WHO BENEFITS FROM PRESIDENT TRUMP’S CHILD CARE PROPOSALS?

Lily L. Batchelder, Elaine Maag, Chye-Ching Huang, and Emily Horton
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ABSTRACT

During the presidential campaign, Donald Trump proposed three new tax benefits related to child care – an expanded credit for low-income families, a deduction for higher income families, and a savings account. These proposals bring attention to the burden child care costs can place on low- and middle-income families. Our analysis finds that about 70 percent of benefits go to families with at least $100,000 and 25 percent of benefits go to families with at least $200,000. Very few benefits go to the lowest income families who are likely to struggle most with paying for child care.

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During the presidential campaign, Donald Trump proposed three new tax benefits related to child care. These proposals laudably bring attention to the burden child care costs can place on low- and middle-income families. Yet they provide limited benefits to those who are likely to need the most help affording child care.

This paper explains who would benefit from the child care proposals the president released during his campaign, both overall and through stylized examples.¹ Trump’s campaign proposals include three new tax benefits:

1. A deduction based on child care expenses, which would primarily benefit higher-income families, including those who do not pay for child care.

2. A refundable credit for some lower-income families, which would only apply to families who both pay for child care and have no stay-at-home parents.

3. An expansion of child care savings accounts, which would allow families to save tax-free for child care expenses, private school tuition, and some extracurricular activities (Donald J. Trump Campaign 2016a).

On average, the president’s proposed child care benefits would be much larger for higher-income families than for low- and middle-income families, both in dollar terms and as a share of household income.² The proposals would increase the after-tax income of families with children by an average of 0.2 percent ($190) in 2017. But those with income below $40,000 would see their after-tax income increase by an average of just 0.1 percent ($20 or less). In contrast, those with income between $100,000 and $200,000 would see a larger benefit as a share of their income, with their after-tax incomes increasing by an average of 0.3 percent ($360). We find that more than 70 percent of the total tax benefits would go to families with income above $100,000, and more than 25 percent to families with income above $200,000.³

Lower-income families would benefit less than higher-income families from President Trump’s proposals for several reasons. The proposal relies primarily on a deduction, which is

¹ The president has said he will release a revised tax plan but has not yet released any detailed revisions of his child care proposals.
² This analysis does not include estimates of the savings account benefit. However, as explained below, this component would likely increase the tilt of Trump’s child care proposals toward higher-income households. This analysis also does not include the president’s proposals for elder care subsidies, expanded tax credits for businesses that provide child care services, and six weeks of partially paid parental leave for birth mothers (but not fathers, adoptive parents, or foster parents). In addition, the president’s upcoming tax plan may include another tax credit for families paying tuition for private K–12 schools, though no details have been released and it is not addressed in this analysis (Caitlin Emma, “Trump Considers Tax Credit to Channel Public Money to Private Schools,” Político, February 21, 2017, http://www.politico.com/story/2017/02/trump-schools-tax-credit-public-private-235228).
³ Households with income over $100,000 represent 36 percent of all families, and those with income above $200,000 represent 13 percent of all families.
worth most per dollar of child care expense to higher-income filers who face higher marginal tax rates. The proposal includes a credit available to lower-income filers, but the credit generally is worth much less per dollar of child care expense than the deduction. As the hypothetical examples in this paper show, even if families with different incomes have the same child care costs, the proposals are worth much less for low- and middle-income families. Further, families with lower incomes tend to spend less on child care than families with higher incomes simply because lower-income families cannot afford expensive (and, often, higher-quality) care (Chaudry et al. 2011).

The president’s child care proposals would cost about $115 billion over ten years, about 2 percent of the total net cost of his campaign tax plan of about $6.1 trillion over ten years.\(^4\) Thus, they have a small effect on the overall distribution of the plan. The plan, including the child care provisions, gives high-income filers the biggest tax cuts, both in dollar terms and as a percentage of income. Overall, the highest-income filers—representing 0.1 percent of the population, or those with incomes over $3.7 million in 2016 dollars—would receive an average tax cut of nearly $1.1 million, over 14 percent of after-tax income in 2017. Households in the middle fifth of the income distribution would receive an average tax cut of $1,010, or 1.8 percent of after-tax income (Nunns et al. 2016). In addition, the plan would raise taxes on millions of low- and middle income families, including more than half of single parents (Batchelder 2016).

The president’s child care proposals could be paired with the House Republican tax plan instead, in which case the benefits of the combined plan would still tilt heavily toward higher income families.\(^5\)

**CHILD CARE COSTS ARE A SIGNIFICANT FINANCIAL BURDEN FOR MANY LOW- AND MIDDLE-INCOME FAMILIES**

During the campaign, President Trump correctly identified child care costs as a significant financial burden on working families, especially those with low and moderate incomes. Child care costs are substantial—in 2015, center-based care for a 4-year-old ranged from an annual average of $4,439 in Mississippi to $17,863 in the District of Columbia (Child Care Aware 2016). Given that a full-time minimum wage worker earns about $15,000 a year, center-based child care is unaffordable for many low-wage parents. Those without access to child care subsidies often seek lower-quality care or rely on informal arrangements instead (Chaudry et al. 2011).

