UNDERSTANDING THE MAZE OF RECENT CHILD AND WORK INCENTIVE PROPOSALS

Elaine Maag and Nikhita Airi

June 1, 2020

Policymakers continue to grapple with the related issues of unequal incomes, relatively poor health, education, and economic outcomes for low-income children, and hardship among low- and moderate-income families. To address these issues, several policymakers have proposed legislation that would provide substantial refundable tax credits. In this brief, we detail who benefits from the two largest refundable tax credits designed to help low- and middle-income families: the earned income tax credit (EITC) and the child tax credit (CTC). We then describe the most recent large-scale tax credit proposals that would provide substantial and ongoing benefits to a large group of people through these or similar credits. We include the Cost-of-Living Refund, LIFT (Livable Income for Families Today) the Middle Class Act, the American Families Act, and the Working Families Tax Relief Act. Our analysis shows who benefits from each proposal and who would be left out (or receive only a small share) of benefits from each proposal. We will release new analyses as more information and new proposals become available.

In general, expansions to the EITC or the creation of a similar credit focused on work could help both families with children and workers without children at home and would provide the largest share of credit benefits to low- and moderate-income families. In contrast, expansions to the CTC would generally increase benefits for families with children, but benefits would be distributed over a wider income range. Elderly people, even those who are very poor and working, would typically see very few benefits from either expansion.

The various policy proposals affect married and unmarried people differently. Policies that would concentrate benefits among very low–income families would generally provide more assistance to people who are unmarried than to married couples, while policies affecting moderate-income families would also aid married couples. This reflects the higher average incomes of married couple households.

Some policy design choices can disproportionately affect very low–income families. These include phasing credits in quickly as income grows or removing phase-in income ranges altogether, features of all the proposals in this brief. Raising maximum credit amounts without changing the phase-in rate does little for the lowest-income households who are unable to access the maximum credit already available.

Legislative proposals for new approaches to work and child tax credits aim to reduce poverty and income inequality, strengthen the middle class, and support children and low-income workers. These proposals tend to build on the success of two existing refundable[1] tax credits: the EITC and the CTC. Although the proposals may appear to be similar, they can be distinguished based on who is eligible for benefits, how much they rely on the existing EITC and CTC, what new groups of people benefits would be extended to, and whether benefits would be made available other than when filing a tax return. We provide a brief description of the EITC, CTC, and each proposal we analyze, followed by more detailed descriptions. Details of each work credit can be found in table A.1; details of each child credit can be found in table A.2; details on age limits can be found in table 1; and details on credit timing can be found in table 2. We characterize who would benefit from each proposal, noting that the proposals differ in cost.

SUMMARY OF CURRENT LAW AND PROPOSALS

Unless otherwise indicated, current law refers to the tax rules in place in 2020. After 2025, the CTC will revert to the structure it had before passage of the Tax Cuts and Jobs Act of 2017, including a reduction in the maximum per child credit available and a reduction in the income level at which the credit would begin to phase out.[2]

Earned Income Tax Credit (Current Law)

The EITC subsidizes low-income working families. The credit equals a fixed percentage of earnings from the first dollar of earnings until the credit reaches its maximum. Credit rates vary from 7.65 percent (for childless[3] workers) to 45 percent (for families with three or more children). The maximum credit is paid until earnings reach a specified level, after which it declines with each additional dollar of income until no credit is available. The EITC is a refundable tax credit, so an eligible individual receives the full value of the EITC, even if it exceeds their income tax liability.

Child Tax Credit (Current Law)

The CTC provides a credit of up to $2,000 per child under age 17. If the credit exceeds income taxes owed, families may receive up to $1,400 per child as a refund. The refundable portion is limited to 15 percent of earnings over $2,500. Taxpayers with other dependents, including children ages 17 to 18 and full-time college students ages 19 to 24, can receive a nonrefundable credit of up to $500 for each of these dependents.

Cost-of-Living Refund (CLR)

Introduced by Sherrod Brown (D-OH) in the Senate and Ro Khanna (D-CA) in the House, this proposal would expand the EITC for all filers by phasing the credit in more quickly, roughly doubling the maximum benefit for families with children and increasing six-fold the maximum benefit for taxpayers who do not live with children (referred to as "childless" for tax purposes), extending the qualifying income range for childless workers, and beginning the phaseout of the credit for childless workers at the same income threshold as filers with one child. The minimum eligibility age for

---

[1] The maximum value of a nonrefundable tax credit is capped at a taxpayer's income tax liability. In contrast, taxpayers receive the full value of their refundable tax credits regardless of their income tax liability. The amount of a refundable tax credit that exceeds income tax liability is refunded to taxpayers.

[2] For details, see "What Is the Child Tax Credit?" Tax Policy Center Briefing Book, accessed March 10, 2020, https://www.taxpolicycenter.org/briefing-book/what-child-tax-credit.

[3] "Childless" refers to tax units with no children who qualify for the EITC.

the EITC for childless workers would be reduced from 25 to 21. Eligible claimants would be able to receive an advanced payment of the CLR of up to $500 each year.

LIFT (Livable Incomes for Families Today) the Middle Class Act (LIFT Act)

Introduced by Senator Kamala Harris (D-CA), this proposal would implement a new refundable tax credit that would be structured similar to, but coexist with, the EITC. The credit would match earnings up to $3,000 for single and head-of-household filers and up to $6,000 for married filers. Unlike under the EITC's rules, benefits from the proposal would not vary based on the number of children in the family. Pell grants would be treated as earnings for purposes of credit eligibility. The credit would begin to phase out for married couples and single parents once their income reaches $50,000. Single filers without children would see their credit begin to phase out once their income reaches $30,000. The credit could be claimed as a monthly payment. Credit claimants would need to be at least age 18.

American Family Act (AFA)

Introduced by Michael Bennett (D-CO) and Sherrod Brown in the Senate and by Rosa DeLauro (D-CT) and Suzan DelBene (D-WA) in the House, this proposal would increase the CTC to $3,600 per child under age 6 and to $3,000 for children ages 6 to 16. The full amount of the credit would be refundable, with no minimum earnings requirement for the maximum tax benefits. Benefits from the CTC would begin to phase out once income reached $130,000 ($190,000 for married taxpayers filing joint returns) rather than $200,000 ($400,000 for married taxpayers) as under current law. The credit could be claimed as a monthly payment.

Working Families Tax Relief Act (WFTRA)

Introduced in the Senate by Sherrod Brown, Michael Bennet, Dick Durbin (D-IL), and Ron Wyden (D-OR) and in the House by Dan Kildee (D-MI), this proposal would expand both the EITC and the CTC. The act would expand the EITC for all filers by phasing the credit in at faster rates, increasing benefits for workers with children by about one-quarter and quadrupling the maximum benefit for childless workers. The proposal would extend the qualifying income range for childless workers and begin to phase out the credit for childless workers at a higher income threshold than under current law (but not as high as for workers with children). The minimum eligibility age for the EITC for childless workers would be reduced from 25 to 19 and the maximum eligibility age increased from 64 to 67. Students without children under age 25 would remain ineligible for the EITC. This proposal would expand the CTC by increasing the maximum credit to $3,000 for children under age 6 and permanently extending the $2,000 credit for children from ages 6 through 16. The CTC would be fully refundable with no minimum earnings requirement for the maximum tax benefits. The proposal would begin to phase out the credit at lower income thresholds than under current law (these current law limits apply through 2025). Up to $500 of EITC benefits could be claimed in advance.

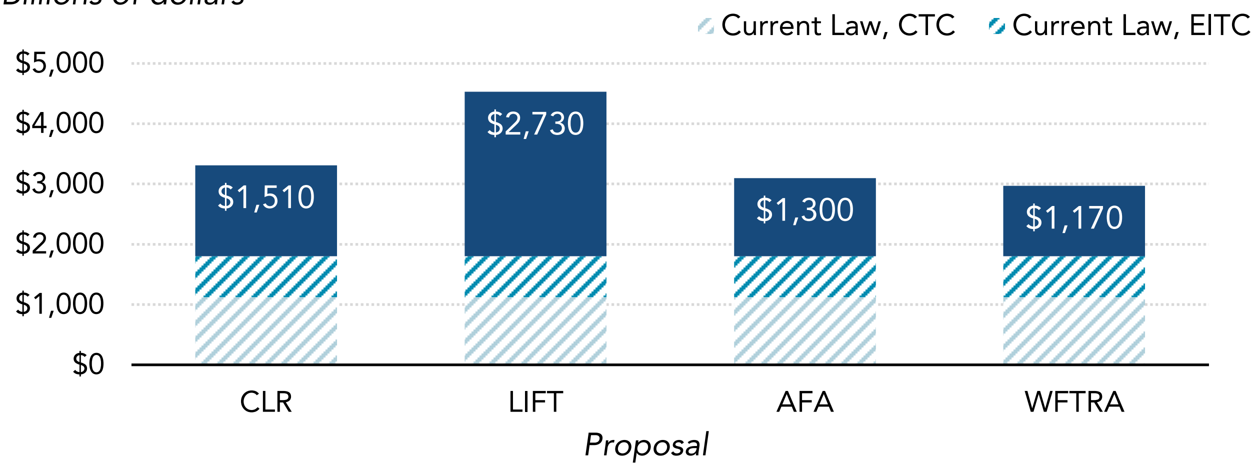
COMPARING TAX BENEFITS OF WORK AND CHILD PROPOSALS

For purposes of this analysis, we assume that each proposal was available for tax year 2019 and all future years. From fiscal years 2019 to 2028, the AFA would provide $1.3 trillion in tax benefits, the WFTRA $1.2 trillion, the CLR $1.5 trillion, and the LIFT Act $2.7 trillion (figure 1). In all cases, these estimates assume other current laws are unchanged, so those benefits are in addition to the EITC and CTC already being distributed through the tax system. The proposals differ both in design and to whom benefits would be distributed. Next, we provide more details for each proposal and compare them.

