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

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The Senate to Vote on the Tax Cuts and Jobs Act

The Senate is poised to vote on its version of the Tax Cuts and Jobs Act this week. Though the Senate bill varies significantly and its from its counterpart in the House (which passed in spite of fifteen harmful provisions to kids and families on November 16), the measure will still dramatically overhaul the existing tax code. The Senate bill's writers claim that it will provide meaningful tax relief to millions of families. However, initial analysis of the bill suggests that the bulk of its tax breaks flow to wealthy families and corporations in the long term. For middle and low income families, especially those in poverty, modest tax relief is temporary—and it comes at a steep price.

Nine Provisions in the Senate 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. Meanwhile, the bill's writers have signaled that though some 35 components of the Senate bill are set to expire in eight years, they expect that they would be extended—which would put the bill's actual long-term cost at far above 1.49 trillion.

   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. **Forces Another Tax Fight in Eight Years:** The Senate Tax Bill **does** promise a tax break for most families at every income level in its first few years. However, to avoid violating the Senate's requirement that the bill not increase the deficit by more than $1.5 trillion over ten years, most of the provisions that provide tax relief to children and families—such as the reduced rates and expanded child tax credit—are set to expire in eight years. Furthermore, the largest share of this temporary tax relief is directed to the wealthiest families, as the Tax Policy Center illustrates.

   How it hurts kids: While the bill's writers are confident that these provisions would be extended due to their popularity, there are no guarantees**. As a result, the expiration date creates uncertainty in the tax code. Even worse, it will force kids and families to fight to retain their tax breaks at the expense of a massive deficit increase.**

4. **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.**

5. **Strips the Child Tax Credit from Over One Million Children:** Currently, immigrant parents

who file their taxes with an Individual Taxpayer Identification Number (ITIN) can claim the CTC on behalf of qualifying children. The Senate tax bill would change the eligibility rules so that only children with a social security number are eligible for the entire child tax credit. This provision targets over [one million immigrant children](#) who lack social security numbers, many of whom are among the Child Tax Credit's most economically vulnerable recipients, [according to the Center for Law and Social Policy](#). It could also add a barrier to accessing the Child Tax Credit for families with newborns or adopted children if they experience unexpected delays in receiving a social security number.

How it hurts kids: Over one million immigrant children would lose the Child Tax Credit, with possible effects on families with newborns and adopted children experiencing delays in receiving social security numbers for their children.

6. **Removes the Personal Exemption for Five Years:** The current tax code allows families a tax exemption of $4,050 per person ($4150 in 2018.) Even with the tax bill's increase of the standard deduction to $18,000 for head of household filers and $24,000 for married joint filers, larger families (single parents with three or more children, married parents with two or more children) would see their taxable income increase, which prevents some from benefiting fully from the bill's expansion of the child tax credit. Furthermore, large families whose children are in college and are too old to receive the credit would not be able to make up for the loss of the personal exemption with the child tax credit.

   How it hurts kids: Removing the personal exemption could penalize larger families, especially those with children in college

7. **Repeals The Entire State and Local Tax (SALT) Deduction:** The Senate Tax Bill ends the federal deduction for state and local income, sales, and property taxes. [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. The Senate's positive step to increase [the educator expense deduction](#)—a move that would double the current $250 deduction available to teachers who self-supply classroom supplies—will not be enough to counteract the loss that schools will face due to diminished state and local funding streams.

8. **Diminishes 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. Unlike the House, which sought to repeal the credit entirely, the Senate bill makes a series of changes that, according to [The National Organization for Rare Disorders](#), cut the incentive in half, could limit those who qualify, and may interrupt current clinical trials.

   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 if it is weakened.

9. **Repeals the Affordable Care Act's Individual Mandate:** Another controversial provision in the Senate tax bill is the repeal of the Affordable Care Act's penalty for individuals who can afford insurance but opt not to purchase it. The mandate is an important measure for keeping healthy individuals in the insurance marketplace, which keeps premiums affordable. The Congressional Budget Office estimates that without the mandate, thirteen million fewer people will access health insurance within ten years.

