CHILD CARE & EARLY LEARNING

# TRUMP'S CHILD CARE PROPOSAL WOULD PRIMARILY BENEFIT HIGHER-INCOME FAMILIES AND DO LITTLE FOR FAMILIES WHO NEED HELP THE MOST

**High-quality child care is fundamental to the economic security of women and families, but for too many families, it is out of reach**. President Trump's child care tax proposal would do little to help families meet the costs of child care, and would give the most financial support to higher-earning families who need the least help paying for child care.

Both Trump's proposed child care expense tax deduction and dependent care savings accounts, by definition, are worth more to higher-income families. The policies that Trump proposes to help low-income families, the child care rebate and the savings match, would provide very little support to very few. **Overall, Trump's child care plan gives the most help to those who need it the least.**

**The proposal has three main components.**

1. **Tax Deduction:** Under Trump's proposal, **married couples** filing jointly with incomes of **$500,000 or less**, and **single taxpayers** with incomes of **$250,000 or less**, would be able to **deduct** child care expenses for **up to four** children under the **age of 13**. The expenses would be capped at the average cost of child care in their state. Families with *"stay-at-home parents" or with grandparents who provide child care at no cost would be able to claim the full amount of the tax deduction.*[1]
2. **Dependent Care Savings Accounts (DCSA):** Families could open tax-favored Dependent Care Savings Accounts to pay for care expenses for specific individuals. Immediate family members and employers of the account holder could contribute a total of up to **$2,000** per year per account into these accounts. Those contributions would be **tax-deductible, appreciation** in the account balance **would not be taxed**, and the funds could **accumulate** until the child reaches **18 years old**. For some "lower-income" families, the government would provide a match of **up to 50 percent for up to $1,000** in contributions.[2]
3. **Child Care Tax Rebate:** Under Trump's proposal, some families — **married couples** filing jointly with incomes of **$62,400 or less** and **single taxpayers** with incomes of **$31,200 or less** — with **no tax liability** could receive "a child care spending rebate" through the Earned Income Tax Credit (EITC) for eligible child care expenses that were not applied to reduce tax liability. The rebate would be worth 7.65 percent of eligible child care expenses, and would be capped at the value of half the payroll taxes paid by the tax filer (based on the lower-earning parent in a two-earner household), for a maximum value of about $1,200.[3]

**Trump's proposal gives tax breaks to high-income families, offers little help to low- and middle-income families, and doesn't foster better child care options for families.**

- Tax deductions overwhelmingly **benefit higher-income** families while doing **little** for **lower-income** families who need the most assistance.
    - Deductions are more valuable the higher the family's income (and thus tax bracket).

    - Many middle-income families would not benefit more from the deduction than from the existing Child and Dependent Care Tax Credit.
    - Millions of families in need of child care have incomes that are too low to have any federal tax liability at all, and thus would not benefit from a tax deduction.
- Families *with no child care expenses at all* (because one parent stays home to care for the children or because a grandparent provides child care at no cost) could claim the deduction for the **average cost** of care in their state.
- The proposed Dependent Care Savings Accounts would also provide the **most** benefits to **higher-income** families, and **very little** to **lower-** and **middle-income** ones.
    - Like deductions, DCSAs would offer more tax benefits the higher the family's income.
    - It is unlikely that low- and moderate-income families would be able to take advantage of such savings accounts. *Families who are struggling to make ends meet are not likely to be able to put thousands of dollars into savings accounts to pay for child care expenses – even if they would receive a match after-the-fact.* This is in part because low-income families generally have less than two weeks' income in their savings and checking accounts and cash on hand, and use their EITC refunds to pay for current needs and pay downdebt.
    - While lower-income families who need the most help paying for child care would receive little benefit from these accounts, higher-income families could shelter income used to pay for private school tuition or enrichment activities, like *violin lessons or horseback riding lessons.*
- The proposed "child care rebate" would help very **few low-income families**, and provide **very little** assistance.
    - The rebate is only worth a fraction (**7.65** percent) of child care expenses and would be worth less than the deduction at every tax bracket.
    - A married couple with earnings of **$30,000** and **$6,000 in eligible child care expenses** could receive a rebate worth **at most $459**, providing very little help.
    - For a family to receive the **theoretical maximum** of **$1,200**, it would have to have over **$15,000** in child care expenses eligible for the rebate.
- Trump's proposal would do nothing to increase compensation for the underpaid child care workforce, improve the quality of child care, or increase the supply of child care that is most difficult for families to access — such as care for infants and toddlers or care in rural and low-income communities.

**As a first step towards ensuring that all families — regardless of their incomes, where they live, or what their work schedules are — have access to the child care they need, and that the early educators who care for and teach their children are well-qualified and well-compensated, policymakers should significantly increase child care funding and improve child care policies to:**

- Expand the **Child Care and Development Block Grant, (CCDBG)**, the major federal child care program, to make child care assistance available to all eligible low- and moderate-income families who need it.
- Increase **payment rates** to child care providers serving families receiving child care assistance.
- Ensure states have the **resources** necessary to implement the reforms required under the Child Care and Development Block Grant Act of 2014.
- Make the **Child and Dependent Care Tax Credit (CDCTC) refundable** so that it is available to more low- and moderate-income families, increase the CDCTC's **sliding scale** so that it provides more assistance to middle-class families, and raise the **expense limits** so that it covers a greater proportion of families' child care costs.

1 Donald J. Trump – Tax Plan, https://web.archive.org/web/20170205141827/https://www.donaldjtrump.com/policies/tax-plan (accessed via the Internet Archive Index).

2 *Id.*

3 *Id.*