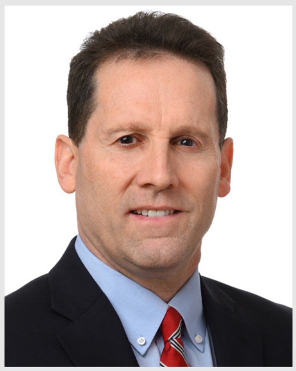
Improving Early Childhood Development By Allowing Advanced Child Tax Credits

by Katharine B. Stevens and Matt Weidinger

Katharine B. Stevens



Matt Weidinger

Katharine B. Stevens is a visiting scholar at the American Enterprise Institute. Matt Weidinger is the Rowe Fellow in poverty studies at the American Enterprise Institute. The authors especially thank Alan D. Viard for his invaluable feedback throughout the writing of this article. They also thank Ryan Martin, Angela Rachidi, Isabel V. Sawhill, and Cheryl Vincent for their helpful comments on drafts, and William Kessler, Noah Blake Smith, and Meredith Tracy for research assistance.

In this article, Stevens and Weidinger argue that parents should have greater control over the timing of the child tax credit so they can better promote their child's development by spending more time caring for their child themselves or purchasing higher-quality childcare during their child's critical early years.

The views expressed in this article are solely the authors' and do not necessarily reflect those of any other person or institution.

A substantial body of research underscores that ensuring high-quality, developmentally supportive environments for young children — especially in the first years of life — is crucial to their individual futures and to the future of the nation. Yet millions of children spend large portions of those foundational years in low-quality childcare,[1] which jeopardizes their healthy development.

Most federal funding designed to address this problem is focused on subsidizing nonparental, out-of-home childcare. But many lower- and middle-income families still lack access to high-quality childcare because they do not qualify for subsidies or because available subsidies are insufficient. At the same time, federal funding provides no help to parents who would prefer to care for their children at home but are financially unable to do so. This article proposes allowing parents to advance future child tax credits (CTC) into the earliest years of their child's life, giving them greater choice in how to raise their young children.

Our proposal seeks to help two groups of parents. The first group is parents who choose or need to work outside the home but lack access to high-quality childcare. By providing families with earlier access to already-committed taxpayer resources, the proposal allows them to better obtain the nonparental care that serves the best interests of their young child's development. The second group is parents who want to spend more time caring for their young children themselves, instead of placing them in nonparental, out-of-home care. For many children, their own home is

[1] We use the term "childcare" in reference to programs and services that provide nonparental care and the term "child care" to describe the care of children in general. *See* "childcare," Merriam-Webster.com (2021).

the best early environment for supporting their healthy development. Increased parental care can yield important developmental benefits for children through more one-on-one nurturing interaction, increased stability, and more and longer breastfeeding, which is shown to reduce childhood illness and improve long-term health and cognitive development.[2] Our proposal would also help reduce parental stress, increase family financial stability, reduce financial barriers to childbearing, and mitigate marriage penalties in other benefits.

We propose giving parents greater flexibility in the timing of their claims for the existing CTC to accomplish these ends. Under current policy, the CTC provides up to $2,000 per child per year for the first 17 years of a child's life, totaling up to $34,000. Our proposal would give parents the option to pull up to $30,000 of those funds forward into as few as two years, providing up to $15,000 per year to help parents better cope with the exceptionally high costs of caring for children in their first years of life.

The budgetary effect of this proposal is expected to be relatively small over the long term because it adds no new spending but rather permits a shift in the timing of an existing tax benefit. In the wake of unprecedented increases in federal budget deficits driven by the coronavirus crisis, our proposal may be more legislatively viable than the creation of a federal paid leave program or large expansions of federal funding for nonparental childcare.

I. Caring for Young Children

A large body of scientific research has established what parents have long known: Children's earliest years matter greatly to their lifelong well-being and achievement. Extraordinary development occurs in the first years of a child's life, forming the bedrock for health, intellectual ability, emotional well-being, and social functioning throughout their lives. In just the first 1,000 days after birth, a child grows from a physically helpless infant into a running, jumping, climbing preschooler. Children's early cognitive, social, and emotional development is equally rapid.[3] A responsive, supportive, nurturing environment during this early period is essential to children's healthy development and future success.[4]

For most of human history, children's early development unfolded in the home, usually with full-time maternal care. Over the last several decades, however, American family life has undergone a dramatic transformation as women have increasingly entered the paid workforce. Since 1940, the proportion of mothers with children under age 6 who are working outside the home has increased sevenfold, from fewer than one-tenth to almost two-thirds.[5] The share of women with infants and toddlers under age 3 who are employed nearly tripled from 1965 to 2017, rising from 21 to 63 percent (see Figure 1).

More than 40 percent of mothers of infants and toddlers work full time. Nearly 30 percent of all first-time mothers return to work within two months of giving birth, and 60 percent of low-income mothers return within three months.[6] Millions of young children spend a substantial portion of their earliest years in the care of people other than their parents, often beginning in infancy. In 2016, 47 percent of babies under 1 year of age and 54 percent of toddlers between ages 1 and 2 spent time every week in nonparental care.[7]

---

[2] Melissa Bartick and Arnold Reinhold, "The Burden of Suboptimal Breastfeeding in the United States: A Pediatric Cost Analysis," 125(5) *Pediatrics* 1048-1056 (2010); Michael S. Kramer et al., "Breastfeeding and Child Cognitive Development: New Evidence From a Large, Randomized Trial," 65(5) *Arch. Gen. Psychiatry* 578-584 (2008); James W. Anderson, Bryan M. Johnstone, and Daniel T. Remley, "Breast-Feeding and Cognitive Development: A Meta-Analysis," 70(4) *Am. J. Clinical Nutrition* 525-535 (1999).

[3] Center on the Developing Child at Harvard University, "InBrief: The Science of Early Childhood Development" (2007); Lara R. Robinson et al., "CDC Grand Rounds: Addressing Health Disparities in Early Childhood," Centers for Disease Control and Prevention (July 2017).

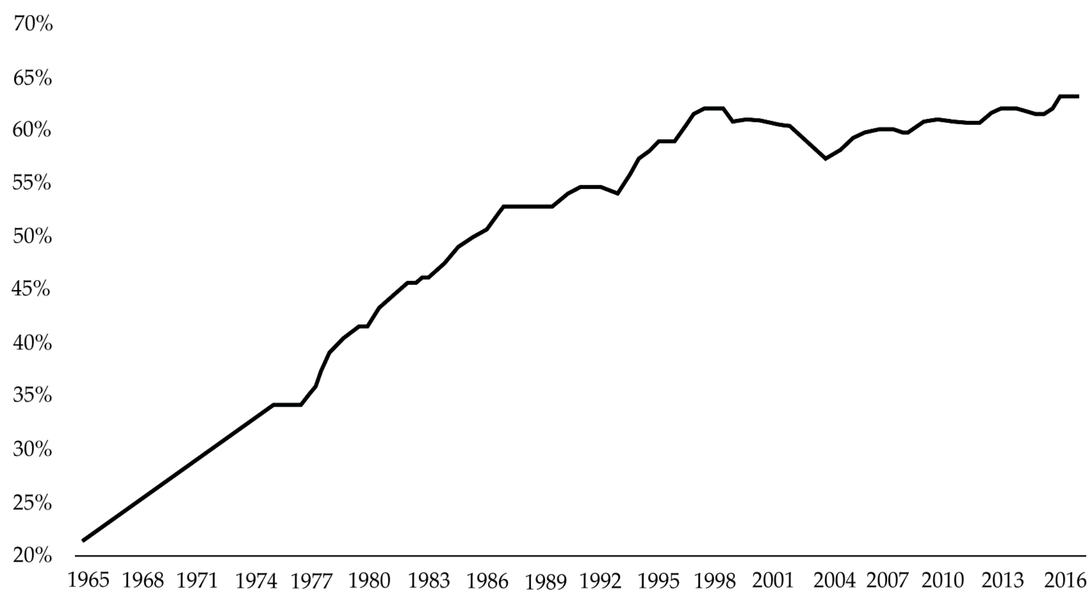
[4] Pia R. Britto et al., "Nurturing Care: Promoting Early Childhood Development," Early Childhood Development Interventions Review Group for the Lancet Early Childhood Development Series Steering Committee (Oct. 2016).

