

Federal Taxes and Children

Notes and Figures for

Thursday's Child

Kids, Families, and Tax Policy: Best Friends Forever?

The Urban Institute

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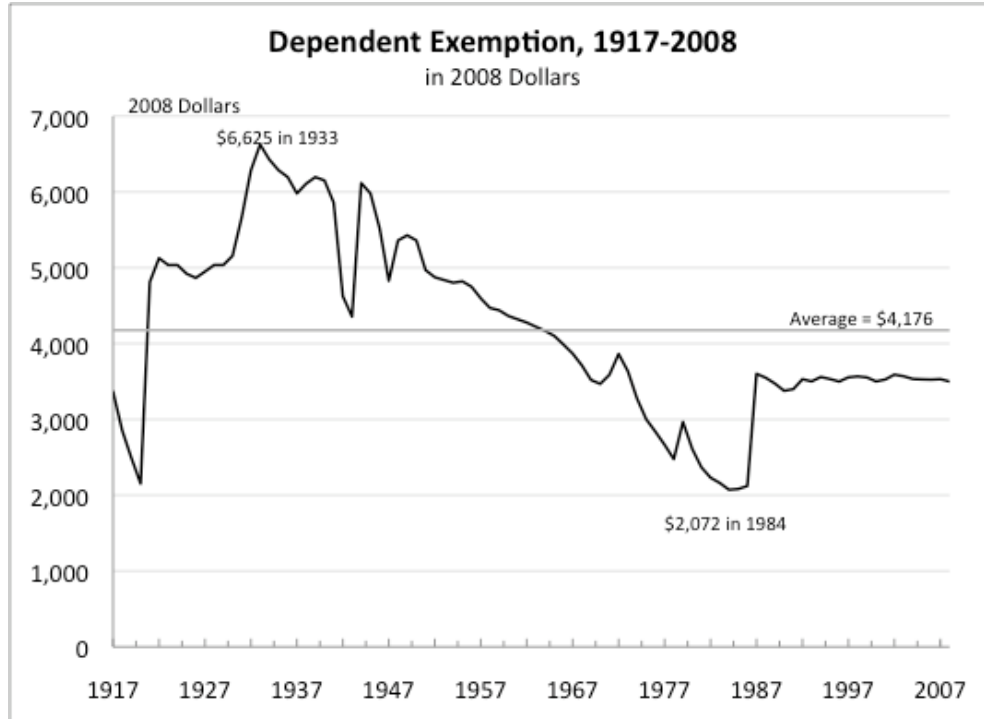
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Tax Provisions Benefitting Households with Children

- *Dependent Exemption*: since 1917; \$3,650 in 2009

Figure 1



- *Childcare credit and cafeteria plans*
 - Child and Dependent Care Tax Credit: since 1956—about \$2.6B in 2009
 - up to 35% of \$3,000 (\$6,000 for two or more children)
 - Cafeteria plans let workers pay childcare expenses out of pretax income
- *Earned Income Tax Credit (EITC)*: since 1975—\$50.6B in 2009
 - up to 45% of first \$12,570 in 2009 earnings
 - 40% for two children, 34% for one child
 - fully refundable
- *Child Tax Credit*: since 1997—\$45.9B in 2009
 - \$1,000 per child, partially refundable
- *Education credits and deductions*
 - Tuition deduction for college: \$2.5B in 2009
 - American Opportunity and Lifetime Learning credits help pay for college: \$3B in 2009
 - Coverdell Savings Accounts and state 529 plans to save for college: \$0.7B in 2009

