NATIONAL WOMEN'S LAW CENTER
EXPANDING THE POSSIBILITIES

April 15, 2013

The Honorable Diane Black
United States House of Representatives
Washington, DC 20515

The Honorable Danny K. Davis
United States House of Representatives
Washington, DC 20515

Tax.reform@mail.house.gov

RE: Tax Reform Working Group on Education and Family Benefits

Dear Representative Black and Representative Davis:

On behalf of the National Women's Law Center (NWLC), we submit these comments on Education and Family Tax Benefits to highlight the importance to women and their families of making permanent the recent improvements to the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC); making permanent the refundable American Opportunity Tax Credit (AOTC); and improving the Child and Dependent Care Tax Credit (CDCTC) by making it refundable and expanding it. We greatly appreciate this opportunity to comment as the Committee undertakes its review of the tax code.

NWLC is a nonprofit, nonpartisan public policy organization located in Washington, D.C. For over 40 years, the Center has worked to expand opportunities and improve economic security for women and their families. As part of this work, NWLC has focused on tax policy, both because taxes provide the revenues needed to protect and strengthen programs vital to women and their families at every stage of their lives, and because tax credits directly help women lift their families out of poverty, afford the higher education they need to get ahead, and pay for the child care they need to enter and succeed in the workforce. In addition to working to improve tax benefits for low- and moderate-income families, NWLC conducts an annual tax credits outreach campaign to inform families about federal and state family tax credits and how eligible families can claim them. Our comments are informed both by our research and analysis, and by seeing what these credits mean to women and their families.

Make recent improvements to the EITC and CTC permanent

For nearly 40 years, Congress has recognized the importance of providing tax benefits to working families and of making them refundable to help parents with low earnings lift their families out of poverty. Since a modest EITC was first enacted in 1975, Congress has repeatedly taken steps to strengthen it, significantly expanding it in the Tax Reform Act of 1986, and again in 1990, 1993, 2001, and 2009. The Child Tax Credit, first created in 1997, was expanded and

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made refundable in 2001 and expanded again in 2009. In the American Taxpayer Relief Act (ATRA) of 2012, Congress extended the 2009 improvements in the EITC and CTC; however, while most of the individual tax cuts enacted since 2001 were made permanent by ATRA, the EITC and CTC improvements were only extended through 2017. Because women still typically earn less than men, represent nearly two-thirds of minimum wage workers, and are the vast majority of single parents, making the improvements in the EITC and CTC permanent is especially important to women. And, it's a smart investment in the nation's future.

President Ronald Reagan correctly called the EITC "the best anti-poverty, the best pro-family, the best job creation measure to come out of Congress." The EITC and the refundable CTC encourage and reward work, strengthen families, and help families work their way out of poverty.

Research has consistently shown that the EITC strongly encourages work, especially among low-earning single mothers.[1] In addition to increasing employment, the EITC and CTC boost low earnings, especially for families with children. As a result, in 2010, the CTC and EITC lifted 9.3 million people out of poverty, the majority of whom (4.9 million) were women and girls.[2]

Most EITC recipients claim the credit for short periods of time, but the benefits can be long-lasting.[3] Women who claimed the EITC earned higher Social Security benefits, improving their retirement security, and experienced higher wage growth in later years.[4] Research also shows that the EITC not only may improve the health of infants whose mothers receive it, but that the children of EITC recipients do better in school, are likelier to attend college, and earn more as adults.[5]

The 2009 improvements to the EITC and CTC, which Congress temporarily extended in ATRA, provide vital benefits to hard-working women and their families.

- Congress improved the refundable CTC by lowering the earnings threshold, so that earnings above $3,000 would count toward the credit. For a single mother earning $14,500 a year working full-time at minimum wage to support two children, this change boosts her CTC from $180 to $1,725: a difference of $1,545.
- Congress improved the EITC by providing a larger credit for families with three or more children and reducing the marriage penalty that the EITC can impose when two low-wage workers marry. For a married couple with three children who each work at minimum wage jobs and together earn $29,000, these improvements in the EITC are worth an additional $1,081 in 2013.

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[1] Chuck Marr, Jimmy Charite & Chye-Ching Huang, Center on Budget & Policy Priorities, Earned Income Tax Credit Promotes Work, Encourages Children's Success at School, Research Finds (Apr. 2013), *available at* http://www.cbpp.org/cms/index.cfm?fa=view&id=3793.

[2] Arloc Sherman, Center on Budget & Policy Priorities, Poverty and Financial Distress Would Have Been Substantially Worse in 2010 Without Government Action (Nov. 2011), *available at* http://www.cbpp.org/files/11-7-11pov.pdf. The definition of "poverty" used here refers to a measure based on National Academy of Sciences recommendations, not the official federal poverty line (which does not account for tax credits). Arloc Sherman, Center on Budget & Policy Priorities, Tax Credits for Working Families Help Women Now and Later (Mar. 2012), *available at* http://www.offthechartsblog.org/tax-credits-for-working-families-help-women-now-and-later/.

[3] Marr, Charite and Huang, *supra* note 1.

[4] *Ibid*.

[5] *Ibid.*

By extending the 2009 EITC and CTC improvements in ATRA, Congress prevented over 12.7 million tax filers from losing tax benefits that help them support their families—and an analysis by NWLC found that more than two-thirds of them were women.[6] Congress should protect these important tax benefits for women by making these improvements permanent.

