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Child Care Credit is Test of Bush’s “Kindness”

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During his campaign, George Bush called for a "kinder, gentler" nation. This was his acknowledgement that the federal government should do more to meet social needs and that he, as President, should accept that responsibility. Child care was one of the major problems that he promised to address, and it illustrates the challenge -- and opportunity -- that he now faces. For the budget deficit so severely restricts his options that the only real choices involve reordering priorities within existing spending and tax programs.

With the number of working mothers at an all-time high, strong support has developed for government child-care assistance to low- and moderate-income families. But anything more than a token program would cost $1 billion or more -- and new funding on this scale is unlikely. Hence, if the new Administration is to have a meaningful child-care program, existing expenditures will have to be better targeted.

The biggest federal child-care program of them all is the Child and Dependent Care Tax Credit. It is so poorly targeted, though, that about half of its benefits provide an unjustified tax break for upper-income families. Reforming it would go a long way toward funding the needed expansion of child-care programs.

The tax benefits under the credit will reach an estimated $4 billion in 1988, with 9.6 million families claiming an average credit of $419. Low-income families hardly benefit from the credit. In 1985 less than 1% went to families with adjusted gross incomes below $10,000, and only 13% went to families with adjusted gross incomes below $15,000.

The credit is getting steadily more regressive, as its cost increases by $500 million a year. A recent Urban Institute study found that, because of recent tax-law changes, families with incomes under $12,000 will receive half of the benefit they did in 1985, while those with incomes over $32,000 will receive 50% more.

Over the years, Congress has tried to make the credit less regressive, mainly by fine-tuning it. In 1982, for example, the credit was changed from a flat 20% of expenditures for all families to one in which low-income families receive a higher credit than wealthier ones.
Unfortunately, such tinkering is insufficient to counter the economic realities of child care. First, to benefit from a tax credit you must owe taxes. Lower-income families often do not. Second, families that can claim the credit -- that is, families with a mother who works -- tend to earn more than those with one who does not. In 1987 two-earner families had a median income of $40,422, 52% higher than the median income of "traditional," two-parent/one-earner families -- $26,652. Third, upper-income mothers are more likely to use day-care centers, which are more expensive than family-based care, and thus allow more expenses to be claimed.

Although upper-income families spend more money on child care, lower-income families spend a higher percentage of income. Families earning less than $20,000, for example, spend about 8% of their income on child care, while families earning more than $50,000 spend less than 3%.

The credit should be capped so that upper-income families do not get an unfair tax break. Actually, it should be re-capped. In 1954, when the credit was first established as a deduction, it was capped at $5,100 ($21,556 in 1987 dollars). In 1971 the cap was raised to $18,000 ($50,000 in 1987 dollars), with a phase-out for higher incomes, and in 1975 to $35,000 ($73,908 in 1987 dollars). In 1976 the cap was removed.

Perhaps removing the cap made sense then, when marginal tax rates were so high. Now that upper-income families have been granted dramatic tax relief, there is little reason to continue this tax break.

This is not just an abstract issue of social justice. Although the average benefit for families with incomes above $40,000 was less than $400 in 1985, there were nearly 2 million claimants. The cost adds up. Capping the credit at $40,000 in that year would have freed almost $1 billion that could have been used for aid to low-income families. By 1989 it could free almost $2 billion.

Capping the credit, though, could face fierce opposition. Almost 2 million upper-income families would lose a tax break. And women's groups strongly support the credit, even though, for upper-income families, the credit's importance is mainly symbolic. Just last June they successfully pressured the Senate to reject a cap of between $70,000 and $97,500, which would have generated $200 million to help pay for welfare-reform programs.

The new Administration may have little stomach for making the child-care credit more progressive. But if President Bush is to keep candidate Bush's promise for greater federal action to meet pressing social needs, he will have to push for just this sort of line-by-line reordering of budget priorities, which is sure to result in a series of tough political battles with various vested interests. Let's hope that George Bush is ready to fight for a kinder, gentler nation.

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