For single parents in particular, child care costs can consume a significant portion of their earnings. Between 2012 and 2013, single mothers with children under 5 paid a median out-of-

\(^4\) The Tax Policy Center (TPC) estimates that the president’s child care proposals would cost $115 billion over 10 years, while his plan overall would cost $6.150 billion. The president’s plan proposed an additional $17 billion in elder care benefits. This paper analyzes only the child care portion of the proposal.

\(^5\) The TPC estimates that the 2016 House GOP tax plan would cost $3.1 trillion over 10 years (Nunns et al. 2016b).
pocket cost of $3,000, accounting for more than 15 percent of their median earnings. Among married parents with children under 5, the median cost was $5,400, or roughly 6 percent of the median couple’s earnings (Ziliak 2014). Child care costs have also grown sharply over time, rising 70 percent in inflation-adjusted terms between 1985 and 2011.  

High child care expenses make it more difficult for parents, especially mothers with younger children, to work. In a review of the literature, the Council of Economic Advisers (2014) concluded that lower child care costs boost maternal employment, especially among single mothers. Most studies find that a 10 percent reduction in child care costs increases maternal employment by 0.5 to 4.0 percent.

INVESTING IN CHILDREN IN LOW- AND MIDDLE-INCOME HOUSEHOLDS YIELDS LARGE LONG-TERM BENEFITS

Access to high-quality, affordable child care helps parents and has significant developmental advantages for children. Research has shown that access to high-quality, center-based care is linked to better school performance, higher graduation rates, and higher earnings in the long run (Ziliak 2014). Research further suggests that boosting low- and moderate-income parents’ resources benefits their children throughout their lives, through improved infant and maternal health, better school performance, and increased work and earnings in the next generation (Marr et al. 2015).

However, existing federal policies to make child care more affordable do little to assist most low-income families who need help. The federal government provides states funding for child care assistance programs through two main streams, the Child Care and Development Fund (CCDF) and the Temporary Assistance for Needy Families (TANF) block grant. In 2014, total federal spending on child care through CCDF and TANF was $11 billion, the lowest level since 2002, even before adjusting for inflation. The Department of Health and Human Services estimates that in 2012, only 15 percent of children eligible for CCDF and TANF child care benefits actually received subsidies because of insufficient funding (Matthews and Walker 2016).

In addition to direct spending programs, two existing tax benefits—a partial exclusion of some child care expenses from taxable income and the Child and Dependent Care Tax Credit (CDCTC)—subsidize certain families’ child care expenses. The exclusion, administered through dependent care flexible spending accounts, is only available to workers whose employers offer this benefit, making it inaccessible to nearly two-thirds of workers (Stoltzfus 2015). Moreover, income exclusions generally benefit higher-income households more because their marginal tax

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rate is higher. The CDCTC is a small nonrefundable tax credit that subsidizes child care expenses based on a family’s income. In 2014, the average value of the CDCTC among those who claimed it was roughly $550. The CDCTC largely benefits middle-income and upper-income families, as families who do not earn enough to owe federal income taxes cannot claim the credit.

PRESIDENT TRUMP’S CHILD CARE PROPOSALS PROVIDE SMALLER BENEFITS FOR LOW- AND MIDDLE-INCOME FAMILIES THAN FOR HIGHER-INCOME FAMILIES

Despite the substantial returns from investing in children of low- and middle-income families, President Trump’s child care proposal would provide relatively smaller benefits to those who are most likely to need assistance affording child care.

Trump’s Child Care Proposals

The president’s child care package (Donald J. Trump Campaign 2016a; Donald J. Trump Campaign 2016b) contains three components:

1. An above-the-line deduction for child care costs for children under age 13. Taxpayers could deduct child care expenses from their adjusted gross income. The deduction would be capped at the average cost of child care for the child’s age in the taxpayer’s state and could be claimed for no more than four children. Dual-earner married parents and working single parents would deduct their actual expenses, subject to the cap. According to a Trump campaign fact sheet, stay-at-home parents would receive the same tax deduction as working parents. Because stay-at-home parents are allowed to benefit, it appears that families with no child care expenses and one parent with no labor earnings can claim a deduction equal to the average cost of child care for their children’s age in their state (Batchelder 2016; Nunns et. al 2016a). Unmarried filers with income over $250,000 and married filers with income over $500,000 could not claim the deduction. Because the deduction does not rely on actual expenses for some families, it is effectively an additional per child deduction on top of the existing dependent exemption for them.

2. A refundable credit for child care costs for children under age 13; filers would receive either 7.65 percent of child care expenses or 3.825 percent of the lesser-earning spouse’s income, whichever is less. Unmarried filers with income over $31,200 and married filers with income over $62,400 could not claim the credit. Like the deduction, claimable expenses would be capped at the average cost of child care for the child’s age in the taxpayer’s state for up to

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four children. However, in stark contrast to the deduction, families with a stay-at-home parent could not claim the credit.  