[5] U.S. Bureau of Labor Statistics (BLS), "Women in the Labor Force: A Databook" (Dec. 2014).

[6] BLS, "Table 6. Employment Status of Mothers With Own Children Under 3 Years Old by Single Year of Age of Youngest Child and Marital Status, 2015-2016 Annual Averages" (Apr. 20, 2017); Lynda Laughlin, "Maternity Leave and Employment Patterns: 2006-2008," U.S. Census Bureau, 70-128 (2011).

[7] Child Care Aware of America, "Parents and the High Cost of Childcare" (2015); Laughlin, "Who's Minding the Kids? Child Care Arrangements: Spring 2011," U.S. Census Bureau (Apr. 2013); U.S. Department of Education, National Center for Education Statistics, "National Household Education Surveys Program."

Figure 1. Labor Force Participation of Women With Children Under Age 3, 1965-2017



Source: U.S. Bureau of Labor Statistics, "Women in the Labor Force: A Databook"; U.S. Bureau of Labor Statistics, "Table 6. Employment Status of Mothers With Own Children Under 3 Years Old by Single Year of Age of Youngest Child and Marital Status, 2015-2016 Annual Averages" (Apr. 20, 2017); House Ways and Means Committee, "Green Book" (2018).

Because the one-on-one, nurturing care that young children need for healthy development is labor-intensive, it is more expensive to provide than the care for older children. The median annual cost of full-time, center-based care for children under age 5 averaged more than $9,000 per year in 2018, ranging across states from $5,760 to $24,081 for an infant and from $5,280 to $18,980 for a four-year-old.[8] In 30 states and Washington, the average price of center-based care for one infant exceeded average in-state tuition and fees for a public university; in 39 states and Washington, center-based care for two children — an infant and a four-year-old — cost more than the average mortgage payment.[9]

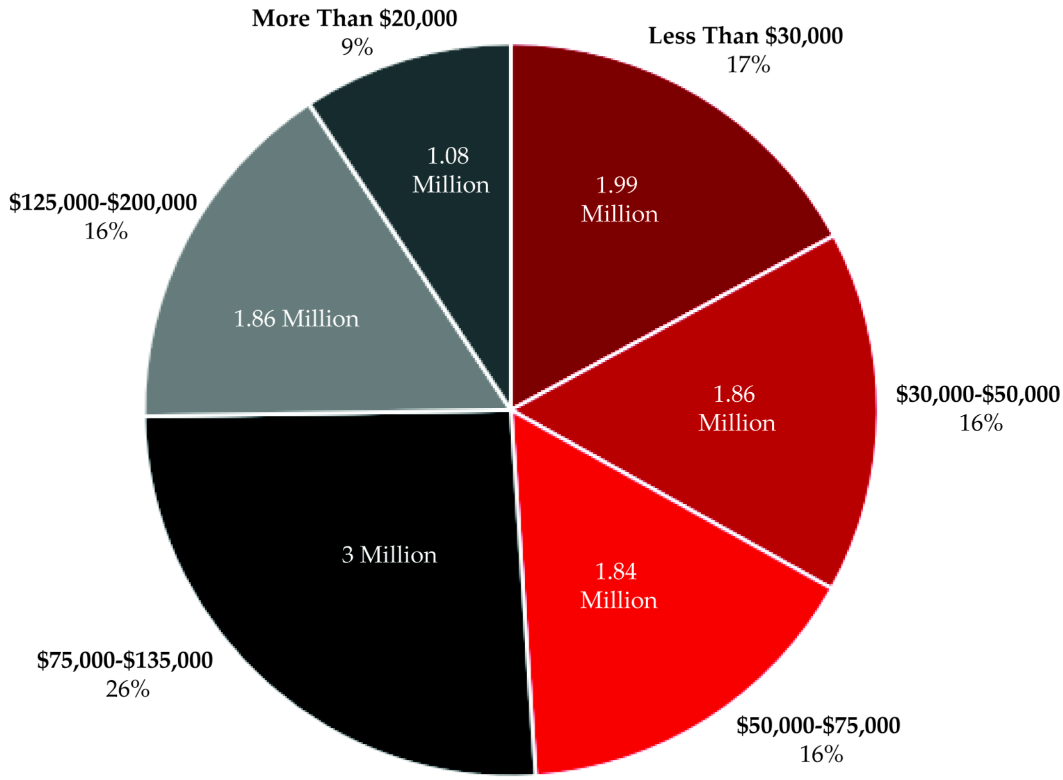
Parents believe that the quality of the nonparental care their children receive is of great importance to healthy early development. In a 2016 Robert Wood Johnson Foundation survey, for example, more than 80 percent of parents said that childcare quality has a major effect on children's kindergarten readiness. Over half said that it has a major effect on children's future job success; almost 90 percent said that it has a major effect on a child's long-term well-being.[10] Yet half of all babies and toddlers — 5.7 million children under age 3 — live in households earning less than $75,000 per year. For many of those families, high-quality childcare is beyond their financial reach (see Figure 2).

[8] Childcare costs vary widely, as Child Care Aware of America explains: "A national average is hard to pin down since there are various forms of care — center-based, versus the more informal family-based care — and the cost differs by a child's age; the younger the kid, the more expensive her care, generally speaking." Child Care Aware of America, "US and the High Price of Child Care Appendices" (2019); Claire Zillman, "Childcare Costs More Than College Tuition in 28 U.S. States," *Fortune*, Oct. 22, 2018.

[9] Lindsey Hunter Lopez, "Yep, Child Care Officially Costs More Than College — & Your Mortgage — in 30 States," SheKnows, Oct. 26, 2019; Mark J. Perry, "Chart of the Day . . . or Century?" Carpe Diem, Jan. 14, 2020.

[10] Harvard T.H. Chan School of Public Health, "Child Care and Health in America," National Public Radio/Robert Wood Johnson Foundation/Harvard School of Public Health (2016).

Figure 2. Distribution of Children Under Age 3 by Household Income



Source: U.S. Census Bureau, "Current Population Survey" (2019 Annual Social and Economic Supplement).

Among parents in the survey who described their household finances as "not so strong" or "poor," almost half said that high-quality care was difficult to find and 80 percent said that their options were very limited. Nearly half did not think their children were in excellent care.[11] Similarly, a 2015 Pew Foundation survey found that 62 percent of parents had a hard time finding high-quality childcare that was affordable.[12] A 2017 investigation of childcare availability in Wisconsin confirmed these reports, finding that providers with high ratings from the state's quality assessment system were concentrated in wealthier areas, with few high-quality providers in low-income communities.[13] Research has consistently found that much childcare fails to promote children's learning and development,

[11] *Id.*

[12] Pew Research Center, "Parenting in America: Child Care and Education: Quality, Availability and Parental Involvement" (Dec. 17, 2015).

