Child Care

There are currently a number of child care proposals on the hill from both sides of the aisle, which contain tax breaks to stay-at-home parents. What's the Administration's position on helping stay-at-home parents?

There are a number of proposals on the Hill to help stay-at-home parents, and we are working hard to evaluate their costs and effects. The President believes that we should respect and support parents in whatever choices they make, whether they work or stay at home. He has tried to support that choice in the past through a variety of actions to increase family income, such as expanding the Earned Income Tax Credit, increasing the minimum wage, and passing the $500 per-child tax credit. These actions targeted to help families will cost roughly $250 billion over the next five years. The President believes that by continuing to work together on a bipartisan basis and by taking the best proposals from both sides of the aisle, we will achieve legislation that benefits all America's families and children.

TO: Jen, Neera, Nicole
FROM: Kevin
RE: Senate Committee Hearing on Child Care
DATE: February 23, 1998

Below are what I believe to be the major talking points from the committee hearing this afternoon. Just FYI, the Senators present were Chaffee, Coats, Jeffords, Gregg and Wellstone.

- It was a highly conservative panel with the exceptions of Olivia Golden, Ellen Galinsky and Helen Blank.

- There was a big debate on what exactly constitutes "quality" in child care. Ms. Golden asserted that there is now a consensus on what high "quality" is. This was flatly disputed by just about every other member of the panel. They challenged the assumption that quality can be bought with federal dollars. High quality for them was only possible if the child was in the care of a parent or relative.

- The stay-at-home versus working parent was a contentious issue. Wade Horn bluntly asked Ms. Golden if there was a provision for two parent families who, for example, split time working day and night shifts so someone could always be home with the child. She hedged on her answer, citing the tax-credit, etc. which angered some panelists.

- Also there was a definite fracturing of the panel on the issue of working poor versus "middle class" families. In particular Republican fashion, the conservatives on the panel stressed that the large majority of working families (something like 80%) are already satisfied with and can afford their day care arrangements. For those who cannot afford child care, they advocated further tax cuts and credits rather than child care incentives. There was by no means a consensus on this issue, however.

- Even the conservative panelists conceded that child care is a necessity at times, and that improving its quality and resources should be a priority. But, they want child care to be the "back-up" option rather than the primary option. Relatives, parents, etc. should come first.

- Predictably, just about everyone stated they wanted a child care policy that did not discriminate against stay-at-home moms. Even Senator Wellstone expressed this sentiment under the following conditions: (1) It did not simply reverse the discrimination against working parents; and (2) Everyone was willing to acknowledge that it would cost more money and necessitate more resources.

- The panel also played the "choice" card. They want an initiative that will give parents the flexibility to choose whether to stay-at-home or go to work. In essence, they argued that it is wrong to force parents to make a choice they don't want to make to receive federal benefits.

- To Senator Coats' credit, he remained relatively calm during the proceedings and asked very few questions. In fact, most of the Senators on the panel were silent (with the exception of Wellstone).

- I wouldn't classify the panel as "assailing" Olivia Golden or others. It was more like "polite rebuttals."

- Again, the issue the conservatives had the most trouble dealing with, and for this we owe credit to Helen Blank who brought up the issue, was what to do with low-income families who need to work to support their families. Since many families have to work, Helen was adamant that they not be forgotten in any legislation drawn up. And, she focused on the fact that if the parents stopped working, they would have to go back on welfare, something the panel had difficulty answering for.

- There was also a lot of statistical information presented on the effects of child care on child development but it was all very evident in the material I gave to you.

Stay-at-Home Moms

CONGRESSIONAL Republicans haven't decided how to respond to the increased child care subsidies that are the largest initiative in the president's budget. Some would just say no to what they regard as a further expansion of government; some, instead of subsidizing child care, would use the money for a generalized tax cut. Others, however, see the cost of child care as a pervasive social problem from which, for political as well as substantive reasons, the party can ill afford to turn away. They are drafting an alternative to the president's plan, one feature of which, it seems pretty clear, will be what they would call neutrality as to the form of care. In addition to helping working parents buy child care, they want to help parents of preschool children who make the choice to remain at home.

A group of Senate Republicans led by John Chafee has drafted one such proposal. The subsidy for stay-at-home moms, as it is called, would be financed in part by imposing an income cap on the current dependent-care tax credit. A phase-out of that credit above certain income levels is overdue and a good idea no matter how the money is used. The stay-at-home benefit has helped Mr. Chafee attract the support of party conservatives who might otherwise have opposed the bill; Sen. Jesse Helms is among the cosponsors. Meanwhile, Sen. Christopher Dodd has drafted a Democratic bill that also includes a small stay-at-home provision, and administration officials have suggested that they too could support such a step if the benefit is financed.

The political appeal of a stay-at-home benefit is obvious. Partly it is symbolic; a vote in favor translates into an expression of support for the traditional family and traditional values—and offers a way of sending additional money home to a blameless constituency besides. Whatever the research on the subject may suggest, a lot of people, including many who are not traditionalists, also believe that, all else being equal, most very young children especially are better off in a parent's care.

But a stay-at-home benefit presents problems as well, and not even the enthusiasts in Congress have thought it through completely. Part of the predicate is that the government shouldn't choose among lifestyles by favoring paid-for child care over parental care. But tax economists will tell you that the wages a working mother uses to pay the cost of child care, for example, are also subject to tax. A mother who stays home and forfeits the earnings but also escapes the cost ends up with the child care without the tax. Even after the child care credit, for which many families don't qualify, it isn't clear which kind of household comes out ahead. The income tax is meanwhile criticized for favoring one-earner over two-earner families—that's part of the basis for complaints about the "marriage penalty"—and the Social Security benefit structure tends to favor one-earner families, those with stay-at-home moms, as well.

Many strong congressional supporters of stay-at-home moms also have a consistency problem. In the last Congress, they were vigorous supporters of a welfare bill the point of which was that welfare moms should go to work. You can argue that welfare is a different matter, which it is—and no one can be in favor of chronic dependency. But how does the society—or Congress—then draw the line between the mothers deserving of help to stay home and those it wants to push into the work force? Surely the rule isn't that lower-income mothers should work while those with somewhat higher incomes are subsidized in order not to.

In fact, the relating of subsidies to need is a problem with all these proposals. Part of the reason is that all rely to some degree on the tax code as a delivery mechanism, and families toward the lower end of the income scale already owe no income tax. They can't be given a cut; the only way to extend them a benefit is to give them a "refundable" credit, meaning the Treasury ends up sending them a check. But Republicans oppose this as a form of welfare, and the president didn't include it in his proposal either (though he did include another device for getting grants to the poor).

The risk is that, in the name of child care, the parties will end up creating, each for its own political purposes, a mushy, mainly middle-class benefit that, if stay-at-home moms are included, will be indistinguishable from a generalized tax cut for families with small children—an extension of last year's children's credit. Such a bill would be far better politics than policy. The child care problem in this country isn't helping moms stay home. It's helping low- and lower-middle-income moms who mostly have no choice but to work find for their children the decent care that families at higher income levels can already afford. That's the test by which these bills should be judged.

DATE: 1/29/98

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TOTAL PAGES
INCLUDING COVER) : 4

REMARKS: Hi Laura- will you please get this around to Elena and gang.
Thanks.

Elena, Jen, Nicole and Neera,

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

So lets talk more later.

Mary

NOTE TO: Mary Bourdette

FROM: Don Oellerich

Subject: Stay at home moms

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

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

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

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

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

Policies to Help Working and Stay-at-Home Parents

Administration's Policies Strengthen Families

- Over the past five years, the Administration has sought to strengthen families by:
  - -- increasing the earned income tax credit for 15 million working families (and between FY 1999 and 2003, families with children will receive $150 billion from the EITC);
  - -- creating a new $500 child credit for 26 million taxpayers at a cost of $98 billion between FY 1999 and 2003; and
  - -- by enacting the Family and Medical Leave Act.

- These provisions have assisted families with children, regardless of whether one or both parents work outside the home.

- The Administration's child care proposal builds on these previous initiatives by helping low and moderate-income families meet their child care costs when both parents must work.
  - -- Under the Administration's proposal, the Child and Dependent Care Tax Credit would be expanded for the first time since 1982, but only for families with adjusted gross income under $59,000. This expansion is estimated to cost $5.1 billion between FY 1999 and 2003. The Administration has also proposed a $7.5 billion expansion of block grant funds for low-income working families over the next five years.

- The Administration's child care proposal has been criticized for failing to address the needs of stay-at home parents. Three alternatives have been suggested: (1) income splitting; (2) income averaging; and (3) extending the child and dependent care tax credit to stay-at-home parents.

Income Splitting

- A number of Republicans (including Senator Ashcroft) are advocating a costly approach, which would allow "income splitting." (S. 1285) Under income splitting, each spouse would be given half of the couple's total taxable income, and then the rate brackets for single filers would be applied to each half of the income. Each spouse would also be entitled to a full standard deduction. Income splitting would be optional. Couples who currently benefit from the marriage bonus (generally couples with one high-earning spouse and one low or non-earning spouse) would be able to retain the bonus. The legislation specifies that credits are to be awarded as if the couple filed jointly.

- Income splitting could be achieved in other ways. Congressman Weller's bill (H.R. 2456) would attribute earned income and pension income to the spouse who performed the services. Income from property would be divided according to their ownership rights. Tax would then be imposed on each spouse's income according to the unmarried rates. The rules for allocating deductions are complex and vary depending upon the deduction. This proposal is also optional, allowing couples to retain the marriage bonus by filing jointly if they prefer. Under such a system, spouse would likely respond by shifting property between themselves (possibly through expensive and time-consuming transactions) in order to minimize their income tax liability.

- Income splitting reduces marriage penalties, particularly for two-earner households, and increases marriage bonuses among one-earner couples.

  -- It is an expensive way of reducing marriage penalties or helping stay-at-home parents. It not only reduces marriage penalties, but also increases marriage bonuses. It is also expensive because it cuts taxes for married couples without children, although it provides no assistance to single parents.

Income Averaging

- Taxpayers who leave the workforce in order to raise children would be allowed to average income from prior high-earning years with their lower income during the current year in order to compute an average annual income over the period. Income averaging may reduce the taxpayer's total income tax liability over the period. As a consequence, taxpayers may receive a large tax cut during the year in which their income drops.

- Income averaging will disproportionately benefit higher income taxpayers, and in fact, provide little or no benefit to low and moderate-income taxpayers. Higher-income taxpayers will reap the larger benefits of income averaging because they will be able to apply a lower marginal tax rate to years of higher earnings.

- Income averaging is complicated -- both for the taxpayer and the IRS. Limiting income averaging to stay-at-home parents adds even greater complexity, since there is no simple way to define a stay-at-home parent. For the IRS, the current challenge must be to solve the Year 2000 problem and to respond to Congressional criticism of the agency's administration of the existing tax code.

