Family - Child Care Policy: Stay at Home Parents

Family - child care policy —
stay-at-home

POTUS Q&A ON STAY-AT-HOME PARENTS
APRIL 23, 1998

Q Mr. President, do you propose tax cuts for mothers who want to stay home?

THE PRESIDENT: I'm glad you didn't stay home today, Sam. (Laughter.)

Q What do you think of the idea of tax cuts for a stay-at-home mom?

THE PRESIDENT: Well, we need to get into a negotiation. We need to get started talking seriously about what we're going to do.

Q Would you be open to it?

THE PRESIDENT: I'll be happy to talk to them, but we've got to -- are we going to make a serious effort here? We need to have a discussion about it.

Q So you are willing to negotiate, then?

THE PRESIDENT: I'm willing to negotiate with anybody who wants to help people raise their children better so that people can succeed at home and at work. It's not an either-or deal. That's why we had the $500 tax credit last time, children's tax credit, because we wanted to help all parents. We're not against helping all parents. But the question is, most parents are in the work force and we have to do something serious about it. We have to decide, are we going to do it, or not.

Family-child care policy - stay-at-home parents

and

Tax proposals

Summary of Proposals that Target Marriage Penalties and Stay-at-Home Parents			
Proposal	Preliminary Cost /1	Description	Brief Comments
Marriage penalty proposals that might affect stay-at-home parents			
Single Filer Option (H.R. 2456)	$22 billion per year (in 1999 income levels)	Married couples could continue to file a joint return, or elect to file two separate returns as if each were a single individual. On separate returns, each spouse would report their own earnings. Unearned income could be reallocated by shifting assets. Rules specify how deductions, exemptions, and credits split.	Would significantly reduce marriage penalties, but would also increase some marriage bonuses. Provides only limited or even no benefit to stay-at-home parents. Would substantially increase filing burdens.
Income Splitting (Ashcroft and others)	$36 billion per year (in 1999 income levels)	Single filing, with half of a couple's income, including earned income, attributed to each spouse.	Would significantly reduce marriage penalties, but also greatly increase marriage bonuses. Would help stay-at-home parents. Adds some complexity to filing.
Make Joint Tax Parameters Double Singles	Roughly $36 billion per year (in 1999 income levels) /2	The standard deduction and rate brackets for joint filers would be made twice the corresponding amounts for single filers.	Basically equivalent results to income splitting, but much simpler since no additional computations are required.
Two-Earner Deduction	$12 billion per year (in 1999 income levels)	Couples with two earners would be allowed a deduction for 10 percent of the first $30,000 of the earnings of the lower-earning spouse.	Would reduce marriage penalties significantly, but would also increase some marriage bonuses and convert some penalties into bonuses. Provides no benefits to stay-at-home parents.

Targeted Two-Earner Deduction	$5 billion per year, but could be larger or smaller /3	Couples with two earners would be allowed a deduction (or a credit) for some percentage of the amount by which the earnings of the lower-earning spouse exceeded, say, 20 percent of the couple's total income.	Would reduce marriage penalties significantly, with little of the benefits "wasted" on those already receiving marriage bonuses. Provides no benefits to stay-at-home parents.
Proposals targeted to stay-at-home parents			
Expand CDCTC to stay-at-homes ...th to stay-at-home + others. e.g. people w/ illegal child care who are not reporting (grandparent care) no phase-out floor = 1200-1 2400-2+ (instead of cur 5.1)	$11.4 billion to $13.4 billion over 5 years Obviously could be altered to fit revenue constraints	Variant 1: Parents with children under age 3 would be deemed to have spent $1,200 ($2,400 for two or more under age 3 children) plus actual child care expenses, up to current limit of $2,400 ($4,800 for two or more children) for purposes of the CDCTC. Variant 2: Same as variant 1, except parents would be deemed to have spent $1,200 (or $2,400), or, if more, actual child care expenses up to current limits for purposes of the CDCTC.	Proposals cost between $6.5 billion and $8.5 billion over five years more than the President's Budget proposal for expansion of the CDCTC (which would not benefit stay-at-home parents). The policy rationale for targeting scarce public resources to families with stay-at-home parents is dubious. already receive the marriage bonuses through tax code.
Expand child credit for young children Under age 1	roughly $4 billion over 5 years /4	The child credit would be increased for young children, irrespective of the work status or actual out-of-pocket child care expenses of the parent(s). how young?	The policy rationale for targetting scarce public resources to families with stay-at-home parents is dubious. This is a relatively straightforward administrative mechanism.

/1 These are preliminary estimates, in 1999 income levels. Estimates would presumably grow in the out-years.