FIGURE 1

Cost of 2019 Work and Child Proposals, Fiscal Years 2019–28

Billions of dollars



Source: Tax Policy Center Microsimulation Model (version 0319-2): Table T20-0005.
Note: CTC = the child tax credit; EITC = the earned income tax credit.

UNDERSTANDING CURRENT LAW: THE EITC AND CTC

Two tax credits, the EITC and the CTC, provide substantial assistance to low- and middle-income families, particularly those with children. Together, they lift more working-age people out of poverty than any other means-tested transfer program (Fox 2019).

Earned Income Tax Credit

The EITC subsidizes low-income working families. The credit equals a fixed percentage of earnings from the first dollar of earnings until the credit reaches its maximum. Both the credit rate and the maximum credit vary by family size, with larger credits available to families with more children. The maximum credit is paid until earnings or income reach a certain level, after which it declines with each additional dollar of earnings or income until no credit is available. The credit begins to phase out at slightly higher incomes for married couples than for single people (figure 2). The EITC is a refundable tax credit, so an eligible taxpayer receives the full amount of the EITC for which they qualify, even if it exceeds their income tax liability. From fiscal years 2019 to 2028, the EITC will deliver about $750 billion in tax benefits.

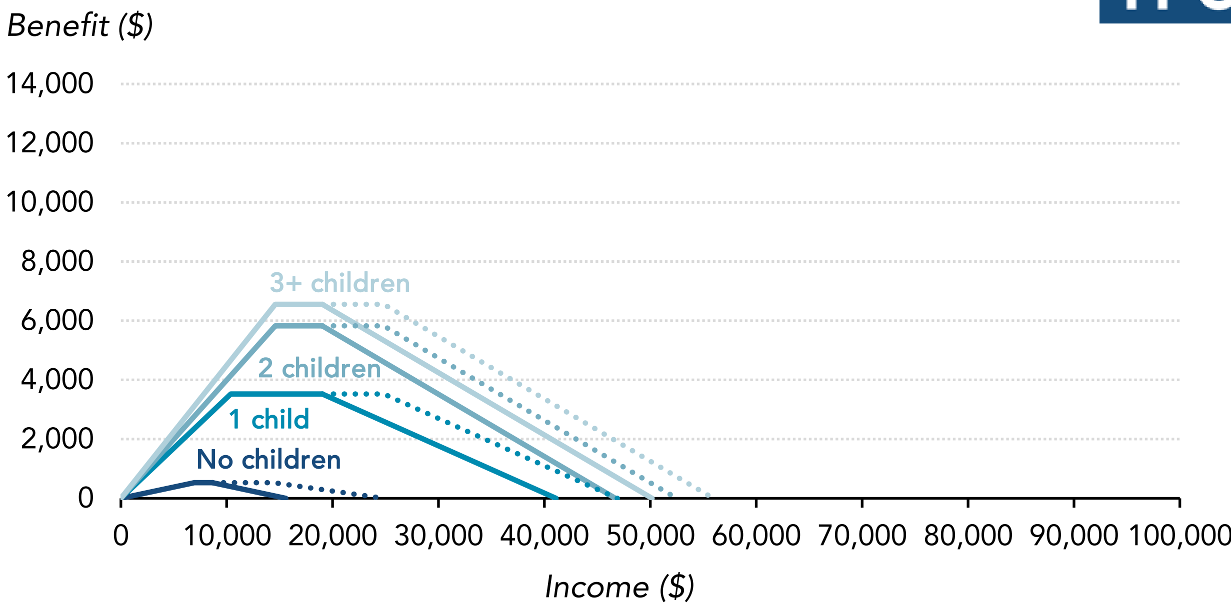
Families with children receive a much larger credit than workers without qualifying children. (A qualifying child must meet requirements based on relationship, age, residency, and tax filing status.) In 2019, the maximum credit for families with one child is $3,526; the maximum credit for families with three or more children is $6,557.

In contrast to the substantial credit for workers with children, childless workers can receive a maximum credit of only $529. Moreover, the credit for childless workers phases out at much lower incomes. Childless workers must be at least age 25 and not older than 64 to qualify for the credit.

Almost all benefits from the EITC are paid out when people file their income tax returns. The 2019 credit amount is based on earnings and income in 2019, and the 2019 credit is typically paid mainly from late February through May 2020. In 2020, the filing season has been extended through July 15 due to the coronavirus pandemic.

FIGURE 2

Earned Income Tax Credit, 2019

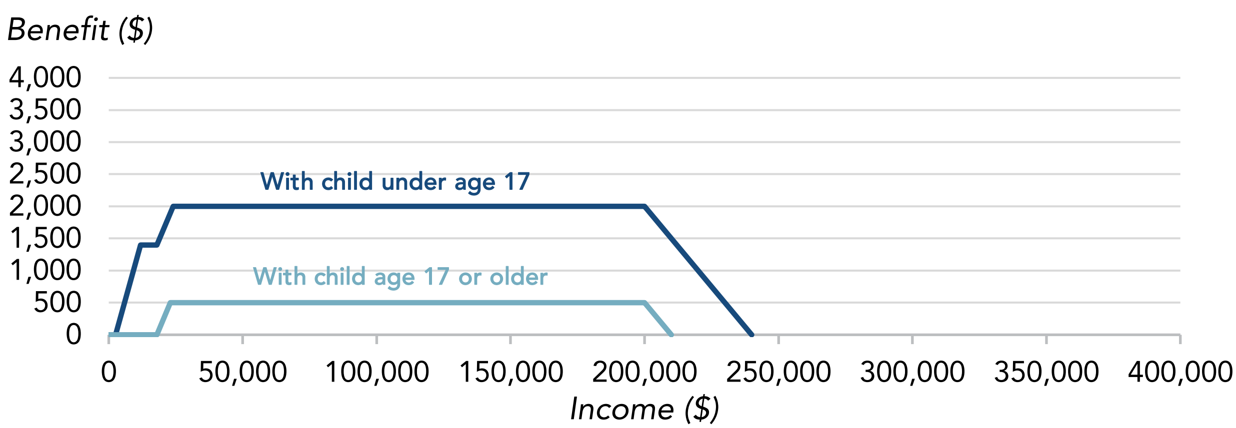


Source: Urban-Brookings Tax Policy Center.
Note: Assumes all income comes from earnings. Dotted lines represented married couples.

FIGURE 3

Child Tax Credit, Single Parent

One child, 2019



Source: Urban-Brookings Tax Policy Center calculations.
Note: Assumes all income comes from earnings, and child meets all tests to be a CTC-qualifying dependent. Credit for married parents begins to phase out at $400,000 of income. Only citizen children or US national or resident alien children with a Social Security number qualifying for work can qualify for the $2,000 CTC for children under age 17. Noncitizens under age 17 who meet the dependency tests of eligibility can qualify for the credit for other dependents.

Child Tax Credit

The CTC provides a credit of up to $2,000 per child under age 17. If the credit exceeds taxes owed, families may receive up to $1,400 per child as a refund. Taxpayers with other dependents, including children ages 17 and 18, full-time college students ages 19 through 24, and older dependents, can receive a nonrefundable credit of up to $500 for each of these dependents (figure 3). These rules are scheduled to be in place until 2025, when the maximum per child benefit is scheduled to revert to $1,000 (Maag 2018). From fiscal year 2019 to 2028, the CTC will deliver about $1.2 trillion in tax benefits.

PROPOSALS THAT WOULD ENHANCE WORK AND CHILD CREDITS

In response to reports of people struggling economically and inequities in who benefits from the existing tax credits, several lawmakers have proposed changes to the EITC and CTC to improve their effectiveness. These proposals respond to several basic arguments:

- Children who are most in need of benefits (those in households with extremely low incomes) receive no or few benefits from the credits.
- Workers without custodial children ("childless" for tax purposes) receive almost no benefit from the credits.
- Low- and moderate-income families struggle to meet basic needs. Studies indicate that many families have trouble paying for housing, utilities, food, health care, and child care.

Legislators attempt to address each of these issues by changing the basic parameters of the EITC and the CTC, which includes determining

- how quickly the proposal phases in,
- the maximum benefit, and
- how quickly the proposal phases out.