Figure 2

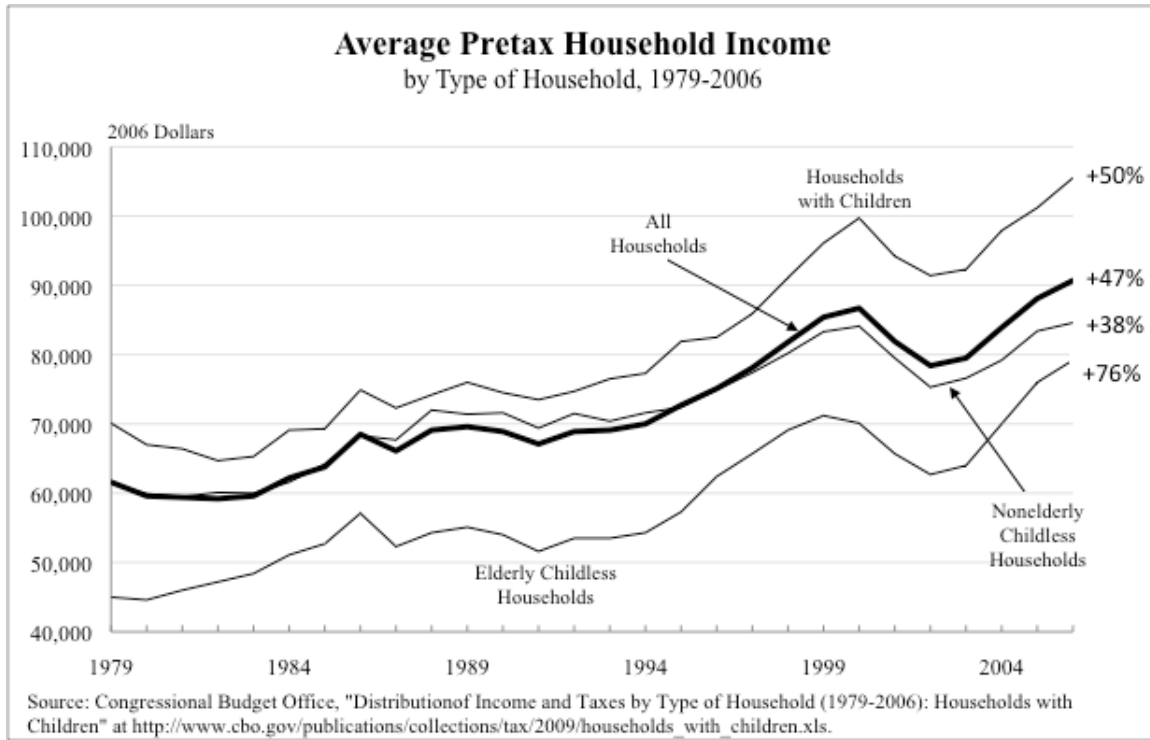
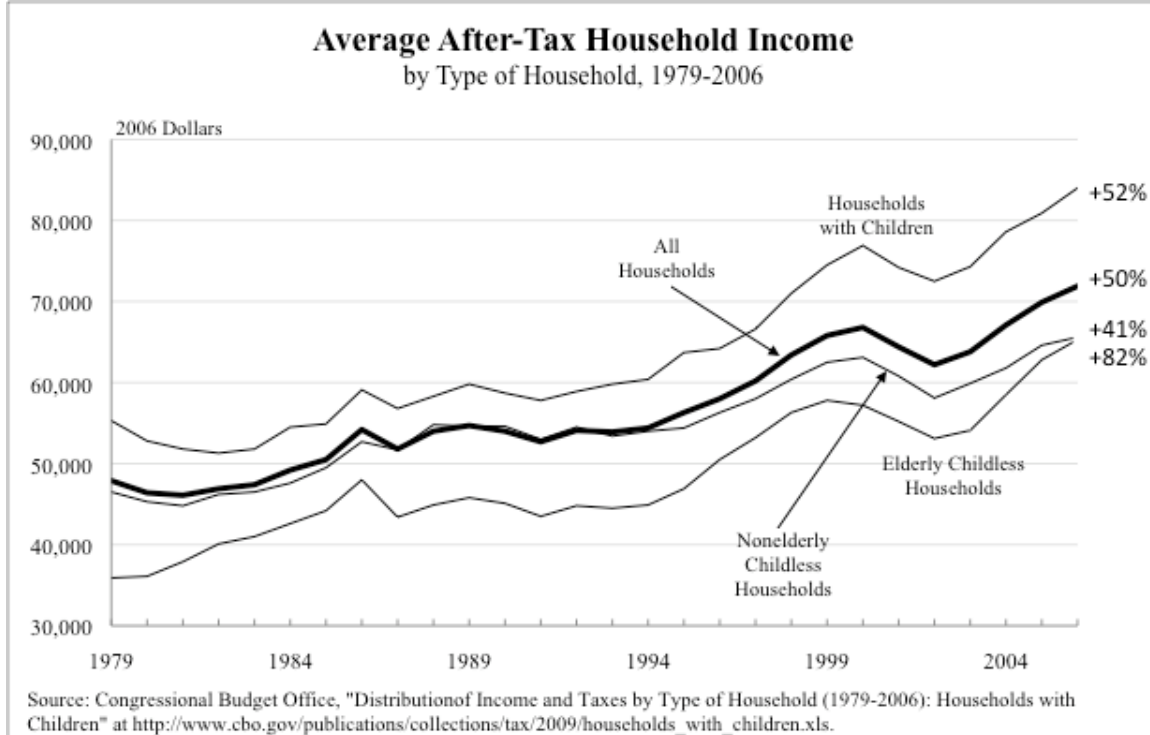


Figure 3



NOTE: Congressional Budget Office effective tax rates (figures 2-10) include four federal taxes: individual and corporate income taxes, payroll taxes, and excise taxes. Units are households—groups of related people living together. Data

come from the Internal Revenue Service's Statistics of Income (SOI) and the Current Population Survey (CPS) and include the entire non-institutional population.