- Income averaging was repealed in the Tax Reform Act of 1986, in part because the reduced number of brackets diminished the fluctuation in tax liability as income fluctuated. To reinstate it now could be attacked politically as an admission that the expansion of rate brackets supported by the Administration has made the tax code less fair, requiring the reinstitution of a complicated income averaging system to compensate for those problems.

Extending Child and Dependent Care Tax Credit to Stay-at-Home Parents

- Senator Chafee has introduced a bill ("Caring for Children" Act) that would extend eligibility for the child and dependent care tax credit to "stay-at-home" parents with children under the age of four. His co-sponsors include Senators Hatch, Snowe, Roberts, Specter, and Collins. Under their proposal, taxpayers with a child under the age of four would be deemed to have incurred $150 of child care expenses a month.

  -- While promoted as a way of helping stay-at-home parents, Senator Chafee's proposal also benefits a large number of single working parents and dual-earner couples. These parents do not qualify for the child and dependent care tax credit under current law because they do not pay for child care, or they are reluctant or unable to report the social security number of their child care provider.

- Compared to a two-earner couple with the same income and child care responsibilities, the one-earner couple with a stay-at-home spouse is already better off. Stay-at-home parents provide services (including child care) to their family, but the imputed income associated with these services is not taxed. Two-earner couples must use after-tax dollars to purchase the same services. Allowing one-earner couples with a stay-at-home parent to claim the child and dependent care tax credit worsens the inequity.

- Providing a tax benefit for staying at home with children is particularly unfair when federal law is requiring welfare recipients to work rather than care for their children.

Defining the Problem

- The goal of increasing assistance to stay-at-home parents is of questionable value. The current playing field may, in fact, be tilted against work, by providing marriage bonuses for stay-at-homes through the structure of the income tax (even after accounting for our proposed expansion of the child and dependent care tax credit) and Social Security spousal benefits.

  -- Stay-at-home parents provide services to their family, but the imputed income associated with these services are not taxed. Thus, two families with equal monetary income are not equally well-off, if one family contains a stay-at-home spouse, engaged in home production, and the other family contains two working spouses.

  -- The stay-at-home parent is more likely to receive a tax bonus, while the two-earner family is more likely to be penalized under the current tax code.

- -- Spouses must choose between receiving benefits based on their own contributions or spousal benefits equal to one-half of the retired spouse's benefits. As a consequence, working spouses may receive little or no return to their lifetime social security contributions.

- Extending assistance to stay-at-home parents is likely to be costly. The Administration's proposal provides a targeted tax cut to taxpayers who work and pay for child care expenses. The proposal provides an average tax cut of $330 to 3 million taxpayers with about 4 million children under the age of 13. Extending a similar tax cut to stay-at-home parents or to others who do not incur costs for the care of the children will raise the costs of this proposal dramatically.

  -- The President is committed to fiscal austerity and has opposed using the budget surplus (if it materializes) for tax cuts.

  -- Senator Chafee finances his expansion, in part, by reducing and eliminating the child and dependent care tax credit for families with adjusted gross income over $75,000. This is a tax increase on families with children -- that particularly adversely affects dual-earner couples (e.g., a husband who earns $45,000 married to a wife who earns $30,000).

- Currently, families with children will receive about $250 billion from the Child Credit and the EITC over the next five years. Under our current proposal, the costs of the child and dependent care tax credit would be increased from $12.5 billion to $17.6 billion between FY 1999 and 2003. In combination, these policies provide significant assistance to families with children. If additional tax cuts are to be proposed, then other priorities must be weighed against the needs of families with children.

- The Republican leadership does not seem interested in child tax policies this year. They did not include child credits for working or stay-at-home parents in their list of 19 legislative priorities for this session.

A preferred alternative, if something needs to be done

- A better approach would be to increase the child tax credit for families with children in their first several years of life. This could be administrable and would provide an equal benefit to those who can stay at home with their children as well as those who must return to the workforce in order to feed their children.

  -- Doubling the child credit (from $500 to $1,000) for taxpayers with children under the age of three would cost about $13 billion over five years.

Table 4. Total Number of Families with Children Under Age 14
(1997 March Current Population Survey)

	Total Number of Families	Total Number of Married-Couple Families	Total Number of Single-Parent Families
Total Family Income:			
Under 10,000	4.76 million	.70 million	4.06 million
>= 10,000 and < 20,000	4.57 million	1.79 million	2.78 million
>= 20,000 and < 30,000	4.23 million	2.60 million	1.63 million
>= 30,000 and < 40,000	3.94 million	3.01 million	.93 million
>= 40,000 and < 50,000	3.36 million	2.91 million	.45 million
>= 50,000 and < 75,000	6.18 million	5.79 million	.39 million
75,000 +	5.33 million	5.16 million	.17 million
All Incomes	32.36 million	21.96 million	10.40 million
Poverty Status:			
Poor	7.15 million	1.96 million	5.19 million
Not Poor	25.20 million	20.00 million	5.20 million

Table 1. Total Number of Families with Children Under Age 14 with a Non-Working Mother (1997 March Current Population Survey)

	Total Number of Families with a Stay-at-Home Mother	Total Number of Married-Couple Families with a Stay-at-Home Mother	Total Number of Single-Parent Families with a Stay-at Home Mother
Total Family Income:			
Under 10,000	2.4 million	.51 million	1.91 million
>= 10,000 and < 20,000	1.33 million	1.01 million	.32 million
>= 20,000 and < 30,000	1.07 million	1.01 million	.06 million
>= 30,000 and < 40,000	.89 million	.87 million	.02 million
>= 40,000 and < 50,000	.69 million	.67 million	.02 million
>= 50,000 and < 75,000	.98 million	.96 million	.02 million
75,000 +	.94 million	.94 million	.002 million
All Incomes	8.32 million	5.96 million	2.36 million
Poverty Status:			
Poor	3.38 million	1.29 million	2.09 million
Not Poor	4.95 million	4.67 million	.28 million

Table 2. Total Number of Families with Children Under Age 14 with a Non-Working Mother and with at least One Child Under Age 6 (1997 March Current Population Survey)			
	Total Number of Families with a Stay-at-Home Mother	Total Number of Married-Couple Families with a Stay-at-Home Mother	Total Number of Single-Parent Families with a Stay-at Home Mother
Total Family Income:			
Under 10,000	1.61 million	.34 million	1.27 million
>= 10,000 and < 20,000	.86 million	.70 million	.16 million
>= 20,000 and < 30,000	.71 million	.69 million	.02 million
>= 30,000 and < 40,000	.56 million	.55 million	.01 million
>= 40,000 and < 50,000	.44 million	.43 million	.01 million
>= 50,000 and < 75,000	.57 million	.56 million	.01 million
75,000 +	.54 million	.54 million	.002 million
All Incomes	5.31 million	3.83 million	1.48 million
Poverty Status:			
Poor	2.26 million	.90 million	1.36 million
Not Poor	3.05 million	2.93 million	.12 million

Table 3. Total Number of Families with Children Under Age 14 with a Non-Working Mother and with No Children Under Age 6 (1997 March Current Population Survey)

	Total Number of Families with a Stay-at-Home Mother	Total Number of Married-Couple Families with a Stay-at-Home Mother	Total Number of Single-Parent Families with a Stay-at Home Mother
Total Family Income:			
Under 10,000	.81 million	.17 million	.64 million
>= 10,000 and < 20,000	.47 million	.31 million	.16 million
>= 20,000 and < 30,000	.35 million	.31 million	.04 million
>= 30,000 and < 40,000	.32 million	.31 million	.01 million
>= 40,000 and < 50,000	.25 million	.24 million	.01 million
>= 50,000 and < 75,000	.42 million	.40 million	.02 million
75,000 +	.40 million	.40 million	0
All Incomes	3.01 million	2.13 million	.88 million
Poverty Status:			
Poor	1.11 million	.39 million	.72 million
Not Poor	1.89 million	1.73 million	.16 million

NOTES ON TABLES

This data reports mothers who did not spend <u>any</u> time in the labor force over the past year.

If stay-at-home fathers are added, the numbers change very slightly.

Date: 01/29/98 Time: 07:32
RNC: Married, with taxes, how the tax law punishes married couples

JAN 29, 1998, M2 Communications - Since 1969 the federal tax code has penalized 21 million couples annually for getting married. The Republican Congress would promote marriage by allowing couples to either choose between filing jointly or as individuals, or by allowing couples who do file jointly to split their combined income to receive the best possible rate.

The Penalty on Marriage

* When a couple gets married, they are taxed at a higher rate than if they were still single or divorced.

* The marriage penalty for the average couple is $1,400.

Consider a man and a woman, each earning $30,500 a year:

	Male	Female	Couple
Adjusted Gross Income	$30,500	$30,500	$61,000
Personal Exemption & Standard Deduction	$6,550	$6,550	$11,800
Tax Liability	$3,592	$3,592	$8,563
Tax Rate	15%	15%	28%
MARRIAGE PENALTY		$1,378	

A Better Use of Money

With an additional $1,400 the average couple could:

* Pay the electric bill for 9 months- which averages $153 per month.

* Pay for 3-4 months of daycare (Clinton's proposed daycare tax credits average $358 per family and would only cover 3-4 weeks of childcare).

* Pay for a five-day vacation at Disneyland - a package rate that includes a double room at an official Disney hotel and entrance to the entertainment park for Mom, Dad and two kids.

* Pay 4 - 5 payments on their mini-van -- car payments for an American mini-van average between $300 and $350 per month.

* Eat out 35 times -- a meal at a restaurant for two people averages $40.

* Purchase 1,053 gallons of gas -a gallon of gas averages $1.33 per gallon.

* Purchase 1,228 loaves of bread -- a loaf of bread averages $1.14.

-0-

Extending Child and Dependent Care Tax Credit to Stay-at-Home Parents

Senator Chafee has introduced a bill ("Caring for Children" Act) that would extend eligibility for the child and dependent care tax credit to "stay-at-home" parents with children under the age of four. His co-sponsors include Senators Hatch, Snowe, Roberts, Specter, and Collins. Under their proposal, taxpayers with a stay-at-home spouse would be deemed to have incurred $150 of child care expenses a month.

More details about this proposal are not yet available. But while it is not obvious how the credit for stay-at-home parents would operate, the following generic concerns arise:

<u>Concerns</u>:

Extending the child and dependent care tax credit to stay-at-home parents would raise potentially serious inequities, be costly, and add significant complexity to the tax code.

- Compared to a two-earner couple with the same income and child care responsibilities, the one-earner couple with a stay-at-home spouse is already better off. Stay-at-home parents provide services to their family, but the imputed income associated with these services is not taxed. Two-earner couples must use after-tax dollars to purchase the same services. In addition, the family with the stay-at-home parent is more likely to receive a tax bonus, while the two-earner family is more likely to be penalized under the tax code. Allowing one-earner couples with a stay-at-home parent to claim the child and dependent care tax credit worsens the inequity.