Outside of basic credit design, lawmakers have also suggested paying the credit more frequently and extending benefits to older or younger people. For a more in-depth discussion, see Maag, Marron, and Huffer (2019).

Using the Phase-In to Increase Benefits to Very Low-Income Families

All of the proposals would increase benefits for very low-income workers and families. The LIFT Act would accomplish this by creating a new work credit that would phase benefits in at a rate of 100 percent: for every dollar of earnings, the family would qualify for a dollar in benefits until the maximum benefit is reached (figure 4). LIFT Act benefits would be in addition to any EITC benefits that a worker would already qualify for. The CLR and WFTRA would direct resources to very low–income workers and families by increasing the phase-in rate of the EITC. The CLR would phase the EITC in faster than the WFTRA (figure 4 and table A.1). Compared with the other proposals, the AFA would increase benefits for the lowest-income families with children most dramatically by eliminating the phase-in range for the CTC altogether (figure 5 and table A.2). Families would qualify for the maximum CTC benefit even if they had no earnings unless their income was high enough that they were subject to the credit's phaseout.

Increasing the Maximum Benefit

Most of the proposals would increase benefits by raising the maximum benefit available. As shown in figure 4, the CLR, LIFT Act, and WFTRA would increase benefits significantly for childless workers, ranging from a maximum credit of $2,074 under the WFTRA to providing an additional $6,000 credit for married childless workers under the LIFT Act (beneficiaries under the LIFT Act receive that benefit in addition to any EITC benefit they would receive).

The AFA would increase the maximum benefit per child under age 6 from $2,000 to $3,600 and the maximum benefit for children ages 6 to 17 from $2,000 to $3,000 (figure 5). The act would also extend CTC benefits after 2025, when the credit is scheduled to be reduced to its pre–Tax Cuts and Jobs Act level of $1,000 per child under age 17. The WFTRA would boost benefits for children under age 6 to $3,000 and keep the CTC at $2,000 per child for children ages 6 to 16. As with the AFA, the higher benefits would persist after 2025.

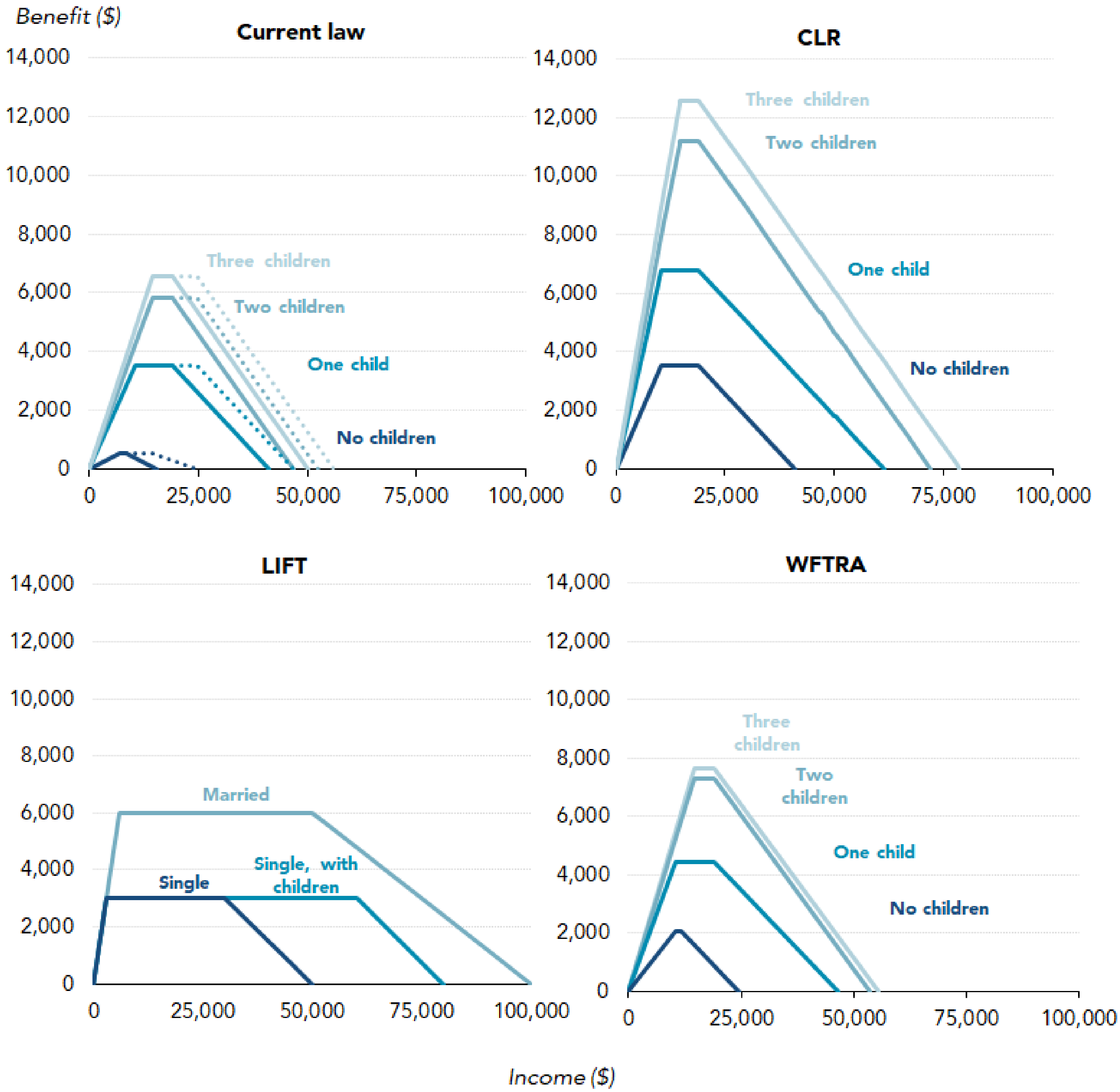
Changes to the Phase-Out Rates That Stem from Other Credit Changes

The proposals would make few changes to phase-out rates, but because maximum benefits are higher, the range over which benefits phase out would be larger, delivering more benefits to people who are in (or just beyond) the phase-out range of the credit under current law (figures 4 and 5).