/2 This can be dialed down, by reducing single filer parameters to half the current joint parameters, though doing so would hurt single taxpayers at the expense of married taxpayers with two earners.

/3 This allows a ten percent deduction for the amount by which the second earner's earned income

/4 The revenue estimate is for increasing the child credit for children under age 1 by $500, to $1,000, beginning in 1999.

Variant 3 - impute $1200 Refd. (Under 4)

Marriage Penalties and Bonuses, and Stay-At-Home Parents

Overview

- These are overlapping, but distinct, issues.
  - Marriage penalties and bonuses affect most married couples as well as many currently unmarried individuals. The tax treatment of marriage is a very broad issue.
  - The concern about the child care costs of stay-at-home parents is a narrower issue of primary concern to couples with young children.
- This memo has three sections:
  - The first describes marriage penalties, why they arise, and provides examples.
  - The second describes and analyses options for reducing marriage penalties.
  - The third describes and analyses a few additional options specifically aimed at stay-at-home parents.

I. What Are Marriage Penalties?

- A couple that owes more income tax by filing a joint return than they would pay if they were unmarried and each filed separate returns has a marriage penalty.
- Conversely, a couple that owes less income tax by filing a joint return than they would pay if they were unmarried and each filed separate returns has a marriage bonus.
- In general, couples with a stay-at-home spouse receive marriage bonuses, whereas two-earner couples in which spouses have similar earnings face marriage penalties.

Why Do Marriage Penalties and Bonuses Arise?

- Marriage penalties and bonuses generally arise because the standard deduction and rate brackets for joint filers are less than twice the corresponding amounts for single filers.
- For couples with children, marriage penalties may arise because a spouse could file as a head of household if the couple were not married.
  - The head of household standard deduction and rates are more generous than corresponding amounts for single filers.

- o Marriage penalties and bonuses also arise because of other tax provisions, such as the EITC, the taxation of Social Security benefits, and the AMT exemption for which the parameters for joint filers are less than twice the corresponding amounts for single filers.

Examples

- o Consider four couples, each with $60,000 of earnings (and no other income).
  - Couples A and B have no children, Couples C and D each have one child.
  - Couples A and C have two earners, each with $30,000 of earnings.
  - Couples B and D have one earner with $60,000 of earnings.
- o The details of the tax computations for these couples are shown in the attachment.
- o In summary, here is what the examples show:
  - Two-earner Couples A and C have marriage penalties, whereas one-earner couples B and D have marriage bonuses.
  - The marriage penalties and bonuses for the couples with a child are smaller than for the couples without a child. However, this would not be true in all circumstances.
  - Having a child reduces Couple C's and D's tax liability significantly relative to Couples A and B, because of the additional exemption for the child, the child credit, and (for Couple C) the child and dependent care tax credit (CDCTC).

How Large Are Aggregate Marriage Penalties and Bonuses?

- o There are approximately **$30 billion per year** of marriage penalties and **$34 billion per year** of marriage bonuses according to a recent CBO study.
- o More taxpayers have bonuses than penalties, with marriage bonuses predominating for low income families, and marriage penalties predominating for high income families, especially when there are two high earners.

II. Options for Addressing Marriage Penalties

Five options for addressing marriage penalties have been discussed: a single filer option, an income splitting option, making joint tax parameters double single parameters, a two-earner deduction, and a targeted two-earner deduction or credit.

- Treasury is doing more analytical work on these options.

Single Filer Option (H.R. 2456 with 218 cosponsors)

- Under this option, a married couple could continue to file a joint tax return, or could elect to file two separate returns, as if each were an unmarried individual.
  - H.R. 2456 would combine separate filing on one tax return form and lessen some of the inherent complexity of separate filing by arbitrarily prorating deductions and by retaining a joint computation of the EITC and other credits.
  - Each spouse would report their own earnings, but could reallocate their unearned income by shifting assets.
  - Dependent exemptions would be allocated in proportion to each spouse's share of their total income (AGI).
- As the examples illustrate, optional single filing would significantly reduce marriage penalties. In the examples marriage bonuses are unaffected, but in some circumstances marriage bonuses would be increased.
- The examples also illustrate that married couples with identical total incomes and taxes under current law could pay quite different taxes under optional single filing (compare Couples A and B).
- This option would be very expensive, costing roughly **$22 billion** (in 1999 income levels) per year.
- This option would provide only limited or even no tax benefit to stay-at-home parents, since each spouse would report their own earned income.
- Optional single filing would also substantially increase the burdens of the income tax system. Many, if not most, married couples would have to make three, rather than one, tax computation (joint, his, and hers) in order to determine the filing method that results in the least tax liability.
  - Currently, couples who pool their resources need not keep separate records by spouse. Under optional separate filing, separate income and deduction records could be necessary and complex rules would be needed to allocate income, deductions, credits and exemptions.

