A Simpler Safety Net for Families: Consolidating Child Tax Credits into a Working Family Credit

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Key Points

- The federal safety net today effectively reduces material hardship but does little to address the underlying causes of poverty, including limited employment and unmarried parenthood. Encouraging employment and marriage is one of the most promising ways to reduce poverty and increase upward mobility.
- Recent efforts to turn the child tax credit (CTC) into a child allowance would undermine employment, and the current earned income tax credit (EITC) penalizes marriage.
- A single tax credit that combines the CTC and the EITC would simplify the administration of child-related tax benefits for working families while building employment and marriage incentives into these policies.
- The working family credit would provide a maximum $6,000, $9,000, and $12,000 to working families with one, two, and three children, respectively; phase in and out to better encourage employment than the current system; and be more generous for most low- and middle-income families with children, especially married families.

Since President Lyndon Johnson launched the War on Poverty in 1964, the United States has built a large safety net that sends hundreds of billions of dollars each year to needy families. Federal spending on means-tested programs has increased by 80 percent since the 1990s alone.[1] However, poor coordination and harmful incentives across the more than 80 federal means-tested programs have created unintended consequences and greatly limited the United States's success in battling poverty.

The greatest challenge for antipoverty policy today is not assembling policies that further reduce material hardship among the poor. Rather, the difficulty resides in how government policies can help more low-income families chart a path upward. Increases in government transfer payments since the 1990s have reduced the US child poverty rate between one-third and one-half when properly measured.[2] However, recent reforms have done little to improve mobility for low-income families or curb the underlying causes of poverty. Instead, they contribute to a cycle of increasing federal expenditures coupled with more government dependence.

Research shows that increases in housing, childcare, and education costs have outpaced inflation over time,[3] suggesting that families could use some relief. Renters in the bottom of the income distribution and families that must use center-based childcare have likely felt the pinch of these rising costs and struggled to balance the income required to cover expenses with the time required to raise a family. As families face challenges balancing work and home life, public policies that reduce child-related costs could help.

However, government programs that simply send money to poor families can unintentionally make it more difficult for them to climb out of poverty permanently, such as by decreasing employment, reducing marriage, and limiting human capital investments.[4] As a result, the US safety net's success in recent years has arguably been superficial. Larger transfer payments have moved many families just above the poverty line, but they have failed to help low-income families reach the middle class.

A prime example is the recent debate over expanding the child tax credit (CTC). The 2021 American Rescue Plan (ARP) temporarily increased the CTC to $3,600 per child under age 6 and $3,000 per older child from $2,000 (and from $1,400 for those with no income tax liability). The ARP also made this credit fully refundable, meaning families received the full amount regardless of their work status. In poverty calculations, this approach undoubtedly reduced the child poverty rate, especially on a static, annual basis.[5]

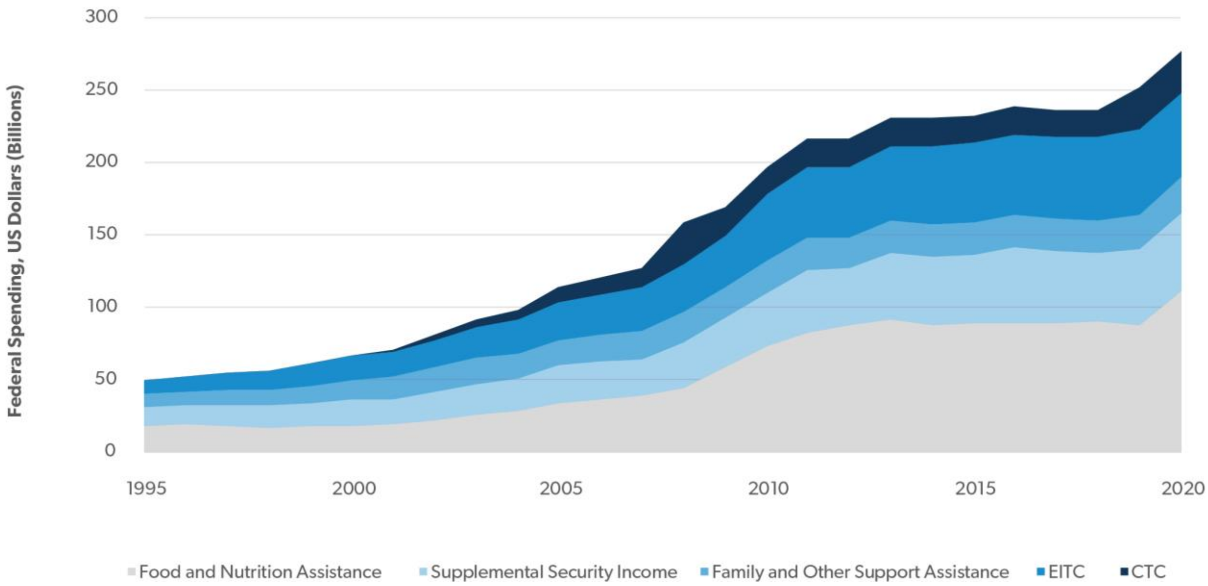
However, replacing the phase-in of the CTC with a flat, fully refundable version reduced work incentives. A recent study estimated the policy would have reduced employment by as much as 1.46 million jobs and only marginally changed the poverty rate over the long term.[6] Others have argued that an expanded CTC could introduce marriage disincentives, further stunting any projected poverty reductions.[7] By failing to address two main causes of poverty, an expanded CTC was inherently limited in what it could accomplish.

Many other means-tested programs, such as federal food and housing assistance, also discourage employment and likely reduce marriage.[8] The disjointed nature of the current safety net only adds to this problem, with multiple government programs offering competing incentives and disincentives for benefit recipients. Further, as David Ellwood and Jeff Liebman argued in 2001, the tax code creates a "U-shaped pattern of benefits by income," which they call the "middle-class parent penalty."[9] Low-income families with children benefit from tax policies such as the earned income tax credit (EITC), and higher-income taxpayers benefit from the dependent exemption (now the full CTC)—leaving middle-income married families with relatively higher marginal tax rates and marriage penalties. One potential solution to these problems involves a more coordinated approach at the federal and state level that recognizes the need to support both working-class and poor families. This report offers a step in that direction by introducing a consolidated federal tax credit for working families—the working family credit (WFC).