3. A new tax-preferred dependent care savings account (DCSA). Families could contribute up to $2,000 per year per child to the new accounts, with no limits on the income of eligible families. Contributions would be tax deductible and the accounts would grow tax-free indefinitely, provided families eventually spend the funds on child care, after-school enrichment programs, private school tuition, or higher education. It appears that withdrawals would also be tax-free (National Women’s Law Center 2017). This extremely favorable tax treatment—akin to combining an IRA with a Roth IRA—only exists in one other place in the tax code, for Health Savings Accounts. DCSAs would provide little benefit to the substantial share of families who owe no federal income tax because their income is too low.  

For low-income families, the president’s proposal would match 50 percent of their first $1,000 in contributions, similar to the effect of a 50 percent tax credit. But, as discussed below, DCSA adoption among such families is likely to be low, partly because they tend to be cash-strapped. Moreover, low-income families would be more likely to spend DCSA funds quickly and thus not benefit from tax savings on their earnings. At the same time, DCSAs would provide high-income people a new tax sheltering opportunity.

The president’s plan would retain the current-law CDCTC. Taxpayers could claim the child care provision that benefits them the most, but could not claim multiple child care benefits for the same spending. Historically, when tax benefits overlap and are mutually exclusive, potential beneficiaries have had difficulty choosing which provision would provide the largest benefit (GAO 2012).

Cost and Average Distributional Effects of Child Care Proposals

Overall, the president’s child care proposals would cost about $115 billion over 10 years. This is a small portion of his overall tax plan, representing just 2 percent of its total cost of over $6 trillion (figure 1).

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9 Stay-at-home parents are ineligible for the refundable credit because it (but not the deduction) is limited to a percentage of the lesser-earning spouse’s income, and because the Trump campaign fact sheet states “Mr. Trump’s plan will ensure stay-at-home parents will receive the same tax deduction as working parents...” (emphasis added), but does not specify that stay-at-home parents receive the same credit as working parents (Donald J. Trump Campaign 2016b).

10 If the savings were excluded from payroll taxes, low-income families could see modest benefits from the proposal. It is unclear whether this is the case.

11 The Trump campaign fact sheet states, “The only restriction would be that the same child care spending cannot be used for multiple benefits programs—no double-dipping” (Donald J. Trump Campaign 2016b). This could be interpreted in two ways: limiting taxpayers to one child-care-related tax benefit or allowing them to claim multiple such benefits, as long as the benefits apply to different portions of their child care spending. The analysis and estimates here adopt the latter assumption, which is more generous to taxpayers.
Because the proposed child care benefits would be such a small component of the full tax
plan, they would have little effect on its overall distributional effects. On average for
families with children, the president’s overall plan (including its child care provisions), would boost after-tax income for families with incomes over $1 million by more than 13 percent while providing essentially no tax cut for families with incomes between $50,000 and $75,000. Millions of low- and middle-income parents would face a tax increase, including more than half of all single parents (table 1; Batchelder 2016).

Trump’s child care proposals would provide a modest tax cut that, as a share of after-tax
income, generally rises with income until a family earns $200,000 (table 1). As a result, these proposals contribute to the regressivity of his plan except at the very top end. The same would be true if the president’s child care proposals were coupled with the 2016 House GOP tax blueprint instead.

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12 As noted below, we assume that the deduction and credit phase out for families with higher incomes. If less conservative assumptions were used, the total cost of the child care provisions would be higher and a greater share of the total tax benefits would go to higher-income households.
Families with lower incomes do not benefit as much because they do not benefit from the child care deduction. The credit is worth much less per dollar of child care expenses than the deduction for higher-income filers who face higher marginal tax rates.

In addition, lower-income families tend to spend less on child care than families with higher incomes for the simple reason that lower-income families cannot afford expensive care. Lower-income families rely more heavily on informal child care arrangements that include unpaid (and often less reliable) care provided by friends or family instead of more expensive, and often higher-quality, center-based care or family child care homes (Chaudry et al. 2011). Moreover, higher-income families are more likely to have additional expenses for private school tuition or extracurricular enrichment activities such as music lessons (Duncan and Murnane 2014), which are also eligible for child care subsidies under the president’s proposals. Because the proposals are worth so little for lower-income families, they would not significantly alter the type of care these parents can afford. Thus, the president’s proposals would not meaningfully change lower-income families’ ability to purchase higher-quality care.

A further factor that contributes to the proposal delivering smaller benefits to low- and middle-income families is that families with stay-at-home parents can only claim the deduction and not the credit. Partly for this reason, low- and middle-income families are much less likely to receive any benefits from the proposals than higher-income families. Over 25 percent of families with income between $75,000 and $500,000 would qualify for some benefit under the proposals, but less than 10 percent of families earning between $10,000 and $40,000 would benefit (figure 2; table A1). In addition, more higher-income families receive tax benefits than actually pay for child care (at least until the income limits are reached) because higher-income