- If a stay-at-home parent is defined in the strictest sense (someone who does not work), then many parents may not benefit from the proposal. For example, many working parents rely on other family members or informal arrangements with friends and neighbors to care for their children. They often are not eligible for the child and dependent care tax credit because they do not pay cash in exchange for the care of their children, and they would not be eligible under proposals that extended the credit to parents who did not work. It is hard to justify giving a credit to stay-at-home parents who do not pay for child care when other taxpayers with family child care arrangements are denied a tax benefit.

- Working parents could potentially get smaller credits than stay-at-home parents. Any child care credit for a stay-at-home parent necessarily depends on deeming that parent to have a certain level of child care expenses ($1,800 under the Chafee proposal). Working parents who spend less than that deemed amount on child care (e.g. a parent working five hours a week who pays a babysitter for a very limited number of hours) or parents whose credit is limited by their earned income could be receiving a smaller credit than parents who do not actually have to pay child care bills.

- Because moderate and higher income families are better able to support a stay-at-home parent, they will get more of the benefit than low-income taxpayers. Providing a tax benefit for staying at home with children is particularly unfair when federal law is requiring welfare recipients to work rather than care for their children.

- Extending assistance to stay-at-home parents is likely to be costly. The Administration's proposal provides a targeted tax cut to taxpayers who work and pay for child care expenses. The proposal provides an average tax cut of $330 to 3 million taxpayers with about 4 million children under the age of 13. Extending a similar tax cut to stay-at-home parents or to others who do not incur costs for the care of the children will raise the costs of this proposal dramatically.

- There is no simple way to define a "stay-at-home" parent through the tax code. The most easily administrable rule would be to define a "stay-at-home" parent as a taxpayer with dependent children and no earned income in a taxable year; but even this definition will require the IRS to make complicated changes to either the tax forms (which currently show only the combined income of a couple) or to processing (to pick up more and possibly erroneous information from the attached and unedited form W-2s as the returns are being processed).

- A definition of a stay-at-home parent, based on the absence of earnings, does not provide any tax cuts for a taxpayer who stays at home for twelve months that happen to span two taxable years. The taxpayer will never have a tax year with zero earnings but is providing the same level of attention to his or her child as a parent who stays home January first through December thirty-first. Any definition of stay-at-home parent based on pro-rated earnings would be impossible to administer without radically changing the current annual information reporting system and creating huge reporting burdens on employers.

A preferred alternative, if something needs to be done

- A better approach would be to increase the child tax credit for families with children in their first two years of life. This could be administrable and would provide an equal benefit to those who can stay at home with their children as well as those who must return to the workforce in order to feed their children.

  -- Doubling the child credit (from $500 to $1,000) for taxpayers with children under the age of one would cost about $4 billion over five years.

Office of Tax Policy
January 27, 1998

Department Of The Treasury

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Number of pages (including this cover sheet):

Date; Time: January 28, 1998; 2:44pm

From: Janet Holtzblatt
Phone: 202/622-1327 Fax: 202/622-0236

Comments:

UNCLASSIFIED

Increasing Maternity Leave Resources by Promoting Improved Withholding

The Problem: A major limitation on the ability of families to take full advantage of FMLA is that they do not have the financial resources to support an extended absence from the labor force by the female earner. This may be one reason why only 16% of women who take FMLA for care of a newborn use the entire 3 months of leave.

A Partial Solution: There is, in principle, a partial solution to the cash flow problem facing families taking leave: promote the use of prompt withholding adjustment among families who have newborn children. In this way, the families can avail themselves immediately of the tax benefit that results from this new child.

- When a child is added to the family, the tax burden falls for two reasons: the family is entitled to an additional personal exemption, and a new, additional child tax credit (ultimately $500 per child).

- But, if the family does not adjust their withholding for the arrival of this new child, they will not benefit from these features until their taxes are filed the next year. This may be too late for cash-strapped families who are reluctant to take leave because they can't make ends meet.

- Over-withholding is a significant phenomenon, with the average refund exceeding $1,200 in 1996 (although, given the persistence of overwithholding, this proposal is unlikely to induce more than a small percentage increase in the total amount actually withheld).

- For the typical family with no other children, where the wife takes three months of leave upon the birth of their first child, they could receive roughly $100 in reduced tax payments over the three months of leave by promptly adjusting withholding. For the second and subsequent children, the impact would be larger; for example, withholding adjustments could result in roughly $350 upon birth of a second child.

The Policy: We could promote increased withholding by those taking leave in at least three ways:

- The President could use the "bully pulpit" to urge parents to change their withholding to increase take home pay after the birth of a child.

- As part of the requirements of FMLA, employers could be required to notify employees about the advantages of adjusting withholding at the birth of a child, through the same mechanisms now used to notify employees of their FMLA rights.

- Employers could also be required to provide employees taking maternity leave with a W-4 form to update their withholding (or, more relevantly, their husband's withholding). This would impose some small costs on employers, but would make it more likely that families actually take the step of adjusting withholding.

Then we can present the FMLA options as something extra, rather than the only thing.

Let's get Gene's comments + try to get this in by his office time. (check with Phil as to when that is and when it to preserve NEC.)

Gene - In addition ... should we let him know that the early learning fund + research fund can support stay-at-home parenting? I think this might be a good idea - perhaps even in the 1st ¶.

December 24, 1997

MEMORANDUM TO THE PRESIDENT

Good work.

FROM: BRUCE REED
GENE SPERLING

SUBJECT: FAMILY AND MEDICAL LEAVE EXPANSIONS

A number of your advisors, including the First Lady, believe that your child care initiative should include a proposal ~~to~~ ~~enable~~ help parents ~~to~~ stay at home with their young children. ~~They argue that~~ These policies ~~offer~~ expand parental choice ~~to parents~~ and could help inoculate your child care initiative against conservative attack. This memorandum outlines proposals (without budgetary implications) to expand the Family and Medical Leave Act (FMLA) that will help parents stay at home with their newborns.

FMLA currently requires employers with 50 or more employees to provide up to 12 weeks of unpaid leave to eligible employees for certain family and medical reasons, including the care of a new child. Employees are eligible if they have worked for the employer for at least 12 months and for at least 1,250 hours over the previous 12 months, ~~and if the employer has at least 50 employees working within 75 miles of the employee's worksite~~. Public agencies are covered by FMLA regardless of size, but employees must still meet the eligibility requirements, including working at a site where at least 50 employees are employed within 75 miles.

STET

Options to expand FMLA include: (1) applying FMLA to businesses with 25 or more employees, either in one step or incrementally; or (2) extending the permissible leave period to 24 weeks for parents with newborns.

Expanding Coverage to Businesses with Fewer Employees. ~~Under this option,~~ You could call for lowering ~~the~~ FMLA's employee coverage threshold from 50 to 25, either in one step or incrementally (for example, by lowering it to 40, then 35, and finally 25). ~~You could also propose that it be lowered to some point between 50 and 25, and establish a commission to study the impact and determine whether it should be lowered further.~~

A commission is a silly idea.

According to the Department of Labor, 67 million employees are currently eligible for FMLA. Lowering the threshold to 40 would add 3.4 million people; ~~and~~ lowering it to 35 would add 5.4 million people. Lowering ~~it~~ the threshold all the way to 25 would add about 10 million people, increasing by 15 percent the number of employees covered by FMLA, and doubling the ~~The~~ number of employers covered by the Act ~~would~~ (from ~~double from~~ 330,000 to 690,000).

STET

This proposal would ~~clearly~~ give FMLA protection to more people at no cost to the federal government. It would receive strong support from labor, women's groups, and other core any attempt to lower the threshold

probably would criticize ~~the proposal~~ as detrimental to

The proposal, however, Many

Democratic constituencies. ~~However, lowering the threshold~~ would provoke strong business opposition. ~~In addition, it would likely be criticized by~~ Republican and some Democratic Members of Congress ~~because of their concerns about the impact on~~ small businesses. (According to a survey by the Family and Medical Leave Commission, however, the great majority of businesses ~~who~~ that have implemented FMLA report little or no cost increases.) Introducing a FMLA proposal might also raise the flex-time debate in Congress again.

Extending FMLA Leave from Three to Six Months. This option would allow workers who are currently eligible for FMLA to take a longer leave. Approximately [12] million workers take FMLA leave each year. According to the FMLA Commission's survey, about [10 to 20/12.5 percent] of workers take the full 12 week leave (for any purpose -- not only parental and newborn (babies) reasons); these would be the workers most likely to take additional time off. ? ?

This proposal would give parents additional time to spend with their new~~borns and newly adopted at a critical time in their children's lives~~ (again at no cost to the federal government). It might help respond to the charge that our child care proposal only helps working parents, not those who -- with a little help -- can and want to stay home with their children for a period of time. However, any family leave policy would not fully respond to that criticism because leave is by definition geared toward ~~those~~ people who have been in the workforce and will return to it. In addition, this proposal would not help workers who currently cannot afford to take even the full 12 weeks of FMLA leave. According to the Commission's survey, 65 percent of those who would have liked to take leave to care for their newborn, foster, or adopted child could not do so for economic reasons. ~~In large part~~ Because ~~it~~ would not help t~~he 65 percent of workers who cannot afford to take even three months of leave~~ such workers, FMLA advocates would likely give ~~this~~ it ~~proposal~~ only lukewarm support. Finally, business would ~~likely~~ probably oppose this proposal, though with less intensity than the proposal to lower the employee threshold.

Recommendation. DPC recommends that you propose extending the length of FMLA leave from three to six months. ~~While we note that~~ Although this ~~policy~~ proposal will affect only a relatively small, well-off group of people, it will help, at least some parents stay at home to care for their young children in the critical first six months. ~~We~~ DPC believe(s) that lowering the employee threshold will provoke too much opposition ~~and will not therefore be seen~~ to be viewed as a viable proposal to help parents stay at home.

WAITING FOR GENE FOR NEC POSITION.

Is this statistic ~~[illegible]~~ the correct one? Is the 65% people who can't take any leave at all, or also people who can't take the full 3 months? If the former, the relevant statistic should be even higher. But it's not worth worrying ...Thanks.

Gene
- Not for lowering threshold

Elena --

What do you think about including something like this . . .?

Other Proposals to Help Parents Stay at Home. We have also considered options that would have budget consequences, including providing paid parental leave or a portion of child care subsidies for parents that chose to stay at home. As you may remember from our December 11 memorandum on child care, we did not recommend providing paid parental leave, given the cost (at least $1 billion per year). Because other options are largely untested, we would recommend making funds from the new child care research and evaluation available for a demonstration project to test policies to help parents stay at home with their young children. Senator Kennedy has included authority for a "stay-at-home parents" demonstration project in his child care bill.