The WFC would merge the three primary federal tax benefits for families with children—the EITC, CTC, and head of household tax preference—into one child-related benefit administered through the tax system. The idea that reforms to the tax code can serve families with children better is far from new. More than 20 years ago, publishing for the Economic Policy Institute, Max Sawicky and Robert Cherry proposed a "universal unified child credit" to consolidate the EITC, CTC, and personal income tax exemption.[10] The WFC borrows from that idea while acknowledging the contemporary challenges to working families, the safety net as it exists today, and the fiscal challenges facing the country. At a total cost of approximately $231 billion per year, or $25 billion more than current policy, the WFC would maintain or increase the current generosity of federal tax benefits for most families with children, except for the highest-income families, which would experience a decrease in tax benefits as a way to control overall costs.

The WFC offers several advantages over the current system. First, it would provide income support to families while giving them flexibility in how to use it outside bureaucratic programs such as federal paid leave or universal childcare assistance. Second, it would simplify administration and align rules across the current EITC and CTC. Third, it would make the total amount of child-related tax credits more transparent by combining

Figure 1. Federal Outlays on Safety-Net Programs, Excluding Health-Related Spending in Constant (Fiscal Year 2012) Dollars: 1962–2019



Note: The EITC and CTC only include the refundable portions, not reductions in taxes owed.
Source: White House, Office of Management and Budget, "Table 8.6—Outlays for Mandatory and Related Programs in Constant (FY 2012) Dollars: 1962–2027," https://www.whitehouse.gov/omb/historical-tables/.

three of the major tax benefits for families into one program. Finally, policymakers could incentivize key behaviors such as employment and marriage using one tool. Over time, the basic structure of the WFC could replace other in-kind benefits for working families, such as food and housing assistance, while maintaining social service programs for nonworking households operated through the states.

Maintaining separate child-related tax benefits as the US does introduces unnecessary administrative complexity, offers competing incentives and disincentives around employment and marriage, and leads to an under-appreciation of the size and scope of federal assistance to low-income families in the US. By extension, keeping these benefits separate also increases the risk that policymakers will expand federal assistance without considering the overall cost, scope, and full potential for behavioral responses, such as reduced employment and changes to family structure. Moreover, reform proposals often ignore how the EITC and CTC function in the broader safety net. Rarely are proposed expansions to child-related tax credits discussed in the context of the billions of federal dollars provided through the Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), and housing assistance, for example.

Modern-Day Safety Net for Low-Income Families

Before describing the WFC, it is useful to consider the broader social safety net for low-income families in the US. Total federal cash or near-cash assistance (including Medicaid) to low-income families increased fourfold over the past three decades, reaching $750 billion in 2019 (before the COVID-19 pandemic). Much of this growth can be isolated to dramatic increases in the cost of Medicaid. However, food assistance such as SNAP and the National School Lunch Program and refundable tax credits such as the EITC and CTC have also grown dramatically (Figure 1).

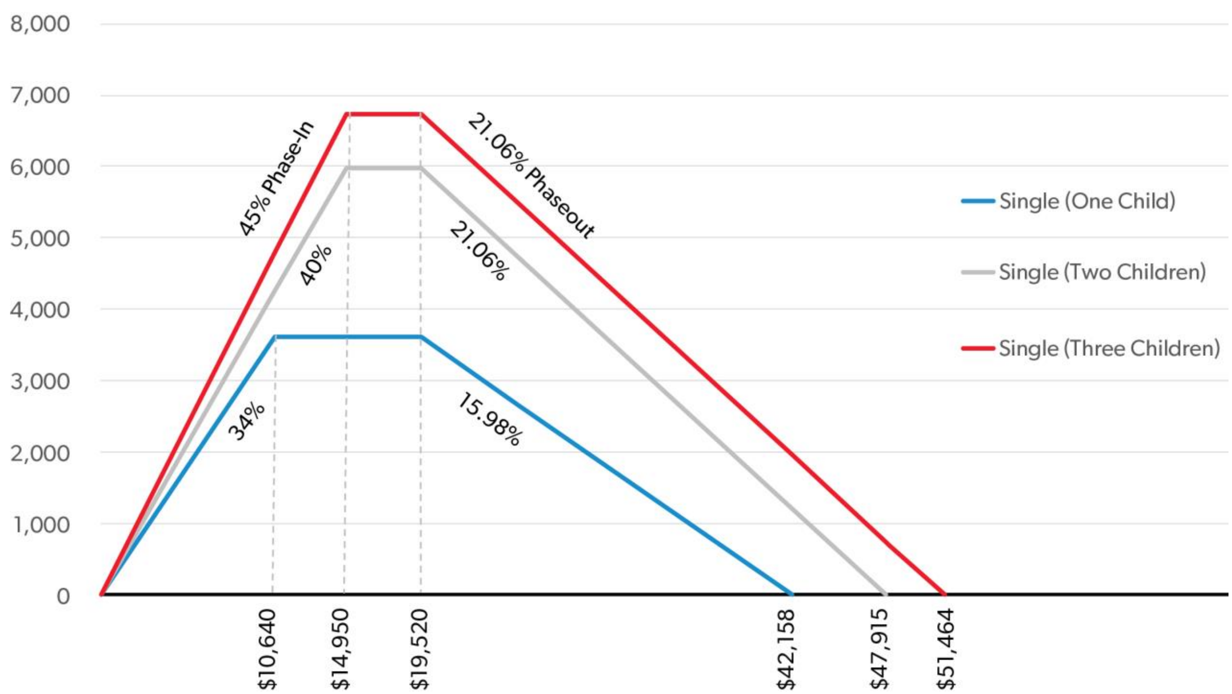
The work-focused safety-net reforms of the 1990s, including the creation of the TANF program and the EITC, left many low-income families better off. A recent study by economists Jeehoon Han, Bruce Meyer, and James Sullivan found that measures of consumption and well-being continuously improved for single-mother families from the time of welfare reform in 1996 through at least 2019, and these improvements were especially concentrated among those at the bottom of the consumption distribution.[11] Contrary to the results of early studies, welfare reform did not reduce poor families' incomes.[12] When correcting for unreliable survey data, the evidence leaves little doubt that the combination of increased employment and more-generous government benefits has improved outcomes for single-mother families since the 1990s.[13] However, disappointing upward mobility trends among families[14] show the limits of these policies without also addressing the low rates of employment and marriage that characterize poor families.

