FIRST FOCUS
CAMPAIGN FOR CHILDREN

How Kids Fare in the "Tax Cuts and Jobs Act"

Fifteen provisions that hurt children and families

November 17, 2017

The House GOP Passes the Tax Cuts and Jobs Act

Today, the House of Representatives passed its tax bill to dramatically overhaul the existing tax code with a 227 to 205 vote. The bill's supporters claim that the Tax Cuts and Jobs Act (H.R. 1) will provide meaningful tax relief to millions of families. However, initial analysis of suggests that for families with children—especially those who are low-income—this is not the case. In fact, First Focus Campaign for Children has identified **fifteen provisions** that harm kids and families.

Fifteen Pieces of the Tax Bill that Hurt Children:

1. **Increase to the Deficit will force Spending Cuts:** The tax bill would increase the federal deficit by 1.49 trillion dollars over the next decade. According to the Tax Policy Center, these tax cuts will have to be paid for somehow over the long term—probably with some combination of increases in other taxes or cuts in spending.

   How it hurts kids: Programs that support kids and families—like food assistance, Medicaid, housing, and education investments—could all be at risk.

2. **Deficit Spending Now Hurts Children Later:** As Maya MacGuineas of the Committee for a Responsible Federal Budget explains, past tax cuts have failed to spark economic growth dollar for dollar—generally leading to larger budget deficits and lower revenue. This is bad for the economy: debt not only suppresses economic growth, it suppresses future wages. The Congressional Budget Office estimates that average income in 30 years will be $5,000 less a year if the national debt continues to grow on its current trajectory.

   How it hurts kids: by suppressing future economic growth and earnings, children will pay the high price of the tax bill's $1.49 trillion addition to the national debt.

3. **Using the Chained Consumer Price Index (CPI) will Increase Tax Burden:** One technical, but quite consequential, change in the tax bill is its replacement of the current measure of inflation—the CPI—to the Chained-CPI. The Chained-CPI is a less generous measure of inflation—and thus it understates the role that inflation plays in increasing incomes. Using this measure to determine tax bracket would, the Tax Foundation explains, place families into higher tax brackets when they don't deserve to be there. At the same time, tax deductions that are linked to the chained CPI (such as the Earned Income Tax Credit and Standard Deduction) wouldn't grow as quickly.

   How it hurts kids: Not only would families find their tax burden increased substantially over time due to this "bracket creep," says Howard Gleckman, but low-and-moderate income families would also see the value of their tax deductions eroded over time.

4. **Insufficiently Increases the Child Tax Credit:** The tax bill increases the current Child Tax Credit from $1,000 to $1,600, with an additional $300 credit per parent. The addition of the Family Credit is a marginal improvement over current law, but not for families with children who are working-class or living in poverty, argues Senator Marco Rubio. Because the increases are not refundable, they won't apply to families living under the poverty threshold, and the $300 parent credits would expire after five years. The proposal to index the refundable portion to inflation is also insufficient, as it uses a less generous estimate and ceases upon reaching $1600.

   How it hurts kids: This Child Tax Credit will not only fail to reach children in living in poverty, but its relief for working families will likely be temporary—the Joint Committee on Taxation estimates that many families earning between $20,000 and $40,000 will actually see their tax liability *increase* after 2023.

5. **Strips the Child Tax Credit from millions of children with immigrant parents:** The tax bill would require at least one immigrant parent to have a Social Security Number to claim the refundable portion (the first $1000) of the Child Tax Credit. Currently, immigrant parents who file their taxes with an Individual Taxpayer Identification Number (ITIN) can claim the CTC on behalf of qualifying children. This provision targets the 5 million children in mixed-status

Rachel Merker, Director of Policy and Research, RachelM@firstfocus.org

families—many of whom are among the Child Tax Credit's most economically vulnerable recipients, according to the Center for Law and Social Policy.

How it hurts kids: Over 5 million children, 80 percent of whom are US citizens, and many of whom are economically vulnerable, would lose the Child Tax Credit.

6. **Removes the Personal Exemption:** The current tax code allows families a tax exemption of $4,050 per person. For some families, the loss of the personal exemption is recovered through the tax bill's increase of the standard deduction to $18,300 for head of household filers and $24,000 for married joint filers. However, because under current law the standar deduction and personal excemption can be combined, under the new code, single parents with two or more children and married couples with one or more child could see their taxable income increase before applying other deductions, especially once the additional family credit expires.

   How it hurts kids: Removing the personal exemption penalizes families with children, whether they are single or married, especially once other family credits expire.

7. **Repeals Most of the State and Local Tax (SALT) Deduction:** The Tax Bill ends the federal deduction for state and local income and sales taxes and limits the deduction for state and local property taxes to taxes under $10,000. According to the Government Finance Officers Association, the loss of this deduction would likely force states to lower their tax rates to reduce the additional tax burden it would place on residents.

   How it hurts kids: Lower state and local taxes would make it harder for states — many of which already face serious budget strains — to raise sufficient revenues in the coming years to invest in K-12 education and child welfare services, both of which rely heavily on state and local funding.