F 11/26/97

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DRAFT **DRAFT** **DRAFT**
11/26/97 3:00 PM

Paid-Leave Plan for the Birth or Adoption of a Newborn

Thanks to the Family Medical Leave Act, signed into law by President Clinton on February 5, 1993, millions of Americans can take unpaid leave from their jobs (up to 12 weeks per year) to care for an infant after birth or adoption -- and know that a job will be waiting for them when they return. But many of those workers are unable to take the full amount of FMLA-protected time they need, because they simply can't afford to go that long without a paycheck. And other workers who, although not protected by FMLA, have access to unpaid leave can face the same dilemma.

To address this obstacle, the Administration could propose the creation of a New Parent Paid Leave Plan, to provide eligible parents with partial wage replacement for up to six weeks. While careful consideration needs to be given to the effect of such a program on employer benefit plans, design elements of a workable program would include:

- Income eligibility: Eligibility to receive funds would be tied to income. The simplest approach would be to set a family income cap -- only parents with family earnings below a set amount would be eligible to receive new-parent paid leave. An alternative but more complicated approach would be to vary the benefit amount by family income.

  Pros: - Assists the families that are most likely to face a financial barrier to taking family leave for a newborn/adopted infant.

  - Limiting eligibility to workers protected by the FMLA would exclude those most likely to benefit from such a program.

- Workforce attachment:

  1. Prior to receiving benefit: New parent paid leave would be available to those qualifying parents who are authorized to work in the U.S. and have been in the workforce --- part time or full time -- for each of the fifty-two weeks prior to giving birth/adopting.

  Pros: - Funds available to all working parents, regardless of FMLA coverage
  - Links eligibility to connection to the workplace and to the concept of wage replacement.
  - One year requirement demonstrates pre-pregnancy workforce participation.
  - Minimum standard for amount of time in the workforce reflects FMLA concept and excludes from eligibility those whose workforce

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participation was minimal.
- If UI administers the program, they will have access to employment information for all UI-covered workers

Cons: - If UI administers the program, an alternative method of confirming eligibility would be necessary for non-UI covered workers (e.g., self-employed, independent contractors, etc.) -- for example, proof of receipt of wages during the time period. This would add cost to the proposal.

- If UI administers the program, it may be simpler if the eligibility requirement is the same as for UI - work in roughly 20 of the preceding 52 weeks. (Note, however, that states have discretion to have additional UI qualifying requirements.)

Note: If data indicates that workers most likely to need paid leave have generally worked for less than one year, we should change the one-year requirement as appropriate.

2. After receiving benefit: Workers could receive benefits regardless of whether they intend to return to their job, or whether they in fact return.

Pros: - Eligibility based on return to employment or the workforce would require a penalty/recovery scheme for those who -- for whatever reason -- fail to return to work in a timely manner.

- Commission data indicates that lower income workers, the ones most likely to need wage-replacement, are the least likely to return to work following the birth or adoption of an infant.

Cons: - Parents who voluntarily leave their jobs to care for newborn/adopted infants have presumably decided they are not financially dependent upon their wage, and therefore do not need a wage replacement benefit. (The lower any income requirement is set, the less this problem exists -- fewer eligible parents will be financially able to quit their job.)

- Benefit duration and timing: Benefits would be available only for the first six weeks following birth/adoption. A worker with access to employer-paid leave who also wanted to participate in federal paid leave would have to use the federal benefit before using employer-paid leave.

Pros: - Simpler to administer
- Minimizes disincentives on employers who might otherwise provide benefits or more generous benefits.

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Cons: - To the extent that an employer benefit plan limits post-pregnancy use of sick leave to a period immediately following birth, female workers with accumulated paid sick leave who give birth may not be able to use paid sick leave after six weeks.

- May not cover time at home for newborn babies/mothers who have extended hospital stays.

- Administration/Implementation: The program would be administered, and the benefits paid, through the state UI system. State participation would not be mandatory.

  Pros: - State employment security agencies (SESAs) have experience in making payments as agents of the Federal government in the case of other programs, such as Trade Readjustment Allowances. In FY 98 there are about 40,000 TRA recipients collecting about $230M in benefits at an administrative cost of about $5 M per year, which would provide an order of magnitude in evaluating this proposal.

  - States are able to perform these functions under agreement with a Federal agency assuming suitable arrangements can be made to meet the cost of administering this separate payment system.

  Cons: - To the extent that SESAs are asked to make eligibility determinations that differ from those under the UI system, staff training and administrative costs would rise substantially.

  - Since the costs of the benefits would be coming from a fund other than the State trust fund (unless Federal law is amended), it may be expensive for the States to establish the alternative procedures necessary to make the payments.

  - States are currently underfunded for UI administration costs and would not be able to embark on a new program without some funding guarantees.

- Benefit amount: Simplest approach would be to set one benefit amount available to all eligible workers: $200 per week (based on UI average benefit of $190.19, which represents 35% of the average weekly wage). Alternatives could include having one or two benefit levels, keyed to income ranges.

11/26/97

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POTENTIAL CHANGES FOR FMLA

ADD PAID LEAVE COVERAGE FOR 6 WEEKS OF NEWBORN CARE

Maximum number of women 3,378,000 with newborns in a given year (CPS)
Assume that 1,834,000 will return to work (LFPR of those with <1 year olds)
Assume between 20-33% will be ineligible (tenure data) [will be checking lower bound with work experience data]
Using bounds implies between 1,467,200 and 1,228,780 would make tenure cut and may want leave to take care of infant
Without means testing implies cost of (at $200x6weeks=1200 each mother) = $1,760,640,000 and $1,474,536,000 (w/o administrative costs)
How many of these women would meet an income eligibility cut?
Median income for families with children under 3 -- $36,626. If this was the cut off than ½ of potential above would not qualify so cost would be half -- so between $880,320,000 and $737,268,000.
Add administrative costs of approximately $200,000 ($60m to change UI base period and $140m to add payment system to UI [no basis for this number]) and proposal costs out at $1B.

$80,000?
$60,000?

EXTEND COVERAGE FROM 50 TO 25 PERSON ESTABLISHMENTS

EXTEND BENEFITS FROM 12 WEEKS TO 26 WEEKS

assumes all eligible take full 6 wks? cut
DOL looking at

Unemp. Ins. system

6 wks

Here are some quick thoughts on possible demonstration projects:

1. **Minnesota Model.** Minnesota gives new mothers a one-time one-year exemption from work requirements and pays 3/4 of the child care subsidy they would have received if they went to work. A demonstration project could fund a waiver for a small county with $2 million per year.

2. **North Carolina's Smart Start.** In one county, Smart Start offers new mothers stipends for diapers and baby food if they stay home with their newborns instead of immediately returning to work. Mothers receive roughly $1,500 a year in stipends.

3. **Demonstration Projects Tied to Research Grants.** Senator Kennedy's child care/tobacco bill contains funding for demonstration projects related to children's health and development. One set of demonstration project specified is public-private partnerships for paid leave to enable mothers with infants to choose to stay at home. Entities eligible for funding include universities, entities conducting child development research, and public or non-profit organizations capable of implementing research findings on children's brain development. One could imagine a grant of $2 million to a university to set up a paid leave program and then research its effects on early childhood development.

MEMORANDUM

TO: Jen

FROM: Neera

RE: Proposals to help parents who want to stay at home

The following is a range of policy options to help parents who want to stay at home. These proposals vary in size, scope, and political viability. There are definite arguments against these proposals, but I wanted to list the options first and possibly follow-up with a list of pros and cons at a later time. In addition, I mention the marriage penalty and its relationship to this issue, as well as some recent Administration initiatives that help parents stay at home.

1. **Tax credits to parents who want to stay home.** Republican legislators in North Carolina are promoting tax credits for parents who choose to stay home with their children. Because we have already passed the $500 per child tax credit, we could add an additional tax credit targeting those parents who stay at home and/or have children ages 0 to 3 years old. Another option is to target the present tax credit so that it provides greater benefits to parents of younger children.

2. **Income tax averaging back.** We could create ways to help those parents who have worked and then take time off to raise children by averaging their income over their working and nonworking years, in order that they may receive a tax deduction in the years they may need it more. For example, a person works for five years and then takes three years to raise a child and makes no income, then the eight years can be averaged together so that person will receive a tax break for the three years that they weren't working. In fact, the tax code used to contain a provision for a 5 year rolling average so that if a person worked for one year, took off 3 years, and then worked again, the fifth year income would be averaged with the previous four years. We could work with variants of this idea, but it would only affect those people whose tax rate would change as a result of the averaging.

3. **Promote intergenerational transfers**. We could expand Education IRA's for those who would like to set aside money that their children would use to raise children. The idea is to allow grandparents the ability to set aside pretaxed income in an IRA that they could then give to their children to use for expenses incurred in raising their grandchildren. This proposal capitalizes on the savings benefits of IRAs, while at the same time recognizing the fact that couples in the middle of their lives, whose children are grown, generally have more wealth than younger couples.

4. **Using child care subsidies from welfare reform.** The Minnesota legislature passed a bill allowing low-income parents to use the state's child care subsidy to stay at home with a child for

a year. New mothers get a one-year exemption from work requirements.[Star Tribune, 9/18/97] Minnesota authorizes parents to use a portion of that state subsidy, essentially allowing one parent to be the child care provider for up to a year.[Star Tribune, 5/25/97] We could create incentives for states to use their child care subsidies in this manner.

5. **Expand the Family Medical Leave Act.** We can expand the program so that it applies to more workers, by applying it to smaller employers or all firms. In addition, we could expand the unpaid leave period from its present period of 12 weeks to as long as 6 months or a year. A more dramatic expansion could require that the leave is fully or partially paid.

6. **Expand Temporary Disability Insurance**. [This is an expansion of paid leave] Mechanisms are already in place in some states to finance paid family leave through the wages of all employees. California, Hawaii, New Jersey, New York, and Rhode Island have temporary disability insurance laws that provide compensation to mothers recovering from childbirth and pregnancy-related conditions. The employee contribution varies from a maximum of sixty cents per week in New York to a maximum of $ 9.50 per week in Rhode Island. Employers do not contribute to disability insurance costs in California or Rhode Island, but they do pay the balance of costs in Hawaii and New York. The amount of benefits an employee collects while on leave in these states ranges from one-half to two-thirds of weekly wages. We could attempt to provide incentives for states to adopt such programs or even expand the leave period or benefits.

