the picture.

In what could turn out to be an important new development, Robert Cherry and Max B. Sawicky of the Economic Policy Institute have added their voices to the debate by suggesting a Universal Unified Child Credit to replace the earned income tax credit, the child credit, the additional child credit (for taxpayers with three children or more), and the dependent exemption.

I, too, have been involved with these provisions for almost a quarter century now. My research on the relative increase in the tax burdens on families with children over the postwar period—primarily due to the relative decline in the value of the personal exemption applying to dependents and taxpayers—created much of the momentum for increasing the personal exemption in the Tax Reform Act of 1986 and the adoption of a child credit at the end of the 1990s.

In the mid-1980s, as economic coordinator of Treasury's tax reform effort, I helped put the EITC back on the table by first suggesting its inclusion in the administration's 1984 tax proposals, which led to the Tax Reform Act of 1986. That act set the precedent; two major expansions of the EITC followed in 1990 and 1993.

At other times I have been involved in various efforts to make the EITC to calculate, to develop a more uniform and naturally understood definition of qualifying taxpayer, and to perform research on the true marginal tax rates faced by individuals when all programs are considered comprehensively. In 1997, I was unsuccessful in getting Congress to consider something like a universal child credit in lieu of simply patching a new child credit onto the existing structure. I have also suggested at various stages that health reform could

be tied to a child credit.

Based on that long experience, I believe firmly that success in reforming the system of tax benefits will require some type of liberal/conservative coalition. The momentum behind the increase in the personal exemption for dependents and taxpayers in the Tax Reform Act of 1986, for example, came about because the change simultaneously removed the poor from income taxation and partially reversed the postwar trend toward higher relative taxation of households with children. Similarly, the child credit received majority support both because it added progressivity to the tax bill being adopted and because it went further toward recognizing that households with children have a lesser ability to pay tax.

Expansions of the earned income tax credit have been favored historically both by those who wanted to get more income to lower-income individuals and by those who viewed the EITC as superior to welfare provisions or, in the 1990 debate, to minimum wage increases. Often neither side got all that it wanted but was willing to live with compromise.

Who, then, might form the coalition behind a new compromise? The two groups that might join together are those who want to "make work pay" and those who want to move further away from some aspects of the welfare structure, with its perverse disincentives toward marriage and work. Because benefits provided through the tax system essentially are available only to those who work, they have been provided with fewer strings attached—in cash, rather than the in-kind benefits that now form the bulk of the welfare system.

Right now the "make work pay" group is the more active of the two. The notion that if one works, one should be able to get by, has an extensive history. It goes back at least to the National Commission on Children, chaired by Sen. John D. Rockefeller IV, D-W.Va., on which David Ellwood of Harvard University, Irving Garfinckel of Columbia University, and I served as advisors. Ellwood helped coin the phrase and brought the policy goal into the Clinton administration. Although I hate to generalize, it is probably fair to state that many of those working on this side of the issue are expansion-minded—their priority is for some expansion of benefits among the lowest income individuals almost without regard for the incentive structure created. While the suggestions coming out of the partially union-backed Economic Policy Institute are also expansionistic, they stand out as a contrast because a large portion of the benefits would go to the lower-middle and middle classes and because substantial attention is paid to issues of incentives.

For a coalition to be formed, such attention to incentives will prove a very important factor. It would also be nice if enough people also cared about a simplified and rationalized tax system, but they likely will remain only a small, if occasionally influential, minority—perhaps a part of the glue that will hold the pieces together.

## Other Publications by the Authors

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- [C. Eugene Steuerle](#)

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