Income Splitting

A number of Republicans who originally supported H.R. 2456 are now advocating an even more costly approach, which would allow single filing combined with "income splitting." The motivation for this option is specifically to provide tax benefits to stay-at-home parents. (Senator Ashcroft's proposal includes this provision.) Under income splitting, half of a couple's income, including their earnings, would be attributed to each spouse.

- As the examples illustrate, this option would allow two-earner couples to compute their tax as if they were single individuals, reducing their marriage penalties, as under the single filing option. Some two-earner couples would receive a larger tax cut (and reduction in marriage penalties) under income splitting, however, because both earned and unearned income could be split.

- Income splitting would greatly increase marriage bonuses.

- This option would cost roughly **$36 billion** (in 1999 income levels) per year.

- Income splitting would add computational complexity to income tax filing, although it would not be as onerous as single filing since income would simply be split irrespective of which spouse earned the income or owned the underlying asset.

Make Joint Tax Parameters Double Single Parameters

Marriage penalties could be substantially reduced by making the standard deduction and rate brackets for joint filers twice the corresponding amounts for single filers.

- One approach would be to increase the joint parameters to twice the current single parameters.

- As illustrated by the examples, this option is basically equivalent in effect to income splitting, so would be just as expensive (**$36 billion** per year), and have the same effect on marriage penalties and bonuses.

- However, this option would be much simpler than income splitting, since no additional computations would be required.

- An alternative approach would be to reduce the single parameters to half the current joint parameters.

    - This approach would <u>raise revenue by increasing taxes on most single filers</u>, without reducing taxes paid by married couples.

- The Treasury reform option adopts an intermediate approach to addressing marriage penalties, but also makes several other significant changes to the tax code.

- Tackling marriage penalties as part of a broader reform package ameliorates the stark tradeoff between two-earner couples and single taxpayers that a low-cost marriage penalty solution along these lines would require.

Two-Earner Deduction (H.R. 2593, sponsored by twenty-two mostly Republican Ways and Means Committee members)

This proposal would resurrect the second earner deduction that existed between 1982 and 1986. The deduction is for 10 percent of the first $30,000 of the earnings of the spouse with lesser amount of earnings.

- o As the examples illustrate, this option can reduce marriage penalties significantly.
- o This option can also increase the marriage bonuses of those already receiving marriage bonuses, or change current marriage penalties into marriage bonuses
- o However, this option provides no tax benefits to stay-at-home parents.
- o Our very preliminary revenue estimates are that this proposal would cost approximately **$12 billion per year**.

A Targeted Two-Earner Deduction or Credit (A less expensive two-earner deduction)

Better targeting of a second earner deduction can be achieved by setting a percentage floor, say, 20 percent, of combined total income (not only earnings) on the second earner deduction. A tax deduction or credit could then be provided for some percentage of the amount by which the earnings of the lower-earning spouse exceed 20 percent of the couple's total income. The size of the deduction or credit can be capped, if there is a resource constraint.

- o Compared with a simple second earner deduction, very little of the benefits of a targeted deduction or credit are "wasted" on those already receiving marriage bonuses.
- o As with the previous proposal, limited deductions (or credits) address the problem by providing only incomplete relief to those with very large penalties.
- o One variant we have examined costs roughly **$5 billion** per year, though this cost could be dialed up or down depending on revenue targets.

III. Options for Helping Stay-At-Home Parents

Two options specifically designed to help stay-at-home parents have been discussed:

extending the CDCTC to stay-at-home parents, and providing an additional child credit for young children. Before describing and analyzing these proposals, the President's Budget proposal to expand the child and dependent care tax credit (CDCTC) is described.

President's Proposal to Expand the CDCTC

- o Under the President's Budget proposal, the credit rate would be raised to 50 percent for parents with incomes (AGIs) of $30,000 or less. This rate would phase down by one percentage point for each $1,000 of income above $30,000 until it reached 20 percent for parents with over $59,000 of income.
  - The President's proposal retains the requirement that both parents (the parent, in single-parent households) must work (or attend school or be fully disabled) in order to be eligible for the CDCTC.
  - The President's proposal (including a simplification provision) would cost **$5.1 billion over five years**.
- o Under this proposal, couples with incomes over $59,000 would have the same CDCTC as under current law.
- o However, because the credit rate is increased for incomes below $59,000, some couples would have larger marriage penalties under the President's proposal than under current law.
- o The President's proposal provides no tax benefits to stay-at-home parents.