FIGURE 4

Work Credit Proposals, 2019

Impact on EITC by filing status or number of children

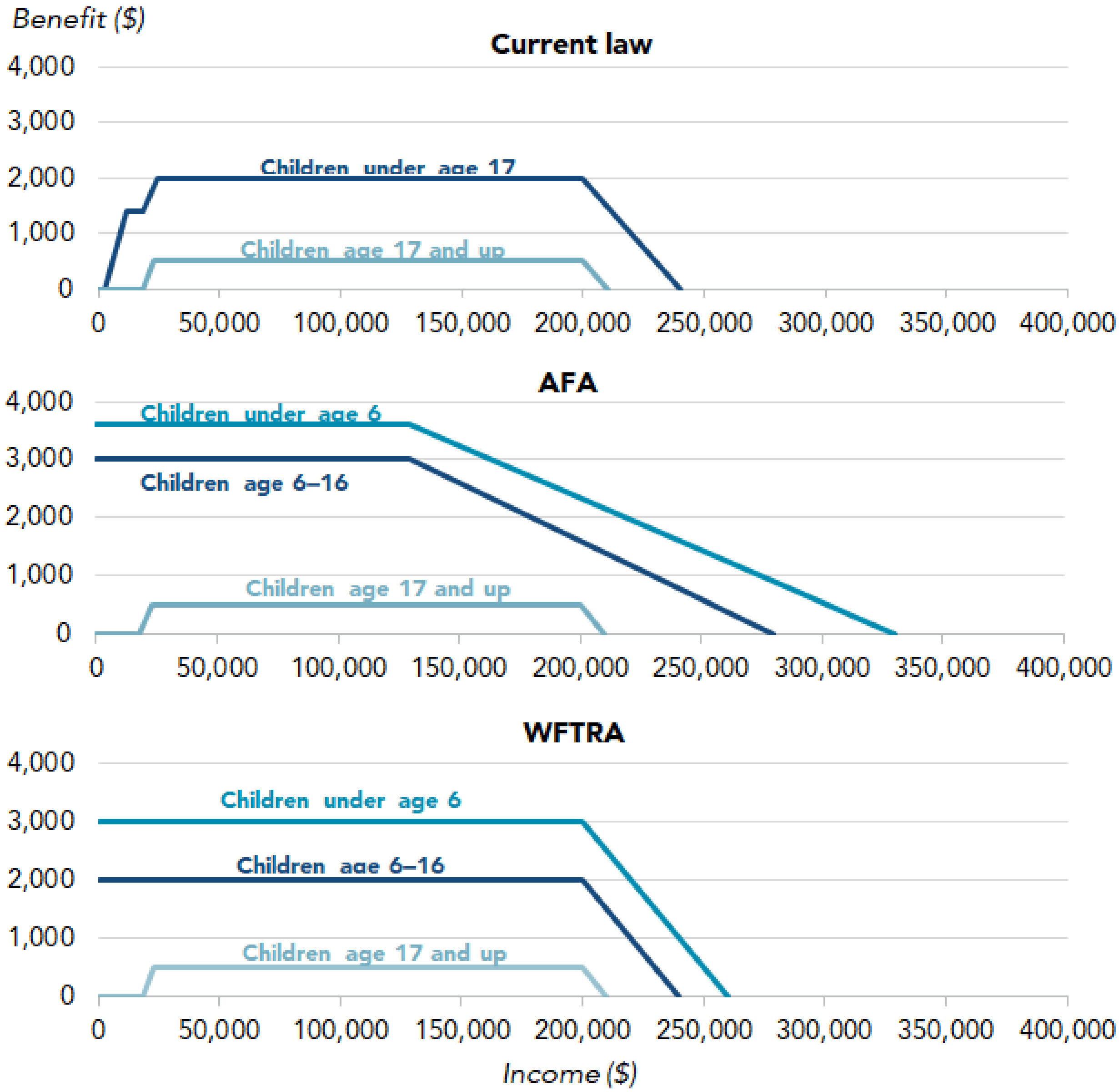


Source: Authors' calculations.
Note: EITC = the earned income tax credit; CLR = Cost of Living Refund Act; LIFT = Livable Incomes for Families Today Act; WFTRA = Working Families Tax Relief Act. Total benefits from LIFT would be LIFT credit along with current law EITC; CLR and WFTRA would replace the EITC. CLR and WFTRA phase out $5,790 later for married taxpayers filing jointly with custodial children, and $5,800 earlier for married taxpayers filing jointly without custodial children. These calculations assume all income comes from earnings.

FIGURE 5

Child Credit Proposals, 2019

Proposed child tax credit for one child



Source: Urban-Brookings Tax Policy Center calculations.
Note: AFA = American Family Act; WFTRA = Working Families Tax Relief Act; CTC = the child tax credit. Assumes all income comes from earnings, and child meets all tests to be a CTC-qualifying dependent. Credit for married parents begins to phase out at $400,000 of income. Only citizen children qualify for the $2,000 CTC for children under 17. Noncitizens under age 17 who meet the dependency tests of eligibility can qualify for the credit for other dependents (which includes children age 17 and up).

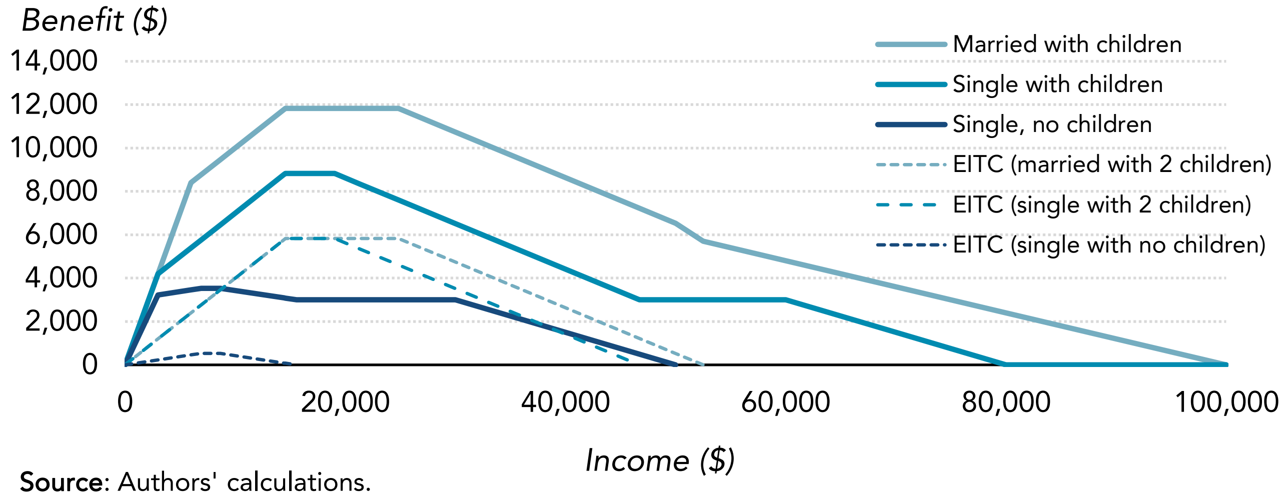
Adding a New Credit Instead of Amending an Existing Credit

Almost all the proposals would alter the EITC, the CTC, or both. The LIFT Act is unique because although it would adopt the general structure of the EITC (i.e., benefits would phase in, remain constant over a fixed period of income, and then decline after a certain income), it would not alter the EITC. Instead, workers who qualify for both credits would receive both. The combination of LIFT and EITC benefits is shown in figure 6. The main advantage to creating a new credit is that credit designers can implement fundamental reforms (in this case, structuring the credit based largely on marital status rather than on how many children are in the family)[4] without unintentionally reducing benefits for some current recipients. The main disadvantages to this reform route is that tax benefits for low- and middle-income families are already complicated, and creating additional credits can increase that complexity.

FIGURE 6

LIFT Act Plus Existing Earned Income Tax Credit

Benefit by filing status



Source: Authors' calculations.
Note: EITC = the earned income tax credit. The LIFT Act would supplement (not replace) the existing EITC for eligible families. These calculations assume all income comes from earnings and that households with children have two children.

Changing Payment Timing

Many low- and moderate-income families experience wide income swings (Maag et al. 2017; Morduch and Schneider 2017). Refundable tax credits such as the EITC and CTC are often delivered in one payment after income tax returns are filed in the spring, providing an important and relatively large payment but also adding to this volatility. Many advocates have suggested that spreading payments over the year or allowing families to access at least part of their credit early could help deliver benefits when they are most needed, making the credits more responsive to urgent and ongoing needs.

None of the proposals mandate periodic payments, but all would add some option for taxpayers to receive all or part of the credit before filing. The CLR and WFTRA would allow likely eligible families to receive up to $500 of their credit in advance, and the LIFT Act and AFA would allow families to claim monthly advance payments (table 1). When taxpayers were able to claim EITC payments in advance between 1979 and 2010, very few families took this option for a variety of reasons, such as needing to apply through their employers and fear of becoming ineligible and having to repay the credit at tax time (GAO 2007; Holt, 2016).

Under these new proposals, the advance payment system would be structured differently. Payments would be made directly by the Internal Revenue Service instead of through an employer. Because the CLR and WFTRA would pay only a limited portion of the credit in advance, less would need to be repaid if a person was found ineligible when filing. And

[4] The EITC begins to phase out at modestly higher incomes for married couples, but the maximum benefit available varies by number of children, not marital status. The maximum benefit available under the LIFT Act varies by marital status rather than number of children.

because the LIFT Act and AFA cover a larger income range than the EITC, some workers who would have had their EITC benefits limited by earning too much would no longer be at risk of needing to repay benefits.

TABLE 1

Advanced Payment Option

	Advanced payment option
Current law, earned income tax credit	No advanced payment option. Majority of credit delivered as tax refund in the calendar year following the year of eligibility.
Current law, child tax credit	No advanced payment option. Majority of credit delivered as tax refund in the calendar year following the year of eligibility.
Cost-of-Living Refund Act	Option to receive up to $500 of credit before tax filing.
LIFT (Livable Incomes for Families Today) the Middle Class Act	Monthly advanced payment option.
American Family Act (AFA)	Monthly advanced payment option.
Working Families Tax Relief Act (WFTRA)	Option to receive up to $500 of credit before tax filing.

Sources: Internal Revenue Service, Revenue Procedure 2018-57, downloaded August 5, 2019; H.R. 1431, "The Cost-of-Living Refund Act," 116th Cong. (2019); S. 4, "LIFT (Livable Incomes for Families Today) the Middle Class Act," 116th Cong. (2019); S. 690, "American Family Act of 2019," 116th Cong. (2019); S. 1138, 116th Cong. (2019).

Changing Eligibility Age

Workers of any age can claim the EITC if they live with qualifying children, but eligibility for the childless credit is limited to workers who are at least age 25 and not older than 64. All of the proposals would expand these age limits (table 2), in part as a reaction to analysis on struggling students (Lower-Basch 2014) and in response to low-income seniors who continue to work (McCubbin 2009).

TABLE 2

Age Limits for Childless Workers
Current Law and Various Proposals, 2019

	Minimum age	Maximum age
Current law, earned income tax credit	25	64
Cost-of-Living Refund Act	21	64
LIFT (Livable Incomes for Families Today) the Middle Class Act	18	None
Working Families Tax Relief Act	19[a]	67

Sources: Internal Revenue Service, Revenue Procedure 2018-57, downloaded August 5, 2019; H.R. 1431, "The Cost-of-Living Refund Act," 116th Cong. (2019); S. 4, "LIFT (Livable Incomes for Families Today) the Middle Class Act," 116th Cong. (2019); S. 690, "American Family Act of 2019," 116th Cong. (2019); S. 1138, 116th Cong. (2019).