Figure 4

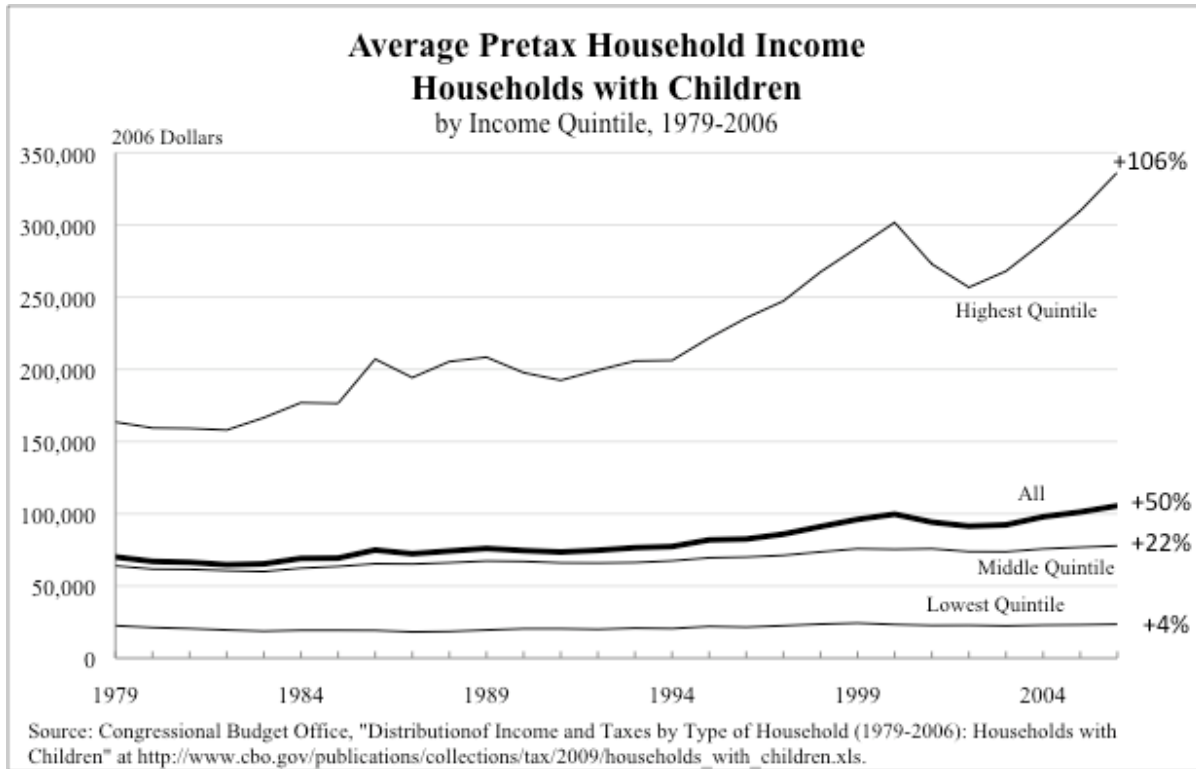


Figure 5

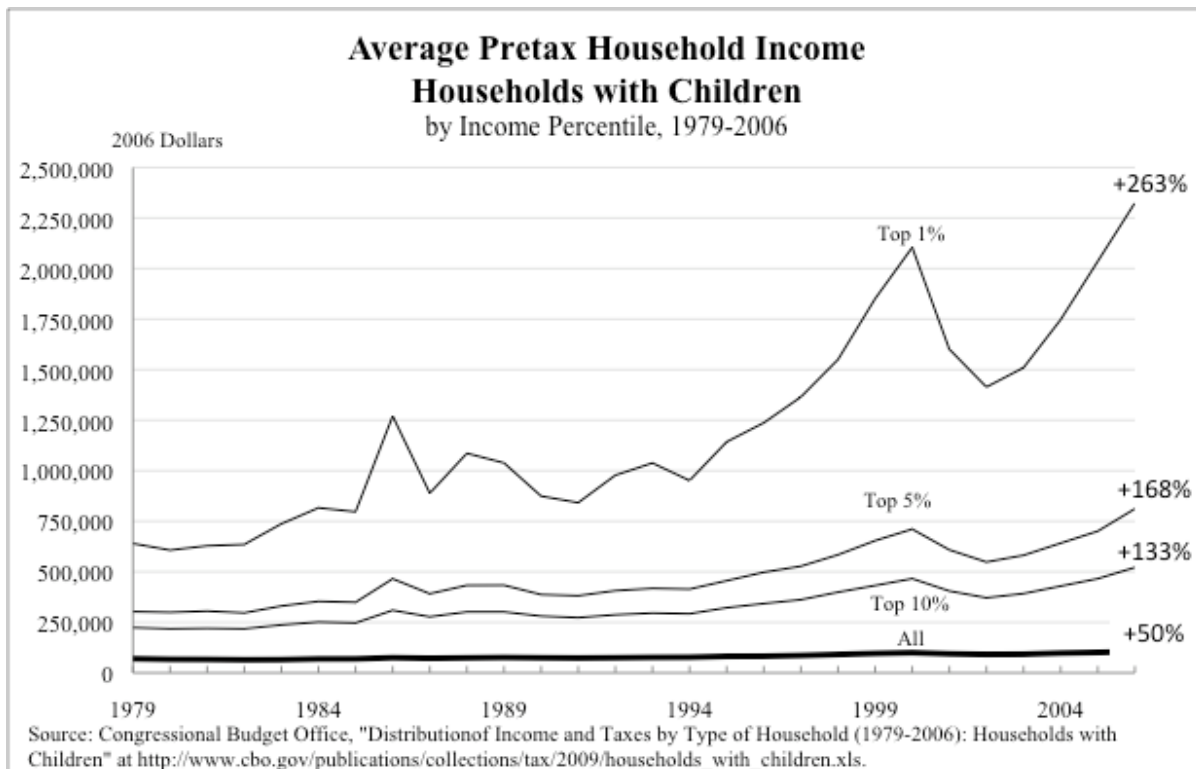