[13] Rob Grunewald and Michael Jahr, "Rating YoungStar: How Wisconsin's Childcare Quality Rating and Improvement System Measures Up," Wisconsin Policy Research Institute (June 2017).

sometimes even jeopardizing their physical safety.[14]

The bottom line is that millions of families lack access to the high-quality care that they know is critical to their child's development and well-being. Many must choose between placing their child in nonparental childcare that they do not think is good for their child, working even longer hours to cover the costs of higher quality care, or undermining the family's financial stability by having a parent remain at home. This is tough on parents, as well as children. One 2011 study found, for example, that mothers who chose childcare for practical reasons, such as cost and availability, rather than quality showed significantly higher rates of depression in later months.[15]

II. Federal Child Care Funding

Federal programs to address this problem seek to help families balance the competing demands of work and raising their young children by subsidizing nonparental, out-of-home care.[16] In 2019 federal funding for nonparental care totaled almost $27 billion, including funds provided by Head Start, the Child Care and Development Fund, the child and dependent care tax credit, and the Temporary Assistance for Needy Families program.[17]

Several recent congressional proposals have called for increasing this funding to as much as $70 billion per year. The Child Care for Working Families Act (introduced as H.R. 1364 and S. 568 in 2019) would fully subsidize nonparental care for families earning under 75 percent of the state median wage and provide substantial subsidies to families earning between 75 and 150 percent of the median wage.[18] The Universal Child Care and Early Learning Act (introduced as S. 1878 and H.R. 3315 in 2019) would fully subsidize nonparental care for families with household income under 200 percent of the federal poverty level and provide partial subsidies to families above that level.[19] More recently, President Joe Biden has proposed spending an additional $775 billion over 10 years to "ensure access to high-quality, affordable childcare and offer universal preschool to three- and four-year-olds," among other benefit expansions.[20] These proposals would roughly triple spending on out-of-home care and education and are expected to significantly increase the number of young children in nonparental care.[21]

Many argue that greatly increased funding for nonparental, out-of-home care is an important benefit for both parents and children because it enables parents — especially mothers — to remain in the workforce, building their careers and raising family income, and enhances young children's development through participation in high-quality programs. A heavy emphasis on nonparental care has three significant drawbacks, however, each meriting careful consideration.

[14] An audit of nine states carried out between 2013 and 2016 by the Office of Inspector General in the Department of Health and Human Services found that 96 percent of licensed childcare providers had numerous hazardous violations of state licensing standards, including fire code violations, unsanitary conditions, unsafe playgrounds, incomplete employee records, incomplete children's records, and toxic chemicals accessible to children. HHS Office of Inspector General, "Child Care Providers: Compliance With State Health and Safety Requirements." *See also* J. Lee Kreader, Daniel Ferguson, and Sharmila Lawrence, "Infant and Toddler Child Care Quality. Research-to-Policy Connections No. 2," *Child Care & Early Education Research Connections* (2005); Laughlin, *supra* note 7; Erik Ruzek et al., "The Quality of Toddler Child Care and Cognitive Skills at 24 Months: Propensity Score Analysis Results From the ECLS-B," 29(1) *Early Childhood Res. Q.* 12-21 (2014); Jonathan Cohn, "The Hell of American Day Care," *New Republic*, Apr. 15, 2013.

[15] Rachel A. Gordon et al., "Child Care and Mothers' Mental Health: Is High-Quality Care Associated With Fewer Depressive Symptoms?" 60(4) *Fam. Rel.* 446-460 (2011).

[16] An increasing number of "paid family leave" plans have been proposed in recent years, primarily seeking to financially support working parents immediately after the birth or adoption of a child. No permanent program has been enacted to date. However, the Families First Coronavirus Response Act (P.L. 116-127), enacted on March 18, 2020, created a temporary program requiring some employers to provide paid family and medical leave to parents needing to care for children because their school or childcare provider closed in response to the COVID-19 crisis. *See* Department of Labor, Wage and Hour Division, "Families First Coronavirus Response Act: Employee Paid Leave Rights."

[17] Lynn Johnson, "Improving Access to Affordable, High Quality Child Care: Request for Information," *Federal Register*, HHS Administration for Children and Families (Oct. 2, 2019).

[18] Senate Committee on Health, Education, Labor and Pensions, "Child Care for Working Families Act of 2019."

[19] For a summary of the Senate version of this legislation, see Mark Zandi and Sophia Koropeckyj, "Universal Child Care and Early Learning Act: Helping Families and the Economy" (2019).

[20] "The Biden Plan for Mobilizing American Talent and Heart to Create a 21st Century Caregiving and Education Workforce," JoeBiden.com (July 21, 2020).

[21] Analysts have projected that under the Universal Child Care and Early Learning Act, for example, the number of children from birth through age 4 in paid childcare would almost double from 6.8 million in 2019 to nearly 12 million in 2022.

The first and most important drawback is that increased access to higher quality nonparental childcare is not what most parents want. The work and child care choices that parents make are generally viewed as a proxy for their preferences. Research suggests, however, that those choices often reflect financial constraints, rather than what parents actually prefer.

A major survey of parents with children aged 5 or under, conducted by Public Agenda in 2000, found that a high-quality childcare center was the "least preferred" child care arrangement for almost half (46 percent) of parents surveyed.[22] Eighty percent of parents said that young children were less likely to get sufficient affection and attention from caring, well-trained professionals in a high-quality center than they would at home with a parent.

Instead, parents overwhelmingly said they preferred parental care for their young children. Eighty percent of mothers and half of fathers said they would prefer to stay home themselves to care for their young children. Ninety percent of parents said that if a family can afford it, it is almost always best for young children if one parent stays home with them full time. For children under age 2, more than nine out of 10 parents said it is important for one parent to stay at home, and over one-third said it is "absolutely essential." At the same time, however, two-thirds of parents surveyed said it was not financially feasible for most families to have one parent stay at home to care for their children, even if that was what they wanted to do.[23]

Parents of older children have expressed similar views. A 2013 Pew Research Center survey found that over half of employed mothers with a child under 18 said they would prefer to be home with their children but were forced to work to support their family financially.[24] Almost two-thirds of employed parents with annual household incomes of less than $50,000 and more than three-fifths of employed parents who had not attended college said they would prefer to stay home to care for their children.[25] In a 2016 Pew survey, three-fifths of all respondents said children under age 18 are better off when a parent stays home.[26]

Large proportions of fathers said they would rather care for their children than work outside the home, showing that stay-at-home fatherhood carries less stigma than it has in the past. In a 2015 Gallup Poll, over one-quarter of employed fathers said their ideal would be to stay home to care for their house and family.[27] In Pew's 2013 survey, almost half of employed fathers said they would prefer to be home with their children but had to work for financial reasons.[28]

These surveys underscore that both current policy and proposals to increase funding for nonparental, out-of-home early care and education fail to address what most parents really want: to spend more time raising their own young children. Those proposals may increase access to higher quality care for lower-income working families forced to put their child in substandard care. They may also provide new resources to middle- and upper-income families who pay childcare expenses out of their own pockets. But they offer no help to parents who want to care for their young children themselves. If the number of children in nonparental childcare increased substantially under these proposals as projected, even fewer parents would be caring for their own children — the opposite of what most parents say they want.

The second drawback of those proposals is that increasing the time young children spend in nonparental, out-of-home childcare does not necessarily promote their healthy early development. While the world that children are born into has changed dramatically, the optimal developmental environment for many young children is still their own home.

---

[22] Steve Farkas, Ann Duffett, and Jean Johnson, "Necessary Compromises: How Parents, Employers and Children's Advocates View Child Care Today," Public Agenda (2000).

[23] *Id.*

[24] Kim Parker and Wendy Wang, "Modern Parenthood," Pew Research Center (Mar. 14, 2013).

[25] Pew Research Center, "Chapter 2: Balancing Work and Family Life" (Mar. 14, 2013).

[26] Nikki Graf, "Most Americans Say Children Are Better Off With a Parent at Home," Pew Research Center (2016).

[27] Lydia Saad, "Children a Key Factor in Women's Desire to Work Outside the Home," Gallup (2015).

[28] Parker and Wang, *supra* note 24.