Note:

(a) Students under age 25 would remain ineligible for the childless earned income tax credit.

COMPARING PROPOSAL BENEFICIARIES

Benefits from work and child proposals often extend beyond their proponents' stated target groups. For example, increases to the CTC may be aimed at alleviating the high costs of child care or relatively poor outcomes for low-income children, but a broad expansion often benefits people who do not pay for child care and those with higher incomes than the target group. Similarly, worker credits designed to support low-income workers will also support these workers' children because many low-income parents work. We identify how benefits of the proposals are distributed overall and then calculate average benefits for each proposal for (1) people in the highest and lowest fifth of the income distribution; (2) families with children and families without children; (3) married couples and unmarried people; and (4) elderly and nonelderly people.

Overall Distribution of Benefits

Changing different elements of the EITC and CTC can have different impacts across the income spectrum. We show how benefits from each of the proposals would be distributed across five equal shares of people arrayed by income (referred to as income quintiles).[5] In all cases, these proposals are measured against a "current-law" baseline, so the benefits discussed are in addition to any benefits already being distributed. We show current-law distribution in 2019 to describe the underlying system being built upon.

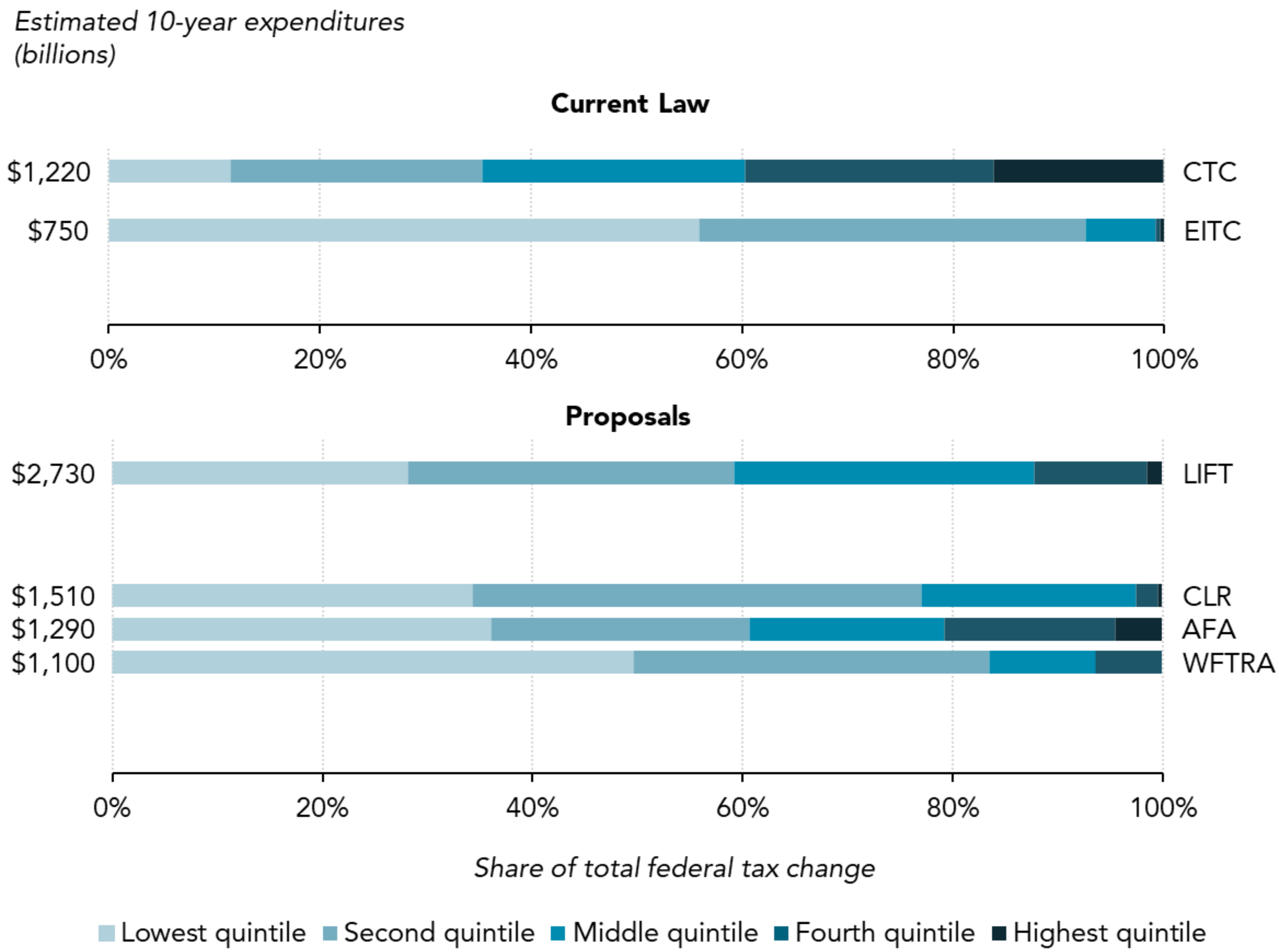
All of the proposals would focus benefits on people in the lowest two income quintiles (bottom 40 percent of the income distribution); the AFA and WFTRA would provide the largest share of benefits to the lowest income quintile, and the LIFT Act and CLR would distribute substantial benefits to the lowest income quintile but a larger share to the second income quintile (figure 7). The CLR is the lowest-cost proposal (over the 10-year budget window of fiscal year 2019 to fiscal year 2028), and it would focus mostly on work rather than children. Had it been implemented in 2019, it would have delivered about 34 percent of its total benefits to the lowest income quintile. The WFTRA, which is also relatively low cost and has a significant work component, would deliver about 50 percent of benefits to households in the lowest income quintile in 2019. The highest-cost proposal (the LIFT Act), which would focus on work, would distribute a roughly similar share of benefits (about 30 percent) across each of the bottom three quintiles. The LIFT Act would deliver about 12 percent of its benefits to people in the top two income quintiles. The AFA, a proposal focused exclusively on children, would deliver large shares of benefits to all but the highest income quintile. The largest share of benefits from the AFA would go to the lowest-income families with children because all low-income children would receive the maximum credit: the act eliminates the earnings requirement for benefits and the cap on the amount of benefits that can be refunded to low-income families.

[5] Each income quintile is adjusted for family size. For a more complete description see "TPC's Microsimulation Model FAQ," accessed March 5, 2020, https://www.taxpolicycenter.org/resources/tpcs-microsimulation-model-faq.

FIGURE 7

Distribution of 2019 EITC/CTC, Current Law and Proposals

By share of net benefits distributed by income quintile



Source: Urban-Brookings Tax Policy Center Microsimulation Model version 0319-2, Tables T20-0079, 0081, 0083, and 0085, 0087, 0088, 0090, and 0092.
Note: EITC = earned income tax credit, CTC = child tax credit, AFA = American Family Act, CLR = Cost of Living Refund Act, LIFT = Livable Incomes for Families Today Act, WFTRA = Working Families Tax Relief Act. Proposal cost estimated over fiscal years 2019–2028.

Comparing Average Benefits for the Top and Bottom of the Income Distribution

The EITC provides substantial benefits to low- and moderate-income families but few benefits to very high–income families. Similarly, the AFA, CLR, LIFT Act, and WFTRA would provide substantial benefits to the lowest-income families and very modest or no benefits to the highest-income families, on average (figure 8, bars with dashed lines). On average, people in the highest income quintile would lose benefits, relative to current law, under WFTRA.

Not all people in an income group receive a benefit. People can miss out on benefits from work-related or child credits because they are not in the right age range, do not have earnings (if required), have earnings that are too high to qualify for benefits, do not have children (if required), or fail to meet certain citizenship tests. The CLR would provide benefits to 80 percent of all families in the lowest income quintile and to less than 1 percent of families in the highest income quintile. Among all families in the lowest income quintile (including the 20 percent with no benefit), the average benefit from the CLR would be about $1,300 (figure 8, dashed blue bar). The people in the lowest income quintile who receive a benefit from the CLR (referred to as "with change" in the chart), would receive an average benefit of almost $3,000 (figure 8, solid blue bar). Among all families in the highest income quintile, the CLR would provide an average benefit of less than $10 (figure 8, dashed yellow bar). The small share of families in the highest income quintile that do receive a benefit would receive an average benefit of just over $1,200 (figure 8, solid yellow bar).