Figure 6

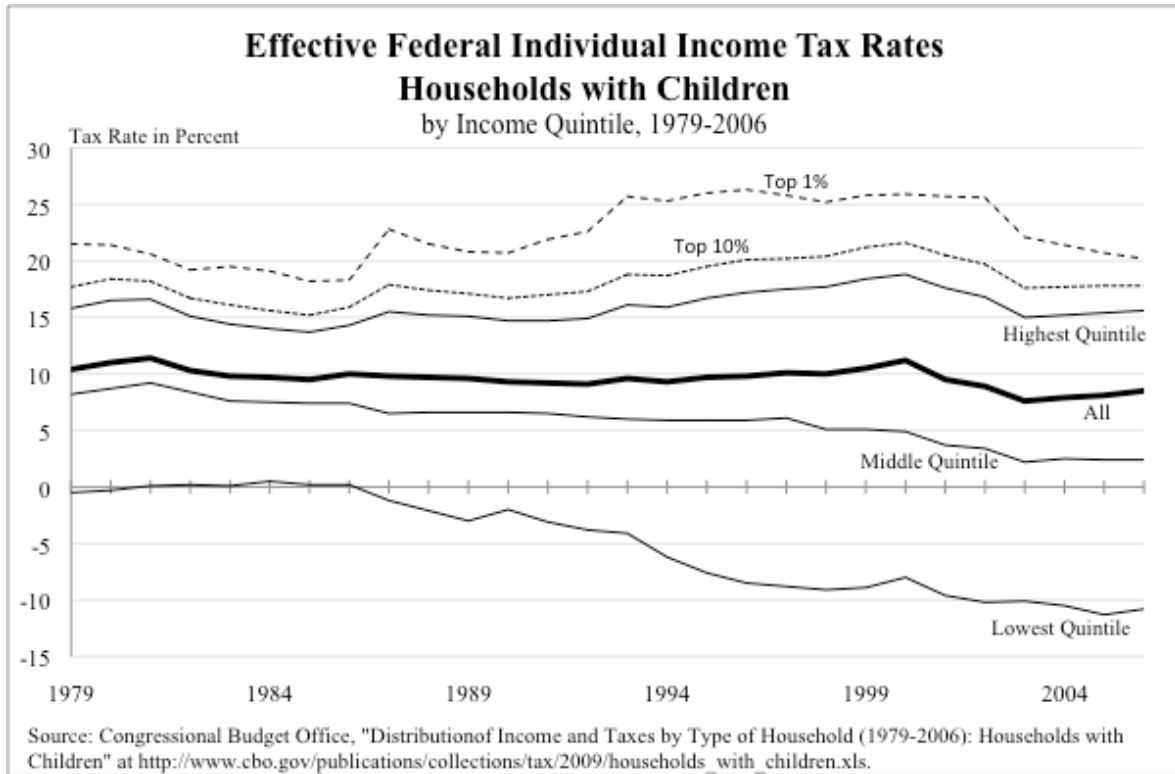


Figure 7