State disability pay essentially is unemployment insurance targeted at women who become unemployed due to pregnancy and childbirth. The temporary disability insurance programs in these five states could serve as models for a national policy of income replacement during family leave. These programs vary in the length of leave allowed and wages paid, but serve as the basis of expansion.["The Myth of Unpaid Family Leave: Can the United States Implement a Paid Leave Policy Based on the Swedish Model?," 17 Comp. Lab. L. 373 (1996)]

Another Variant: Employee/Employer Contributions

The systems in Hawaii, New Jersey, and New York can serve as models for how states can provide income replacement during parental leave through a combination of employer and employee contributions. In fact, all states currently use a payroll tax for unemployment insurance funds. One option is a federal mandate of state-administered programs, which would avoid deterring investment in states that provide paid leave. A federal mandates could allow a minimum floor of benefits from which states could expand and innovate. ["The Myth of Unpaid Family Leave: Can the United States Implement a Paid Leave Policy Based on the Swedish Model?," 17 Comp. Lab. L. 373 (1996)]

7. **Allow greater deductions for telecommuting**. Present law requires that the home be a principal place of business in order to claim the home-office deduction. We could liberalize this rule for parents who stay at home, or even adopt a rule that parents who stay at home with children under a certain age may take this deduction automatically. In addition, we could make more expansive the rules for such things as telephone use (e.g. currently, the first telephone cannot be deducted) and Internet connections so that they are easier to claim.

8. **Expand WIC and/or food stamps to pay for such expenses as diapers.** In one county in North Carolina, the state's innovative Smart Start program provides families partial funding for diapers and formula if a parent chooses to stay home until the child reaches 1 year of age. Each family receives about $ 1,500 for the year.[Tulsa World, 10/27/97] At the federal level, neither WIC nor food stamps currently pay for diapers. We could at least expand WIC to do so (WIC covers more mothers than food stamps). Or we could create another program to pay for such things that would be targeted for parents who stay at home.

9. **Raising the income cut off for food stamps and other benefits for those who have young children.** Currently WIC benefits are provided for those who are at 185% of the poverty rate, while food stamps covers a family of four whose gross income is at 130% of the poverty rate. One option is to increase the cut off for those families with young children.

Discussion of the Marriage Penalty and the Tax Code in General

Marriage penalties - and bonuses - occur because the tax code allows different standard deductions in determining the taxable incomes of married and individual taxpayers. The code also has different tax rates for different income levels and provides an earned-income tax credit without regard to marital status. The marriage penalty today mostly affects two-earner couples who often owe more filing jointly than they would if still single. This is because the tax bracket thresholds and standard deductions for couples are set at less than twice the dollar amount for singles, leaving dual-income married people with more income taxed at higher rates. The Congressional Budget Office found that couples with spouses at similar income levels generally get smaller deductions, face higher tax rates and get less of the earned-income tax credit than do individual taxpayers with similar income. But couples with one spouse earning more than the other generally receive higher deductions, face lower tax rates and receive more of the earned-income tax credit than do individual filers with similar incomes. [Newsday, 11/9/97]

As some commentators have pointed out, the marriage penalty, and therefore its relief, only affect two-earner couples and would have no impact on those families in which one parent chooses to stay at home.[NPR, Morning Edition, 11/6/97] In addition, the marriage penalty is not affected by whether or not the double-earning couple has children or not. When discussing the marriage penalty relief, we may want to point out that it does nothing to help stay-at-home parents. Indeed, inasmuch as relief of this penalty helps working women, it provides incentives to them to work rather than stay at home.

Overall, the tax code tends to work to the advantage of single-earning married couples because it tends to disfavor secondary earners who make joint filings. If one person who doesn't work marries someone who does work, their deductions increase and therefore they are better off than if they remained single (the non-worker would get no deductions because they pay no tax.) The second earner has plenty of costs, including commuting, dry cleaning, additional meals out, and he or she gets no break at all for these items under our tax laws.

Recent Clinton Administration Initiatives That Help Parents Who Stay at Home:

1. **The Hutchison-Mikulski Individual Retirement Account equity bill** (S. 287) passed in the last Congress. It allows homemakers to contribute up to $2,000 annually toward an IRA, thereby providing equitable treatment to spouses who work at home. The Internal Revenue Code currently allows a double-income married couple to contribute up to $4,000 per year toward retirement by allowing them to contribute up to $2,000 each toward an IRA. However, in the case of a single-income married couple, the couple had been able to only contribute up to $2,250 per year toward retirement through an IRA, with the homemaker's contribution limited to $250. The legislation remedied this by amending the tax code to allow homemakers to contribute equally up to $2,000 annually toward an IRA. According to one estimate of the bill, it could provide an increase of up to $150,000 in savings for a couple after 30 years. The Christian Coalition strongly supported this bill.

2. **The $500 per child tax credit.** As part of the Balanced Budget Agreement, the President signed into law a $500 per-child tax credit for approximately 27 million families with 45 million children under 17. Through the President's efforts, 13 million children from families with incomes below $30,000 will receive the child tax credit -- up to 7.5 million more than would have under the Congressional plans. Conservatives have often argued that this kind of legislation, targeted as it is for those who have families with children, will help parents stay at home.

3. **Family Medical Leave Act.** This legislation allows parents to take 12 weeks of unpaid leave.

DRAFT

TO: Jen

FROM: Neera

RE: The Tax Code, Marriage Penalties and Stay-at-Home Parents

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I. The Tax Code Already Favors Stay-At-Home Parents

A. The Marriage Bonus

The tax code currently supplies marriage bonuses, as well as marriage penalties. Where one spouse has most or all of the couple's income, the tax liability of the couple is usually lower than the combined liability of two single persons with the same levels of income. Indeed, couples in which there is a single earner receive a marriage bonus, because when they marry their deductions increase while their income is not taxed at a higher rate. Thus, these couples receive a "marriage bonus."

B. The Secondary-Earner Bias

The income tax works through a system of marginal rates. This means that successive amounts of income are taxed at higher rates. The rate structure works like a ladder: as income moves up through the rate "brackets," it is subjected to higher rates at the margin. In a rate structures with joint filing, the secondary earner's wages, which we can think of as the lesser-earning spouse, come on "on top of" the primary earner': Her first dollar of salary is taxed at the bracket where the husband's salary has left her. (This second-earner bias has no necessary connection to marriage penalties.)

This bias has two components. First, the rate structure encourages families to think in terms of a primary and secondary worker, because there is one rate structure applied to couples. Under separate filing, actions that a spouse who makes less money is considering, like accepting a promotion or making a tax-deductible charitable contribution, take place at her marginal rate. However, under joint filing, the spouse faces a new and different question: Where doe her salary come into play? That is, whose salary comes first? The spouse's secondary earnings are taxed after the primary earnings are taxed. The first dollar earned by the secondary earner is at the highest rate. Therefore, the secondary earner's work is taxed more heavily than the primary earner's work. This question of where to place a spouse's income was created by the fact of joint filing; it did not make sense to think this way under separate filing. Therefore, joint filing creates strong disincentives against second earners working in the paid workforce at all, because they enter it at high marginal tax rates. [Edward McCaffery, Taxing Women, 14-21]

C. Social Security

The Social Security system provides that the spouses of wage earners receive benefits regardless of whether they have worked outside the home, in paid labor markets. In gendered terms, while the husband is alive, the wife receives credit for the greater of her own or 50 percent of her husband's "potential insurance amount." This means that the wife is treated as if she earned one-half as much as her husband. Since the husband is receiving 200 percent credit for his own work, the couple gets to pool at least 150 percent of his benefits. On the husband's death, the widow receives credit for the greater of her own earnings or 100 percent of her husbands. That is, on the benefits side, the social security system rewards single-earner families - wives get benefits without every paying social security tax.

The rationale behind this system is that stay-at-home spouses, especially when they become widowed, need social security too. The problem is that there is no marginal return of the taxes paid on the first dollars earned by a secondary-earning spouse. Since such a spouse would get benefits anyway as a presumed dependent on her husband, she does not receive her own benefits until she has established herself as a persistent and large earner, relative to her husband: until the "greater of her own or 50 percent of her husband's profile" comes to mean "her own." She must be persistent as well as a higher earner because the social security system looks to earnings weighted over time, so that workers who have stretches of being absent from the paid workforce are penalized.

D. Child Care Deductions - or the lack thereof

Child care and other work-related or "mixed business-personal" expenses, as they are often called, have long been a troubling area of the income tax laws. Tax logic allows a deduction from "gross" or total income for legitimate business expenses in order to arrive at "net" or taxable income. A knotty question for tax legislators has been how to separate out personal items, which should not be deductible. The question of child-care costs is whether they are personal consumption, and hence appropriately taxed, or business expenses, and hence appropriately left untaxed. Because only working parents have child care costs and more specifically, only working single parents or two earner households, many have argued that they should be deductible. This problem is partially ameliorated by the child care credit, but because the child care credit is currently limited, it does not eliminate the current incentive within the tax system to have one parent stay at home because of the expense of child care.

II. THE MARRIAGE PENALTY AND ITS SOLUTIONS

A. The Penalty

The marriage penalty is triggered when two people get married and their joint income pushes them into a higher tax bracket than they were in (or one of them was in) before. As a result, the couple pays more in taxes than the two of them together would have paid if they had remained single. Families in which both spouses have similar levels of income generally have a higher tax liability than the combined tax liability of two single persons with the same levels of income. Thus, they encounter a "marriage penalty." The extent of the marriage penalty or bonus depends on the division of income (and deductions) between the spouses. The code also has different tax rates for different income levels and provides an earned-income tax credit without regard to marital status. The tax bracket thresholds and standard deductions for couples are set at less than twice the dollar amount for singles, leaving dual-income married people with more income taxed at higher rates. The Congressional Budget Office found that couples with spouses at similar income levels generally get smaller deductions, face higher tax rates and get less of the earned-income tax credit than do individual taxpayers with similar income.[Newsday, 11/9/97]

In the aggregate, marriage penalties are approximately $30 billion per year. But, marriage bonuses are equally large, so that the net marriage bonus or penalty is very small. Indeed, according to a recent CBO study, in the aggregate there is a net marriage bonus $4 billion a year. Marriage bonuses predominate for low income families, while marriage penalties predominate for very high income families, especially when there are two high earners. In terms of number of taxpayers, there tend to be more with bonuses than penalties, although the relative numbers differ by income level.

B. Background

A tax system cannot simultaneously achieve all three of the following "fairness" objectives: 1) Imposing the same amount of tax on married couples and single individuals with the same combined income; 2) imposing the same amount of tax on married couples with the same combined income regardless of how the income divided between the spouses; and 3) maintaining progressivity. Advancing any one of these objectives necessarily requires making a sacrifice with respect to one or both of the other two objectives, and produces marriage penalties, bonuses or both.

Originally, the income tax did not take account of marriage at all: husbands and wives simply filed separate individual tax returns. As a result, the tax code neither rewarded nor penalized marriage, which seemed fair enough on the surface. But this policy caused some anomalies. First, different couples with the same total income paid different taxes. For example, one couple, in which one spouse earned $20,000 and the other earned $80,000 would pay more taxes because of progressive rates than another couple in which both spouses earned $50,000. Because it was felt that couples who earn the same amount as a couple should not pay different amounts of tax because their family income is divided up differently.