<table>
<thead>
<tr>
<th>Income</th>
<th>Full House GOP Plan</th>
<th>Full Trump Plan</th>
<th>Trump Child Care Proposals</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$10K</td>
<td>2.1%</td>
<td>0.6%</td>
<td>0.1%</td>
</tr>
<tr>
<td>$10-20K</td>
<td>0.7%</td>
<td>0.4%</td>
<td>0.1%</td>
</tr>
<tr>
<td>$20-30K</td>
<td>0.8%</td>
<td>-0.1%</td>
<td>0.0%</td>
</tr>
<tr>
<td>$30-40K</td>
<td>0.4%</td>
<td>-0.3%</td>
<td>0.1%</td>
</tr>
<tr>
<td>$40-50K</td>
<td>0.2%</td>
<td>-0.3%</td>
<td>0.2%</td>
</tr>
<tr>
<td>$50-75K</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.3%</td>
</tr>
<tr>
<td>$75-100K</td>
<td>0.1%</td>
<td>0.5%</td>
<td>0.3%</td>
</tr>
<tr>
<td>$100-200K</td>
<td>-0.3%</td>
<td>1.2%</td>
<td>0.3%</td>
</tr>
<tr>
<td>$200-500K</td>
<td>-0.1%</td>
<td>3.1%</td>
<td>0.2%</td>
</tr>
<tr>
<td>$500K-1M</td>
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<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>&gt;$1M</td>
<td>13.0%</td>
<td>13.4%</td>
<td>0.0%</td>
</tr>
<tr>
<td>All</td>
<td>2.2%</td>
<td>3.6%</td>
<td>0.2%</td>
</tr>
</tbody>
</table>

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version Q5162). Note: 1) Here and in all estimates from the Urban-Brookings Tax Policy Simulation Model, income figures are for expanded cash income; for a description, see http://www.taxpolicycenter.org/tpcc/TaxModelIncome.cfm. Negative values indicate a tax increase. For the cap on claimable child care expenses, the model uses a weighted state average for child care expenses.
households can claim the tax deduction for stay-at-home parents. The inverse is true for lower-income families because they cannot claim a corresponding credit for stay-at-home parents.

FIGURE 2
Share of Families with Children Benefitting Versus Share with Child Care Costs, 2017

The regressivity of the president’s child care proposals is also apparent on a dollar basis (figure 3; table A1). Families with children with incomes between $200,000 and $500,000 would receive an average annual benefit of $460. Meanwhile, families with incomes between $50,000 and $75,000 would receive about one-third of that ($150). And families with incomes between $10,000 and $30,000 would receive average annual benefits of just $10.

FIGURE 3
Average Tax Cut Among Families with Children of Trump Child Care Proposals, 2017

Importantly, child care costs are a greater share of the budgets of low- and middle-income families that have such costs than they are for higher income families. On average, such costs represent 7 to 17 percent of after-tax income for families who pay for child care and earn less
than $50,000, while such costs represent only 3 to 4 percent of income for families who earn more than $100,000 (table 2).

<table>
<thead>
<tr>
<th>Income</th>
<th>Child Care Costs Among Families Paying for Child Care</th>
<th>All Families with Children</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Child Care Costs</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt;$10K</td>
<td>16.8%</td>
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<tr>
<td>$10-20K</td>
<td>8.8%</td>
<td>0.8%</td>
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<td>$20-30K</td>
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<td>0.9%</td>
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<td>$30-40K</td>
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<tr>
<td>$40-50K</td>
<td>7.4%</td>
<td>1.0%</td>
</tr>
<tr>
<td>$50-75K</td>
<td>6.2%</td>
<td>0.9%</td>
</tr>
<tr>
<td>$75-100K</td>
<td>5.3%</td>
<td>0.9%</td>
</tr>
<tr>
<td>$100-200K</td>
<td>4.3%</td>
<td>0.9%</td>
</tr>
<tr>
<td>$200-500K</td>
<td>2.8%</td>
<td>0.7%</td>
</tr>
<tr>
<td>$500K-1M</td>
<td>2.0%</td>
<td>0.4%</td>
</tr>
<tr>
<td>&gt;$1M</td>
<td>2.5%</td>
<td>0.3%</td>
</tr>
<tr>
<td>All</td>
<td>4.6%</td>
<td>0.7%</td>
</tr>
</tbody>
</table>


These estimates and the hypothetical examples below underplay the regressivity of the president’s child care proposals in several respects.

In line with all other estimates of the president’s tax plan (including those his campaign cited and relied upon), these estimates disregard his proposal to expand DCSAs. Including that proposal would make his child care package somewhat costlier and probably slightly more regressive. Unlike the president’s proposed deduction and credit, there would be no limit on the income of households eligible for DCSAs. Assuming his other tax proposals were also enacted, a two-child family in the top tax bracket contributing $4,000 to a DCSA in the current year would see a tax benefit of up to $1,320. The family would also receive tax savings in future years. The most that a low- or moderate-income family could benefit in the current year would be $1,000.

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13 See also Chaudry et al. (2017, 43, based on SIPP data). Among families that included children under 5 and paid for child care, those earning below $50,000 spent 22 percent of their income but those earning above $50,000 spent 7 percent.


