Jen

DATE: 1/29/98

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TO : Laura E.

FROM:
[X] MARY M. BOURDETTE
Deputy Asst. Sec.

OFFICE : WH/DPC

ROOM NO :

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FAX NO : 456-2878

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%)

Michael D. Kaplan, M.D. Opinion Piece

In his State of the Union address, President Clinton called for a bold new initiative in the financing of day care. This call to the country comes at a crucial moment. The day care movement has grown exponentially in the last decade. Two-thirds of children under the age of five are in some form of childcare. Nearly one-half of all children under age one are in childcare on a regular basis. With the changing role of women in society, with the requirements for two (or three) incomes in most households, and with the success and popularity of the welfare-to-work initiatives, the number of children in out-of-home care is rising. The future leaders of our country will most likely spend a majority of their early years in non-parental care. How is the care that these children receive?

Research on daycare in this country has produced a shocking report card. The quality of care in the majority of centers and family day care is poor to mediocre. Our youngest children are more likely than not to receive sub-standard care. Infant/toddler care often does not meet minimal standards for health, safety, nurturance and stimulation. Children, left in the care of others, are at risk. These findings hold for private, non-profit, and public sector care. Despite these objective, well-documented findings, parents overrate the quality of care that their children are receiving.

On the other hand, centers and family daycare programs rated high in quality lead to positive and lasting changes in social, emotional and cognitive development. Quality obviously costs more, but not a lot more. We know the ingredients that lead to high quality: better staff-to-child ratios, staff education, specialized training, and improved teacher wages. Good quality daycare is the key to a healthy start and lays the foundation for school readiness. To borrow a metaphor from real estate, the three most important factors in whether children thrive in day care are quality, quality, quality.

Why are parents and legislators deaf to this steady drumbeat of data? The answer is simple. For too long, the daycare debate has centered on whether daycare is good or bad for children. When we debate the merit of daycare two things happen. First, parents become anxious about the choices they are making and do not advocate for changes in the system. Parents, as the consumers in this system, push for flexibility and hours to conform to work schedules but do not have the tools necessary to evaluate quality. Secondly, as long as the debate centers on the very existence of daycare, rather than the quality of daycare, money directed at raising standards of care remains at the bottom of funding priorities.

The debate is over. Recent federal research has shown that children who receive high quality daycare are no different from children raised at home. The challenge to our country is not whether we should have daycare for our youngest citizens or whether the federal government should be in the business of daycare but how well can we do it. Can we do it well? The proposed bill is a step in the right direction.

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.

Child Care

The President has stated his support for the Dodd child care bill, which contains a provision in it that gives tax breaks to stay-at-home parents. Does the President also support this provision?

There are a number of promising 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. 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.

Child Care Weekly Report

We are working with NEC and Treasury to prepare policy options on proposals to help "stay-at-home parents" so that we will be prepared to offer a proposal as part of a final child care package. Senators Chafee and Dodd have both included proposals in their child care bills to offer tax credits to parents who choose to stay at home with their young children. Last week, the House unanimously passed a resolution introduced by Congressman Goodling noting that any child care initiative passed by the Congress must not ignore stay-at-home parents (although Democrats complained that they were not given the opportunity to amend the resolution to include support for child care for working families as well). Next week, Senator Coats is holding a symposium to discuss the issue further.

Fam-child care pol- stay at home

[redacted] 07:52:27 PM

Record Type: Record

To: Elena Kagan/OPD/EOP, Jennifer L. Klein/OPD/EOP, Nicole R. Rabner/WHO/EOP
cc:
Subject: HOUSE SAYS STAY-AT-HOME MOMS NEEDS CHILD CARE HELP, TOO

fyi --

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

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

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To: Neera Tanden/WHO/EOP
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Subject: HOUSE SAYS STAY-AT-HOME MOMS NEEDS CHILD CARE HELP, TOO

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02/11/98 07:38:00 PM

Record Type: Record

To: Bruce N. Reed, Russell W. Horwitz, Charles R. Marr
cc:
Subject: HOUSE SAYS STAY-AT-HOME MOMS NEEDS CHILD CARE HELP, TOO

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

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

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

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

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

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

cc: Bruce

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

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

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

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

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

APNP-02-11-98 1934EST

PROGRESSIVE POLICY INSTITUTE

January 28, 1998

cc: EK
~~Jen~~
Neera
Nicole
— BR

Dear PPI Friend:

In his State of the Union address, President Clinton outlined a new $21.7 billion package of measures to address the child care needs of working families. With this proposal, he has pushed the question of how working parents care for their children—and how government can help them—to the top of the public agenda.