Policy reforms over the past three decades also changed how the government administered benefits to low-income families. The traditional welfare-program approach—in which families apply for benefits at a government agency and social workers determine eligibility—remains for programs such as SNAP and TANF. However, the largest cash-assistance programs are now the EITC and the refundable portion of the CTC, which operate through the tax system and outside the traditional welfare bureaucracy. This has changed not only the relationship between benefit recipients and the government but also the perception of government assistance.[15]

There are advantages and disadvantages to the welfare and tax-system approaches of delivering benefits, but administering government benefits to nonworking households through the tax system raises several concerns. This approach severs the relationship between the social service system and families, potentially missing opportunities to help vulnerable families that face employment barriers or child well-being issues.[16] It also increases the Internal Revenue Service's burden to administer benefits to families unknown to the tax system.

That said, administering a child benefit for working families through the tax system has numerous advantages. With the proper reforms and incentives, such an approach could help reduce poverty in the long run, support working families, and increase upward mobility in a more fundamental way.

Figure 2. EITC Parameters (2021)



Source: Tax Policy Center.

Current Tax Credits for Low-Income, Working Families in the US

Congress originally created the EITC and CTC as tax relief for working families and generated the head of household tax filing status to give preferential treatment to unmarried tax filers caring for children. Historically, these tax provisions have always had a connection to work—offering tax relief to families with child-related expenses. The EITC, and more recently the refundable portion of the CTC, also became important antipoverty tools by sending cash to low-income working families without federal income tax liability but with payroll tax liability. With the exception of the temporary expansion to the CTC in 2021, the connection to work has always been a crucial aspect of these tax credits and the head of household tax filing status.

EITC. The original intent behind the EITC was to offset payroll taxes for working families with children in households whose incomes were too low to owe federal income taxes. This evolved into a wage subsidy for low-wage work in 1993 when President Bill Clinton increased the EITC by an amount that more than offset payroll taxes. Under President George W. Bush, Congress later expanded the program for married families to partially offset a marriage penalty in the program. (The EITC was often more generous for unmarried parents than for married parents.) While Barack Obama was president, Congress expanded it for larger families as a stimulus measure during the Great Recession.[17]

Families are only eligible for the EITC when they have at least some earnings in the household. As earnings increase, so does the value of this tax credit at the lower end of the income spectrum (Figure 2).[18] Each year the EITC increases to reflect inflation, and qualifying households receive it as a lump-sum payment when they file taxes.

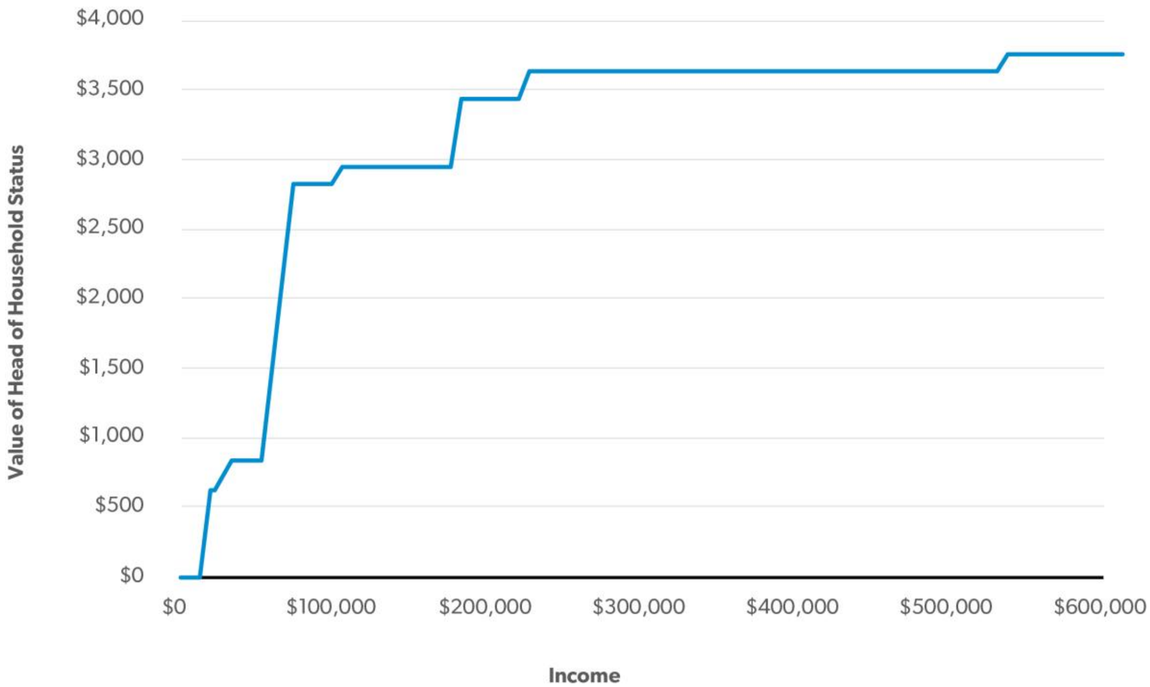
CTC. Congress originally designed the CTC to reduce the federal tax burden on families with children. Republicans supported a $500 per-child credit in 1996 to address concerns that the personal exemption had not adjusted for inflation.[19] However, even before House Republicans expressed interest in a CTC, a bipartisan National Commission on Children recommended a fully refundable CTC (i.e., a universal child allowance) as a way to address the increasing costs of raising children and to support child development, highlighting a dual narrative different advocates of a CTC used.[20] Concerns over costs and work disincentives prevented policymakers from passing a universal CTC as proposed by the commission, but the general policy remained popular, and a small nonrefundable credit passed Congress in a bipartisan way in 1997, offering families $500 of tax relief per child.