8. **Repeals the Educator Expense Deduction**: Teachers, who already earn meager salaries, spend hundreds of dollars of their own money each year on classroom supplies to compensate for limited school budgets. The tax bill repeals a current provision that allows them to deduct up to $250 of this spending.

   How it hurts kids: Teachers will essentially have fewer dollars to purchase school supplies—meaning children may have less access to the resources they need for a high-quality education.

9. **Consolidates Educational Savings Accounts:** The tax bill proposes to end Coverdell Education Savings Accounts — income restricted tax-free accounts that allow families to set aside up to $2,000 to cover K-12 costs. At the same time, the bill would expand 529 college savings accounts (which are open to everyone) to cover K-12 expenses of up to $10,000 per year at public, private and religious schools.

   How it hurts kids: Ending Coverdell accounts while expanding 529's to include K-12 tuition would effectively incentivize wealthy Americans to put away money for private school—further limiting the resources available to public schools.

10. **Repeals Student Loan interest Deduction:** The GOP plan would no longer allow people repaying federal and private student loans to reduce their tax burden by up to $2,500. Because the current deduction is "above-the-line," it primarily benefits low-income families who do not itemize deductions on their tax returns and students with higher loan balances.

    How it hurts kids: The repeal of student loan deductions would make higher education less affordable for low-income students, as well as foster-youth who often have to take out private student loans to pay for college.

11. **Repeals other Tax Breaks for Higher Education:** The tax plan would also repeal two higher education credits—the Lifetime Learning Credit and the Hope Scholarship Credit. The Lifetime Learning Credit is a flexible credit of up to $2,000 for the first $10,000 spent on education expenses. The bill would preserve the American Opportunity Tax Credit, which is worth up to $2,500 per year, and partially extends it into a fifth year. The changes are projected to reduce tuition assistance by $17.5 billion over ten years, directly impacting the ability of families to defray the costs associated with higher education.

    How it hurts kids: According to former undersecretary of education Ted Mitchell, the repeal of these credits would discourage participation in postsecondary education, while making it more expensive for those who do enroll.

12. **Eliminates the Dependent Care Assistance Program (DCAP):** The tax bill eliminates DCAP, an employer-sponsored provision by which working parents can put up to $5,000 (or $2,500 for single parents) of pre-tax money in a flexible savings account (FSA) to count towards annual child care costs, including the cost of a nanny, babysitter, day-care center or preschool, as well as before and after school care.

    How it hurts kids: While DCAP can (and should) be strengthened, its repeal will only further limit the options available to working parents struggling to afford the skyrocketing costs of high-quality care for their children.

13. **Eliminates the Employer-Provided Child Care Credit:** The bill also repeals a nonrefundable credit that employers may claim up to $150,000 or 25 percent expenses related to providing or contracting to provide child care for employees, as well as 10 percent of expenses related to child care resource and referral services for their employees.

    How it hurts kids: Repealing the credit is a disincentive for businesses to invest in the process of making childcare affordable and accessible to employees, limiting the options available to working parents struggling to afford high-quality care for their children.

14. **Eliminates Extraordinary Medical Expense Deduction:** Under the bill, families will no longer be able to deduct medical expenses that exceed ten percent of their income. Half of the households who claim the medical expense deduction earn $50,000 or less a year. The deduction applies to a wide range of medical expenses not covered by insurance, including remedial reading lessons for a dyslexic child, travel expenses to visit a child in rehabilitation, therapies of various kinds, prosthetics, high-cost drugs, and even home improvements that make the residence more accessible.

    How it hurts kids: The Center for American Progress highlights that this deduction is critical for middle-class and low-income families with special needs and/or chronically ill children, who could now lose access to the full range of care they require.

15. **Repeals the "Orphan Drug" Tax Credit (ODTC):** The ODTC allows drug manufacturers to claim a tax credit of 50 percent of the qualified costs of clinical research and drug testing of orphan drugs, which treat rare diseases. The National Organization for Rare Disorders claims its repeal could lead to a 33 percent decrease in the development of life-saving treatments.

    How it hurts kids: Even though children comprise only 23 percent of the US population, they represent 50 percent of the Americans suffering from the rare diseases that "orphan drugs" treat, and The American Academy of Pediatrics argues that this credit has spurred the development of drugs specifically targeting children with rare diseases in the past decade—meaning kids with rare diseases will suffer disproportionately from its repeal.

The Bottom Line: This Tax Code Overhaul Doesn't Invest in Children

While not definitive, the above list is an important reminder that the bill that just passed the House—with support from **227 lawmakers**—does much more than cut tax rates. Provisions that appear to benefit families in isolation aren't happening in a vacuum, and thus could have long-lasting consequences. Meanwhile, many of the choices made in the name of "simplification" will be a direct hit on important supports for children and families in the tax code. Altogether, this long list of provisions suggests that families are not the priority in the House's tax overhaul.