The enclosed PPI Backgrounder, *The President's Child Care Initiative: Investing in Equity,* praises the President's plans to enlarge child care block grants to the states, but argues for an alternative to the President's proposed expansion of the dependent care credit as the best way to use the tax code to help working parents. In this backgrounder, Margy Waller, senior analyst for social policy, proposes:

- directing states to treat all poor, working families equitably by creating seamless, universal child care systems with the block grant funds;
- eliminating and redirecting the existing dependent care credit, including the President's proposed $5.2 billion expansion, into the Child Tax Credit created last year;
- targeting the expansion of the Child Tax Credit to families with children under age six, and household income of less than $60,000; and
- taking steps to redesign the Child Tax Credit to be fully refundable to all working families, so that lower income households get the full benefit of the tax break.

We hope you find this backgrounder useful as the debate over this critical issue heats up.

Cordially,

Jerry Irvine
Press Secretary

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PROGRESSIVE POLICY INSTITUTE

Backgrounder
January 1998

The President's Child Care Initiative
Investing in Equity

by Margy Waller

With more families needing two incomes to make ends meet, and a new work-based welfare policy propelling more single mothers into the workplace, more American parents—single and married—are working than ever before. The number of mothers with preschool-age children taking jobs has increased more than five times since 1947. Today, more than 10 million children of working mothers are in child care.

Against this backdrop, the question of how working parents care for their children—and how government can help them—has risen to the top of the public agenda. President Clinton has outlined a new $21.7 billion package of measures to address the child care needs of working families—the third major child care policy initiative in as many years aimed at this growing problem.

The 1996 welfare law sent states $4 billion more in federal child care funds through the Child Care and Development Block Grant. The 1997 budget law created a new $500 Child Tax Credit ($400 in 1998) for low- and middle-income working families with children under age 17 that takes effect this year, on top of the existing income exemption for parents of children. Now the President, with considerable help from the First Lady, has proposed increasing the underfunded child care block grant and expanding the Child and Dependent Care Tax Credit (hereafter referred to as the dependent care credit, for clarity). Spending more on the block grant is a sound step, but we are skeptical about the expansion of the dependent care credit and propose in this backgrounder an alternative that will achieve more targeted and equitable ends. The President's package also includes a bundle of small initiatives.

To begin, it is a good idea to expand the federal investment in child care through state block grants. These grants provide subsidized care for the children of very low-wage workers, including families leaving the welfare system. With 3.6 million families still on state welfare caseloads, and states under increasing pressure to require recipients to work, the demands on the child care block grant are significant. As such, spending more to ensure care for the children of working welfare recipients—those in transition from welfare to work, and other low-wage working families—is consistent with "making work pay," a principle that the Progressive Policy Institute (PPI) has consistently argued should underlie welfare policy at every turn.

But the President's second idea, expanding the dependent care tax credit, while admirable in its aims, could be better targeted. First, the credit is not "refundable," and therefore does not help the many low-wage earners who have no tax liability to be reduced

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by the credit. Second, it is inequitable because it targets all of the resources on families who purchase child care, and discriminates against families whose economic circumstances may be similar but choose either parental or informal care for their children.

Still, the proposal is headed in the right direction, and with adjustment, can more equitably support working families with children. PPI proposes:

- Expanding the Child Care and Development Block Grant (by including the President's proposed expansion of $7.5 billion and redirecting the $9 billion in smaller initiatives to the block grant), while directing states to treat all poor, working families equitably by creating seamless, universal child care systems;

- Eliminating and redirecting the existing dependent care credit, including the President's proposed $5.2 billion expansion, into the Child Tax Credit created last year;

- Targeting the expansion of the Child Tax Credit to families with children under age six, and household incomes of less than $60,000; and

- Redesigning the Child Tax Credit to be fully refundable to all working families, so that lower-income households get the full benefit of the tax break.

Creating a Seamless Child Care System

The President's major initiative would increase spending by $7.5 billion for the Child Care and Development Block Grant states use to provide child care assistance to working poor parents. This block grant was expanded as part of the federal welfare reform legislation in 1996, and it is intended to assist welfare recipients who go to work as well as other working poor families.