The CTC remained nonrefundable—that is, only available in amounts equal to income tax liability (or up to payroll tax liability for large families)—until President Bush proposed making it refundable to stimulate the economy in the 2001 tax bill. Bush's proposal still linked the credit to employment by phasing in the refundable portion of the credit at 15 percent (matching the payroll tax rate) once earnings reached $10,000. Congress intentionally set this threshold because the EITC plateaued at $10,000, meaning the CTC would offset additional payroll tax liability after families reached the EITC plateau. In this, policymakers designed the CTC to complement the EITC. Congress severed this connection, however, when it lowered the CTC earnings threshold in the 2008 and 2009 economic stimulus packages, making this change permanent in 2015.[21] The refundable portions of the CTC and EITC now operate completely independently, even though their policy goals—to help cover the costs of raising children—remain the same.

Head of Household Status. The head of household tax filing status gives preferential treatment to single filers with children by offering them a higher standard deduction (and preferential tax brackets) compared to other single tax filers. The Revenue Act of 1951 added the head of household filing status to provide tax relief to single parents, recognizing that they experienced additional hardship caring for a child without the income of another parent.[22]

However, policymakers created this support before a vast majority of the modern safety net, including other overlapping tax credits for families with children that involve marriage penalties. Today, the head of household filing status offers little in support for low-income single parents, and the largest

Figure 3. "Value" of Head of Household Filing Status Compared to Single Tax Filing Status (Income Tax Only)



Source: Author's calculations based on standard deductions and tax rate comparison for single filing status versus head of household filing status.

benefits go to high-income single-parent households (Figure 3). Further, the composition of single parents and the likelihood of receiving child support from an absent parent have changed dramatically since the 1950s. These changes, along with a greatly increased federal safety net and questionable targeting of benefits, suggest the head of household tax preference may have outlived its usefulness.

The WFC

By combining the EITC and CTC and eliminating the head of household filing status, the WFC would maintain many of the positive features of the current system while offering better coordination and alignment of benefits in the tax system. The tax-filing unit, not the child, would serve as the basis for the credit, although the WFC would be more generous for larger families.

I have outlined a proposed set of parameters for a WFC below. Policymakers could revise any or all of these parameters to meet policy preferences. However, any adjustments would change the overall costs and distribution of benefits while changing implicit tax rates and the program's poverty effects.

Under this proposal, the maximum refundable WFC would be $6,000 for families with one child, $9,000 for families with two children, and $12,000 for families with three or more children. These amounts would adjust for inflation each year. The maximum benefit levels are roughly equal to the combined EITC and CTC for a comparable low-income family under current law (2021 tax year)—although, by eliminating the per-child benefit, families with more than three children would see a reduction in benefits holding all else equal.[23] The WFC would begin phasing in at the first dollar of earnings, similar to the current EITC, and families with no earned income for the entire year would be ineligible for the tax credit.

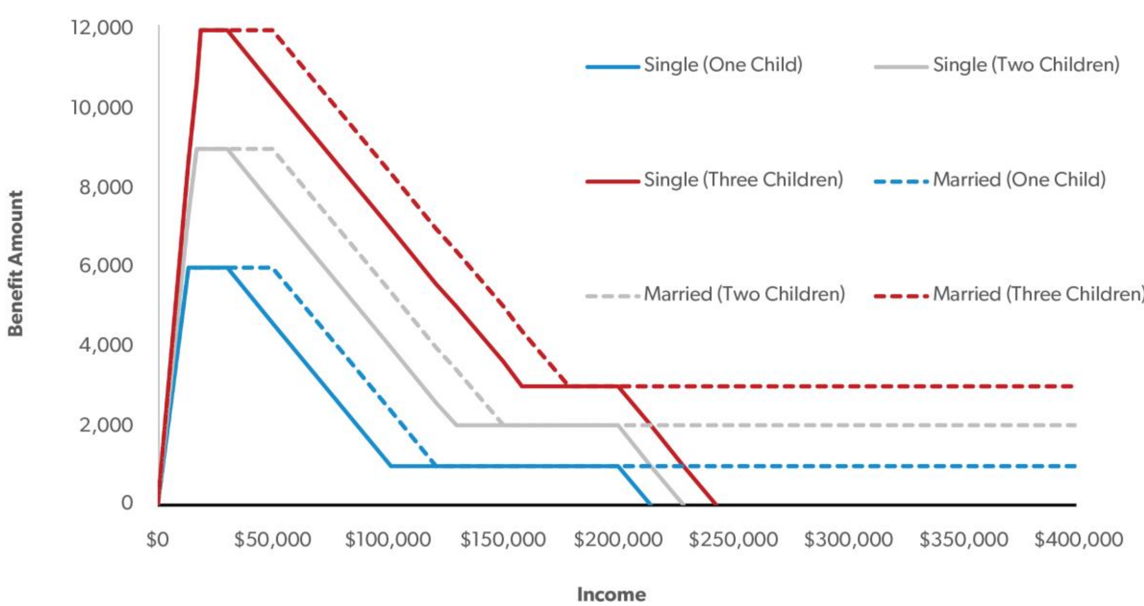
One of the WFC's main features is to align current EITC and CTC rules while eliminating the head of household tax filing status altogether. For the analysis below, I assumed the WFC would be available only to families with dependents under 18 years old. Expanding the WFC to meet the current EITC rules (i.e., available to families with a full-time student up to age 24) would substantially increase

Table 1. WFC Parameters

	Single, One Kid	Single, Two Kids	Single, Three-Plus Kids	Married, One Kid	Married, Two Kids	Married, Three-Plus Kids
Phase-In Rate (Percentage)	45	55	65	45	55	65
Maximum WFC Amount	$6,000	$9,000	$12,000	$6,000	$9,000	$12,000
Income Phaseout Starts	$30,000	$30,000	$30,000	$50,000	$50,000	$50,000
Phaseout Rate (Percentage)	7	7	7	7	7	7
Credit Floor	$1,000	$2,000	$3,000	$1,000	$2,000	$3,000
Income at Which Credit Floor Is Reached	$101,400	$130,000	$158,600	$121,400	$150,000	$178,600
Current EITC Phase-In (Percentage)	34	40	45	34	40	45
Current EITC Phaseout (Percentage)	16	21	21	16	21	21