Not all parents can or want to stay home to care for young children, and parenting quality clearly varies. But, generally speaking, the one-on-one, nurturing care that young children require to thrive is more likely to occur in a home than a group institutional setting.[29] Adapting to out-of-home childcare environments can be difficult for young children, especially in larger groups, which are less able to provide one-on-one interactions with caregivers and are stressful for some children.[30] Research has found that while disadvantaged children can benefit from high-quality early childhood programs, spending large amounts of time in out-of-home, paid childcare can also have adverse effects for some children.[31]

The third drawback of those proposals is that a large expansion in federal spending on childcare subsidies may prove difficult to enact in the current fiscal and political environment. Those proposals direct substantial new benefits to middle- and upper-income families, rather than targeting additional resources to the low-income families most in need. Further, even as policymakers and the public increasingly understand the lifelong importance of the early childhood years, many do not view additional funding for nonparental care as the best strategy for advancing children's well-being. A heavy emphasis on expanding out-of-home care and education may therefore impede, rather than advance, the bipartisan political and public commitment needed to strengthen early childhood policy more broadly.

III. The Child Tax Credit

While no existing federal program is designed to help parents stay home to care for their own young children, the CTC provides both tax relief and refundable credits to assist parents with the costs of raising them.[32] Signed into law in 1997, the original legislation set the per-child credit at $400 per year in 1998 and $500 per year thereafter, for each year from the child's birth through age 16.[33] Since then, Congress has steadily increased the credit, now set at $2,000 per child per year for 2018 through 2025.[34] If the $2,000 value is extended beyond that date, the credit will provide a maximum of $34,000 over the life of a child.[35]

In 2017 Congress also raised the CTC's eligibility ceiling and refundability level. Married couples filing jointly with modified adjusted gross incomes of up to $400,000 (and up to $200,000 for singles and heads of household) are eligible to claim the full credit.[36] For parents with at least $2,500 of labor earnings but not enough income to owe individual income tax, the credit is

[29] National Academies of Sciences, Engineering, and Medicine, *Parenting Matters: Supporting Parents of Children Ages 0-8* (2016).

[30] Wilfried Datler et al., "Toddlers' Transition to Out-of-Home Day Care: Settling Into a New Care Environment," 35(3) *Infant Behav. Dev.* 439-451 (2012).

[31] Michael Baker, Jonathan Gruber, and Kevin Milligan, "The Long-Run Impacts of a Universal Child Care Program," 11 *Am. Econ. J.* 1 (2019); Baker, Gruber, and Milligan,, "Universal Childcare, Maternal Labor Supply, and Family Well-Being," NBER Working Paper No. 11832 (Dec. 2005); Eunice Kennedy Shriver National Institute of Child Health and Human Development, "Study of Early Child Care and Youth Development: Findings for Children Up to Ages 4½ Years"(2006); Susanna Loeb et al., "How Much Is Too Much? The Influence of Preschool Centers on Children's Social and Cognitive Development," NBER Working Paper No. 11812 (Dec. 2005).

[32] The Supplemental Security Income program provides benefits to children with disabilities and is sometimes described as allowing a parent to stay home to care for the disabled child. However, the benefit is for the child and is payable whether the child is in parental or nonparental care.

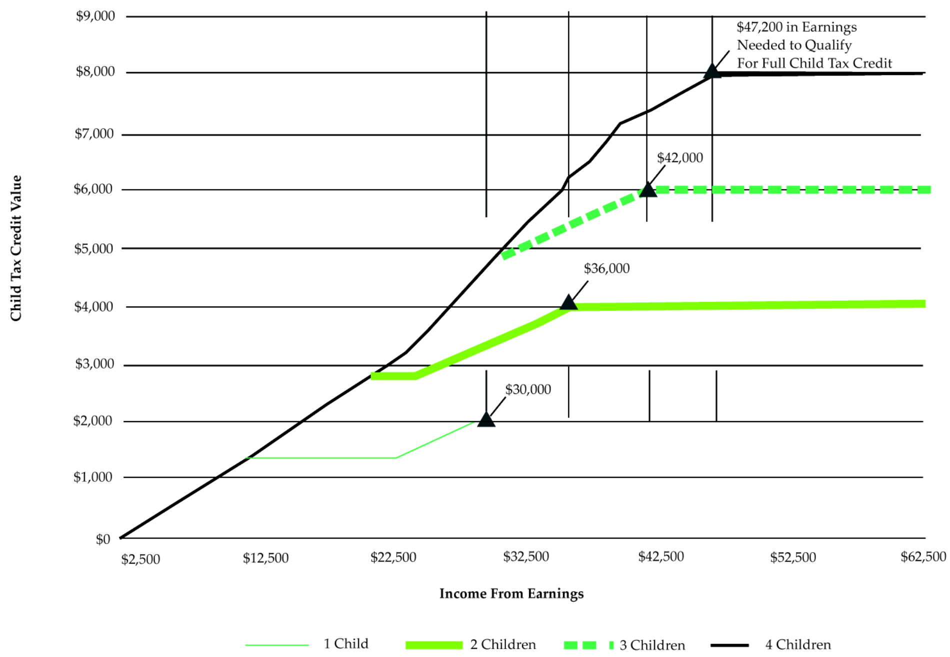
[33] Sections 24(c) and 152(d)(3) stipulate that the child must be 16 or younger at the end of the year for which the credit is claimed; the child must be the taxpayer's daughter, son, stepchild, foster child, adopted child, brother, sister, stepbrother, stepsister, half-sister or half-brother, or a descendant of any of the above; and the child must live with the taxpayer for over half of the year, must not provide more than half of his own support, and must not file a joint tax return (except for a return for refund). The child must also be a citizen, national, or resident of the United States and have a Social Security number issued in timely fashion.

[34] In 2001 Congress increased the credit to $600 in 2001, $700 in 2002, and $1,000 thereafter. The Tax Cuts and Jobs Act further increased it to $2,000 for 2018 through 2025. The $2,000 value is not inflation-adjusted. The TCJA's expansion of the CTC expires in 2025, although it is widely expected to be extended in future legislation. *See* Margot L. Crandall-Hollick, "The Child Tax Credit: Legislative History," Congressional Research Service (Mar. 1, 2018).

[35] Note that thresholds are not inflation-adjusted. If the TCJA changes are not extended, the credit would be much smaller in 2026 and thereafter. The credit amount would fall to $1,000 per child; the maximum refundable amount would be the lesser of $1,000 per child and 15 percent of the excess of the taxpayer's labor earnings above $3,000; and the credit phase-out would begin at $110,000 for couples and $75,000 for singles. However, it is likely that Congress will extend the TCJA changes to the CTC beyond 2025 and may even increase the credit above $2,000 for at least some children.

[36] For married couples who earn more than $400,000 and unmarried taxpayers who earn more than $200,000, the credit is reduced by approximately 5 percent of the excess of income over those thresholds. Note that the modified AGI is AGI plus foreign earned income excluded under section 911 and income from the U.S. possessions excluded under sections 931 and 933. See section 24(d) and (h)(5) for more details.

Figure 3. Phase-In of Child Tax Credit Value by Income and Family Size: Joint Tax Filers



Source: Megan Curran and Sophie Collyer, "Children Left Behind in Larger Families: The Uneven Receipt of the Federal Child Tax Credit by Children's Family Size," 4(4) *Poverty and Soc. Pol'y Brief* (Mar. 4, 2020).

partially refundable at a maximum of $1,400 per child for 2018 through 2020.[37]

Figure 3 shows the phase-in of the CTC for joint filers, by family income and the number of children for whom the credit is claimed, assuming the family has no income other than labor earnings. The figure shows that the CTC is not payable to families with earnings less than $2,500 and rises as earnings increase above that level, with the full $2,000 per child payable when earnings for joint filers reach $30,000 for families with one child, $36,000 for families with two children, and higher levels for families with additional children.