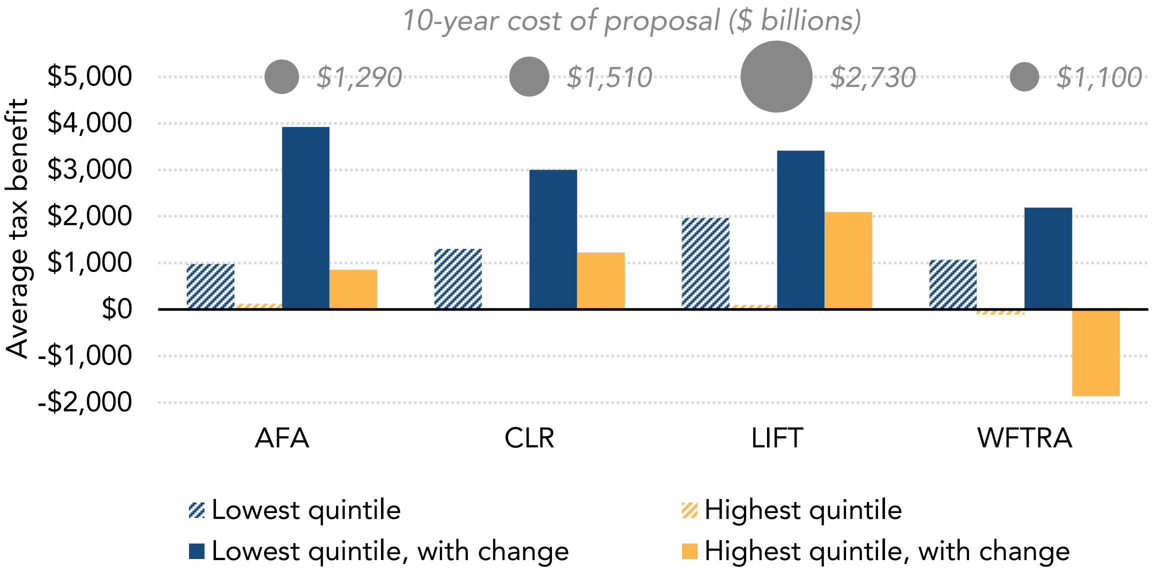
The LIFT Act would provide an average benefit for all people in the lowest income quintile of almost $2,000. Among the 58 percent of people in the lowest income quintile who would benefit from the LIFT Act, average benefits would be about $3,415. People in the highest income quintile would receive an average benefit of just $100, and only about 5 percent of people in this income range would benefit from the LIFT Act. For these taxpayers, the average benefit would be almost $2,100. The difference in benefits between people in the lowest and highest income quintiles among people who benefit is least pronounced under the LIFT Act because larger shares of people in each income group would receive the credit than under the other proposals.

The CTC expansion in the AFA would provide an average benefit of just under $1,000 for all people in the lowest income quintile. This is a smaller average benefit than offered under the other proposals analyzed here. However, benefits from the AFA flow exclusively to families with children. Among the 24 percent of people in this quintile who would benefit from the AFA, the tax changes in the AFA would provide the highest average benefit (just over $3,900). The WFTRA and AFA both seek to contain costs by reducing CTC benefits for some people in the highest income quintile. Both proposals would begin phasing out benefits at lower incomes than under current law. The maximum child credit in the AFA is higher for all children under age 17; the WFTRA would deliver higher benefits to families with children under age 6, but its maximum benefit does not increase for children ages 6 to 16. As a result, people in the highest income quintile still see an average benefit increase under AFA because the higher benefits phase out over a higher income range). On average, people in the highest income quintile would see their benefits drop slightly under WFTRA, with those experiencing a change in tax liability would see their income taxes go up by about $200. Under both the AFA and WFTRA, average benefits for those who would see a benefit change exceed the increase in benefit available for taxpayers with one child, because many families who have any children eligible for the CTC have more than one child eligible for benefits.

FIGURE 8

Average Change in Tax Benefits, 2019 Child and Work Proposals

Comparing lowest and highest quintiles of income



Source: Urban-Brookings Tax Policy Center Microsimulation Model version 0319-2, Tables T20-0079, 0081, 0083, and 0085. Quintiles adjusted for family size.
Note: AFA = American Family Act, CLR = Cost of Living Refund Act, LIFT = Livable Incomes for Families Today Act, WFTRA = Working Families Tax Relief Act. Proposal cost estimated over fiscal years 2019–2028. AFA proposed changes to the CTC only, while WFTRA proposes changes to both credits, and LIFT and CLR only propose changes to the EITC. The LIFT credit would supplement the current EITC while all others would replace the relevant existing credit(s).

Providing benefits to nearly everyone, even those with the highest incomes, may be a way to garner political support for a program (Burman 2019). However, doing so also delivers benefits poorly targeted to those most likely to struggle, which raises the overall cost of the program (Hoynes and Rothstein 2019). Policymakers interested in closing the gap between people at the top and bottom of the income distribution may favor policies that would concentrate benefits among the lowest income quintile and provide few benefits to people in the highest income quintile (something that, on average, each of the proposals would do). Among people who would benefit, the largest gaps in benefits between the top and bottom income quintiles would be provided under WFTRA and AFA. These proposals would cost similar amounts, but the WFTRA would affect a broader group of people.

Comparing Benefits for Families With and Without Children

Whether they focus primarily on work or children, all of the proposals would deliver substantially more benefits to families with children than families without children (figure 9). This is because most people with children also have work-related earnings. Compared to people without children, people with children would receive larger benefits, on average, under all the proposals. At the extreme, the AFA would only provide benefits to families with children.

Under current law, the EITC delivers about 97 percent of its benefits to families with children. The CLR, LIFT Act, and WFTRA would substantially increase benefits for workers without children, but large differences in tax benefits between the two groups would remain. Under the CLR, just over three-quarters of total benefits from the expanded EITC (current-law benefits plus new benefits) would go to families with children. The LIFT Act would provide 44 percent of its total benefits to families with children. When added to the EITC (which remains unchanged under the LIFT Act), just over half of benefits from the two credits would flow to families with children. The WFTRA would provide four-fifths of its expanded EITC benefits (current-law benefits plus new benefits) to families with children. Even among plans that substantially increase benefits for families without children, differences remain that favor families with children because the current law benefits are tilted toward families with children. About one-third of all tax units are families with children, and those units constitute a relatively larger share of people likely to be of working age and eligible for worker credits.

The vast majority of benefits from the CTC go to families with children (in a few cases, a noncustodial parent can receive the CTC), as would benefits from the AFA. Likewise, the CTC expansion component of the WFTRA ($780 billion over 10 years) would be delivered to families with children.

We next show how benefits would change for all families with children compared to families without children and for families with children who would see their tax credits change compared to families without children who would see their tax credits change.

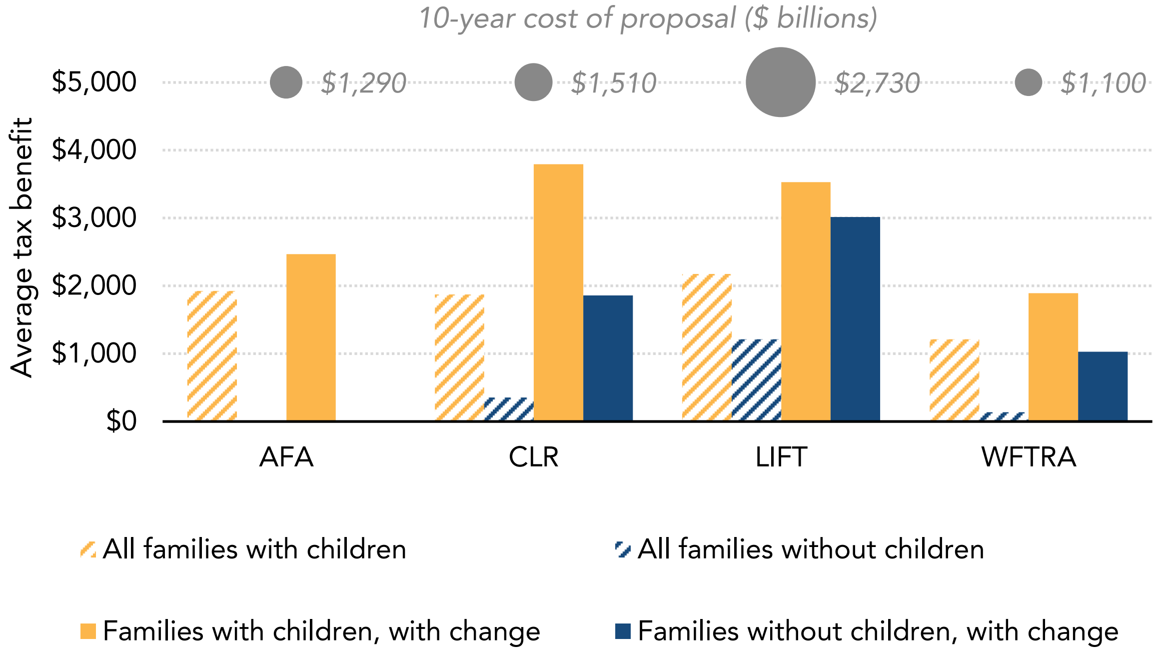
On average, the AFA would provide a credit boost of $1,930 for families with children and $0 for families without children. The CLR would boost benefits, on average, by about $1,870 for families with children and $360 for families without children, and the WFTRA would boost average benefits by $1,210 for families with children and by $140 for families without children. The smallest average benefit differences between families with and without children would be delivered by the LIFT Act which delivers no added benefits to taxpayers based on the number of children in the household (figure 9).