Extend the CDCTC to Stay-At-Home Parents

- o Senator Chafee has introduced a bill that would deem taxpayers with one or more children under the age of four to have incurred child care expenses of $150 per month ($1,800 per year) for purposes of the CDCTC.
  - As under the President's proposal, the credit rate would be raised to 50 percent for parents with incomes (AGIs) of $30,000 or less.
  - However, the 50% rate would phase down more slowly under the Chafee proposal, by one percentage point for each $1,500 of income above $30,000, until it completely phased out.
- o Under the Chafee proposal, couples with a stay-at-home parent could receive a CDCTC.
- o However, many single parents and two-earner couples with children under the age of four would also benefit from the Senator Chafee's proposal, either because they work but do

not pay for child care, or pay for child care but do not claim as much credit as they would be eligible for under the proposal.

- o We have prepared preliminary revenue estimates for two variants of the Chafee proposal.
  - Both variants differ from the Chafee proposal in two respects: they would apply to children under age three (rather than age four), and both would deem minimum expenses on a per-child basis (up to two or more children).
  - One variant would allow parents of children under the age of three to claim a deemed amount of annual child care expenses of $1,200 ($2,400 for two or more children under age three) plus actual child care expenses, up to the current law limit of $2,400 ($4,800 for two or more eligible children) for purposes of the CDCTC.
  - This variant would cost **$13.4 billion over five years** ($8.5 billion more than the President's Budget proposal).
  - A second variant would allow parents of children under the age of three to claim a deemed amount of annual child care expense of $1,200 ($2,400 for two or more children under age three), or, if more, actual child care expenses (up to the current law limit of $2,400 ($4,800 for two or more eligible children)) for purpose of the CDCTC. It would also phase the credit out at $103,500 of AGI.
  - This second variant would cost **$11.4 billion over five years** ($6.5 billion more than the President's Budget proposal).

Provide an Additional Child Credit for Young Children

- o The child credit could be increased for young children, irrespective of the work status or out-of-pocket child care expenses of the parent(s).
  - For example, the child credit could be doubled for children under the age of one.
  - This would make the credit for these children $1,000 beginning in 1999.
  - This option would cost roughly **$4 billion over five years**.

Attachment

Examples of Marriage Penalties and Bonuses

Measuring Marriage Penalties and Bonuses

- For purposes of measuring marriage penalties and bonuses, it is assumed that if a couple were unmarried each spouse would retain their earnings and would each file a separate return.
  - If the couple has no children, the separate returns would be filed using the standard deduction and rates for single taxpayers.
  - If the couple has one or more children, it is assumed that the spouse with higher earnings would provide a home for the child(ren) and file using the standard deduction and rates for head of household taxpayers. The other spouse would file as a single taxpayer.

Couple A (Two-Earners, No Children)

- Two earners, each with $30,000 of earnings, and no other income.
- No children.

	Filing Joint Return	Filing Separate Returns	
		Spouse 1 Single Filer	Spouse 2 Single Filer
Total Earnings	$60,000	$30,000	$30,000
Standard Deduction	7,100	4,250	4,250
Exemptions	5,400	2,700	2,700
Taxable Income	47,500	23,050	23,050
Tax (before credits)	7,794.50	3,457.50	3,457.50
Credits	0	0	0
Tax (after credits)	7,794.50	3,457.50	3,457.50

- Couple A has a marriage penalty of $879.50. If they were unmarried and each spouse filed a separate return, their combined tax liability would be $3,457.50 + $3,457.50 = $6,915.00 which is $879.50 less than their tax on a joint return ($7,794.50 - $6,915.00 = $879.50).

Couple B (One Earner, No Children)

- One earner with $60,000 of earnings, other spouse is stay-at-home, no other income.
- No children.

	Filing Joint Return	Filing Separate Returns: Spouse 1 Single Filer	Filing Separate Returns: Spouse 2 Single Filer
Total Earnings	$60,000	$60,000	$0
Standard Deduction	7,100	4,250	0
Exemptions	8,100	2,700	0
Taxable Income	47,500	53,050	0
Tax (before credits)	7,794.50	11,558.50	0
Credits	0	0	0
Tax (after credits)	7,794.50	11,558.50	0

- Couple B has a marriage bonus of $3,764.00. If they were unmarried, Spouse 2 would have no tax liability, but Spouse 1 would pay $11,558.50 which is $3,764.00 more than their tax on a joint return ($7,794.50). Note that Couple B pays the same amount of tax as Couple A.