However, the block grant is widely seen as insufficient to meet the expected needs of welfare recipients now required to work, and many states have reduced assistance to non-welfare working families in order to meet the needs of welfare mothers. The often-unstated foundation underlying welfare reform is that to "make work pay," state and federal governments must spend more money, and child care is perhaps the most expensive building block of this strategy. Without increased federal funding for welfare families who must work, these parents cannot otherwise afford child care. But surely no one intends the non-welfare poor to bear the burden of this expense. This outcome can be avoided only by creating a seamless and universal system of access to child care for all poor, working households.

Seamless, universal child care systems ensure that all low-wage workers with children—those on welfare and working, those in transition from welfare to work, and those with no previous receipt of welfare—have access to the same child care system. Access to a seamless system means parents don't have to find a new provider, reapply for assistance, or deal with a new set of rules as they move from welfare to workfare to low-wage, unsubsidized jobs in the regular labor market. All low-wage working parents are treated equitably in a child care system that bases eligibility for child care on income, not on current or recent receipt of welfare.

The President's proposal to increase investment in the system should be designed to move the states toward such a seamless, universal system of child care for working families that treats all poor, working families equitably and ensures that entry-level workers have the support they need to begin moving up the ladder of work—a kind of horizontal equity that is sorely needed. The question is how to steer states toward this more equitable—and practical—system. The answer is that any new federal funds should be the lever to this goal.

For years prior to the new welfare law, states urged the federal government to create one flexible block grant for child care to eliminate the crazy quilt of child care funding streams that forced states to treat families in similar economic circumstances differently. The federal welfare legislation eliminated the mandated inequities and complexities by collapsing several old programs into one block grant—though only a few states have taken full advantage of the new flexibility to create a universal and seamless system.

States can, and will, choose to draw the line for eligibility based on family income in different places; but, they should have to treat all families in similar circumstances in the same way. *That is why the Administration's proposal should require states to demonstrate on an annual basis the progress they are making toward creation of a universal, seamless system.* While such progress may be difficult to quantify, the obligation prepares states for the next step: requiring that such equitable systems be in place in exchange for federal funding when the block grant is reauthorized in 2003.

Finally, the President's proposal has *seven* other small components totaling $9 billion. There is money for a corporate tax credit, after-school programs, an early learning fund, Head Start, standards' enforcement, scholarships for child care providers, and research. With the exception of the tax credit for businesses that provide child care services to employees (which is not likely to increase business investment much), these proposals would enhance the capacity and quality of the child care system. But each alone is too small to make a significant difference. Congress should add these funds into the flexible block grant to states, while the President uses his considerable talents to educate and persuade the states to address the need to build capacity and quality in the child care system. The federal government should not dictate the means of creating an affordable, accessible, quality system of child care, but should monitor the outcomes of state policy decisions while making federal funding contingent upon the creation of a state system that meets federal goals.

Making Tax Policy for Children More Equitable

The second big idea in the White House child care proposal is to rework the dependent care credit by giving a bigger tax break to families with an annual income below $60,000 who have both a tax liability and child care expenses. The White House estimates that the new tax break would eliminate federal tax liability for families of four with household income of less than $35,000, and provide a tax break of $358 on average to other eligible taxpayers. Currently, families with child care expenses can get a tax credit of up to $1440 for two children, regardless of how much they earn. However, low-income families do not benefit from the existing dependent care credit because they don't owe any federal income tax that can be reduced by the credit. Many families will not benefit from the expansion for the same reason. Despite urging by both Democrats and Republicans in Congress, the Administration has resisted making the dependent care credit refundable. Furthermore, many of these working families are not likely to be eligible for assisted child care from block grant funds because their income is slightly higher than the eligibility limits set by individual states.

Proponents of the tax reform proposal rightly point out that the dependent care credit has not been adjusted since 1981 and needs to reflect inflation if it is going to be the principal vehicle for assisting working families with children. However, the dependent care credit has two large flaws: as noted above, it is not available to entry-level workers who do not have sufficient tax liability to receive the benefit of the credit, and it discriminates against families who do not purchase child care for their children.

A better approach would be to eliminate the dependent care credit and shift the money into the Child Tax Credit created by the 1997 budget law. This would promote simplicity, benefit all low- and moderate-income families with young children, and reward work by providing more assistance to low-income families. Taxpayers with dependent children have long been able and would still be able to take a personal exemption for each child, and the Child Tax Credit is *in addition* to the exemption. While the existing Child Tax Credit is available to working families with children under age 17, PPI proposes that the expansion benefit only families with children under age six and annual income less than $60,000, those families with the greatest expenses relative to income.