   How it hurts kids: The repeal of the Mandate means some families will no longer opt to purchase health insurance through the Marketplace—meaning they also would no longer receive government subsidies to purchase insurance. [The Joint Committee on Taxation](#) scores the loss of the subsidies as a net tax increase starting in 2027 for families earning less than $75,000 (half of all US households would also see a tax increase in that same year [independent](#) of the mandate repeal). Furthermore, undermining the insurance market could drive the cost of premiums up by 10 percent in 2019, hurting families who

remain in the individual marketplace, and would likely also lead to 5 million fewer participants in Medicaid. The Congressional Budget Office estimates that as a result, the federal government would spend less money on the poorest individuals—those earning less than $30,000 a year—as early as 2019.

Two Pieces of the Senate Bill Have Potential to Work Better for Kids:

The Senate tax bill is flawed, but it has at least two policy provisions that could be improved upon to better benefit kids and families:

1. **Increase to the Child Tax Credit Should be Made Permanent and Refundable at the First Dollar:** The Senate bill increases the current Child Tax Credit from $1,000 to $2,000, shifts the earnings threshold for receiving the credit from $3,000 to $2,500, increases the phase-out threshold to $500,000. The expansion is a marked improvement over current law for some families, but not those who are working-class or living in poverty, argues Senator Marco Rubio. Because the increase is not refundable, it won't apply to families living under the poverty threshold—the very ones who would benefit most from the additional income. Though the bill indexes the refundable portion of the credit to the chained-CPI, it would take decades for it to experience a commensurate increase to the non-refundable portion. Meanwhile, the Senate's changes to the earnings thresholds showcase skewed priorities. Someone making below $10,000 a year would receive what the Center on Budget and Policy Priorities calls a "token" Child Tax Credit increase of $75—while someone making $500,000 would now qualify for a full $2,000 credit per child.

   How it could work better for kids: Instead of increasing the phase-out level, which disproportionately favors wealthy families, the bill should instead make the entire $1,000 Child Tax Credit increase refundable, starting at the taxpayer's first dollar of earnings. Not only would this better target the credit to those who need assistance the most, but estimates from the Century Foundation **suggest that it would increase the cost of the Child Tax Credit by less then $59 billion a year—cheaper than the Senate's current proposal, which is estimated to cost an average of roughly $68 billion a year.**

2. **Lawmakers Should Embrace a More Comprehensive Paid Leave Program:** The Senate bill also creates a two-year pilot program for a paid leave tax credit. The credit would apply to businesses offering full-time employees who earn less than $72,000 a year at least two weeks of paid family and medical leave each year. To receive the credit, employers must pay a minimum of 50 percent of wages, for which they receive a 12.5 percent credit that increases by .25 percent for every additional percentage point of wage replacement. However, the credit maxes out at 25 percent, and it can go to companies already implementing paid leave policies. Aparna Mathur with the American Enterprise Institute points out that on the whole, the credit may not be enough to make paid leave affordable for companies who don't currently provide it—and thus, may fail to meaningfully expand access to this vital support.

   How it could work better for kids: While it is encouraging that lawmakers are attempting to incentivize increased access to paid leave programs, modest employer tax credits are unlikely to spark the kind of comprehensive paid leave that would benefit low-earning families. Lawmakers looking to create equitable access to paid leave should embrace plans like the FAMILY Act **(sponsored by Congresswoman DeLauro (D-CT) and Senator Kirsten Gillibrand (D-NY) which would combine employer and employee payroll contributions to create a shared fund for affordable and adequate paid leave for employers of all sizes.**

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

We urge lawmakers to pursue bipartisan tax reform that prioritizes moderate and low-income families in the long term, without jeopardizing government spending that provides crucial supports for children.