From 1998 to 2018, total federal CTC assistance provided to families has risen from roughly $16 billion to $118 billion (in constant 2020 dollars), as shown in Figure 4.[38]

IV. Advancing the Child Tax Credit

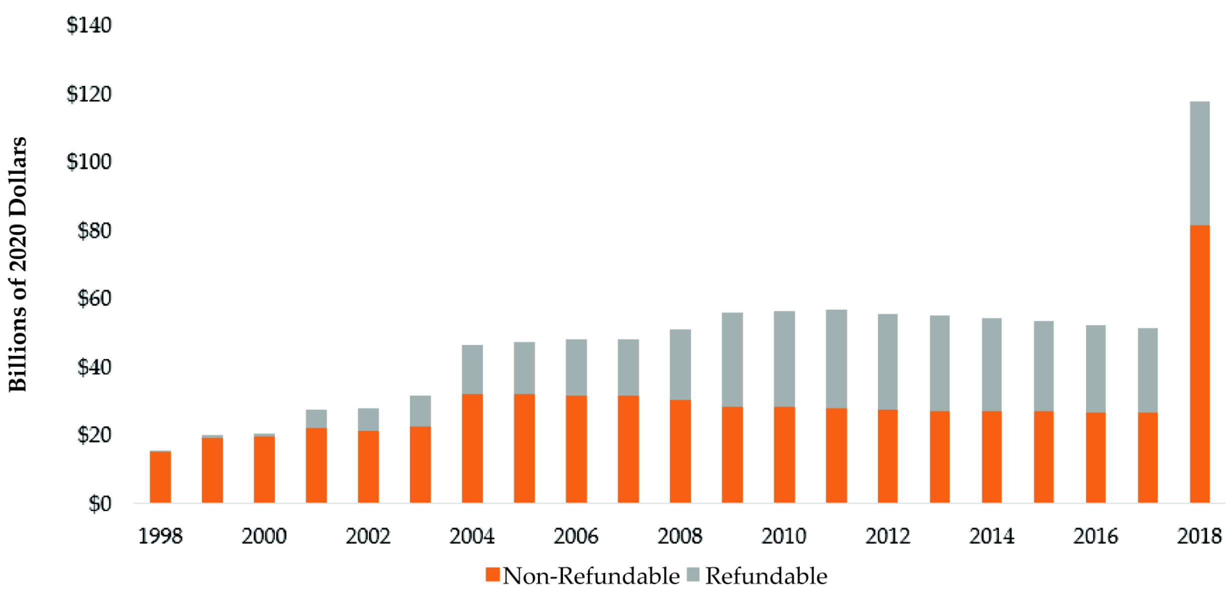
Congress has recently begun considering several new approaches to increase financial help for families with newborn or newly adopted children. One proposed approach is to allow new parents to receive advance payment of a portion of their child's lifetime CTC. The most prominent proposal along these lines is the Advancing Support for Working Families Act, a bipartisan proposal introduced in 2019 as S. 2976 by Sens. Bill Cassidy, R-La., and Kyrsten Sinema, D-Ariz., and as H.R. 5296 by Reps. Colin Z. Allred, D-Texas, and Elise M. Stefanik, R-N.Y.[39] The proposal was endorsed by President Donald Trump in his 2020 State of the Union address.

[37] The refundable amount claimed by a taxpayer cannot exceed 15 percent of the excess of the taxpayer's labor earnings more than $2,500 (an amount that is not inflation-indexed); no refundable credit may be claimed if the taxpayer's labor earnings are less than $2,500. The ceiling is inflation-indexed and may rise to $1,500 in 2022 through 2024 and $1,600 in 2025, depending on future inflation rates.

[38] IRS Publication 1304, "Individual Complete Report," at Table A (2020).

[39] As of December 16, 2020, S. 2976 had seven sponsors (five Republicans and two Democrats) and H.R. 5296 had 12 sponsors (seven Republicans and five Democrats).

Figure 4. Child Tax Credit Expenditures, 1998-2018



Source: 1998 through 2018 tax years from IRS Publication 1304, "Individual Complete Report," at Table A (2020). Dollars adjusted using CPI-U.

The Advancing Support for Working Families Act proposes allowing parents who qualify for the full $2,000 per child annual CTC to receive up to $5,000 of their child's lifetime credit in the year of the child's birth or adoption.[40] Taxpayers who do not qualify for the full $2,000 credit could receive an advanced amount of up to 25 percent of their labor earnings in the prior year. The advanced credit would be repaid by increasing future tax liability by one-tenth of the advanced amount in each of the 10 following years.[41] If the full $5,000 were advanced, for example, taxes would be increased by $500 in each of the following ten years. Taxpayers could elect to defer repayment by one year for each year in which their labor earnings had declined by at least 20 percent from the preceding year, with a total allowable deferral of three years.

Supporters of this approach sometimes describe the repayment as a reduction in future CTCs. However, future payments of increased tax would generally apply even if the taxpayer no longer qualified for the CTC. For example, the taxpayer would still be liable for the additional tax if the child no longer lived with the taxpayer or if the taxpayer could not claim the CTC because they exceeded the maximum income for eligibility.[42]

V. The Flexible Child Tax Credit

The most important advantage of the Advancing Support for Working Families Act is that it enables parents to draw forward future taxpayer subsidies to a time when they most need those resources to care for their children. Because the proposal provides families with additional flexibility in the use of a current subsidy rather than creating a new program or increasing total benefits, it is more likely to win bipartisan support and increase chances for enactment in the face of large budget deficits. A significant drawback of the proposal, however, is that, for

[40] For a child who was adopted when older than five, the maximum amount would be reduced by $500 for each year that the child's age exceeded five.

[41] The bills would enact new section 24(i) to allow for acceleration of the CTC and repayment of the accelerated amount.

[42] If either the child or the taxpayer died, however, any remaining repayment obligation would be canceled.

many parents, $5,000 is insufficient to meet crucial child development needs during their children's earliest years.

We therefore propose building on this approach with the "flexible child tax credit" (flexible CTC), which offers parents still greater flexibility. Specifically, we propose allowing parents to advance a total of up to $30,000 of future CTCs per child into any or all of the first five years of the child's life, limited to a maximum of $15,000 per year. When added to the $2,000 current-year credit, this would provide families with access to as much as $17,000 in assistance in a single year, or a total of $34,000 in as few as two years, for a child during the years from birth through age 5. A family could elect to receive the maximum $15,000 flexible CTC for each of two years, for example, or to receive $10,000 for each of the child's first three years, $7,500 for each of four years, $6,000 for each of five years, or some mix of these as best fits the family's needs.

A. Key Provisions

Repayment terms under the flexible CTC would be similar to those proposed for the Advancing Support for Working Families Act, but with a longer repayment period. Families would repay the advanced amount in equal parts in each of the 15 years following the advance through an increase in future tax liabilities, independent of eligibility for the CTC in those years.[43] If a family drew forward $15,000 into the year following their child's birth, for example, their taxes would be increased by $1,000 each year for the following 15 years. For taxpayers who qualified for a full CTC in the subsequent years, that future tax liability would be equivalent to a reduction in the CTC from $2,000 to $1,000 per year.

While the Advancing Support for Working Families Act allows parents to receive advance payment of their child's CTC only in the first year after birth or adoption, the flexible CTC would allow advance payment into any or all of the child's first five years of life. As with the Advancing Support for Working Families Act, the maximum amount drawn forward in any year would be determined by the value of the CTC parents qualified for based on prior-year earnings. Parents who drew funds forward in multiple years would repay those additional amounts through increased tax liabilities over subsequent years, although total repayments for a single child would not exceed $2,000 in a single year (equivalent to the maximum amount of the CTC a family is eligible for under current law).