15 Under current law, the same family would receive a benefit of up to $1,590.

16 For this purpose, we are defining low- or moderate-income as adjusted gross income (AGI) under $255,000 if married and $127,500 if unmarried (the thresholds for the 25 percent bracket under the president’s campaign tax plan). We also assume that only families in the zero percent bracket are eligible for the president’s proposed match for DCSA savings by low-income families. The zero percent bracket applies to married parents with AGI under $30,000 and single parents with AGI under $15,000 under the president’s campaign tax plan.
In practice, low- and moderate-income families are likely to benefit far less because they cannot afford to contribute to such accounts. The majority of American families have less than one month of income in liquid savings (Pew Charitable Trusts, 2015). Low- and middle-income families participate in tax-preferred savings programs much less often, and when they do participate, they do not contribute nearly as much as wealthier families. For example, in a study where low-income households were offered a 50 percent match for saving in an IRA and were even given assistance opening an account, only 14 percent elected to participate (Duflo et al. 2007).

These estimates assume that the president’s proposed deduction phases out between incomes of $400,000 and $500,000 for married couples and $150,000 and $250,000 for single parents and that his proposed credit starts phasing out at one half of his proposed income limits for the credit for the lower earning spouse, even though his plan is silent on whether the deduction and credit phases out.

Due to data limitations, these estimates assume that families cannot claim the deduction for stay-at-home care by grandparents and single parents when the president’s plan appears to allow the deduction in both cases (Donald J. Trump Campaign 2016a). Because deductions are worth more for higher income households who face higher marginal tax rates, incorporating this feature of his plan would increase the regressivity of his proposals.

Similarly, these estimates assume that families can only claim the proposed deduction for stay-at-home care if one spouse has zero earnings and the family has zero child care costs. It is unclear whether this is the case. If families can claim the deduction for stay-at-home care even when both spouses have some earnings or the family has some child care costs, then more families will be able to claim larger deductions, which tend to benefit higher income households.

Due to data limitations, these estimates (but not the hypotheticals below) assume that claimable child care expenses are capped at a weighted state average cost of child care for the child’s age. The president’s proposal actually varies the cap by state. Because the average cost of child care tends to be higher in states where incomes are higher on average, this should make his proposals appear less regressive than they would be with more fine-grained data.

Finally, these estimates assume that the child care proposals are enacted as part of the president’s overall tax plan. If they were instead enacted with no other changes to current law, the distributional effects would be slightly more regressive.

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17 For example, high-income families are much more likely to have retirement accounts and to contribute the maximum amount to those accounts (Marr et al. 2013).
18 This should be a relatively minor issue for single parents because the deduction is worthless to them if they are low-income and in the zero percent bracket. However, it is possible that some wealthy single parents who provide stay-at-home care have enough capital income to fall above the zero percent bracket.
**Effects of Child Care Proposals on Hypothetical Families**

The effects of the president’s child care proposals can be seen more concretely by considering several hypothetical families. Suppose, for example, a married couple with a 4-year-old child lives in Michigan, where child care costs for toddlers are roughly the national median. The average cost of center-based child care in Michigan for children that age is $8,238 per year (Child Care Aware 2016). Both parents are in the paid labor force and earn the same amount.

If the couple works full-time at the federal minimum wage, earning $30,000 a year combined, the president’s child care proposals would reduce their tax liability by $574 (table 3). This would have a relatively small impact on the burden that child care costs place on the family’s budget, reducing those costs as a share of their earnings from 27 percent to 26 percent. The family would continue to gain little economically from both parents working full time instead of one staying home—after child care costs and the associated tax benefits (and disregarding other work-related expenses), the second earner nets $7,336.

The situation is only slightly better if the family has roughly the median income of $65,000. The president’s proposals would reduce their tax liability by $629. The couple would continue to claim a CDCTC worth $600 on part of their child care expenses, but they would claim Trump’s new child care deduction for their remaining expenses. Child care costs would still account for 11 percent of the couple’s earnings, down from 12 percent.

But if the family earns $250,000 (roughly the 95th percentile of earnings), the situation is different. Child care costs are a relatively smaller share of the family’s earnings at 3 percent. Nevertheless, this family would receive the largest new child care benefits under the president’s plan, claiming a deduction worth $1,460 more than the current CDCTC. This would reduce the couple’s child care costs as a share of their income to 2 percent.

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The value of the president’s child care proposals for this stylized family rises quite consistently with income. As child care costs become more manageable because income is higher, the dollar value of the proposed child care benefits rises instead of falling. As a result, child care costs are a much larger share of income for lower-income families even after accounting for the proposed new tax benefits (figure 4).

The value of the president’s child care proposals for this stylized family rises quite consistently with income. As child care costs become more manageable because income is higher, the dollar value of the proposed child care benefits rises instead of falling. As a result, child care costs are a much larger share of income for lower-income families even after accounting for the proposed new tax benefits (figure 4).

**TABLE 3**

Value of Trump Child Care Proposals to Married Couple with One Child in Michigan, 2017

<table>
<thead>
<tr>
<th>Income</th>
<th>Child Care Costs</th>
<th>Existing Tax Benefit from CDC TC</th>
<th>Additional Tax Benefit Under Trump Plan</th>
<th>Child Care Costs as Share of Earnings</th>
<th>Child Care Costs Incl. Tax Benefit as Share of Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>$30,000</td>
<td>$8,238</td>
<td>$0</td>
<td>$574</td>
<td>27%</td>
<td>26%</td>
</tr>
<tr>
<td>$65,000</td>
<td>$8,238</td>
<td>$600</td>
<td>$629</td>
<td>12%</td>
<td>11%</td>
</tr>
<tr>
<td>$250,000</td>
<td>$8,238</td>
<td>$600</td>
<td>$1,460</td>
<td>3%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: Author’s calculations.