Couple C (Two-Earners, One Child)

- Two earners, each with $30,000 of earnings, and no other income.
- One child, and child care expenses of $200 per month ($2,400 per year).

	Filing Joint Return	Filing Separate Returns: Spouse 1 HH Filer	Filing Separate Returns: Spouse 2 Single Filer
Total Earnings	$60,000	$30,000	$30,000
Standard Deduction	7,100	6,250	4,250
Exemptions	8,100	5,400	2,700
Taxable Income	44,800	18,350	23,050
Tax (before credits)	7,038.50	2,752.50	3,457.50
Child Credit (1998)	400.00	400.00	0
CDCTC (current law)	480.00	480.00	0
Tax (after credits)	6,158.50	1,872.50	3,457.50

- o <u>Couple C has a marriage penalty of $828.50</u>. If they were unmarried and Spouse 1 filed as a head of household and Spouse 2 filed as single, their combined tax liability would be $5,330.00 (= $1,872.50 + $3,457.50), which is $828.50 <u>less</u> than their tax on a joint return ($6,158.50 - $5,330.00 = $828.50).

- o Couple C's marriage penalty is $51 less than if they did not have a child (Couple A).

  - Some couples, however, face larger marriage penalties with a child than without.

- o Although Couple C still faces a marriage penalty, having a child reduces their joint return tax liability by $1,636.00.

  - The additional exemption for the child has a tax value of $756.00, since Couple C is in the 28% bracket (28% x $2,700 = $756.00).

  - The child-related credits reduce Couple C's tax liability by $880.00.

<u>Couple D (One Earner, One Child)</u>

- o One earner with $60,000 of earnings, other spouse is stay-at-home, no other income.

- o One child.

	Filing Joint Return	Filing Separate Returns: Spouse 1 HH Filer	Filing Separate Returns: Spouse 2 Single Filer
Total Earnings	$60,000	$60,000	$0
Standard Deduction	7,100	6,250	0
Exemptions	8,100	5,400	0
Taxable Income	44,800	48,350	0
Tax (before credits)	7,038.50	9,124.50	0
Child Credit (1998)	400.00	400.00	0
CDCTC (current law)	0	0	0
Tax (after credits)	6,638.50	8,724.50	0

- o <u>Couple D has a marriage bonus of $2,086.00</u>. If they were unmarried and Spouse 1 filed as a head of household (Spouse 2 would not have to file a return), their combined tax liability would be $8,724.50, which is $2,086.00 <u>more</u> than their tax on a joint return ($8,724.50 - $6,638.50 = $2,086.00).

- o Couple D's marriage bonus is $1,678.00 less than if they did not have a child (Couple B).
  - This is because if Couple D had no children, filing separately would require Spouse 1 to file as single, which has a less favorable standard deduction and rates than for a head of household.
- o Although Couple D has a smaller marriage bonus than if they were childless, having a child reduces their joint return tax liability by $1,156.00 ($756.00 for the additional exemption and $400.00 for the child credit).
- o The difference in Couple C's and Couple D's joint return liability ($480.00) is due entirely to the CDCTC.

Examples of Proposals to Address Marriage Penalties

Single Filer Option

- o Under this option, a married couple could continue to file a joint tax return, or could elect to file two separate returns, as if each were an unmarried individual.
  - Each spouse would report their own earnings.
- o This option would change marriage penalties and bonuses as follows:

	Childless Couples		Couples with One Child	
	Couple A (Two Earners)	Couple B (One Earner)	Couple C (Two Earners)	Couple D (One Earner)
Current Penalties (Bonuses)	$879.50	($3,764.00)	$828.50	($2,086.00)
Option Penalties (Bonuses)	0	($3,764.00)	300.00	($2,086.00)
Change	-879.50	0	-528.50	0

- o The option would eliminate Couple A's marriage penalty and reduce, but not eliminate Couple C's marriage penalty (because the option would not allow any spouse to compute their tax using the head of household standard deduction and rates).