Among people who benefit from the proposal, the CLR would provide, on average, an additional tax credit of almost $3,800 for families with children. The LIFT Act would provide an additional tax credit of $3,500 for families with children. For families with children who receive a benefit, the AFA and WFTRA would provide an average increase of almost $2,500 and $1,900, respectively. The smallest gap between average benefits for families with children who get benefits and those without children who also receive a benefit is about $500 (under the LIFT Act). The CLR and WFTRA benefits for families with children who receive a benefit are almost double those of workers without children. Not surprisingly, by spreading out benefits among families with and without children, rather than concentrating benefits on families with children, the LIFT Act would cost much more than the other proposals. The AFA would target benefits most efficiently to families with children.

FIGURE 9

Average Change in Tax Benefits, 2019 Child and Work Proposals

Comparing families with and without children



Source: Urban-Brookings Tax Policy Center Microsimulation Model version 0319-2, Tables T20-0079, 0081, 0083, 0085, and 0087.
Note: AFA = American Family Act, CLR = Cost of Living Refund Act, LIFT = Livable Incomes for Families Today Act, WFTRA = Working Families Tax Relief Act. Proposal cost estimated over fiscal years 2019–2028.

Comparing Benefits for Married Couples with Benefits for Nonmarried People

On average, incomes for married couples are higher than for single individuals. Tax credits that have the same income limits for both married couples and single individuals can end up providing larger benefits to single people simply because they are more likely to qualify for benefits. Marriage penalties and bonuses are related concepts— a couple that marries might pay more or less in taxes than if they remained single.[6] While not true for all couples, the current design of the EITC and expansion proposals often results in marriage penalties for lower-income couples (Acs and Maag 2005; Rachidi 2015). Providing larger benefits for married couples can often lead to smaller (or no) marriage penalties, but achieving this result requires that specific design elements be part of the proposal.

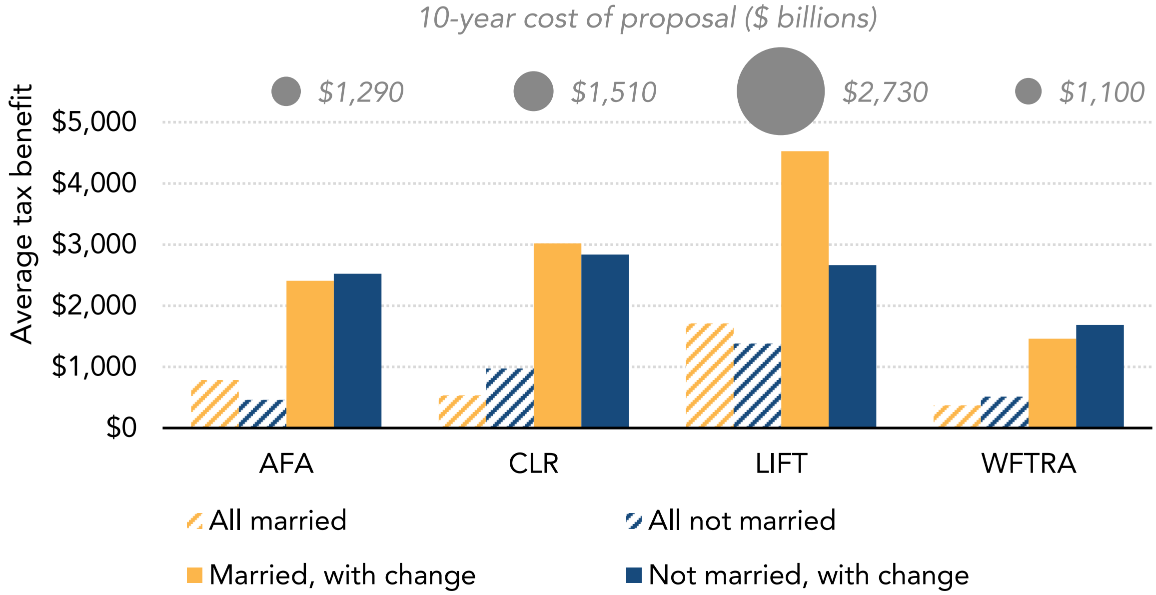
The LIFT Act would deliver the largest difference in benefits between married couples and nonmarried individuals (figure 10). This is because married couples would be eligible for twice the maximum credit benefits ($8,000 versus $4,000) and the credit would completely phase out at significantly higher incomes for married couples than for single people. The credit would begin to phase out for single people without children once their income reached $30,000 and for married couples and single parents at $60,000. Among people who would benefit from the proposal, the AFA, CLR, and WFTRA would provide relatively similar benefits to married couples and single individuals.

[6] "What Are Marriage Penalties and Bonuses?" Tax Policy Center Briefing Book, accessed March 10, 2020, https://www.taxpolicycenter.org/briefing-book/what-are-marriage-penalties-and-bonuses.

FIGURE 10

Average Change in Tax Benefits, 2019 Child and Work Proposals

Comparing married and not married people



Source: Urban-Brookings Tax Policy Center Microsimulation Model version 0319-2, Tables T20-0079, 0081, 0083, 0085, and 0087.
Note: AFA = American Family Act, CLR = Cost of Living Refund Act, LIFT = Livable Incomes for Families Today Act, WFTRA = Working Families Tax Relief Act. Proposal cost estimated over fiscal years 2019–2028.

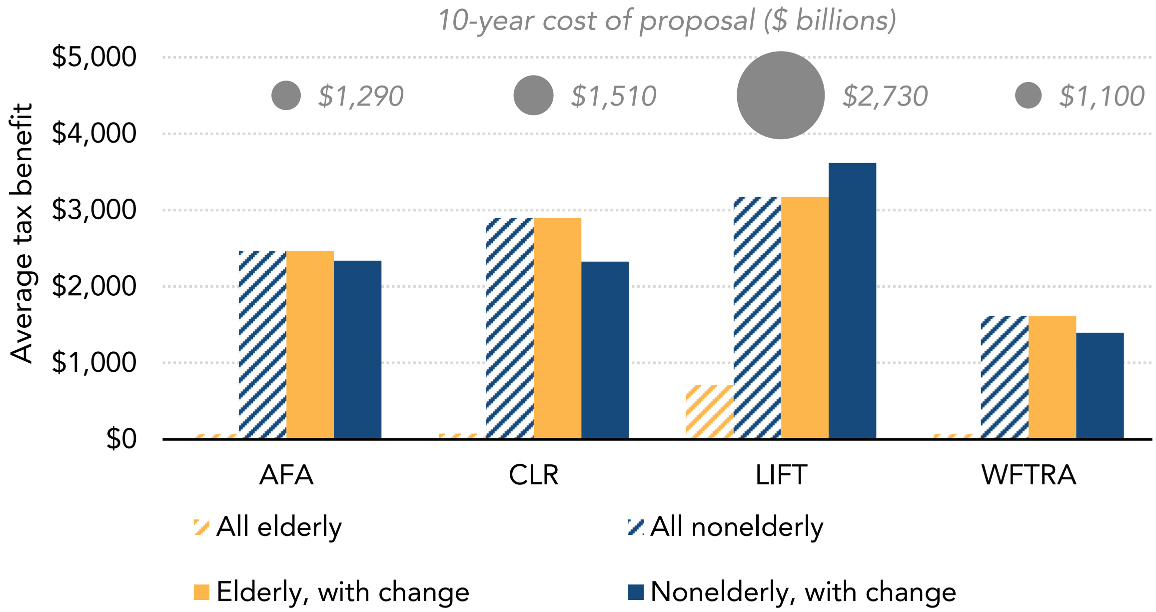
Comparing Benefits for Elderly and Nonelderly People

Extending benefits to elderly childless workers (those age 65 and older) would have a minimal overall effect on the average well-being of the elderly. This is because so few low- and moderate-income elderly people work. Very few elderly people have children living at home, so elderly people do not generally benefit much from the child-focused portion of the EITC. Only the WFTRA and the LIFT Act would increase the maximum eligibility age for childless workers. Under WFTRA, workers as old as 67 could receive benefits. There is no maximum age of eligibility for claiming LIFT Act benefits. We estimate that 20 percent of elderly people would benefit from the LIFT Act compared with 5 percent from WFTRA and 3 percent from the CLR and AFA. When an elderly person benefits from one of the proposals, average benefits are similar to those for nonelderly people. If providing benefits to elderly people is a priority, policymakers should focus on tax credits or other benefits that are not dependent on earning wages.

FIGURE 11

Average Change in Tax Benefits, 2019 Child and Work Proposals

Comparing elderly vs non-elderly filers



Source: Urban-Brookings Tax Policy Center Microsimulation Model version 0319-2, Tables T20-0079, 0081, 0083, 0085, and 0087.
Note: AFA = American Family Act, CLR = Cost of Living Refund Act, LIFT = Livable Incomes for Families Today Act, WFTRA = Working Families Tax Relief Act. Proposal cost estimated over fiscal years 2019–2028.