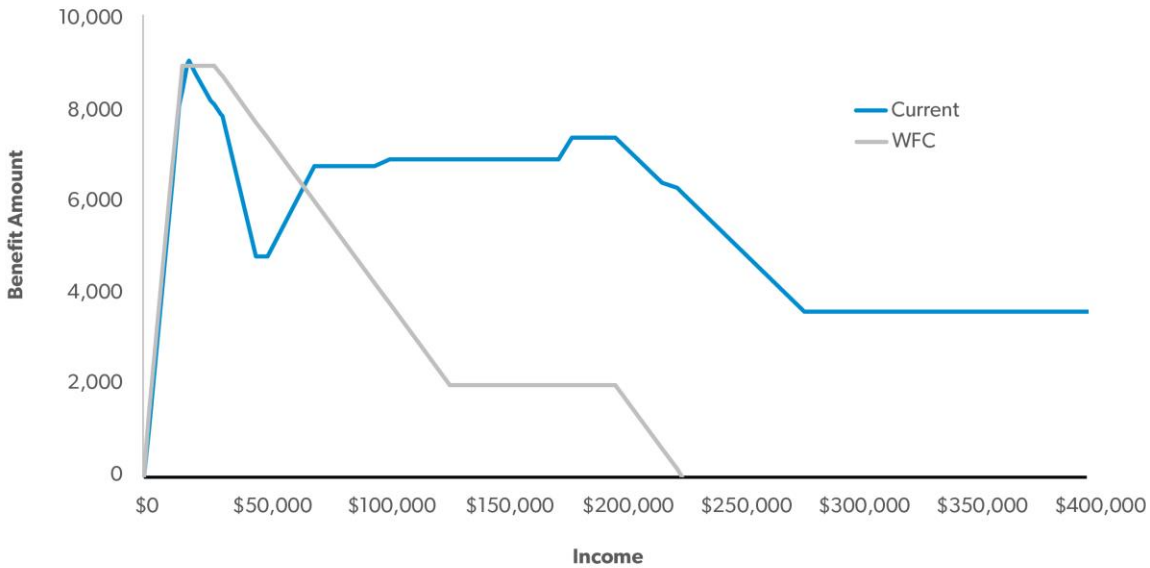
Note: The maximum benefit and income at which the benefit starts to phase out would adjust for inflation each year similar to current law for the EITC.
Source: Author's proposed WFC parameters.

Figure 4. WFC Benefit Amounts (2021 Tax Year)

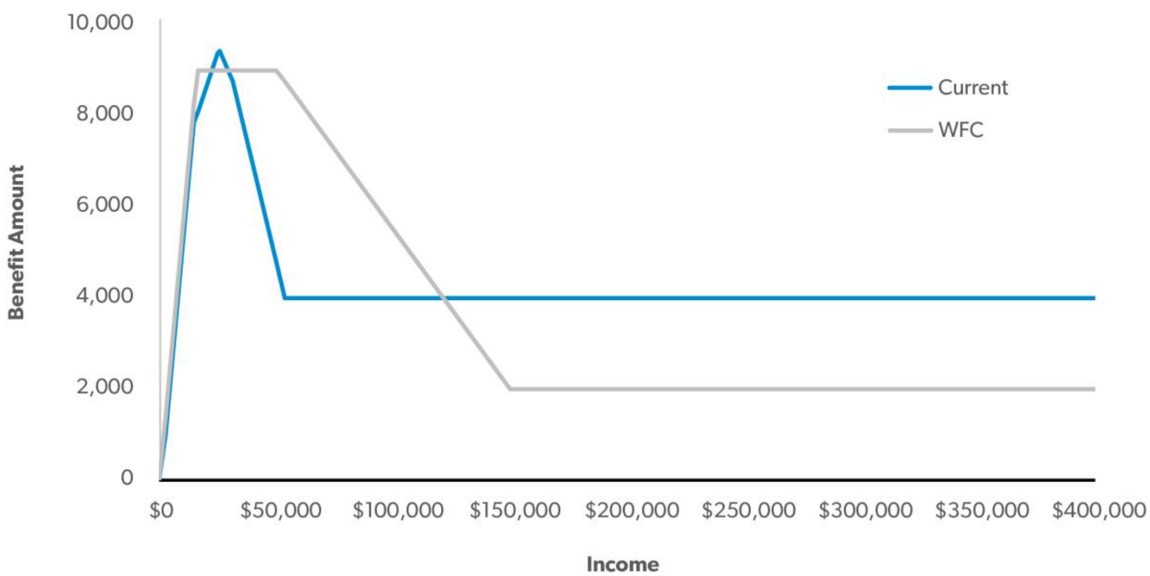


Source: Author's calculations using the WFC parameters outlined in Table 1.

Figure 5. WFC vs. Current Benefits for Tax Filers with Two Qualifying Children
Panel A. Single Tax Filer with Two Qualifying Children (2021 Tax Year)



Panel B. Married, Filing Jointly with Two Qualifying Children (2021 Tax Year)

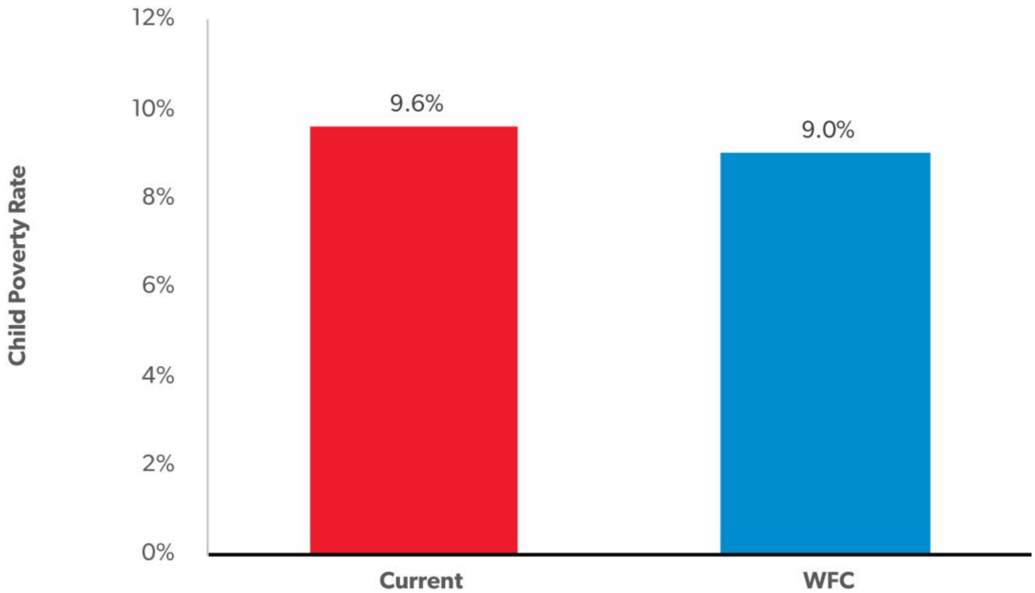


Source: Author's calculations using the WFC parameters outline in Table 1 and current EITC, CTC, and head of household status parameters.