In addition, this system created an additional inequity of its own: couples had an incentive to shift income from the higher-earning spouse to the lower-earning spouse. This was easier to accomplish for those with investment income than with earned income (e.g., transferring title to stock funds and real estate holding to the lower paid spouse). This meant that families with investment income, who tend to be wealthier, received bigger tax advantages than families who lived off their paychecks. It also meant that a family's income tax burden largely depended on its capacity to hire a clever lawyer.

Underneath these inequities lay a common premise in the tax code: an assumption that spouses do not share income. In 1948, Congress decided to rectify this assumption - it changed the law so that every family would pay twice the income tax on half its total income. In other words, a family earning $100,000 would pay twice the income tax of a single person earning $50,000, which works out to be less than the tax burden on a single person earning $100,000. (Since the income tax is progressive, with higher rates for higher income, the tax on $100,000 is more than twice the tax on $50,000.) Therefore, how the couple's earnings were divided did not matter for tax purposes.

However, this created an inequity with singles. The law allowed two income earners who got married to move into a lower tax bracket, and thus lessen their tax burden, while singles were left at the higher rates. Congress' solution to this problem was to enact a compromise between married couples and singles. As part of the broader tax overhaul in 1969, Congress reduced the tax disadvantages of living single and, for the first time, introduced some negative tax consequences for certain married couples. That system is the one in place today where married couples in which one partner makes much more than other actually receives a marriage bonus, and spouses who make about the same as each other receive a penalty. This was less of a problem when fewer women worked and their wages were much lower. However, marriage penalties have increased as women have entered the workforce and their wages are increasing.

C. Solutions

At least four different options for marriage penalty reduction have been discussed: a single filer option; a two-earner deduction; a targeted two-earner deduction or credit; and income splitting.

1. Single Filer Option:

A single filer option permits a married couple to continue to file a joint tax return or to elect to file two separate returns, as if each were an unmarried individual or a head of household, depending on their circumstances. A variant, introduced as H.R. 2456 by 218 members of the House, would permit the separate calculation of tax but continue the use of the joint return concept. Essentially, it would combine separate filing on one tax return form. H.R. 2456 would lessen some of the costs and the inherent complexity of separate filing by arbitrarily prorating deductions and by retaining a joint EITC computation.

Optional single filing option can completely eliminate marriage penalties without increasing marriage bonuses. As a result, it would be very expensive, approximately $30 billion a year. By eliminating the higher EITCs stemming from separate filing, H.R. 2456 would not address marriage penalties from the EITC but would reduce the cost of optional single filing.

Optional single filing would substantially increase the burdens of the income tax system. Many, if not most, married couples would have to make three, rather than one, tax computation (joint, his, and hers) in order to determine the filing method that results in the least tax liability. The additional complexity would be conceptual as well as computational. Currently, families who pool their resources need not keep separate records by family member. Under optional separate filing, separate income and deduction records would be necessary, even for many who would not ultimately opt for single filing. There would be conceptual complexities such as how to allocate a deductible expenditure made by one spouse but partially for the benefit of the other spouses and children which the other spouses may be claiming as dependents.

Optional separate filing would put an undue premium on careful tax planning and the ability to "divide" income and deductions optimally between spouses. For example, taxpayers with small businesses would have an undue ability (compared to employees) to "share" earnings on paper in order to reduce tax liability. This would tend to benefit wealthier people who can target investment income to the lower-earning spouse. This in turn would advantage wealthier families, who tend to have more investment income.

However, by eliminating the second-filer bias, it would eliminate an incentive in the current tax code to have one parent stay at home.

2. Two-Earner Deduction

Twenty-two Ways and Means Committee members (mostly Republicans) have introduced H.R. 2593, which would resurrect the 1982-1986 second earner deduction of 10 percent of the first $30,000 of the earnings of the spouse with lesser amount of earnings

A substantial portion of the benefits of any second earner deduction are "wasted" by increasing the marriage bonuses of those already receiving marriage bonuses or by changing the current marriage penalties into marriage bonuses. The more generous the second earner deduction, the more difficult it is to target it to those with current marriage penalties.

A second earner deduction grants to families that may have net marriage bonuses as the result of the "income splitting" of passive income that joint filing allows. In addition, this type of proposal adds some complexity to the tax computation process for virtually all two-earner couples.

3. A Targeted Two-Earner Deduction or Credit

Two-earner deductions of the type permitted between 1982 and 1986 "waste" a considerable portion of their cost by increasing marriage bonuses rather than by targeting marriage penalties. Better targeting can be achieved by setting a floor of some percentage, say, 20 percent, of combined total income (not only earnings) on the second earner deduction. A deduction or tax credit could then be provided fro some percentage of the amount by which the earnings of the lower-earnings spouse exceed 20 percent of the family unit's total income. The size of the deduction or credit can be capped, if there is a resource constraint.

Compared with a simple second earner deduction, very little of the benefits of a targeted deduction or credit are "wasted" on those already receiving marriage bonuses. However, even a targeted second earner deduction grants benefits to two-earner families that may have net marriage bonuses as the result of the "income splitting" of passive income that joint filing allows.

This type of proposal adds a little additional complexity to the tax computation compared with the simple second earner deduction. However, that complexity is more than offset by the reduction in taxpayers who will need to make the computation.

Deductions with low caps address the problem by providing limited, and perhaps not very important, relief to the many taxpayers with small marriage penalties without providing meaningful relief to those who with very large penalties.

If some marriage penalty relief is deemed to be required, a targeted second earner deduction or credit provides that relief most efficiently.

4. Income splitting.

Under income splitting, a married couple at tax time would add up their income and divide by two, so that effectively each spouse would be taxed on half. This would apply to both two-earner and single-earner couples. Thus, if one spouse earned $ 20,000 and the other $ 30,000, each would report a taxable income of $ 50,000 "split" in two, or $ 25,000, to be taxed at the basic rate. And if one spouse earned $ 50,000 and the other nothing, the tax result would be the same. Legislation has been proposed in the Senate by Republican Connie Mack of Florida and others.

In contrast to the single filer option, straight income splitting would promote the notion that in the economic sphere as in other areas of life, married people cooperate, trade off, and give freely to each other. [Legal notions like community property and the equal division of assets following divorce recognize this fact. So would income splitting for tax purposes.]

By rewarding couples for sharing their income for tax purposes, and by treating both partners as equal taxpayers, income splitting would recognize the contribution of married people who are not in the labor force. Indeed, it would give in great advantages to those couples where one person stays at home because their deductions would increase.

In addition, income splitting would return to the pre-1969 system of penalizing singles. And it would be expensive: one estimate is that it would cost roughly $30-35 billion a year in lost tax revenues.[The Wages of Wedlock, Allan C. Carlson and David Blankenhorn The Weekly Standard, 11/17/97]

October 8, 1997

NOTE TO JEN KLEIN, NICOLE RABNER

FROM: CYNTHIA RICE

SUBJ: STATES EXEMPTING MOTHERS WITH YOUNG CHILDREN FROM WELFARE WORK REQUIREMENTS

In response to your question, I got HHS to produce the following information about states exempting mothers with young children from the welfare work requirements. They're checking some of these facts -- so consider it draft. But this gives you a sense of what we've got.

To: Joan Lombardi@ACYF.CCB,John Monahan@OAS
Cc: Mack A Storrs@OFA.DSSP
Bcc:
From: Linda Graziano@ACYF.CCB@ACF.WDC
Subject: re: TANF Plans and Child Care
Date: Tuesday, October 7, 1997 15:30:10 EDT
Attach: f:\wp51\docs\dlg\issues\exempt2.doc,f:\wp51\docs\dlg\tanfchl,ATT
Certify: N
Priority: Normal
Defer until:
Expires:
Forwarded by: John Monahan@OAS@ACF.WDC

Forwarded to: Margaret G Montgomery@OAS@ACF.WDC
cc:
Forwarded date: Tuesday, October 7, 1997 16:58:13 EDT
Comments by: John Monahan@OAS@ACF.WDC
Comments:

Please print, john

------------------------ [Original Message] ------------------------

I have attached two documents that should be useful. Marty Hudson and I are working together to provide updates where there was some confusion about the exemption (some states referred to their waivers in the TANF plan). I will send you the updates asap.

Please let me know if there is anything else you need.

(1) Pls fax to Cynthia

(2) Cynthia -
Here is some information in response to your request. Given that this information is being updated, I recommend that these charts not be distributed.

J

State	Age of Youngest Child Exemption
Alabama	under age 2
Alaska	under 13 months; under 6 if affordable child care not available
Arizona	under age 1
Arkansas	under 13 months
California	A one-time exemption to GAIN participation exists for parents with a child under the age of 3 years old.
Colorado	under 1; under 6 will not be sanctioned for lack of child care
Connecticut	under age 1
Delaware	under age 13 weeks
Dist. of Col.	under age 1
Florida	under age 3 months
Georgia	under 12 months, unless adequate child care is available
Hawaii	under age 6 until child care can be identified
Idaho	nothing specified
Illinois	under 12 months; minors under 12 weeks

State	Age of Youngest Child Exemption
Indiana	children under 12 weeks in increments from the implementation of this program. Beginning with implementation, the exception will apply to individuals caring for a child up to the age of two years, after six months, it will be limited to children up to one year; after 12 months, to children up to six months, and after 18 months, to children up to 12 weeks. For children subject to the family cap, exemptions will only be provided until the child is 12 weeks old, effective upon implementation.
Iowa	Not Specified
Kansas	Not Specified
Kentucky	Not Specified
Louisiana	Not Specified
Maine	under age 2 (excluding parents under 20 years of age who have not yet completed high school; these parents will be required to participate in educational activities)
Maryland	under age 1

State	Age of Youngest Child Exemption
Massachusetts	certain single custodial parents who are caring for children under the age of one; and single custodial parents who are caring for a child under age six and have demonstrated an inability to locate child care
Michigan	No Exemption
Mississippi	under age 3
Missouri	under age 1
Montana	No Exemption
Nebraska	between 12 weeks and 6 months old may be required to participate part-time in activities such as family nurturing or pre-employment skills
Nevada	minor parent with child under 12 weeks; single adults caring for a child under age 1
New Hampshire	under age 3
New Jersey	under age 1
New Mexico	under age 1
New York	under age 3
North Carolina	under age 1
North Dakota	under 3 months
Ohio	under age 3
Oklahoma	under age 1

State	Age of Youngest Child Exemption
Oregon	under age 90 days
Pennsylvania	under age 1
Rhode Island	under age 1
South Carolina	under age 1
South Dakota	under age 1
Tennessee	under age 4 months; State may exempt all if unable to provide child care
Texas	under age 5 as of 9/95; under age 4 as of 9/97
Utah	No Exemption
Vermont	under age 18 months
Virginia	under age 18 months
Washington	under age 1
West Virginia	under age 1 for first child; under age 6 months for second and susequent children
Wisconsin	under age 12 weeks
Wyoming	under age 1; considering changing to 3 months

States' Exemption from Work Policies for Families with Young Children

*[NOTE: ** = states that exempt families with a child less than one year of age or older]*

REGION I

**CONNECTICUT
A single parent or caretaker relative of a child under one year of age is exempt from engaging in work as long as the child is not covered under the family cap provision of the waiver.