Income Splitting

- o This option would allow separate filing, as in the preceding option, but in addition would attribute half of a couple's total earned income to be attributed to each spouse.

o This option would change marriage penalties and bonuses as follows:

	Childless Couples		Couples with One Child	
	Couple A (Two Earners)	Couple B (One Earner)	Couple C (Two Earners)	Couple D (One Earner)
Current Penalties (Bonuses)	$879.50	($3,764.00)	$828.50	($2,086.00)
Option Penalties (Bonuses)	0	($4,643.50)	300.00	($2,614.50)
Change	-879.50	+879.50	-528.50	+528.50

Make Joint Tax Parameters Double Single Parameters

o Marriage penalties could be substantially reduced by making the standard deduction and rate brackets for joint filers twice the corresponding amounts for single filers.

o One approach would be to increase the joint parameters to twice the current single parameters.

o This approach would give the following results for the above examples:

	Childless Couples		Couples with One Child	
	Couple A (Two Earners)	Couple B (One Earner)	Couple C (Two Earners)	Couple D (One Earner)
Total Earnings	$60,000	$60,000	$60,000	$60,000
Standard Deduction	8,500	8,500	8,500	8,500
Exemptions	5,400	5,400	8,100	8,100
Taxable Income	46,100	46,100	43,400	43,400
Tax (before credits)	6,915.00	6,915.00	6.510.00	6,510.00
Child Credit (1998)	0	0	400.00	400.00
CDCTC (current law)	0	0	480.00	480.00
Tax (after credits)	6,915.00	6,915.00	5,630.00	6,110.00

- o The changes in marriage penalties and bonuses are as follows:

	Childless Couples		Couples with One Child	
	Couple A (Two Earners)	Couple B (One Earner)	Couple C (Two Earners)	Couple D (One Earner)
Current Penalties (Bonuses)	$879.50	($3,764.00)	$828.50	($2,086.00)
Option Penalties (Bonuses)	0	($4,643.50)	300.00	($2,614.50)
Change	-879.50	+879.50	-528.50	+528.50

Two-Earner Deduction

- o This proposal would resurrect the second earner deduction that existed between 1982 and 1986. The deduction is for 10 percent of the first $30,000 of the earnings of the spouse with lesser amount of earnings.

- o This proposal would only affect two-earner Couples A and C.

	Couple A (No Child)	Couple C (One Child)
Total Earnings	$60,000	$60,000
Second Earner Deduction	3,000	3,000
Standard Deduction	7,100	7,100
Exemptions	5,400	8,100
Taxable Income	44,500	41,800
Tax (before credits)	6,954.50	6,270.00
Child Credit (1998)	0	400.00
CDCTC (current law)	0	480.00
Tax (after credits)	6,954.50	5,390.00

- o This option would change marriage penalties and bonuses as follows:

	Childless Couples		Couples with One Child	
	Couple A (Two Earners)	Couple B (One Earner)	Couple C (Two Earners)	Couple D (One Earner)
Current Penalties (Bonuses)	$879.50	($3,764.00)	$828.50	($2,086.00)
Option Penalties (Bonuses)	39.50	($3,764.00)	60.00	($2,086.00)
Change	-840.00	0	-768.50	0

Fam-child care policy -
stay-at-home parents

Elena, Jen, Nicole and Neera,

Here's some preliminary data on the stay-at-home moms that ASPE pulled together. They are looking much more deeply into this because there is more data and other issues that should be put on the table -- do we subtract welfare families from the numbers; should we primarily look at under 18, under 13 (CCDBG eligibility, or under 6?, etc. Given the importance of this issue and our continuing involvement in it, I think its real important that we get everything on the table, discuss it and then put together talking points, position paper, or whatever to portray this in its proper light. I'm sure Melissa S. will have an interest in this, and Treasury will want to be part of these discussions as well.

So lets talk more later.

Mary

NOTE TO: Mary Bourdette

FROM: Don Oellerich

Subject: Stay at home moms

I quickly pulled together some data from the Census Publication Money Income in the United States: 1996 (P60-197).

In 1996, there were 6.21 million families with children under 18 where the husband worked and the wife did not work at all during the year. Of these 6.21 million, 1.72 million families (28%) had total family income below $25,000.

Of these 6.21 million families there were 3.68 million families with at least some children under age 6. Looking at just those families with some children under age 6 1.18 million (32%) have total family incomes below $25,000 and 1.81 million (49%) have total family income below $35,000.

	Families with Children under 18	Families with some/all children under 6
Husband Worked/Wife did not work	6,210,000	3,683,000
Total Family Income less than $25,000	1,724,000 (28%)	1,179,000 (32%)
Total Family Income less than $35,000	2,749,000 (44%)	1,814,000 (49%)

	Families with Children under 18	Families with some/all Children under 6
Total Families	37,204,000	17,129,000
Married Couple Families	26,184,000	12,440,000
Total Family Income Less than $25,000	3,897,000 (15%)	2,291,000 (18%)
Total Family Income Less than $35,000	7,162,000 (27%)	4,044,000 (33%)

Fam-child care pol- stay at home

[redacted]