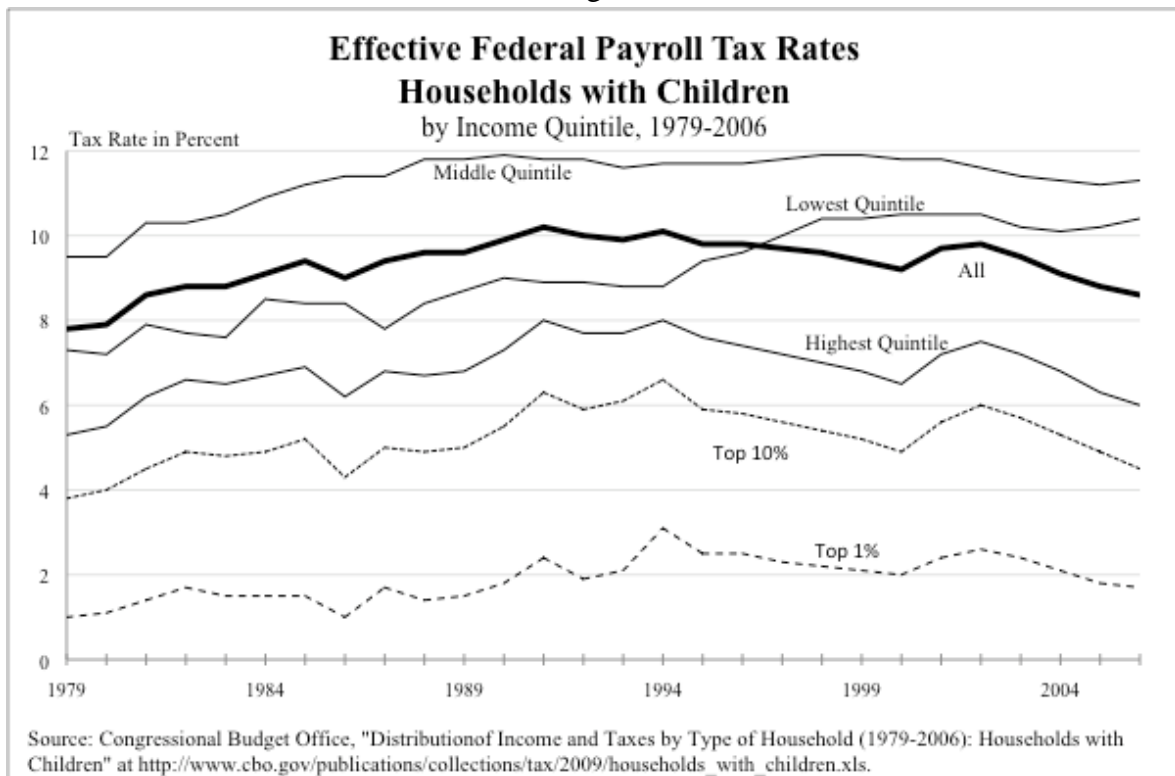


Figure 8

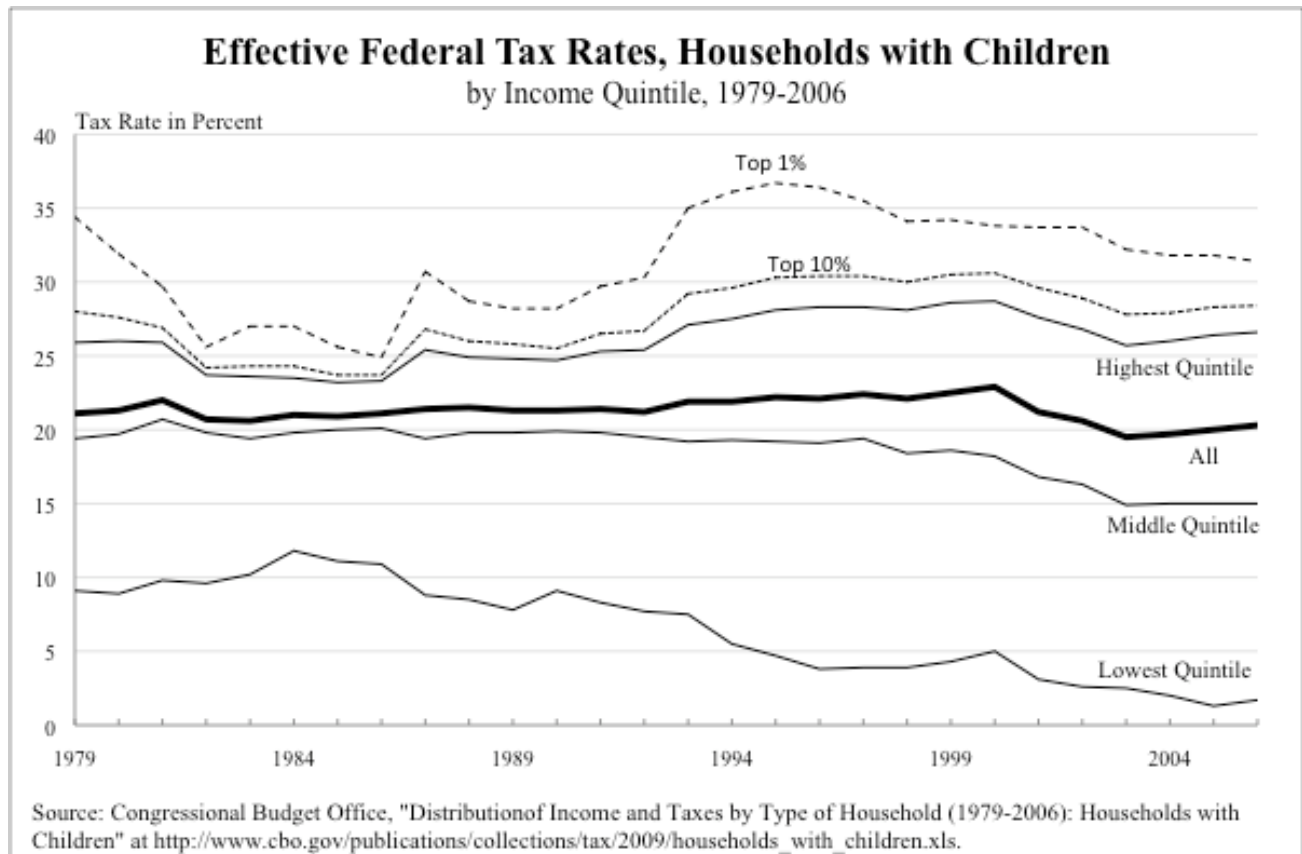