**MAINE
Those caring for a child less than two years of age are exempt from work requirements. This under two exemption does not apply to parents under 20 years of age who have not completed high school; these parents will be required to participate in educational activities.

**MASSACHUSETTS
Single custodial parents who are caring for a child under the age of one are exempt from work requirements. [Note. Claire McIntire, MA Commissioner for Health and Human Services, said in a Senior Staff meeting in May that parents with a child under two years of age are exempt.]

**NEW HAMPSHIRE
A parent or other relative who cares for a child less than one year of age (may be less than three years of age, but wording was unclear) is exempt from work requirements. *[Marty's says three years]*

**RHODE ISLAND
A single parent/caretaker relative caring for a child less than one year of age is exempt from work requirements.

**VERMONT
A parent who cares for a child under the age of 18 months is exempt from work requirements. However, to qualify for this exemption, a parent of a child older than six months shall participate in the education, training, and other activities necessary for the completion of such a plan if the parent has not already done so before the expiration of the 15-month or 30-month time limit.

REGION II

**NEW JERSEY
Single, custodial parents with a child under one year of age are exempt from work requirements. A parent may only receive this exemption for a total of 12 months. Under pending Work First NJ legislation, this exemption is subject to change.

**NEW YORK
Those caring for a child less than three years of age are exempt from work requirements.

**PUERTO RICO [plan not yet approved as of 6/24/97]
A single custodial parent caring for a child under one year of age is not required to engage in work.

VIRGIN ISLANDS [Not approved as of 6/24/97]
A single custodial parent caring for a child less than six months of age is exempt from engaging in work.

REGION III

DELAWARE
A parent caring for a child under 13 weeks of age is exempt from engaging in work.

**DISTRICT OF COLUMBIA
A single custodial parent caring for a child under one year of age is not required to engage in work.

**MARYLAND
Adults who are required to care for a child under the age of one year are exempt from work requirements. This exemption does not apply to a teen parent who has not finished secondary school.

**PENNSYLVANIA
A single custodial parent of a child under the age of one year is exempt from work requirements (granted for a total of 12 months in the parent's lifetime).

**VIRGINIA
A parent or caretaker relative of a child under 18 months of age is exempt from engaging in work.

WEST VIRGINIA
A woman who has a child six months of age or younger is exempt from work requirements. *However*, this exemption is extended to two years for the birth of the *first* child after a woman has become a public assistance recipient. *[Marty's says one year for the extension*]

REGION IV

**ALABAMA
A parent or other caretaker relative who is personally responsible for providing care for a child under two years of age is exempt from work requirements.

**GEORGIA
Adult recipients with a child under one year of age will not be mandated to participate.

FLORIDA
One custodial parent with a child under three months of age will be exempt from work requirements, but the parent may be required to attend parenting classes or other activities to better prepare for the responsibilities of raising a child. If the custodial parent is age 19 or younger and has not completed high school or the equivalent, he or she may be required to

attend school or other appropriate educational activities. Among single-parent families, a family that has older preschool children or school-age children shall be assigned priority for work activities.

KENTUCKY
No direct mention about families with children under one year of age being exempt, but it is noted that participant work activities will be based on the age of the youngest child in the family and access to child care (in addition to other factors).

****MISSISSIPPI**
A caretaker of a child under one year of age is exempt from work requirements. *[Marty's says three years]*

****NORTH CAROLINA**
Mothers with children under the age of one are exempted from work requirements and single parents with children under six will be phased-in as child care becomes available.

****SOUTH CAROLINA**
A parent or caretaker relative with a child under one year of age is exempt from work requirements; however, custodial parents under age 25 who have not completed their high school education are required to comply with employment/training provisions regardless of the age of the child.

TENNESSEE
Exemption may be granted when the parent has a newborn who is four months of age or less.

REGION V

ILLINOIS
Not approved as of 6/24/97 (received by department 5/16/97 - no copy at CCB).

INDIANA
An individual is exempt from work requirements if the child is less than three months of age. This exemption is a change from a prior age of three years and will be phased in over an 18 month period.

MICHIGAN
A mother with a child under three months of age is not required to work. *[Marty's says no exemption in waiver]*

****MINNESOTA** [plan not yet approved as of 6/24/97]
Caregivers of a child under one year of age who personally provide full-time care for the child are exempt. In two-parent households, only one parent or relative may qualify for this exemption. It is only available for 12 months in a lifetime. Exempt caregivers must attend parenting classes, if available, but are not subject to sanction if they fail to attend.

****OHIO**
Caregivers of a child under one year of age are not required to work.

WISCONSIN
A custodial parent of a child who is three months old or less is exempt from work requirements but could be required to participate in other activities such as parenting education, and soft and life skills which prepare a parent to enter or return to the workforce.

REGION VI

ARKANSAS [plan not yet approved as of 6/24/97]
A parent caring for a child under three months of age is exempt from work requirements.

LOUISIANA
No mention about families with children under one year of age being exempt.

****NEW MEXICO**
A parent with a child under one year of age is exempt from work requirements, provided that the exemption is one-time only and may not exceed 12 months.

****OKLAHOMA**
Adults or minors who care for a child under one year of age are exempt from work requirements.

****TEXAS**
A caretaker will be exempt from work requirements if caring for a child less than four years of age (effective September 1, 1997; it is currently under the age of five).

REGION VII

IOWA
Exemptions are granted to parents or other relatives caring for a child under three months of age. *[Marty's says not specified]*

KANSAS
No mention about families with children under one year of age being exempt.

****MISSOURI**
Single custodial parents caring for a child less than one year of age are exempt from work requirements.

NEBRASKA
The work requirement is waived for AFDC basic cases where the youngest child is under three months of age. For basic cases where the child is between three and six months of age, the caretaker relative must participate in part-time work activities. These exceptions apply for only one of the parent caretaker relatives for AFDC-UP cases.

REGION VIII

****COLORADO** [plan not yet approved as of 6/24/97]
Single custodial parents with a child under one year of age are exempt from work requirements until the child becomes one year old.

MONTANA
No mention about families with children under one year of age being exempt. *[Marty's says no exemption in waiver]*

NORTH DAKOTA [plan not yet approved as of 6/24/97]
Mothers with a child who is three months of age or less are exempt from work requirements (plus the month of delivery). Maternity leave exceeding 12 months cumulative for the lifetime of the parent will not be exempt from the work requirement.

****SOUTH DAKOTA**
All adults and minor custodial parents who are personally caring for a child under one year of age are exempt from work requirements.

UTAH
There are no exemptions for families with a child under one year of age.
Temporary suspension of active participation is provided to search for quality child care.

****WYOMING**
A single custodial parent who is the primary caretaker of a child under one year of age is exempt from work requirements, unless the caretaker is a minor parent without a high school diploma or GED who will not be exempt. The legislature is considering changing it to three months.

REGION IX

****ARIZONA**
Single custodial parents caring for a child less than one year of age are exempt from work requirements.

****CALIFORNIA**
GAIN (Greater Avenues for Independence) provides a *one-time* work exemption for parents with a child under the age of three.

HAWAII [plan not yet approved as of 6/24/97]
A parent or relative caretaker personally providing care for a child under six months of age is exempt from engaging in work.

****NEVADA**
Single adult parents caring for a child less than one year of age *and* minor parents with a child are exempt from work requirements. *[under 12 weeks for a minor parent?]*

REGION X

ALASKA
Not approved as of 6/24/97 (received by department 6/2/97 - no copy at CCB).

IDAHO
Not approved as of 6/24/97 (received by department 5/15/97 - no copy at CCB).

OREGON
Women are exempt from work requirements for the first three months (90 days) after giving birth.

****WASHINGTON**
Single custodial parents who care for children under one year of age are exempt from work requirements. Under the State's STEP waiver, the State exempts parents with children under three, however, for purposes of calculating TANF's work participation rate, the state will only exclude single parents with a child under one year of age from the denominator.

DEPARTMENT OF HEALTH & HUMAN SERVICES · USA

DATE: 2/26

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
200 INDEPENDENCE AVE., SW
WASHINGTON, D.C. 20201

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OFFICE OF THE ASSISTANT SECRETARY FOR LEGISLATION
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TO : Jen/Neera/Nicole

OFFICE : WH

ROOM NO : ____

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TOTAL PAGES INCLUDING COVER) : 14

FROM:

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[ ] AMY LOCKHART

[ ] LAUREN GRIFFIN

[ ] LULA BARNES

REMARKS: Here's the packet of materials we've prepared ~~to~~ in response to Hill requests for info. I've cleared them internally and need to get them to ~~[illegible]~~ people who've requested them ASAP. Unless I hear otherwise from you today, I'll go with them.

Thanks Mary

FAMILIES WITH CHILDREN WITH EMPLOYED AND NON-EMPLOYED MOTHERS

Data from the March 1997 Current Population Survcy

Families with Children with Working and Non-Working Mothers

I. Thirty-two million families have children under age 14. Of these families, 69 percent have a mother who worked sometime during the past year. This includes 65 percent of the nearly 18 million families with at least one child under age 6. (Note that a small percent of families had no mother present so numbers will not all add exactly.)

II. 26 percent of these families had a mother who did not work at all during the past year. This includes 30 percent of families with at least one child under age 6. These percentages include some poor single-mother families receiving welfare where the mother will be subject to work requirements.

III. Of the 14 million families with children under age 14 with total annual family incomes under $30,000, 35 percent have mothers who did not work at all during the past year. For those families with total income of $30,000 or more, 19 percent have a mother who did not work at all during the past year.

IV. Of the 22 million married-couple families with children under age 14, 73 percent have a mother who worked during the past year; 27 percent have a mother who did not work at all during the past year.

V. Of the nearly 9 million single-mother families with children under age 14, 73 percent have a mother who worked during the past year; 27 percent have a mother who did not work at all during the past year.

VI. Of the nearly 15 million families with at least one child under age 14 but no children under age 6, 74 percent have a mother who worked during the past year; 20 percent have a mother who did not work during the past year.