If parents' earnings fell short of the amount needed to qualify for a full $2,000 CTC, special rules would apply to the amount that could be drawn forward. The flexible CTC would allow an advanced credit equal to 75 percent of labor earnings for the year. Both the $15,000 and the 75 percent limits are triple the corresponding values in the Advancing Support for Working Families Act.

An important advantage of allowing parents to advance future CTC payments into any of the first five years of their child's life is it encourages both work and marriage, especially for single parents. Because parents would need to have labor earnings in the prior year to qualify for the flexible CTC, the potential availability of flexible CTC funds could induce some adults to start working — and others to work more — in advance of having a child. Further, the continued availability of the flexible CTC over multiple years could encourage some parents to continue working or to marry a worker to be eligible for a later flexible CTC payment.

For example, if a parent earned enough in the year before her child's birth to qualify for a full $2,000 CTC, she could draw $15,000 forward into her child's first year. If she chose to stay home with her baby full time in that first year, however, she would not qualify for an additional advance payment in the child's second year because of an absence of earnings in the first year. However, if she worked part time during the child's first year or married a worker with earnings sufficient to qualify the household for a CTC in the following year, she would be eligible to receive a second flexible CTC payment.

The flexible CTC would offer limited assistance to families with no or very low earnings. But it would provide substantial help to many lower-income families with young children: The maximum flexible CTC could be claimed by a

[43] As under S. 2976 and H.R. 5296, repayment would be canceled if the child or the taxpayer died, and repayment could be deferred for up to three years in which labor earnings fall by 20 percent or more.

family of four with two children and an annual income as low as $36,000 because that family is eligible for the full $2,000 CTC per child.

B. Advantages of the Flexible CTC

The crucial advantage of the flexible CTC is that it substantially improves parents' ability to choose how and by whom their children are cared for during the formative, first years of development. It enables working parents to access higher quality childcare during their child's earliest years when childcare is especially expensive, or to avoid that cost by staying home to take care of their child themselves. Also, the flexible CTC increases family income at a critical point, strengthening the financial stability of young families and lowering family stress, while also promoting parenthood and encouraging marriage. At the same time, however, it has minimal effect on the long-run budget deficit.

1. Empowers parental choice.

The flexible CTC empowers parents to choose — and to better afford — the care they believe is in the best interests of their family and their child's development. Parents choosing to use the flexible CTC can decide when the additional funds would be most helpful. Some parents might especially need additional resources in the first two years of their child's life. Or perhaps a grandparent is available to cover child care needs until the child turns two, after which additional funds would be needed to access high-quality childcare.[44] Parents can also choose to work either full or part time, according to their individual circumstances, and can adjust the level and timing of the flexible CTC as needed to help replace foregone wages. Finally, parents who choose to continue working can use the flexible CTC funds to purchase higher quality care than they otherwise would be able to afford, whether outside the home or provided in their home by a nanny or other caregiver.[45]

Families would respond differently to this potential increase in income depending on their situation. For example, 45 percent of children from birth to age 3 living in families below the poverty level are cared for full time by a parent, as our American Enterprise Institute colleague Angela Rachidi has noted.[46] Some of those parents may have decided to remain home rather than work because they lack access to adequate childcare, which then results in family poverty. The flexible CTC would encourage those adults to increase work and earnings — especially before a child's birth — by offering them additional support in the year after the child's birth if they did so. For lower- and middle-income households in which both parents must work to meet expenses but earn too much to qualify for childcare subsidies, the flexible CTC makes it possible for one parent to reduce work hours, enabling families to maintain sufficient income while also caring for their own young children if they choose.

2. Increases income when it matters most.

Another crucial benefit of the flexible CTC is that it allows families to shift income to their children's earliest years when family resources are usually the most constrained but, at the same time, most important for children's development.[47] The flexible CTC gives families access to needed additional income during their

---

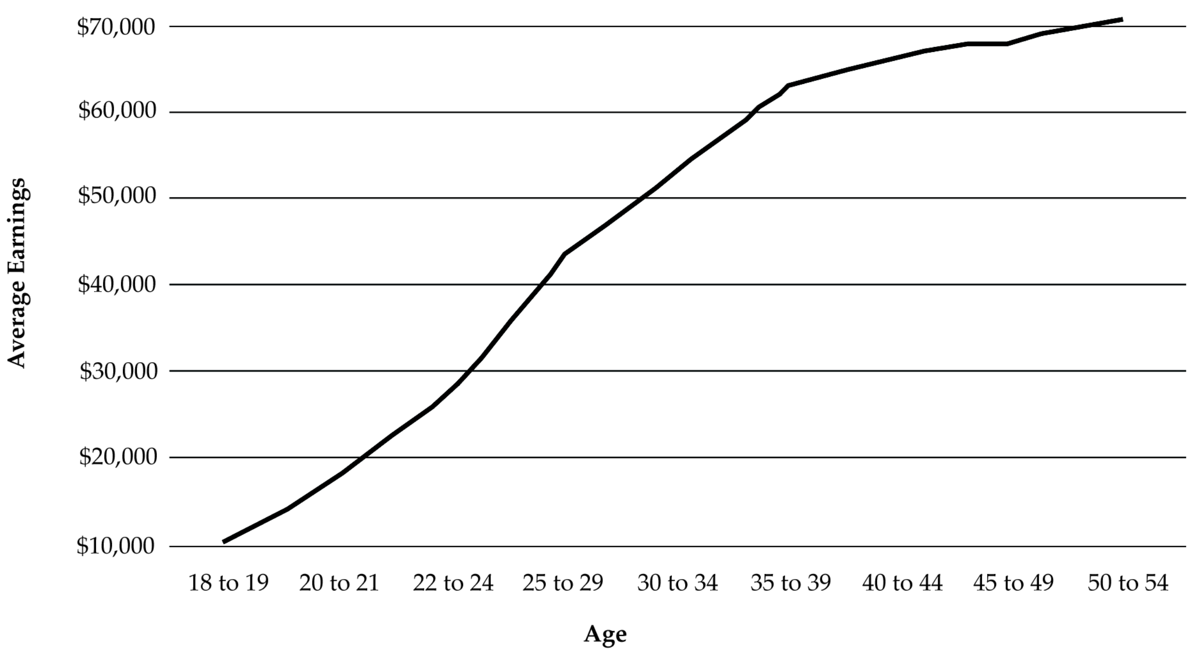
[44] In this case, if the family had already collected $2,000 in the current CTC over the first two years of the child's life, only $26,000 would remain for the advance CTC, divisible into as few as two years of payments and added to a CTC of up to $2,000 in each of those two years.

[45] As discussed in Section I, low-income families often lack access to high-quality childcare. Conventional approaches to improving that access emphasize supply rather than demand, focusing on increasing funding for existing programs or adding new programs, often administered by the government. However, a market-based, demand-driven approach through which parents are empowered with sufficient resources to pay for high-quality programs is likely to be more effective. For example, in a pilot program that provided substantial "early learning scholarships" to very low-income families in St. Paul, Minnesota, the number of high-quality programs in the community increased more than 55 percent, from 22 programs to 34 programs, within two years as existing programs improved their quality and new programs opened in the area in response to new market demand. *See* Arthur J. Rolnick and Rob Grunewald, "Early Childhood Development Is High-Return Economic Development," Testimony Before the Senate Health Education, Labor, and Pensions Committee, Children & Families Subcommittee (June 9, 2011).

[46] Rachidi, "How Do Low-Income Families Pay for Child Care?" AEIdeas (Oct. 17, 2019).

[47] *See* White House, "The Disconnect Between Resources and Needs When Investing in Children," Council of Economic Advisors Issue Brief (Dec. 2016).

