

Trump's child care plan for the rich ^[1]

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EXCERPTS

Ivanka Trump is reportedly pushing hard to make enhanced child care benefits a part of any Republican plan to reform the U.S. tax system. Unfortunately, the proposal that her father released during his campaign wouldn't do much to help the families who need it most.

The child care proposal is expected to feature prominently in the much-anticipated revision of President Trump's tax-reform plan. During the campaign, the president touted the child-care tax benefit as bringing "relief to working and middle class families."

The broad idea is to let people making less than \$250,000 a year (\$500,000 for couples) deduct the cost of child care from their taxable income. People who earn too little to owe income taxes would be eligible for a smaller tax credit.

Upon closer inspection, though, Trump's campaign proposal would do relatively little for struggling low- and middle-income families. For one, it represents only a small part of a broader tax reform plan that would overwhelmingly benefit the wealthy: Its total cost amounts to roughly one-twentieth of the cuts that would go to millionaires alone.

Worse, the proposal itself is tilted toward the rich, as a new Urban-Brookings Tax Policy Center report -- which we co-authored -- demonstrates. By our estimate, families that have children and earn less than \$40,000 would see their after-tax income increase by a paltry \$20 (less than 0.1 percent) on average, while such families earning between \$200,000 and \$500,000 would gain \$460 (0.2 percent) on average. The lowest-income third of families would get less than 5 percent of the total benefit, even though they spend a much larger share of their income on child care.

The skewed benefits are largely a function of tax brackets and the credit being so small: Because wealthier families are subject to higher rates, the deduction can save them as much as 33 cents per dollar spent on child care, compared with a maximum of just 8 cents for low-income families. Here's a chart showing how the benefit would increase with income for a family paying the average child care cost in Michigan, which is close to the national median [INFO GRAPHIC ONLINE].

But even this illustration is understated: Because wealthier families can afford more expensive -- and often higher-quality -- child care, they will end up receiving even bigger tax breaks compared to lower-income families. They will also get deductions if they choose to rely on stay-at-home parents and grandparents, a benefit from which lower-income families are excluded.

Our analysis doesn't include the president's proposal to expand a type of tax-advantaged savings account for child care -- an element that would probably skew the plan further toward the wealthy, who are better positioned to save and navigate complex tax benefits. The accounts would have no income limit, meaning that the wealthiest families could sock away thousands of dollars a year tax-free, which could then be used for everything from private school to horseback riding lessons.

If Trump truly wanted to pursue the worthy goal of lowering child care burdens for working and middle-class families, there's plenty he could do. For example, he could fully fund and strengthen direct federal subsidies for child care, better target existing child care tax benefits, and strengthen the separate child tax credit for young children in low-income families.

But the large cuts in domestic spending that the Trump administration announced this week could instead hit working families hard. They target the parts of the budget that pay for existing, underfunded federal subsidies for childcare, along with other programs that invest in families -- including housing assistance, food assistance for women and children, and Head Start.

And there's still the problem of Trump's overall tax plan. Various provisions offer outsized benefits to the rich: a new loophole for business income, cuts in corporate and individual tax rates, and a repeal of estate taxes on the largest inheritances. Millionaires would receive more than two-fifths of the plan's \$6.2 trillion in net tax cuts, boosting their after-tax incomes by 14 percent on average. Households earning less than \$100,000, by contrast, would receive a 1 percent average increase, while millions of low- and middle-income families with children -- including more than half of single parents -- would actually face a tax increase.

To fulfill his promise to focus tax policy on working and middle-class families, Trump will have to fundamentally overhaul his child care tax

proposals -- along with the rest of his tax plan.

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