Table 1. Total Number of Families with at least One Child Under Age Six with a Working Mother[1] (in millions)

	Total Number of Families with a Working Mother	Total Number of Married-Couple Families with a Working Mother	Total Number of Single-Parent Families with a Working Mother
Total Family Income:			
Under 10,000	1.32	.11	1.21
>= 10,000 and < 20,000	1.52	.48	1.04
>= 20,000 and < 30,000	1.44	.95	.49
>= 30,000 and < 40,000	1.38	1.18	.20
>= 40,000 and < 50,000	1.31	1.21	.10
>= 50,000 and < 75,000	2.43	2.38	.05
75,000 +	2.00	1.96	.04
All Incomes	11.43	8.29	3.14
Poverty Status:			
Poor	2.10	.43	1.67
Not Poor	9.33	7.86	1.47

[1] Working mothers are defined as those who worked for any amount of time during the past year.

Source: 1997 March Current Population Survey

Table 2. Total Number of Families with Children Under Age Fourteen but No Children Under Age Six with a Working Mother[1] (in millions)			
	Total Number of Families with a Working Mother	Total Number of Married-Couple Families with a Working Mother	Total Number of Single-Parent Families with a Working Mother
Total Family Income:			
Under 10,000	.66	.07	.59
>= 10,000 and < 20,000	1.30	.30	1.00
>= 20,000 and < 30,000	1.38	.65	.73
>= 30,000 and < 40,000	1.44	.96	.48
>= 40,000 and < 50,000	1.26	1.03	.23
>= 50,000 and < 75,000	2.62	2.45	.17
75,000 +	2.31	2.25	.06
All Incomes	10.97	7.71	3.26
Poverty Status:			
Poor	1.19	.24	.95
Not Poor	9.78	7.47	2.31

[1] Working mothers are defined as those who worked for any amount of time during the past year.

Source: 1997 March Current Population Survey

Table 3. Total Number of Families with Children Under Age Fourteen with a Working Mother [1] (in millions)			
	Total Number of Families with a Working Mother	Total Number of Married-Couple Families with a Working Mother	Total Number of Single-Parent Families with a Working Mother
Total Family Income:			
Under 10,000	2.00	.19	1.81
>= 10,000 and < 20,000	2.82	.78	2.04
>= 20,000 and < 30,000	2.81	1.59	1.22
>= 30,000 and < 40,000	1.81	2.14	.67
>= 40,000 and < 50,000	2.56	2.24	.32
>= 50,000 and < 75,000	5.07	4.84	.23
75,000 +	4.33	4.22	.11
All Incomes	22.40	16.00	6.40
Poverty Status:			
Poor	3.29	.67	2.62
Not Poor	19.11	15.33	3.78

[1] Working mothers are defined as those who worked for any amount of time during the past year.

Source: 1997 March Current Population Survey

Table 4. Total Number of Families with at least One Child Under Age Six with a Working Mother[1] by Work Status[2] (in millions)

	Total Number of Families with a Working Mother		Total Number of Married-Couple Families with a Working Mother		Total Number of Single-Parent Families with a Working Mother	
	Part-Time	Full-Time	Part-Time	Full-Time	Part-Time	Full-Time
Total Family Income:						
Under 10,000	.64	.62	.03	.02	.61	.60
>= 10,000 and < 20,000	.28	.92	.07	.09	.21	.83
>= 20,000 and < 30,000	.15	.59	.11	.15	.04	.45
>= 30,000 and < 40,000	.10	.39	.09	.20	.01	.18
>= 40,000 and < 50,000	.08	.27	.08	.17	.001	.09
>= 50,000 and < 75,000	.20	.41	.20	.36	.01	.05
75,000 +	.15	.36	.14	.32	.003	.04
All Incomes	1.60	3.55	.71	1.30	.89	2.25
Poverty Status:						
Poor	.81	1.03	.08	.09	.73	.94
Not Poor	.79	2.52	.63	1.21	.16	1.31

[1] Working mothers are defined as those who worked for any amount of time during the past year.

[2] Full-time work status is defined as usually working 35 or more hours per week during the past year and part-time work status is defined as usually working less than 35 hours per week during the past year.

Source: 1997 March Current Population Survey

Table 5. Total Number of Families with Children Under Age Fourteen but No Children Under Age Six with a Working Mother[1] by Work Status[2] (in millions)						
	Total Number of Families with a Working Mother		Total Number of Married-Couple Families with a Working Mother		Total Number of Single-Parent Families with a Working Mother	
	Part-Time	Full-Time	Part-Time	Full-Time	Part-Time	Full-Time
Total Family Income:						
Under 10,000	.32	.30	.02	.01	.30	.29
>= 10,000 and < 20,000	.25	.85	.04	.06	.21	.79
>= 20,000 and < 30,000	.16	.75	.07	.11	.08	.65
>= 30,000 and < 40,000	.10	.58	.06	.14	.03	.44
>= 40,000 and < 50,000	.08	.36	.06	.15	.02	.21
>= 50,000 and < 75,000	.16	.52	.15	.36	.01	.17
75,000 +	.15	.34	.14	.29	.01	.06
All Incomes	1.21	3.71	.55	1.11	.65	2.60
Poverty Status:						
Poor	.42	.61	.03	.05	.39	.56
Not Poor	.78	3.10	.52	1.05	.26	2.05

[1] Working mothers are defined as those who worked for any amount of time during the past year.

[2] Full-time work status is defined as usually working 35 or more hours per week during the past year and part-time work status is defined as usually working less than 35 hours per week during the past year.

Source: 1997 March Current Population Survey

Table 6. Total Number of Families with Children Under Age Fourteen with a Working Mother[1] by Work Status[2] (in millions)

	Total Number of Families with a Working Mother		Total Number of Married-Couple Families with a Working Mother		Total Number of Single-Parent Families with a Working Mother	
	Part-Time	Full-Time	Part-Time	Full-Time	Part-Time	Full-Time
Total Family Income:						
Under 10,000	.96	.92	.05	.02	.91	.90
>= 10,000 and < 20,000	.53	1.77	.11	.15	.43	1.62
>= 20,000 and < 30,000	.30	1.35	.18	.25	.12	1.10
>= 30,000 and < 40,000	.20	.97	.15	.34	.05	.63
>= 40,000 and < 50,000	.17	.63	.15	.32	.02	.30
>= 50,000 and < 75,000	.36	.93	.35	.72	.01	.21
75,000 +	.29	.70	.28	.60	.01	.10
All Incomes	2.81	7.26	1.27	2.41	1.54	4.85
Poverty Status:						
Poor	1.24	1.63	.11	.14	1.12	1.50
Not Poor	1.57	5.63	1.15	2.27	.42	3.36

[1] Working mothers are defined as those who worked for any amount of time during the past year.

[2] Full-time work status is defined as usually working 35 or more hours per week during the past year and part-time work status is defined as usually working less than 35 hours per week during the past year.

Source: 1997 March Current Population Survey

Table 7. Total Number of Families with Children Under Age 14 with a Mother who did not Work in the Past Year (in millions)			
	Total Number of Families with a Non-Employed Mother	Total Number of Married-Couple Families with a Non-Employed Mother	Total Number of Single-Parent Families with a Non-Employed Mother
Total Family Income:			
Under 10,000	2.4	.51	1.91
>= 10,000 and < 20,000	1.33	1.01	.32
>= 20,000 and < 30,000	1.07	1.01	.06
>= 30,000 and < 40,000	.89	.87	.02
>= 40,000 and < 50,000	.69	.67	.02
>= 50,000 and < 75,000	.98	.96	.02
75,000 +	.94	.94	.002
All Incomes	8.32	5.96	2.36
Poverty Status:			
Poor	3.38	1.29	2.09
Not Poor	4.95	4.67	.28

Source: 1997 March Current Population Survey

Table 8. Total Number of Families with at least One Child Under Age Six with a Mother who did not Work in the Past Year (in millions)			
	Total Number of Families with a Non-Employed Mother	Total Number of Married-Couple Families with a Non-Employed Mother	Total Number of Single-Parent Families with a Non-Employed Mother
Total Family Income:			
Under 10,000	1.61	.34	1.27
>= 10,000 and < 20,000	.86	.70	.16
>= 20,000 and < 30,000	.71	.69	.02
>= 30,000 and < 40,000	.56	.55	.01
>= 40,000 and < 50,000	.44	.43	.01
>= 50,000 and < 75,000	.57	.56	.01
75,000 +	.54	.54	.002
All Incomes	5.31	3.83	1.48
Poverty Status:			
Poor	2.26	.90	1.36
Not Poor	3.05	2.93	.12

Source: 1997 March Current Population Survey

Table 9. Total Number of Families with Children Under Age Fourteen but No Children Under Age Six with a Mother who did not Work in the Past Year (in millions)			
	Total Number of Families with a Non-Employed Mother	Total Number of Married-Couple Families with a Non-Employed Mother	Total Number of Single-Parent Families with a Non-Employed Mother
Total Family Income:			
Under 10,000	.81	.17	.64
>= 10,000 and < 20,000	.47	.31	.16
>= 20,000 and < 30,000	.35	.31	.04
>= 30,000 and < 40,000	.32	.31	.01
>= 40,000 and < 50,000	.25	.24	.01
>= 50,000 and < 75,000	.42	.40	.02
75,000 +	.40	.40	*
All Incomes	3.01	2.13	.88
Poverty Status:			
Poor	1.11	.39	.72
Not Poor	1.89	1.73	.16

Source: 1997 March Current Population Survey
* Very few such families in the survey.

Table 10. Total Number of Families with Children Under Age Fourteen (in millions)			
	Total Number of Families	Total Number of Married-Couple Families	Total Number of Single-Parent Families[1]
Total Family Income:			
Under 10,000	4.76	.70	4.06
>= 10,000 and < 20,000	4.57	1.79	2.78
>= 20,000 and < 30,000	4.23	2.60	1.63
>= 30,000 and < 40,000	3.94	3.01	.93
>= 40,000 and < 50,000	3.36	2.91	.45
>= 50,000 and < 75,000	6.18	5.79	.39
75,000 +	5.33	5.16	.17
All Incomes	32.36	21.96	10.40
Poverty Status:			
Poor	7.15	1.96	5.19
Not Poor	25.20	20.00	5.20

[1] While most single-parent families are headed by a single mother, a small number have no mother present.

Source: 1997 March Current Population Survey

Table 11. Total Number of Families with at least One Child Under Age Six (in millions)			
	Total Number of Families	Total Number of Married-Couple Families	Total Number of Single-Parent Families[1]
Total Family Income:			
Under 10,000	3.15	.45	2.70
>= 10,000 and < 20,000	2.63	1.19	1.44
>= 20,000 and < 30,000	2.32	1.64	.68
>= 30,000 and < 40,000	2.05	1.74	.31
>= 40,000 and < 50,000	1.80	1.65	.15
>= 50,000 and < 75,000	3.06	2.95	.11
75,000 +	2.58	2.51	.07
All Incomes	17.58	12.12	5.46
Poverty Status:			
Poor	4.65	1.32	3.33
Not Poor	12.92	10.79	2.13

[1] While most single-parent families are headed by a single mother, a small number have no mother present.

Source: 1997 March Current Population Survey