CONCLUSION

Refundable tax credits have proven to be powerful tools for increasing incomes for low- and moderate-income workers and families with children. Together, the EITC and CTC will deliver about $1.8 trillion in benefits from fiscal years 2019 to 2028. Benefits from the EITC are highly concentrated among low- and middle-income parents; benefits from the CTC extend to almost all workers with children except those at the very top of the income distribution.

Policymakers seek to build on the success of these tax credits by creating new tax credits focused on children and struggling families and by augmenting existing credits. We analyze four proposals from 2019 that would provide substantial and ongoing benefits to many people: the AFA, the CLR, the LIFT Act, and the WFTRA.

These proposals all aim to reduce poverty and income inequality, strengthen the middle class, and support children and low-income workers. The proposals share some characteristics: all would either phase benefits in more quickly than current law (CLR, WFTRA, and LIFT) or allow the maximum credit even if a person is not generating earnings from working (AFA and the child portion of the WFTRA). This would help drive benefits to very low–income people. All of the proposals would benefit people in the lowest 20 percent of the income distribution more than those in the highest 20 percent. These differences are smallest for the LIFT Act, which also has the highest overall cost. The largest difference in benefits between the top and bottom of the income distribution comes from the WFTRA, which would reduce child benefits provided through the tax code for the highest-income families. This would be accomplished by phasing benefits out at lower incomes than under current law, and this helps reduce the overall cost of the proposal.

Families with children would benefit from all of the proposals. Families without children would also benefit, but to a lesser extent from the CLR, WFTRA, and LIFT Act. However, families without children would not benefit from the AFA, which expands the CTC but does not alter the EITC. Excluding some people from benefits allows the AFA to have a relatively lower cost and while delivering relatively robust benefits to the people who do benefit. The CLR would provide almost twice as large a benefit for families with children than families without children (among those who benefit). This highlights that even dramatic increases to the EITC for workers without children at home still leaves these workers with much lower benefits than a modest increase in benefits for workers with children. The LIFT Act would provide the most equal benefits between the two groups (taxpayers with and without children living at home). This is because the proposal is largely based on marital status rather than number of children.

Married and unmarried couples receive similar average benefits from the AFA, CLR, and WFTRA (among people who benefit). The LIFT Act, which would double the maximum benefit available to married couples compared with single people and would phase the credit out at higher incomes for married couples than single people, would provide much larger benefits to married couples than to single individuals.

None of the proposals would provide substantial assistance to elderly people, who are largely excluded from the existing EITC and CTC. To include substantial numbers of elderly people, even those with low incomes, the tax credits would need to be based on something other than traditional wage employment.

APPENDIX: ADDITIONAL TABLES

TABLE A.1

Basic Worker Credit Parameters, Current Law and Various Proposals, 2019

TPC

	Credit rate (percent)	Minimum income for maximum credit	Maximum credit	Phase-out rate (percent)	Phase-out range[a] Beginning income	Phase-out range[a] Ending income
Current law, earned income tax credit						
No children	7.65	6,920	529	7.65	8,650	15,570
One child	34	10,370	3,526	15.98	19,030	41,094
Two children	40	14,570	5,828	21.06	19,030	46,703
Three children	45	14,570	6,557	21.06	19,030	50,162
Cost-of-Living Refund Act[b]						
No children	30	10,370	3,111	15.98	19,030	15,270
One child	65.28	10,370	6,770	15.98	19,030	40,320
Two children	76.80	14,570	11,190	21.06	19,030	45,802
Three children	86.40	14,570	12,588	21.06	19,030	49,194
LIFT (Livable Incomes for Families Today) the Middle Class Act[c]						
Single	100	3,000	3,000	15	30,000	50,000
Head of household	100	3,000	3,000	15	60,000	80,000
Married	100	6,000	6,000	15	60,000	100,000
Working Families Tax Relief Act						
No children	20	10,370	2,074	15.98	11,600	24,579
One child	42.5	10,370	4,407	15.98	19,030	46,608
Two children	50	14,570	7,285	21.06	19,030	53,622
Three children	52.5	14,570	7,649	21.06	19,030	55,349

Sources: Internal Revenue Service, Revenue Procedure 2018-57, downloaded August 5, 2019; H.R. 1431, "The Cost-of-Living Refund Act," 116th Cong. (2019); S. 4, "LIFT (Livable Incomes for Families Today) the Middle Class Act," 116th Cong. (2019); S. 1138, 116th Cong. (2019).

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

(b) Maximum benefit of $1,200 allowed for non-dependents who either receive a Pell grant or who have incomes less than 250 percent of poverty and for certain caregivers.

(c) Benefits of the LIFT Act do not vary based on the number of qualifying children in the tax unit and are in addition to current law benefits. Pell grant considered earnings for purposes of credit calculation.

TABLE A.2

Child Tax Credit, Various Proposals, 2019

Calendar year	Credit rate (percent)	Minimum earnings	Maximum credit refund	Maximum credit per child	Phase-out rate (percent)	Phase-out range[a] Beginning income	Ending income
Current Law							
Child under 17	15	2,500	1,400	2,000	5	200,000	240,000
American Family Act (AFA)							
Child under 6	NA	NA [2]	3,600	3,600	2 [3]	130,000	190,000
Child 6–16	NA	NA [2]	3,000	3,000	2 [3]	130,000	190,000
Working Families Tax Relief Act (WFTRA)							
Child under 6	NA	NA [2]	3,000	3,000	5	150,000	210,000
Child 6–16	NA	NA [2]	2,000	2,000	5	150,000	190,000

Sources: "IRS Revenue Procedure 2019-44," Internal Revenue Service, accessed January 13, 2020; S. 690, "American Family Act of 2019," 116th Cong. (2019); S. 1138, 116th Cong. (2019).
(a) Phase-out range is for a family with one child. The credit phases out over a wider income range for families with more children. The beginning of the phaseout range stays the same, but it requires more income to completely phase out
(b) The WFTRA is fully refundable; the maximum credit is available without regard to earnings
(c) The phase-out rate for the AFA is multiplied by the number of eligible children or dependents.

REFERENCES

Acs, Gregory, and Elaine Maag. 2005. "Irreconcilable Differences: The Conflict Between Marriage Promotion Initiatives for Cohabiting Couples with Children and Marriage Penalties in Tax and Transfer Programs." Washington, DC: Urban Institute.

Burman, Leonard. 2019. "A Universal EITC: Sharing the Gains from Economic Growth, Encouraging Work, and Supporting Families." Washington, DC: Urban-Brookings Tax Policy Center.

Fox, Liana. 2019. *The Supplemental Poverty Measure: 2018*. Current Population Reports P60-268 (RV). Washington, DC: US Census Bureau.

GAO (Government Accountability Office). 2007. "Advance Earned Income Tax Credit: Low Use and Small Dollars Paid Impede IRS's Efforts to Reduce High Noncompliance." GAO-07-1110. Washington, DC: Government Accountability Office.

Holt, Steve. 2015. "Periodic Payment of the Earned Income Tax Credit Revisited." Washington, DC: Brookings Institution.

Hoynes, Hilary, and Jesse Rothstein. 2019. "Universal Basic Income in the US and Advanced Countries." Working paper 25538. Cambridge, MA: National Bureau of Economic Research.

Lower-Basch, Elizabeth. 2014. "SNAP Policy Brief: College Student Eligibility." Washington, DC: Center for Law and Social Policy.

Maag, Elaine, Donald Marron, and Erin Huffer. 2019. "Redesigning the EITC: Issues in Design, Eligibility, Delivery, and Administration." Washington, DC: Urban-Brookings Tax Policy Center.

Maag, Elaine. 2018. "Who Benefits from the Child Tax Credit Now?" Washington, DC: Tax Policy Center.

Maag, Elaine, H. Elizabeth Peters, Anthony Hannagan, Cary Lou, and Julie Siwicki. 2017. "Income Volatility: New Research Results with Implications for Income Tax Filing and Liabilities." Washington, DC: Urban-Brookings Tax Policy Center.

Morduch, Jonathan, and Rachel Schneider. 2017. *The Financial Diaries: How American Families Cope in a World of Uncertainty.* Princeton, NJ: Princeton University Press.

McCubbin, Janet. 2009. "The Earned Income Tax Credit and Older Workers." Washington, DC: AARP Public Policy Institute.

Rachidi, Angela. 2015. "The Earned Income Tax Credit and Marriage Penalties: Does a Childless Worker Expansion Make Them Worse?" Washington, DC: American Enterprise Institute.

ACKNOWLEDGMENTS

This brief was funded by general support revenues for the Tax Policy Center. We are grateful to all our funders, who make it possible for the Urban-Brookings Tax Policy Center to advance its mission.

The views expressed are those of the authors and should not be attributed to the Urban-Brookings Tax Policy Center, the Urban Institute, the Brookings Institution, their trustees, or their funders.

The authors thank Leonard Burman, Janet Holtzblatt, and Mark Mazur for their comments on an earlier draft, Gordon Mermin and Noah Zwiefel for modeling assistance, and Ann Cleven for editorial assistance. Errors that remain are the authors'.