Record Type: Record

To: Elena Kagan/OPD/EOP, Jennifer L. Klein/OPD/EOP, Nicole R. Rabner/WHO/EOP

cc:
Subject: HOUSE SAYS STAY-AT-HOME MOMS NEEDS CHILD CARE HELP, TOO

fyi --

---------------------- Forwarded by Neera Tanden/WHO/EOP on 02/11/98 07:53 PM ---------------------------

Russell W. Horwitz
02/11/98 07:49:25 PM

Record Type: Record

To: Neera Tanden/WHO/EOP

cc:
Subject: HOUSE SAYS STAY-AT-HOME MOMS NEEDS CHILD CARE HELP, TOO

---------------------- Forwarded by Russell W. Horwitz/OPD/EOP on 02/11/98 07:49 PM ---------------------------

SIEWERT_J @ A1
02/11/98 07:38:00 PM

Record Type: Record

To: Bruce N. Reed, Russell W. Horwitz, Charles R. Marr

cc:
Subject: HOUSE SAYS STAY-AT-HOME MOMS NEEDS CHILD CARE HELP, TOO

Date: 02/11/98 Time: 19:23
CHouse says stay-at-home moms needs child care help, too

WASHINGTON (AP) The House declared Wednesday that any child care initiative must not ignore stay-at-home parents, writing the GOP strategy on this election-year issue onto the record.

Democrats went along with the nonbinding resolution, which passed without dissent, though they complained that it said nothing about working parents who cannot afford to forgo a second income.

President Clinton's $21.7 billion, five-year child care initiative proposes tax credits and subsidies to help parents pay child care bills, but it does nothing for stay-at-home parents.

``Federal child care policy should no longer discriminate against stay-at-home parents,'' said Rep. William Goodling, R-Pa.,

Jen - Please do an entry for the weekly that focuses on this issue, including
-- legislative activity (including what this resolution said)
-- press (Wash Post ed it)
-- Treasury resistance
-- what we're doing.
Thanks.
Elena
cc: Bruce

chairman of the Education and the Workforce Committee. ``They make big sacrifices if they stay at home in order to rear their children. It's time we recognize those sacrifices.''

Democrats complained that the resolution was sped to the House floor, skipping a vote in committee where they might have amended it to include other child care priorities. They accused Republicans of setting up a false choice between parents who stay at home and those who work.

``I regret that this resolution has chosen to focus on one group of parents,'' said Rep. Rosa DeLauro, D-Conn.

The resolution did not advocate any particular policy. Some Republicans have suggested that stay-at-home parents might qualify for the dependent-care tax credit, which now is available only to parents who pay for child care. Other Republicans have suggested an across-the-board tax cut that would give all families more money to spend as they see fit.

Generally, plans to help stay-at-home moms rely on tax breaks. That won't help the lower-income families, who generally owe no taxes, says Donna Shalala, the secretary of health and human services.

APNP-02-11-98 1934EST

Family –
child care policy –
stay at home parents

12-31-97

Shouldn't We Help Parents Be Parents?

The New York Times
FRIDAY, DECEMBER 19, 1997

By David Blankenhorn

Guided by an admirable desire to address the nation's child care problem, President Clinton is preparing to announce two proposals that are socially irresponsible and morally wrong. He wants to create new tax breaks for corporations that provide day care for children of employees, and he wants to expand the tax credit for employed parents who use paid child care.

Both of these proposals are flawed for the same reason: this Democratic President is making the classic Republican mistake of believing that we can solve a social problem by subsidizing private business. As a result, instead of focusing on all children, these policies focus on a minority of children whose parents are relatively affluent. And, because the heart of the President's plan consists of special subsidies for commercial child care, it would, in effect, punish parents who want to spend more time with their children.

About 77 percent of preschoolers are cared for by mothers, fathers or other family members, according to Census Bureau data. Day care centers serve only about 15 percent of preschoolers; the rest are cared for by baby sitters or other nonrelatives, most of whom are unlicensed.

The small but growing child care industry, like any industry large or small, wants to expand its customer base. Toward that end, its lobbyists, especially those in its nonprofit sector, make frequent statements about their high-minded goals. (Much of this rhetoric was on display and endorsed at the recent White House conference on child care.) Also like lobbyists from other businesses, the child care lobby often seeks special benefits and protections from government, including direct financial subsidies and pro-industry regulations.

The President's main child care initiatives go a long way toward embracing the industry's point of view. But, as we ought to have learned by now, simply meeting the demands of a special interest group is almost never an effective way to confront a social problem. For starters, a tax break for corporate day care would essentially be a subsidy for the affluent, since it would primarily benefit employees (and stockholders) of large, high-wage companies offering good benefits. Expanding the dependent care tax credit would also be primarily a subsidy for the affluent, since two-earner couples with children, who are the credit's main beneficiaries, are significantly wealthier than one-earner couples with children.