Notes: This assumes that the family claims the standard deduction, the child is a toddler, and the family pays the average child care costs for center-based care in Michigan. It also assumes that the President’s proposed tax rates and changes to the standard deduction and personal exemption have been enacted.

**FIGURE 4**

Value of Trump Child Care Proposals to Married Couple with One Child in Michigan and Average Child Care Costs as a Share of Income, 2017

Source: Author’s calculations.

Notes: This assumes that the family claims the standard deduction, the child is a toddler, and the family pays the average child care costs for center-based care in Michigan. It also assumes that the President’s proposed tax rates and changes to the standard deduction and personal exemption have been enacted.
The effects of the president’s proposals would be similar if one parent works and the other provides stay-at-home care, with one critical difference. The president proposes to allow stay-at-home parents to claim his new tax deduction but not his new refundable credit. The result is that many families with a stay-at-home parent—all of whom would be low- or middle-income—would be excluded. For example, a family earning $15,000 with one parent working full time at the minimum wage and one stay-at-home caretaker would not benefit at all from the president’s child care proposals (table 4). But if the family earned $65,000 or $250,000, they would receive roughly the same benefit as if both parents were in the labor force.\(^{21}\)

**TABLE 4**

Value of Trump Child Care Proposals to Married Couple with Stay-at-Home Parent and One Child in Michigan, 2017

<table>
<thead>
<tr>
<th>Income</th>
<th>Child Care Costs</th>
<th>Existing Tax Benefit from CDCTC</th>
<th>New Tax Benefit Under Trump Plan</th>
<th>Child Care Costs as Share of Earnings</th>
<th>Child Care Costs Incl. Tax Benefits as Share of Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>$15,000</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>$65,000</td>
<td>$0</td>
<td>$0</td>
<td>$989</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>$250,000</td>
<td>$0</td>
<td>$0</td>
<td>$2,000</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Author’s calculations.

Notes: This assumes that the family claims the standard deduction, the child is a toddler, and the family pays the average child care costs for center-based care in Michigan. It also assumes that the President’s proposed tax rates and changes to the standard deduction and personal exemption have been enacted.

With regard to single parents, the president’s child care proposals would again provide the largest benefits to those who need them the least. If a single mother works full time at the minimum wage and enrolls her toddler in (average cost) center-based child care, the president’s proposals would only reduce her tax liability by $574 (table 5). After these new benefits, child care expenses would still be 51 percent of her income, providing her little incentive to work in the paid labor force instead of caring full time for her child herself. But if she decides to be a stay-at-home parent or relies on unpaid care from family or friends, she will get no benefit from the proposals.

**TABLE 5**

Value of Trump Child Care Proposals to Single Parent with One Child in Michigan, 2017

<table>
<thead>
<tr>
<th>Income</th>
<th>Child Care Costs</th>
<th>Existing Tax Benefit from CDCTC</th>
<th>New Tax Benefit Under Trump Plan</th>
<th>Child Care Costs as Share of Earnings</th>
<th>Child Care Costs Incl. Tax Benefits as Share of Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>$15,000</td>
<td>$8,238</td>
<td>$8,238</td>
<td>$574</td>
<td>55%</td>
<td>51%</td>
</tr>
<tr>
<td>$65,000</td>
<td>$8,238</td>
<td>$8,238</td>
<td>$1,460</td>
<td>12%</td>
<td>10%</td>
</tr>
<tr>
<td>$150,000</td>
<td>$8,238</td>
<td>$8,238</td>
<td>$2,119</td>
<td>5%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: Author’s calculations.

Notes: This assumes that the family claims the standard deduction, the child is a toddler, and the family pays the average child care costs for center-based care in Michigan. It also assumes that the President’s proposed tax rates and changes to the standard deduction and personal exemption have been enacted.

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\(^{21}\) The family earning $65,000 with a stay-at-home parent would receive a smaller benefit because they can only claim the president’s proposed deduction. If they pay for child care, they would claim the CDCTC for part of their child care costs because it is more valuable than the deduction for them.
Like the married couple, the single parent’s benefits would be somewhat better if she earned $65,000. Then her benefit would be $1,459, but child care expenses would still be a sizable 10 percent of her income after accounting for these new benefits.

In contrast, high-income single parents would benefit the most. If a single parent earns $150,000 (just before we assume the deduction begins phasing out), the president’s child care proposals would be worth $2,119—more than three times as much in dollar terms as the minimum wage worker.

Like the estimates above, these hypotheticals underplay the regressivity of the president’s child care proposals in several respects. For example, by disregarding the president’s DCSA proposal and assuming no deduction for stay-at-home care by grandparents, they disproportionately understate the tax benefits for higher-income households.

In addition (and unlike the estimates above), these stylized examples assume that families with different incomes have the same child care costs. But in fact, families with lower incomes tend to have much lower child care costs than higher-income families (table 2). As a result, lower-income families will likely benefit less from the president’s proposed deduction and credit than they do in these examples.

