

The Child Tax Credit ‘Baby Bonus’

Supporting America’s Youngest Children

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The Child Tax Credit is an invaluable resource for families, keeping millions of children out of poverty every year and helping middle class families defray the high cost of raising children. But it can be improved and targeted to children and families when they need it most by increasing the credit for very young children and making it fully refundable to benefit families with the lowest incomes.

WHY EXPAND THE CHILD TAX CREDIT FOR YOUNG CHILDREN?

Young children are both the most likely to live in poverty and the most susceptible to the long-lasting negative effects of poverty. Furthermore, parents are challenged with meeting the high cost of infant and toddler care with potentially reduced hours in the labor market. The current Child Tax Credit, however, does not reflect the reality that:

- 1 in 4 children under age 5 live in poverty.¹
- Poverty during early childhood adversely affects development and leads to higher incidence of cardiovascular, respiratory and psychiatric diseases in adulthood.²
- Slipping into poverty even temporarily as a child has negative consequences similar to living in chronic poverty.³
- Child poverty cost the nation \$500 billion annually due to lost revenue and increased spending on healthcare, criminal justice, and more.⁴



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Tax credits are a proven anti-poverty tool. In 2009 alone, the Child Tax Credit kept 1.3 million children out of poverty⁵ while the Earned Income Tax Credit (EITC), which is fully refundable for the poorest households and recognizes larger families, kept 3.3 million children from poverty⁶.

The Child Tax Credit in particular, serving families with incomes up to \$110,000, also strengthens the middle class by supporting families with the resources they need to raise healthy children. By helping families cover necessities like adequate food and school supplies, even relatively small additions to income have positive and significant effects on children’s development. An increase in family income of just \$1,000, for example, improves children’s test scores in both reading and math, particularly for young and low-income children.⁷

CHILD TAX CREDIT ‘BABY BONUS’ PROPOSAL

To ensure that the high cost of young children does not negatively affect children’s early development or put undue financial strain their families, we recommend the Child Tax Credit be amended to include the following provisions:

- Double the credit amount for children under 6 years of age, to a maximum of \$2,000 per child.
- Make this portion of the Child Tax Credit fully refundable from the first dollar of earnings.
- Provide for annual inflation adjustments to credit value.

HELPING FAMILIES WITH YOUNG CHILDREN HELPS THE NATION

Doubling the Child Tax Credit for children under 6 helps ensure that both low-income and middle-income children can have happy and healthy childhoods. This expansion will strengthen the middle class and keep children out of poverty, allowing more families to give their young children a healthy and secure start to life.



The First Focus Campaign for Children is a 501(c)(4) nonprofit organization affiliated with First Focus, a bipartisan children’s advocacy organization. The Campaign for Children advocates directly for legislative change in Congress to ensure children and families are a priority in federal policy and budget decisions. For more information, visit www.ffcampaignforchildren.org.

¹ U.S. Census Bureau, Current Population Survey, 2011 Annual Social and Economic Supplement.

http://www.census.gov/hhes/www/cpstables/032011/pov/new34_100_01.htm.

²Center on the Developing Child at Harvard University (2010). *The Foundations of Lifelong Health are built in Early Childhood*.

http://developingchild.harvard.edu/resources/reports_and_working_papers/.

³First Focus (2009). *Turning Point: The long term effects of recession-induced child poverty*. <http://www.firstfocus.net/sites/default/files/r.2009-5.12.ff.pdf>.

⁴Holzer, Harry J., et. al., Center for American Progress (2007). *The Economic Costs of Poverty in the United States: Subsequent Effects of Children Growing up Poor*. http://www.americanprogress.org/issues/2007/01/pdf/poverty_report.pdf.

⁵Center on Budget and Policy Priorities (2009), *Policy Basics: The Child Tax Credit*, <http://www.cbpp.org/cms/index.cfm?fa=view&id=2989>.

⁶Center on Budget and Policy Priorities (2012). *Policy Basics: The Earned Income Tax Credit*. <http://www.cbpp.org/files/policybasics-eitc.pdf>.

⁷Dahl, Gordon, and Lance Lochner, National Bureau of Economics Research (2008). *The Impact of Family Income on Child Achievement: Evidence from the Earned Income Tax Credit*. <http://www.nber.org/papers/w14599.pdf>.