Figure 5. Average Earnings of Employed Adults by Age: 18 to 54 (2019)



Source: U.S. Census Bureau, "Current Population Survey" (March Supplement). "Average earnings" is the average "total wage and salary per person," excluding those with no earnings.

children's critical early years, while repayment affects their income in later years when earnings are likely to be greater, childcare expenses are lower, and much less is at stake for their child's development.

Parents of young children incur extraordinary expenses, such as childbirth costs, baby supplies, and childcare, when they are least financially stable: typically in the earlier stages of their careers, with lower earnings, fewer savings, and less access to credit to finance investment in their children. (See Figure 5.) In fact, among families with a child under age 3, roughly 15 percent live in poverty, compared with about 10 percent for families whose youngest child is aged 13 to 17. By allowing this shift in taxpayer support to children's first years when they are most likely to be poor, the flexible CTC could therefore also help reduce child poverty.

The simplified scenarios shown in the table illustrate how this policy would affect the annual income of two typical families, each with one child. Calculations are for 2019; they assume $25,000 annual earnings for each parent who is working full time and expenditures of $10,000 per year for out-of-home infant care.

The first example shows a two-parent household in which each parent works full time, earning $25,000 per year. If that family opts for a maximum annual flexible CTC payment of $15,000 for the first year after their baby's birth, one parent can stay at home for that year to care for their newborn child. While the family's wages decline by $25,000 during the year in which a parent stays home to care for their infant, that lost income is fully offset by the combination of the flexible CTC ($15,000) and the family's savings from not having to pay for childcare ($10,000). Also, the lower income means that the family owes lower payroll taxes, does not owe income taxes, and qualifies for the earned income tax credit. The household's after-tax income net of childcare costs is therefore more than $7,000 higher than if both parents worked full time and paid for a year of out-of-home childcare.

The second example shows a single parent, also working full time and earning $25,000 per year, who shifts to half-time work after her baby is born, to increase the time she spends caring for

How the Flexible CTC Would Benefit Illustrative Families With a Newborn Who Want to Spend More Time Caring for Their Child

	Two-Parent Household		One-Parent Household	
	Current Law	Flexible CTC	Current Law	Flexible CTC
Wages[a]	$25,000 + $25,000 = $50,000 (both parents work)	$25,000 + $0 = $25,000 (one parent works)	$25,000 (full-time work)	$12,500 (half-time work)
Childcare expenses[b]	$10,000	$0	$10,000	$5,000
Payroll taxes[d]	$3,825	$1,913	$1,913	$956
Federal income taxes before credits[e]	($2,684)	($60)	$665	$0
Child tax credit	$2,000	$1,460[f]	$2,000[c]	$1,400
Earned income tax credit	$0	$3,493	$2,568	$3,526
Net federal income taxes	$684 liability	$4,893 credit	$3,903 credit	$4,926 credit
Flexible CTC	N/A	$15,000	N/A	$15,000
After-tax income, net of childcare costs	$35,491	$42,980	$16,990	$26,470

[a]Assumes $25,000 per year per adult for full-time work; $12,500 per year for half-time work.

[b]For simplicity, assumes no government childcare subsidy or receipt of the child and dependent care tax credit (receipt of which could also affect the CTC and the disposable income levels displayed).

[c]Includes $1,335 in refundable credits and $665 in nonrefundable credits.

[d]Total employee share of Social Security (6.2 percent), Medicare (1.45 percent). Additional state payroll taxes may apply.

[e]Assumes one child and no other income or expenses in 2019, according to source method (see efile.com, "2019 Tax Return Calculator"). Additional state income taxes may apply. Couple claims $24,400 standard deduction, and single parent claims $18,350 standard deduction.

[f]Includes $1,400 in refundable credits and $60 in nonrefundable credits.

her child. If she opts for a maximum annual flexible CTC payment of $15,000 for the first year after her child is born, she can care for her newborn infant half time because her wage decline of $12,500 is offset by a flexible CTC payment of $15,000 plus $5,000 saved in childcare costs. Her payroll taxes fall and EITC benefits rise as well. Her family's after-tax income net of childcare costs is therefore increased by more than $9,000.

This latter example shows how the flexible CTC would especially help single parents to improve their children's early life conditions. A single mother with a young child could use the flexible CTC resources to spend more time caring for her child and supporting her child's development while still maintaining a higher income than under current law. Or she could use those resources to purchase higher quality or additional hours of childcare, allowing her to increase her work and earnings and lifting her family's income even beyond that shown in the table.

The financial implications of the flexible CTC would clearly vary depending on a family's circumstances, and these simplified illustrations may overstate or understate the benefits of the proposal for specific families. For example, we have assumed that the families do not collect government childcare subsidies or the often-modest section 21 child and dependent care tax credit, for which some families may be eligible. Receipt of those benefits would increase the disposable income levels shown in the table, including for families with continued childcare expenses who claim the flexible CTC.

We have also ignored potential changes in eligibility for other means-tested benefits, such as the Supplemental Nutrition Assistance Program (commonly known as food stamps) or the section 36B Affordable Care Act premium assistance credits owing to reduced earnings from work. Nor have we accounted for the value of lost benefits from work or the effect of time out of work on a parent's later earnings.[48] Benefits could be larger than shown for parents whose childcare costs are higher than assumed in the example or for those who value the care they provide at home more highly than even the most expensive care they could purchase outside the home. Families earning more than the amounts shown in these examples would likely benefit financially as well, especially if they have more-costly childcare arrangements or are caring for multiple children. Precisely because all family situations are different, it is important that parents be empowered to make the best work-family decisions.

3. Promotes parenthood.

By increasing the financial feasibility of having children, the flexible CTC proposal could also help address declining birthrates, which reached their lowest level in U.S. history in 2018.[49] In addition to supporting parents who are caring for one young child, the proposal promises even greater financial advantages to parents who have more children.

For example, if parents had three children, each born two years apart, the advantages of the flexible CTC would multiply. A family with one working parent would be able to receive financial support over a series of years, enabling the other parent to provide care at home instead of struggling to afford increasingly expensive out-of-home care for a growing number of children. The financial advantages would rise well above the levels noted in the table for a single child, offering benefits to more families and possibly encouraging additional childbearing.

4. Alleviates marriage penalties.

The flexible CTC could also help alleviate the significant marriage penalties that accompany the EITC by making marriage a more financially attractive option for lower-income parents.[50] As two earners marry and combine incomes, family income rises, reducing or even eliminating parents' eligibility for the EITC. Under the flexible CTC, however, if two parents marry and one parent reduces hours of work or temporarily steps out of the workforce to care for a young child, reduced family income could be increased by both the flexible CTC and continued eligibility for the EITC. This would also minimize the EITC marriage penalty in those years. And, as described above, the availability of the flexible CTC in more than one year could encourage single parents to marry a worker to maintain eligibility for later flexible CTC payments.

5. Has minimal effect on the long-run budget deficit.

Finally, a key advantage of the flexible CTC is that the total per-child funds available under the current CTC would not appreciably change. The flexible CTC proposal would therefore have little long-term effect on the deficit because it simply shifts the timing of an already promised tax benefit.[51] The proposal could possibly result in higher EITC payments and reduced payroll and other tax revenue if it led to more parents reducing, rather than increasing, work and earnings. If those costs turned out to be substantial, Congress could offset them by reducing the income phase-out for the CTC, which was significantly increased in 2017. On the other hand, some lower-income parents who use the flexible CTC to care for their child at home might otherwise have received childcare subsidies to pay for out-of-home childcare. Those

---

[48] For a discussion of these factors, see Stacy Rapacon, "The High Cost of Being a Stay at Home Parent," *U.S. News & World Report* (Oct. 30, 2017).