**Key Issues with the President’s Child Care Plan**

The President’s child care plan would provide the largest benefits to families who are likely to need the least help affording child care. Five aspects of the president’s plan result in it focusing benefits on higher-income families:

1. **The plan relies heavily on a new above-the-line deduction that is intrinsically regressive, driving larger benefits to higher-income households.** The value of a deduction equals the expenses deducted multiplied by the taxpayer’s marginal tax rate. Because higher-income households face higher marginal tax rates, a child care deduction is worth much more for higher-income taxpayers who are below the income cap, per dollar spent. The deduction would be worth little to the roughly 44 percent of families who owe no federal income tax in a given year (though almost all owe federal payroll tax or pay positive federal income taxes over time).

2. **The proposed credit would be much smaller than the proposed deduction.** Taxpayers who claim the refundable credit would benefit by up to 7.7 cents per dollar spent on child care—and often much less than that. In contrast, taxpayers claiming the deduction would benefit by 10.0 to 39.6 cents per dollar spent on child care, depending on their income and whether the president’s proposed changes to the rate brackets were enacted at the same time. To be clear, the proposed credit would be more progressive than the

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current CDCTC, which is nonrefundable. But the proposed credit is not large enough to offset the regressive impact of the full child care package.

3. Many low- and middle-income stay-at-home parents would be excluded from the president’s child care plan altogether, even as stay-at-home parents with higher incomes could receive large benefits. Families with stay-at-home parents can only claim the proposed deduction and not the proposed new credit or the CDCTC.

4. The president’s plan may provide many parents in the paid labor force who actually pay for child care with smaller benefits than those who stay at home. Trump’s plan is silent on how much stay-at-home parents can deduct, but all analyses of which we are aware have assumed they can deduct the average cost of child care for the child’s age in the parent’s state. In contrast, Trump’s plan would limit parents who pay for child care to claiming either the deduction or the credit based on the actual child care expenses they incur. As a result, if such a parent pays less than the average cost of child care in her state, she potentially must claim tax benefits based on a smaller amount of child care expenses than a stay-at-home parent who is not actually paying for child care. In particular, parents in the paid labor force who rely on informal child care arrangements for which they pay little or nothing may receive little or no benefit from the president’s proposals.

5. The president’s proposed DCSA expansion would likely exacerbate the regressivity of his plan. Incentives for savings tend to be some of the most regressive provisions in the tax code. For example, the top 20 percent of households receive over two-thirds of the benefits from tax preferences for retirement savings. As discussed above, this skewing toward the wealthy occurs because higher-income taxpayers can afford to save at higher rates and because they are more likely to take up complicated tax benefits. Further, like the president’s DCSA proposal, the actual value of tax preferences for saving is generally larger for wealthier taxpayers when one takes into account the associated deductions, exclusions, and credits.

Beyond being focused on families who likely need the least help affording child care, the president’s child care proposals raise other concerns. Under his child care plan, families could qualify for multiple child care benefits. Selecting the highest benefit could require calculating the potential benefit of the current CDCTC, the president’s new deduction, and the new refundable credit. Experience with other complicated tax provisions has shown that requiring taxpayers to optimize among several mutually exclusive tax benefits typically results in many, especially low- and middle-income, taxpayers leaving substantial tax benefits on the table (GAO 2012).

In addition, the president’s child care plan focuses exclusively on tax-based benefits, but direct spending programs for child care have many advantages for lower-income families that the tax system cannot easily replicate. State child care assistance programs help parents pay each month as they need care, rather than making them wait for a tax refund—after they have already paid for child care—to get any benefit. Direct subsidy programs also provide more assistance to families with lower incomes, phasing down the benefit as families’ earnings rise and they can better afford care. Unlike tax programs, which provide one-time benefits for

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23 Nonrefundable credits can only offset income taxes owed, while refundable credits can exceed income taxes owed.
24 For an excellent discussion of the president’s DCSA proposal, see National Women’s Law Center (2017).
an entire year of child care expenses, subsidies can adjust over the year based on families’ circumstances. For example, a child might live with one parent for half the year and another parent for the other half. Only one family could receive a tax benefit (even if both had child care expenses), but traditional subsidies can follow a child to his or her home. Finally, subsidy programs place quality standards on most forms of care subsidized by the program, providing better assurance that federal funding is used for care that meets quality standards.

WAYS TO REDIRECT PRESIDENT TRUMP’S CHILD CARE PROPOSALS TOWARD LOW- AND MIDDLE-INCOME FAMILIES

President Trump’s child care plan laudably focuses attention on the burden child care costs can place on struggling families. The plan includes a refundable tax credit for child care expenses, which allows more low-income families to receive child care assistance than current benefits do. But despite these steps forward, the package would direct most of its benefits toward higher-income households and would provide smaller benefits for low- and middle-income families.

This is all the more troubling when one considers the price tag of the president’s overall tax plan—more than $6 trillion over 10 years—and the fact that its benefits are even more concentrated on the wealthiest Americans than his child care proposals. While the focus of this paper is on his proposed child care benefits, it is important to note that other aspects of the plan result in millions of low- and middle-income families raising children facing a tax increase, including more than half of all single parents (Batchelder 2016).