Make the AOTC permanent

Before the AOTC was created in 2009, the Hope Credit helped some families meet higher education expenses. However, because the Hope Credit was not refundable, it excluded 3.8 million prospective college students — more than a fifth of all high-school-age children nationwide — from assistance because their families' incomes were too low to take advantage of it.[7]

In 2009, the AOTC replaced and improved the Hope Credit, primarily by making the credit partially refundable. In 2011, the AOTC helped over 13 million families pay the high costs of higher education, including 7.7 million who received the credit as a refund.[8] Making the refundable AOTC permanent would help ensure that tax assistance for higher education is available to those who need the help the most.

Expand the Child and Dependent Care Tax Credit and make it refundable

Child care is a major expense for working families, especially those with low incomes. Lower-income families have the greatest need for child care assistance, as child care consumes a higher percentage of their budgets. Families with incomes below the poverty line who pay for child care spend, on average, 30 percent of their incomes on child care, compared to 18 percent for families with incomes between 100 and 200 percent of the poverty level, and 6 percent for families with incomes at or above 200 percent of the poverty level.[9]

Child care expenses can represent a particular barrier to women's participation in the paid labor force, because they consume a substantially larger share of the income of employed mothers than they do of family income overall. Mothers with incomes below the poverty line who pay for child care spend, on average, 38 percent of their incomes on child care; mothers with incomes between 100 and 200 percent of the poverty level spend 28 percent; and mothers with incomes at or above 200 percent of the poverty level spend 16 percent. For mothers with children under age 5, child care consumes an even larger share of their income: 43 percent, 33 percent, and 21 percent, respectively.

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[6] National Women's Law Center, Women Suffer Two-Thirds of Losses if Congress Ends Improved Tax Credits for Working Families (Nov. 2012), *available at* http://www.nwlc.org/resource/women-suffer-two-thirds-losses-if-congress-ends-improved-tax-credits-working-families.

[7] Arloc Sherman and Chye-Ching Huang, Center on Budget &Policy Priorities, Economic Recovery Package Would Give 3.8 Million Low- and Moderate-Income Students — Thousands in Every State —Access to Higher-Education Tax Credit (Feb.2009), *available at* http://www.cbpp.org/cms/index.cfm?fa=view&id=2268.

[8] Internal Revenue Service, Statistics of Income, Preliminary Data for Tax Year 2011 (2013), Figure A: Individual Income Tax Returns, Selected Income and Tax Items by Size of Adjusted Gross Income, *available at* http://www.irs.gov/pub/irs-soi/13inwinbulincomeprlim11.pdf..

[9] U.S. Census Bureau, Who's Minding the Kids? Child Care Arrangements: Spring 2011 (Apr. 2013), Detailed Tables, Table 6, *available at* http://www.census.gov/hhes/childcare/data/sipp/2011/tables.html.

For nearly 60 years, Congress has provided tax assistance to help families meet the child care expenses they incur in order to earn income. In 1954, the tax code provided a deduction for certain employment-related child care expenses; the deduction was converted to a credit in 1976, and increased in 1981 and 2001. In 2011, the credit provided $3.5 billion in child care assistance to 6.4 million families.[10]

The federal CDCTC allows parents to claim a percentage of their work-related child care expenses toward the credit: up to $3,000 for one child, $6,000 for two or more children. The percentage of expenses that a family may claim declines with income. Families with an Adjusted Gross Income (AGI) of $15,000 or less are eligible for a credit equal to 35 percent of eligible expenses. The rate decreases as AGI increases above $15,000 until it reaches 20 percent for families with AGIs above $43,000.

On paper, the lowest-income families are eligible for the largest credit—maximum of $2,100—while families with incomes above $43,000 are eligible for a maximum credit of $1,200. However, because the CDCTC is not refundable, many low-income families get little or no benefit from the credit. For example, assuming these families claim the standard deduction and appropriate personal exemptions:

- A single mother with two children, an AGI of $15,000, and child care expenses of $6,000 is theoretically entitled to the maximum CDCTC of $2,100. Her federal income tax liability, before credits, is zero, so she is not eligible for any benefit.
- A married couple with two children, an AGI of $25,000, and child care expenses of $6,000 is theoretically entitled to a CDCTC of $1,800. They would receive nothing because their federal income tax liability is zero.
- A single mother with two children, an AGI of $25,000, and child care expenses of $6,000 is theoretically entitled to a CDCTC of $1,800. Her federal income tax liability, before credits, is $435, so that is the maximum she can claim from the CDCTC.

When it created the refundable AOTC, Congress recognized that it was inequitable to deny tax assistance to those who need it the most. It extended help paying for college expenses to lower-income families by making the credit refundable. Congress should do the same for families who struggle to pay for the child care they need to earn a living and make the CDCTC refundable.

Other changes are needed to make the CDCTC a more effective source of child care assistance for families. The child care expense limits were last increased in 2001, and are not indexed for inflation. The sliding scale starts reducing the credit at an AGI of $15,001, phases down rapidly, and is not indexed, further shrinking the value of the credit over time.

Improving the CDCTC would significantly promote tax equity for women. Women continue to bear the bulk of responsibility for care of children and adult dependents. Tax provisions that help pay for child and dependent care relieve women of some of the burden of unpaid caregiving and lessen barriers to women's participation in the workforce, helping them support themselves and their families.

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[10] Internal Revenue Service, Statistics of Income, Preliminary Data for Tax Year 2011, Figure A: Individual Income Tax Returns, Selected Income and Tax Items by Size of Adjusted Gross Income, *available at* http://www.irs.gov/pub/irs-soi/13inwinbulincomeprlim11.pdf (last visited April 9, 2013).

We appreciate the opportunity to provide comments to the Working Group on Education and Family Benefits, and would be glad to provide additional information as the Working Group and the Committee consider specific tax changes. Please do not hesitate to contact us should you have any questions.

Sincerely,

Joan Entmacher

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