costs because the current CTC is unavailable to dependents at those ages. Table 1 outlines the WFC parameters, and Figure 4 illustrates the benefit amount at different income levels depending on tax-filing status.

To increase the return to work and to partly address the marriage penalty, the WFC would extend the maximum benefit higher up the income scale than the current EITC—from roughly $20,000 to $30,000 for single parents and $25,000 to $50,000 for married parents (using 2021 policy). As a result, the bulk of new benefits would go to moderately low- and middle-income single and married parents (Figure 5). Importantly, this proposal does not aim to reduce point-in-time poverty rates by much in the short term. Instead, it seeks to align and refocus existing programs so they better incentivize employment and marriage, aiming to achieve long-term gains in poverty and upward mobility.

Figure 6. Supplemental Poverty Rate for Children: Current vs. WFC



Note: The supplemental poverty rate includes government in-kind and tax benefits as resources.
Source: Author's calculations using data from US Census Bureau, "Annual Social and Economic Supplement (ASEC) of the Current Population Survey (CPS)," 2021, https://www.census.gov/programs-surveys/saipe/guidance/model-input-data/cpsasec.html.

Poverty Reduction from the WFC

Although making further reductions to the point-in-time child poverty rate is not a major goal of this proposal, the WFC is at least as generous as the current system, which already substantially reduces child poverty. According to the US Census Bureau, in 2020 refundable tax credits reduced the child poverty rate by almost 5 percentage points, more than any other individual safety-net program (excluding health insurance, which the poverty rate does not consider).[24] On a static basis (i.e., without considering any behavioral effects), replacing the EITC and CTC with the WFC would reduce the child poverty rate by 0.6 percentage points (Figure 6). However, as already noted, the WFC primarily intends to reduce child poverty over the long term by increasing parental employment and marriage, making the effect on point-in-time poverty rates less important.

The WFC would also not affect the deep-poverty rate (i.e., the share of children with income less than 50 percent of the federal poverty line) without considering the potential long-term behavioral effects, such as on employment or marriage. Proponents of the expanded CTC that Congress temporarily passed in 2021 argued that making the tax credit fully refundable for families without earnings was necessary to reduce the deep-poverty rate. The WFC design rejects that idea, instead aiming to maintain and strengthen the existing incentives to work while supporting marriage as an escape from deep poverty. For context, researchers from the University of Chicago estimated that the fully refundable CTC passed as part of the ARP in 2021 would have reduced the deep-poverty rate for children from approximately 2.3 percent to 1.4 percent on a static basis.[25] However, when they incorporated the behavioral effects of replacing the current phase-in of the CTC (which incentivizes employment) with a flat CTC including nonworkers, they estimated a loss of 1.46 million jobs and no reduction to the deep-poverty rate.[26]

Employment and the WFC

One of the WFC's main goals is to increase after-tax income while maintaining the employment incentives of current policies. For this reason, the WFC phases in at a similar rate compared to the current combined EITC and CTC, and it phases

Table 2. Effective Marginal Tax Rates on Labor by Income Decile, Current Law and Reform (2022)

Expanded Income Decile (Percentage)	Married, Filing Jointly (Percentage)			Head of Household, Single with Children (Percentage)		
	Current Law	WFC Reform	Difference	Current Law	WFC Reform	Difference
0–10	11.2	10.9	–0.3	–40.4	–39.4	1.1
10–20	–10.7	–11.2	–0.5	–18.1	–18.4	–0.2
20–30	7.2	5.2	–2.1	8.3	10.0	1.6
30–40	18.7	9.0	–9.7	22.6	15.9	–6.7
40–50	14.6	14.3	–0.3	20.0	18.7	–1.3
50–60	11.9	16.1	4.3	12.9	22.8	9.9
60–70	13.1	17.2	4.0	16.9	27.3	10.4
70–80	17.8	21.2	3.5	22.6	27.3	4.7
80–90	22.3	22.6	0.4	23.5	24.2	0.7
90–100	29.3	29.2	0.0	31.2	31.5	0.2

Note: Expanded income decile is equal to adjusted gross income plus above-the-line deductions, government transfers, and employer-side payroll tax liability.
Source: Author's calculations using Tax-Calculator.

Table 3. Labor Supply Effects of the WFC

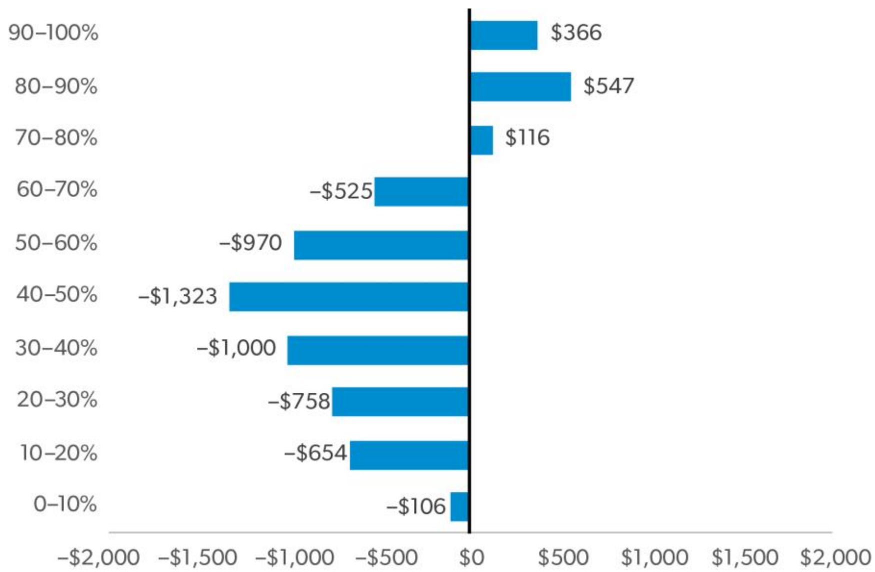
Labor Supply Estimate	Total (Substitution Plus Income Effects)
Percentage of Filers with Negative Labor Response	13.1
Percentage of Filers with Positive Labor Response	11.3
Percentage of Filers with No Labor Response	75.5
Full-Time Equivalent Jobs	–665,326