Figure 9

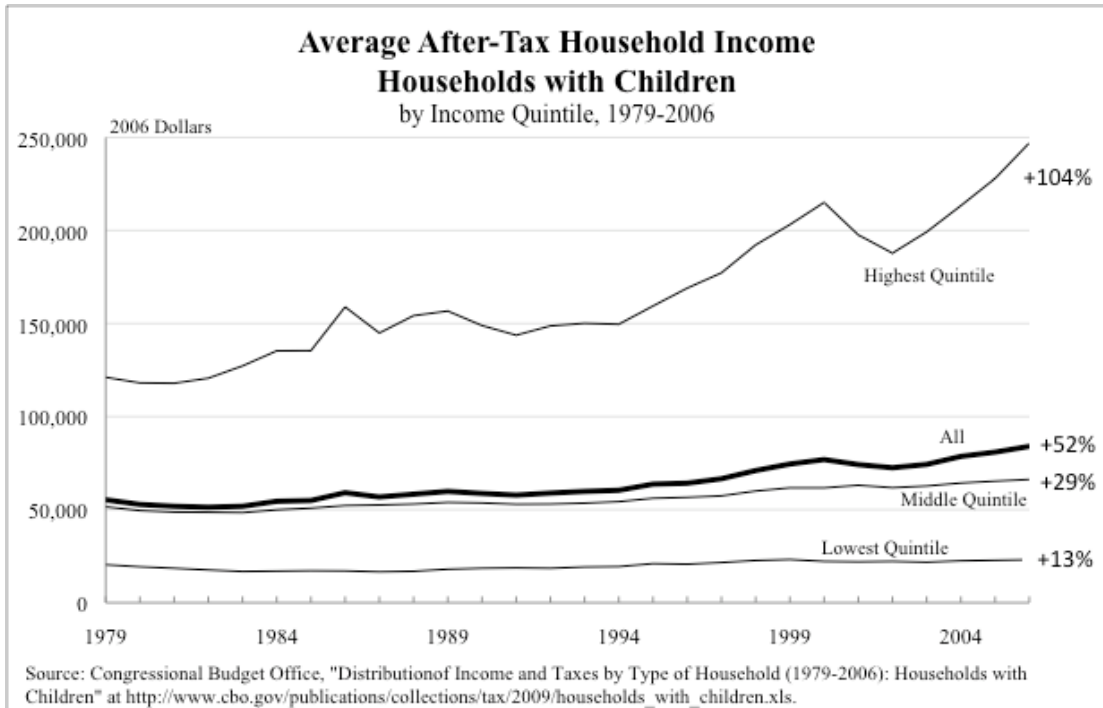
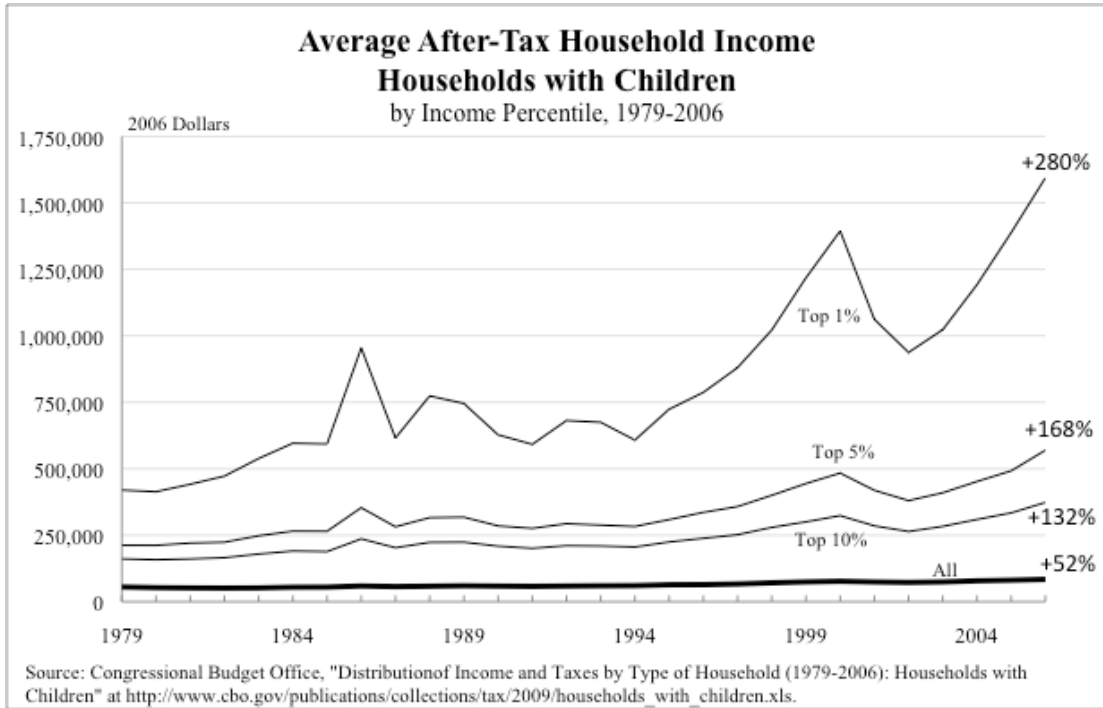