The most important tax policy change the president could make to improve his proposals for low- and middle-income families raising children would be to make his overall tax plan more progressive and fiscally responsible. Doing so would ensure that low- and middle-income parents actually benefit materially from his tax plan and do not face a tax increase. Further, it would prevent a large deficit increase that would create pressure in the future to cut critical programs that low- and middle-income families rely upon, like the CCDF, food assistance, housing, and health care.

But if addressing child care specifically through the tax code, the president should consider restructuring the existing credits and deductions to provide a simple benefit focused on low- and middle-income families. One way would be to replace the current CDCTC and dependent care flexible savings accounts with an expanded refundable credit that limits child care expenses to a certain share of family income, as proposed by several research organizations (Hamm and Martin, 2015; Ziliak, 2014; Maag, 2013). This expanded credit would provide the largest tax benefits to those who need help the most—families who spend a large chunk of their budget on child care—the mirror image of the President’s current proposals. Families would also find it much simpler to understand and claim.
However, unless the credit were advanceable, this approach would not deliver benefits when many families need help the most: at the time child care payments are due. Thus, policymakers should consider fully funding the CCDF so that every eligible family can receive subsidies to directly and immediately reduce their child care bills. CCDF subsidies are limited to families earning up to 85 percent of their state median income.26 In 2014, roughly 80 percent of families who received subsidies had incomes below 150 percent of the federal poverty level.27 To ensure middle-class families with high child care costs also benefit, full CCDF funding could be coupled with CDCTC reforms, as proposed in President Obama’s budget and by other researchers (Chaudry et al. 2017, 52–63; OMB 2016).

Another option worth consideration is to expand support more generally for working parents. A particularly promising proposal in this vein is to increase refundability of the child tax credit for parents of young children (e.g., Hamm and Martin 2015; Marr et al. 2016).

CONCLUSION

High child care costs present a substantial barrier to work, especially for low- and middle-income families. The federal income tax system already provides some assistance to offset these costs, but the deductions and credits exclude most low- and middle-income families. The president has proposed three additional tax benefits for child care, which would add complexity to an already complex system and disproportionately benefit higher-income families who generally need the least help affording child care. This is consistent with his larger tax plan, which is skewed toward the highest-income households and raises taxes on millions of low- and middle-income families.

The most important tax policy change the President could make to help low- and middle-income families with the costs of raising children would be to make his overall tax plan far more progressive and fiscally responsible. However, to the extent that the president seeks to specifically address the burden of child care costs, he should consider three changes: fully funding and improving direct subsidies for child care, which need not be delivered at tax time; restructuring the CDCTC into a refundable tax credit that limits child care expenses to a certain share of family income; and increasing the refundability of the child tax credit for parents of young children.

It is also important to note that assessing the impact of President Trump’s policies on child care and family budgets is a much broader exercise than examining his child care tax proposals. While beyond the scope of this paper, the full impact of his other tax and budget proposals—including on families’ taxes, spending programs for child care, programs that assist families, the economy, and the long-term fiscal path—could overwhelm the effects of the tax proposals examined here.

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26 Individual states may choose to adopt stricter income limits.
27 For a family of four in 2014, 150 percent of the federal poverty level was $36,012 (ACF 2016).
### TABLE A1
Share of Families with Children with Child Care Costs, Tax Benefit from Trump Proposal, and Average Tax Cut, 2017

<table>
<thead>
<tr>
<th>Income</th>
<th>Share with Tax Cut</th>
<th>Share with Child Care Expenses</th>
<th>Average Tax Cut ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$10K</td>
<td>11.7%</td>
<td>13.3%</td>
<td>10</td>
</tr>
<tr>
<td>$10-20K</td>
<td>8.8%</td>
<td>9.6%</td>
<td>10</td>
</tr>
<tr>
<td>$20-30K</td>
<td>8.0%</td>
<td>10.8%</td>
<td>10</td>
</tr>
<tr>
<td>$30-40K</td>
<td>6.6%</td>
<td>12.8%</td>
<td>20</td>
</tr>
<tr>
<td>$40-50K</td>
<td>10.3%</td>
<td>13.3%</td>
<td>70</td>
</tr>
<tr>
<td>$50-75K</td>
<td>17.4%</td>
<td>14.8%</td>
<td>160</td>
</tr>
<tr>
<td>$75-100K</td>
<td>25.1%</td>
<td>16.7%</td>
<td>230</td>
</tr>
<tr>
<td>$100-200K</td>
<td>27.2%</td>
<td>20.5%</td>
<td>360</td>
</tr>
<tr>
<td>$200-500K</td>
<td>27.6%</td>
<td>22.7%</td>
<td>460</td>
</tr>
<tr>
<td>$500K-1M</td>
<td>9.0%</td>
<td>15.0%</td>
<td>70</td>
</tr>
<tr>
<td>&gt;$1M</td>
<td>6.7%</td>
<td>14.0%</td>
<td>40</td>
</tr>
<tr>
<td>All</td>
<td>17.8%</td>
<td>15.9%</td>
<td>190</td>
</tr>
</tbody>
</table>


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