[49] Sabrina Tavernise, "Fertility Rate in U.S. Hit a Record Low in 2018," *The New York Times*, Nov. 27, 2019.

[50] For a discussion of marriage penalties in the EITC, see Tax Policy Center, "Briefing Book" (May 2020).

[51] Additional costs would result if flexible CTC payments were received by a parent or for a child who later died.

subsidies would then be available to other families for whom out-of-home care is a better choice.

Our proposal would increase the deficit within a 10-year budget window by allowing parents to draw forward funds that otherwise would be available only outside of that budget window. However, because the increase would be largely temporary and the advances recovered over time, the cost within the 10-year window is not a true cost of the proposal. Waiving pay-go rules to accommodate the temporary deficit increase — which would be offset over time as repayments are made — would therefore make sense.

VI. Q&A

Is this just an attempt to prevent more spending on childcare subsidies?

No. Increasing funding for childcare is a separate question. In theory, Congress could both increase funding for childcare and adopt the flexible CTC. But while budget and other concerns may constrain large increases in childcare funding, the flexible CTC could substantially improve parents' ability to care for their children and provide for their families right now, with almost no increase in the long-run deficit.

How is this different from the old Aid for Dependent Children welfare program that paid parents when they did not work?

This is not a welfare program. The only change the flexible CTC would make is to give parents more control over when they access a tax credit that is already available to help them cover costs of raising their children. If some parents want to use those funds to stay home to care for their children, they can. Meanwhile, others might use the flexible funds to purchase higher quality childcare so they can work and earn more. Parents are in the best position to decide, and the choice would be theirs.

Is this an effort to force women back into the home?

No one would be forced to do anything under the flexible CTC. The choice to use the flexible CTC would belong to each family. If a family chooses not to use it, nothing would change. Only parents who think it would help their families would opt for this more flexible way of collecting a current benefit.

While the CTC offers parents $34,000 over a child's lifetime, you limit the flexible CTC to no more than $15,000 per year. Why not let parents draw forward more than that if they want to?

The flexible CTC is designed to provide new parents with better options to care for their children when it matters most. For that purpose, limiting the maximum flexible CTC to $15,000 per year is the best way to target resources to those most in need. Additional resources of $17,000 (the combination of the $15,000 maximum flexible CTC payment and the current $2,000 CTC) are sufficient to offset lost income if a parent of modest means opts to spend more time caring for a child. Similarly, for a parent who chooses to purchase more or better nonparental care for a child, $17,000 is also sufficient in most areas, for even the youngest children. Allowing a larger advance is more likely to direct resources further up the income scale at which point other benefits and resources, including the child and dependent care tax credit and private savings, are likely to be available. In some circumstances, providing advanced access to $15,000 per year for two years would also extend the developmental benefits for young children of being cared for by their parents, if that is how parents choose to use the funds.

Would there be restrictions on how parents could spend the flexible CTC? Could high-income parents accelerate the CTC simply to increase their investments in interest-bearing accounts?

There are no restrictions on how the flexible CTC could be spent, just as there are none on spending the CTC today. While the proposal enables parents to access higher quality childcare or offset lost wages when a parent stays home to care for a child, other uses may include saving for college or other education, making a down payment on a house, or paying other costs associated with raising children. The proposal trusts parents, regardless of their income level, to decide how best to use the funds, just like they are already trusted to spend the CTC. Congress could of course choose to apply maximum income limits on parents eligible to claim the flexible CTC if policymakers were concerned about families without demonstrated need claiming this new benefit.

If parents collect the flexible CTC during their child's early years, won't they have higher tax liabilities when their children are older?

If parents claim the flexible CTC during their child's early years, their total tax liability would rise accordingly in later years of a child's life, which is an important factor for families to consider. For many families, however, children's later years are when they have higher earnings and lower, if any, childcare costs. For parents electing to take the flexible CTC, those factors may more than offset the burden of increased tax liability when their children are older.

How would the flexible CTC be disbursed?

It may be desirable to have the payments disbursed monthly, as with the section 36B Affordable Care Act premium assistance credit. A previous article presented the case for disbursing the CTC throughout the year, to give families more timely access to needed resources.[52] Some bills in the 116th Congress — including H.R. 1560, H.R. 3157, S. 690, and S. 1138 — would authorize monthly disbursement of the CTC.

What happens if the current CTC provisions are not extended beyond 2025?

Strong bipartisan support already exists for keeping the CTC at $2,000 or even raising it further. Most Republicans are calling for permanent extension of the Tax Cuts and Jobs Act, which authorized the current CTC provisions in 2017. And a large majority of Democrats support bills that would permanently increase the CTC above $2,000 (while also increasing the CTC's refundability).[53] There is no discernible support in either party for allowing the CTC to fall back to $1,000, which is consistent with the history of this kind of legislation: For example, despite the controversy over the 2001 tax cut, its middle-income provisions were permanently extended with bipartisan support.[54]

VII. Conclusion

While policymakers are increasingly seeking better ways to support families with children, they face multiple constraints. Annual budget deficits had reached $1 trillion before the coronavirus crisis and will exceed $3 trillion in its wake. After the crisis has passed, deficits are expected to continue increasing because of growing entitlement costs associated with the retirement of the baby-boom generation.[55] Instead of proposing expensive new programs that cannot win bipartisan support, policymakers seeking to make a measurable difference would do well to consider how services and supports already available can be redesigned to more effectively help families with young children.

The pandemic has also highlighted the need for innovative policies enabling parents to better balance work with caring for their young children. While the CTC already promises up to $34,000 in taxpayer support to assist parents over the first 17 years of their child's life, the design of the benefit unnecessarily limits parents' ability to truly change the trajectory of their child's and family's life with those funds. The Advancing Support for Working Families Act would give families some additional control over how to care for their young children by allowing parents to draw forward up to $5,000 of the CTC into the year of a child's birth or adoption. But why constrain flexibility to just $5,000?

Policymakers often talk of providing states with the flexibility to test new and better ideas. But don't the millions of families across America struggling to make ends meet while raising their young children deserve that same kind of

[52] Aparna Mathur, "Starting Small: Using Existing Tax Credits to Fund Family Leave," *Tax Notes*, July 27, 2015, p. 459.

[53] For example, the recently proposed American Family Act would permanently increase the CTC to $3,000 for children aged 6 to 16 and to $3,600 for children aged 5 and younger and would automatically adjust those values for inflation. The bill was introduced in the 116th Congress as H.R. 1560, sponsored by 187 of the 232 Democrats in the House, and as S. 690, sponsored by 38 of the 47 Democrats and Independents in the Senate.

[54] In the unlikely event that the CTC was returned to $1,000, however, we propose that the maximum amount that could be accelerated would be cut in half, starting in 2026. Taxpayers who had previously opted for the flexible CTC would remain liable for their full repayments, which could exceed the amount of the reduced CTC for which they would otherwise be eligible in 2026 and beyond. Note that the expiration of the TCJA changes would also restore the section 151 personal exemption, which would provide some taxpayers with additional resources with which to make the repayment.

[55] Congressional Budget Office, "The Budget and Economic Outlook: 2020 to 2030" (Jan. 28, 2020).

flexibility? Why prevent parents from using already promised tax benefits in their children's earliest years when their family needs those resources the most? The flexible CTC proposal removes those restrictions, enabling parents to decide when and how to use the funds to advance the well-being of their children and their family.

This idea is about more than just modestly reducing a family's tax bill over the years, as the current CTC does. It serves a much more important goal: empowering parents to balance their need for earnings with their desire to truly flourish by raising healthy, happy children and building strong families. How to do that is best determined by millions of parents themselves, not regulated by lawmakers in Washington. The flexible CTC would give America's parents a powerful new tool to make the best decisions for their children and families, and at an affordable cost for taxpayers. ■