Figure 10



Tax Provisions in President Obama's 2010 Budget

Tax Cuts

- Make permanent various provisions in stimulus act
 - Making Work Pay Tax Credit: up to \$800 for married workers
 - Earned Income Tax Credit
 - 45% for families with 3+ children
 - Higher phaseout range for married couples
 - Refundability of Child Tax Credit: start phase-in of refundability at \$3,000
 - American Opportunity Tax Credit: up to \$2,500 tax credit for college costs, 40% refundable
- Expand saver's tax credit and automatic enrollment in IRAs and 401(k)s: 50% match on first \$1,000 of retirement savings
- Eliminate Advanced Earned Income Tax Credit: administrative issues

Tax Increases

- Deny Bush tax cut extension to high-income taxpayers
 - Reinstate 36 and 39.6 percent rates for high-income taxpayers
 - Reinstate personal exemption phaseout and limitation on itemized deductions for high-income taxpayers
 - Impose 20 percent rate on capital gains and dividends for high-income taxpayers
- Limit value of itemized deductions to 28%

Figure 11

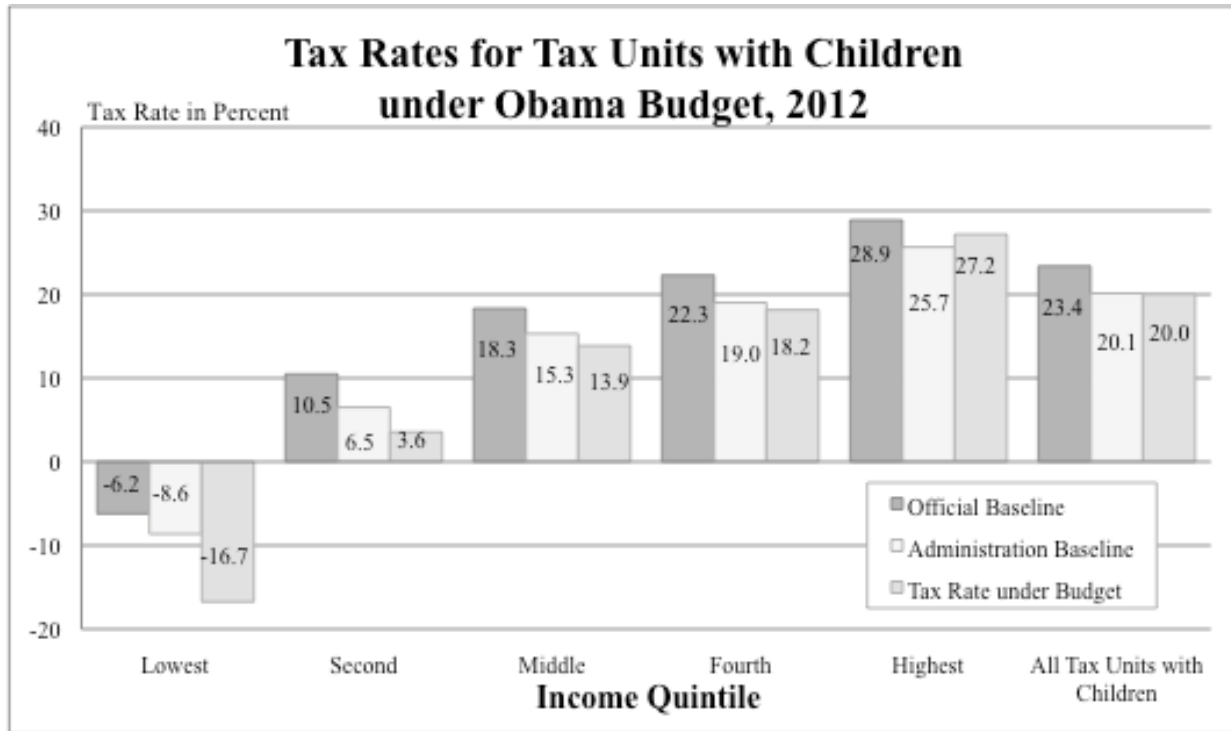
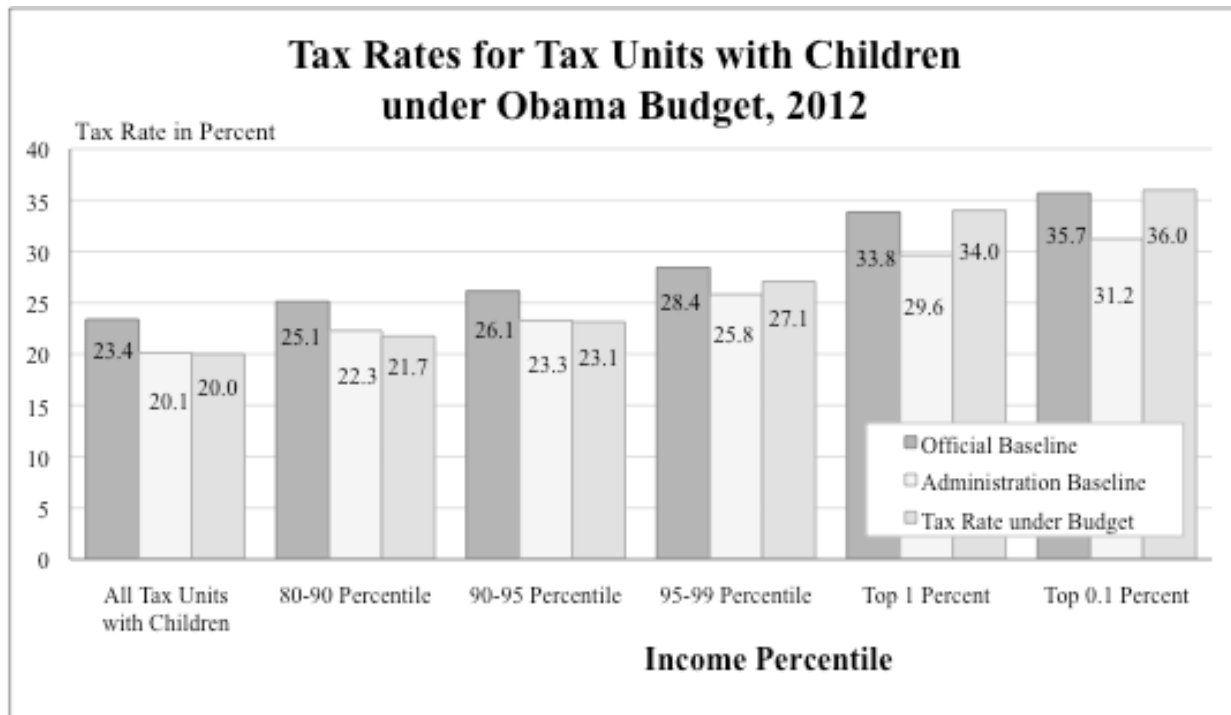


Figure 12



NOTE: Tax Policy Center estimates (figures 11-12) include a different set of four federal taxes: individual and corporate income taxes, payroll taxes, and estate taxes. They derive from TPC's microsimulation model, which, like CBO's model, relies on data from the SOI and the CPS. The model focuses on tax units—individuals or couples who file tax returns or would have to file returns if their income were high enough—but excludes dependent tax units.