Note: To estimate labor-supply effects, we used midpoint elasticities from the literature.
Source: Author's calculations using Tax-Calculator release 3.1.0.

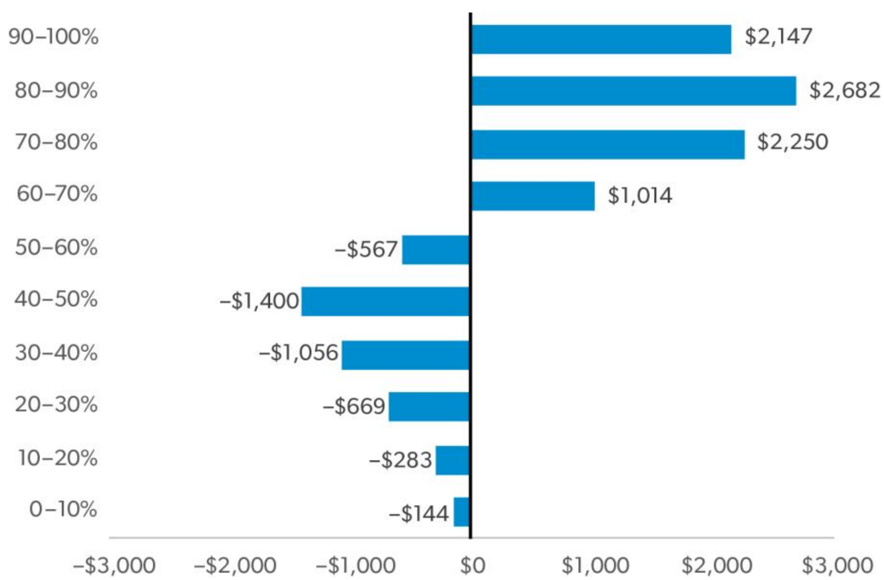
out at a slower rate compared to the current EITC, reducing the effective marginal tax rate on some lower- and middle-income families. As shown in Table 2, the WFC reduces the effective marginal tax rate for most families with incomes in the bottom half of the distribution. As a result, we would expect to see increases in employment for these families, with estimates from the Policy Simulation Library's Tax-Calculator tool[27] suggesting that the WFC would increase employment for approximately 11.3 percent of tax filers (Table 3).

However, an unavoidable trade-off for extending the WFC higher up the income scale (particularly for married tax filers) is that it also increases the work disincentive for families that fall into the new plateau range. Higher payments to some middle-income families would reduce employment through what economists call the income effect

Figure 7. Average Tax Change (2022): Current Tax Credits vs. Working Family Credit
Panel A. Married, Filing Jointly



Panel B. Head of Household



Note: For recipients of refundable tax credits at the low end of the distribution, a negative tax change means a higher refundable tax credit. Revenue and distributional estimates are static and assume no behavioral response.
Source: Author's calculations using Tax-Calculator release 3.1.0.

(i.e., families could work less while maintaining the same income level because of the higher benefit) even though they would have higher after-tax income. Another trade-off involves employment disincentives for higher-income families because the WFC rolls back current CTC benefits, raising their effective marginal tax rate (Table 2). Estimates from Tax-Calculator suggest that the combination of income and substitution effects would reduce employment for 13.1 percent of tax filers, although job losses would be concentrated among married tax filers with income between $25,000 and $50,000 (i.e., those who receive a larger benefit) and tax filers with higher incomes who will receive a smaller benefit (Table 3).

Employment effects are inevitable with a means-tested tax benefit and unavoidable when reforming existing tax programs such as the EITC and CTC. Changes to the programs' parameters affect income and marginal tax rates, which in turn influence employment behavior. The WFC is designed to balance these inherent trade-offs while encouraging employment and marriage for the lowest-income families. Compared to current programs, the WFC maintains employment incentives for low–income families and substantially increases after-tax income for families with incomes between $20,000 and $70,000. (See distributional analysis below.)

The trade-off is slightly reduced employment for some middle-income married families because they will receive a higher benefit and some high-income families because they will face higher effective marginal tax rates compared to the existing system. Overall, estimates from Tax-Calculator suggest the proposal would reduce employment by 665,000 jobs.

Marriage Penalties and the WFC

Another one of the WFC's main features is that it better supports marriage relative to the current system by partly addressing the EITC's marriage penalties. Under the existing EITC, some low-income families can receive much more from the EITC if two working parents are unmarried than if the same parents were married. A single mother with one child and an income of $20,000 can stand to lose between $2,400 and $3,500 in the EITC if she married, depending on her partner's income.[28] The WFC increases the income at which benefits phase out for married families to partly address this problem (Figure 5, Panel B). This provides a much larger benefit for working-class married families than the current system does, and after-tax income for the vast majority of married families with incomes below $50,000 would increase as a result.

Distributional Aspects of the WFC

Estimates from Tax-Calculator suggest that the average tax bill would decline for all but the highest-income families with children under the WFC. The largest average tax reduction would go to married (Figure 7, Panel A) and single (currently head of household) tax filers (Figure 7, Panel B) in the 20th–60th percentile in adjusted gross income. As shown in Figure 7, Panel B, eliminating the head of household tax filing status shifts tax benefits from higher-income single parents to lower-income single parents.