A Government-endorsed day care strategy for employees might also crowd out other, more popular options. Many parents avoid full-time day care because they believe it is not good for their children. For these parents, flexible work hours, home-based work or part-time employment would be much more desirable than day care. Why should the Government subsidize one benefit for working parents but not others?

> The President's child care proposal is misguided.

More important, the President's proposals would create a subsidy only for those parents who use commercial child care. That type of subsidy is what economists call a market distortion, causing some people to act differently than they otherwise would. It is also what most people who study child development would call a crazy idea.

Everything we know about children tells us that we should encourage parents to spend more time with their children, not less. Could there possibly be a worse policy than taxing everyone, including millions of struggling at-home parents, to help relatively affluent families put their children in day care?

Instead of increasing a tax credit that benefits only parents who use paid child care, why not extend the credit to all parents of preschool children? Similarly, instead of giving tax breaks to corporations that sponsor day care, why not give the money directly to parents — for instance, by giving them a one-time tax benefit by increasing the existing child credit for the year in which a child is born or adopted? Some parents could use this "baby bonus" for day care, and others could use it to allow them to stay home with the new baby longer.

The Administration won't formally release its proposals until the State of the Union Message in late January. It's not too late for the President to do the right thing. □

David Blankenhorn is president of the Institute for American Values.

Fam-child care ~~afford~~ policy - tax/subsidy
and
Fam-child care policy - stay-at-home parents

Cynthia A. Rice 12/02/97 09:45:30 PM

Record Type: Record

To: See the distribution list at the bottom of this message

cc: Diana Fortuna/OPD/EOP, Andrea Kane/OPD/EOP
Subject: A few thoughts on today's child care meeting

Oh what fun I have been missing! That meeting made the TANF reg look easy.... A few thoughts to follow on all your real work:

Welfare vs Working Poor Families
I was a bit puzzled, as I think you were, by the dicotomy some were drawing between "welfare families" and "low-income working families." First, welfare families who need child care are working families (or they are at least preparing for work). Second, many low income women cycle on and off of welfare, using welfare as a form of unemployment insurance -- there is no bright line between the populations.

I think the key questions we should ask ourselves are: Do we want states to treat two mothers making $12,000 a year differently because one used to be on welfare and one did not? I think we do not -- we want to encourage states to develop seamless child care systems that focus on incomes, not categories. In that case, what is the best way to encourage states to develop seamless systems? I think it is not by setting benchmarks or other rules which encourage the new funds to be used for the not-formerly-on-welfare working poor to counterbalance current practice of focusing dollars on former welfare recipients. I think it is by providing funds for states to raise their eligibility criteria to include more low-income families.

We do not need new targetting of the block grant in order to have a proposal which helps moderate income working families. Even without new targetting, we can talk about any expansion of the child care and development block grant as "child care for hard working minimum wage families" or "low income families making less than $24,000 a year" and we can describe the tax credits as help for the "middle class families earning between $24,000 and $59,000."

So count me as a vote against benchmarking!

Stay at Home Parents
Regarding stay-at-home parents, I will admit I am completely unschooled in this issue. I do think we will be able to argue that we are helping stay-at-home parents through the $500 per child tax credit. I do also think, as I think you do, that an additional proposal here would be very helpful. I think such a proposal should focus on parents who stay home for more than 6-24 weeks. Thus, I would like to see something like the demonstration project idea, which would provide funds to community and religious groups (including the latter would be helpful) who provide support and assistance to stay-at-home parents, by offering parenting classes or hotlines, play groups, two hour "relief" or "emergency" child care, or which distribute materials to new parents (I thought Barry's idea of promoting connections to WIC was promising).

In fact maybe the quality fund should have two parts 1) to promote Smart Start-like local efforts to improve the quality of formal child care and 2) to promote local efforts to assist stay-at-home parents. This would allow local organizations to provide culturally-sensitive programs for parents of particularly ethnicities, which the Hispanic caucus encouraged us to do. In fact, in my in-box is the new issue of Univ of Wisconsin Institute on Poverty magazine which highlights an evaluation of a program called Avance that has worked with low-income Hispanic infants and their families in San Antonio since 1973 which has the explicit goal of "helping mothers become better teachers of their children." The evaluation found "positive and significant differences between participant and control mothers on three measures of teaching effectiveness." I can fax you a copy if you like (it's only one page).

Message Sent To:

Elena Kagan/OPD/EOP
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