The current Child Tax Credit has the advantage of steering tax breaks to families that need it most, since it benefits only families with earnings below $120,000 (couples filing jointly), while the existing dependent care credit has no income limit. (The President's proposed expansion, however, would benefit only families with income below $60,000.) Also, the Child Tax Credit is partially refundable to families with no tax liability, while the dependent care credit is not refundable at all—and the White House does not propose to make it so. (Through a little-noted provision in the law passed in 1997 creating the Child Tax Credit, only families with more than two children are eligible for a refundable tax benefit.) Thus, the Child Tax Credit provides a more equitable distribution of tax benefits for low-wage workers than the dependent care credit. PPI proposes that over time the equity should be expanded by making the Child Tax Credit fully refundable to ensure that tax policy supports working families with the greatest needs—those with the lowest incomes.

In short, where the President proposes to give more help to moderate-income families who purchase their child care, PPI instead would spend the same money to support all working families with preschool-age children. The two tax breaks present different policy choices. One, the dependent care credit, seeks to partially reimburse *some* working families for the *cost of purchased child care*. The other, the Child Tax Credit, provides a tax break for *all working families with children*. Defenders of the White House proposal note that if we broaden the group of beneficiaries, we'll be forced to reduce the amount of support each family receives. That is true, but the imperative for tax policy intended to support families should be to reduce expenses for those with the greatest need. Of the two tax breaks, only the Child Tax Credit is refundable and therefore available to families with the greatest need for a tax break.

The shift from one tax break to the other would have only minimal impact on most families: at the same time they lose the dependent care credit, they would get the benefit of the Child Tax Credit for the first time this year. In fact, for the same amount of money as is currently expended for the dependent care credit ($2.8 billion per year), as well as the President's proposed expansion ($1 billion per year), many more families with young children would see an increase in available resources. The impact on families currently receiving the dependent care credit would be minimal since the average credit claimed in 1996 was only $445, and the maximum credit is only $720 for one child. (Of course, families with children between the ages of six and twelve would no longer get the dependent care credit and would not be eligible for PPI's proposed expansion of the Child Tax Credit on top of the existing tax credit. However, the greatest costs for child care are incurred by families with children who are not yet in school.) When fully phased in, the Child Tax Credit will be worth $500 per child—*before* adding PPI's proposed increase. Thus, few families would suffer a real loss in tax benefits, while many would gain.

Conclusion

The federal government has a legitimate role to play in helping families. First, public policy should reward work by ensuring that no family with a full-time worker lives in poverty. Creating a new employment system to replace the welfare system requires investment by both the federal government and the states. Available federal resources should be given to states with a charge to achieve this outcome without mandating the inputs. The important goal is the creation of a system to "make work pay" with all that means—assistance with health care, transportation, housing, earned income credits, and in this case, child care. The states' responsibility is to create a seamless system that treats all low-wage workers equitably. And the federal government should monitor the capacity and quality of the system created by the states. States that fail to meet federal goals should ultimately be denied ongoing federal resources.

Second, family friendly tax policy can support all low-and moderate-income families without discriminating. Very poor working parents should receive the same tax breaks as low- and moderate-income families. And these parents should be empowered to use the additional household income to choose the means of providing care to their children. The considerable commitment made by the President's proposal can be strengthened by creating a universal and seamless system of child care for the poorest working families and equitably granting tax breaks to all working families with young children.

Margy Waller is senior analyst for social policy for the Progressive Policy Institute.

For further information about PPI publications, please call the publications department at 1-800-546-0027 (in the Washington, DC, metro area: 202-544-6172), write the Progressive Policy Institute, 518 C Street, NE, Washington, DC, 20002, or visit our web site at: http://www.dlcppi.org/.

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.

As to Chafee:
- Age of child
- Amount of expenses to be deemed
- get 1st dollar of expenses if you do have cc expenses
- phase out whole DCTC or just those who have the minimum

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 any time in the labor force over the past year.

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

Record Type: Record

To:

cc:
Subject: Child Care

Here are some ideas to help people who want to stay at home to care for their children that you may want to get feedback on:

1. Changing the "marriage penalty" in the tax code, so that families with children do not pay higher taxes because they are filing a tax return as a married couple rather than two single people.

2. Giving people who are eligible for subsidies to pay for child care, 3/4 of the subsidy if they choose to stay at home to care for a child under a year old.

3. Expanding the Family and Medical Leave Act to cover employers with fewer than 50 employees.

4. Creating paid parental leave, either by requiring employers to pay or by providing Federal government subsidies.

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.