To offset some of the new costs associated with raising the after-tax income of low- and middle-income families with children, the WFC proposes to reduce the current child benefit for higher-income families from $2,000 to $1,000 per child (similar to the CTC amount before the 2017 Tax Cuts and Jobs Act, or TCJA). The WFC also caps benefits for families with three or more children and rolls back child-related benefits for families with dependents age 18–24. This results in a larger tax bill for families with higher incomes (i.e., adjusted gross income above the 70th percentile), families with more than three children, and some families with adult dependents (Figure 7). It also eliminates the TCJA change that replaced the dependent exemptions with a larger CTC for higher-income tax filers. These provisions of the WFC would worsen horizontal equity in the tax code,[29] with the trade-off of shifting child tax benefits to lower- and middle-income tax filers and toward married tax filers (Figure 8).

Policymakers could limit the negative effects on higher-income families by raising the WFC floor to match the current CTC amount (i.e., $2,000), increasing the WFC as the number of children in the family increase, or providing the WFC to families with dependents between age 18 and 24. However,

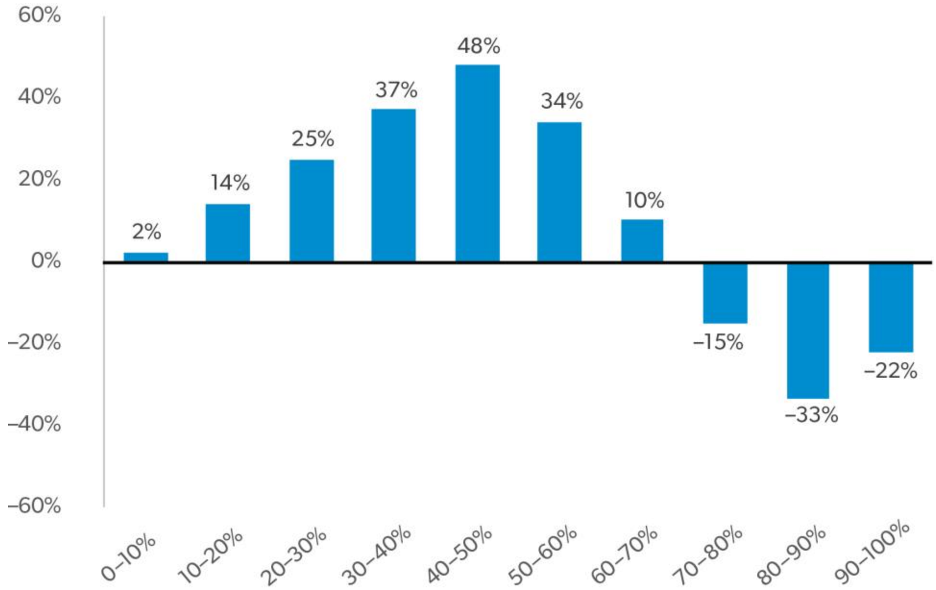
Table 4. Costs of the WFC, US Dollars (Billions)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2022–31
Repeal Head of Household	17.48	18.36	19.35	20.68	18.14	19.09	19.95	20.78	21.61	22.5	197.91
Repeal Dependent Exemption	0	0	0	0	50.4	51.75	53.02	54.29	55.52	56.8	321.76
Repeal EITC	69.6	70.18	70.99	71.96	72.66	73.5	74.47	75.8	77.25	78.7	735.14
Repeal CTC	118.48	119.32	120.24	121.44	47.73	47.04	46.42	45.98	45.61	45.2	757.50
Extend Credit for Other Dependents	0	0	0	0	–5.58	–5.46	–5.34	–5.24	–5.13	–5	(31.77)
WFC	–231.31	–234.4	–238.64	–242.7	–246.83	–250.85	–255.28	–260.48	–266.15	–271.9	(2,498.58)

Note: For the purposes of the revenue and distributional analysis, I assumed the WFC would be available to CTC-eligible dependents under age 18. Revenue and distributional estimates are static and assume no behavioral response.

Source: Author's calculations using Tax-Calculator release 3.1.0.

Figure 8. Share of the Total Tax Change by Income Decline



Source: Author's calculations using Tax-Calculator release 3.1.0.

these changes would dramatically increase the overall cost of the proposal even while increasing horizontal tax equity.

WFC Costs

Using Tax-Calculator, the total estimated cost of the WFC is $231 billion in 2022, including $25 billion in new costs reaching $28 billion by 2025 adjusting for inflation (Table 4). The expiration of certain provisions from the TCJA in 2026 would increase the cost estimates on paper in 2026–31. The majority of new costs come from starting the phaseout of the credit at a higher income level and phasing them out more slowly than the current system, resulting in higher after-tax income for most low- and middle-income working families. The elimination of the head of household tax filing status also lowers the overall costs of the proposal.

Although substantial, this price tag is dramatically lower than the proposed expansion of the CTC in President Joe Biden's Build Back Better agenda—which estimates suggested would have cost approximately $100 billion more per year than the current CTC[30]—and Sen. Mitt Romney's (R-UT) Family Security Act, which would have added approximately $66 billion per year even without anchoring benefits to inflation.[31] Savings would also likely accrue from reducing improper payments associated with the EITC and CTC, although estimating those savings is difficult.

Conclusion

One of the main shortcomings of the US approach to poverty is that it undermines what families need to succeed—employment and marriage. Our current social safety net might effectively reduce material hardship and accommodate poverty, but a more successful strategy would address the underlying causes of poverty, including limited employment and unmarried parenthood. A step in this direction is to combine existing child tax benefits into one benefit while aligning the programs' rules. A consolidated benefit would also reduce confusion and increase transparency in the total benefits working families receive.

This proposal comes on the heels of Congress's failed attempt to expand the CTC through the Build Back Better legislation—a failure that likely occurred at least partly because the proposal eliminated the CTC's connection to work and dramatically increased federal spending on top of the existing safety net. The EITC, CTC, and head of household tax filing status all serve similar goals. Although each program serves an important purpose, our current, duplicative structure has many downsides, including unnecessary administrative complexity, competing incentives and disincentives around employment and marriage, and increased risk of policymakers expanding programs without consideration for the broader context of benefit provision.

The WFC proposed in this report would address these concerns while targeting federal expenditures to the families that will benefit from this assistance the most.

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