THE ECONOMIC MOBILITY ACT as ANTIPOVERTY POLICY:

Proposed Changes to Tax Law Would Cut Child Poverty Nearly a Quarter

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The Economic Moblility Act of 2019 (EMA) benefits Americans who traditionally do not get much from government tax benefits. The Act targets: (1) childless adults who receive substantially less from the Earned Income Tax Credit (EITC) compared to those with children, (2) children currently left behind when it comes to receiving the Child Tax Credit (CTC) [1], (3) young children, and (4) parents paying for childcare.

These groups benefit from the following reforms specified in the bill:

1. The minimum age to claim the EITC for childless adults will be reduced from 25 to 19 years old. The maximum credit will increase from $526 to $1,467 per year.

2. The Child Tax Credit will be fully refundable, meaning that all children in low-income families will receive the full credit of $2,000, as opposed to a credit that phases in according to their parent's earnings as it does under current law. [2]

3. Young children (under four years old) will be eligible for an increased Child Tax Credit, totaling $3,000 per child under four years old.

4. The Child and Dependent Care Tax Credit will be fully-refundable, and the maximum credit will increase from 35 to 50 percent of spending on childcare (capped at $6,000 for

one individual child or dependent and $12,000 for two or more children or dependents).[3] The CDCTC credit will begin to phase out for those with more than $120,000 in earnings rather than $15,000, as is the case under current law.[4]

KEY FINDINGS

The Economic Moblility Act of 2019 would:

- Lift over 4.8 million Americans out of poverty, including over 2.5 million children.
- Cut child poverty by nearly a quarter.
- Reduce deep child poverty by over a third.

The antipoverty impacts of the Act are largely driven by the expansion of the Child Tax Credit to all children currently "left behind" under current federal tax law (i.e., those who do not receive the full CTC because their parents do not earn enough to qualify) as well as the increased Child Tax Credit for young children.

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This brief considers the likely antipoverty impacts of the EMA, as well as its component parts. As such, the brief builds upon prior work conducted by the Center on Poverty and Social Policy at Columbia Univeristy on the potential antipoverty impacts of changes to the tax code that would affect low-income populations. We describe the steps necessary to model these antipoverty impacts in the appendix.

We find that the EMA would reduce the U.S. poverty rate by 1.5 percentage points, from 13.5 percent to 12 percent (figure 1). This translates to over 4.8 million Americans lifted out of poverty. The poverty-reducing effects of the EMA would be even larger for children, reducing poverty by over 3.4 percentage points, from 14.8 percent to 11.4 percent. In particular, young children under four years old would see a significant reduction in poverty under the EMA, with the poverty rate falling from 17.2 percent to 12.2 percent. That is, the child poverty rate would fall by nearly a quarter (23 percent) and the poverty rate for young children would fall by nearly a third (30 percent).

This translates to over 2.5 million children and 800,000 young children lifted out of poverty. Childless adults would benefit less in terms of poverty reduction, with the childless adult poverty rate falling from 13.7 percent to 13.0 percent.[5] Adults with children would see larger benefits, with poverty falling from 11.6 to 9.7 percent.
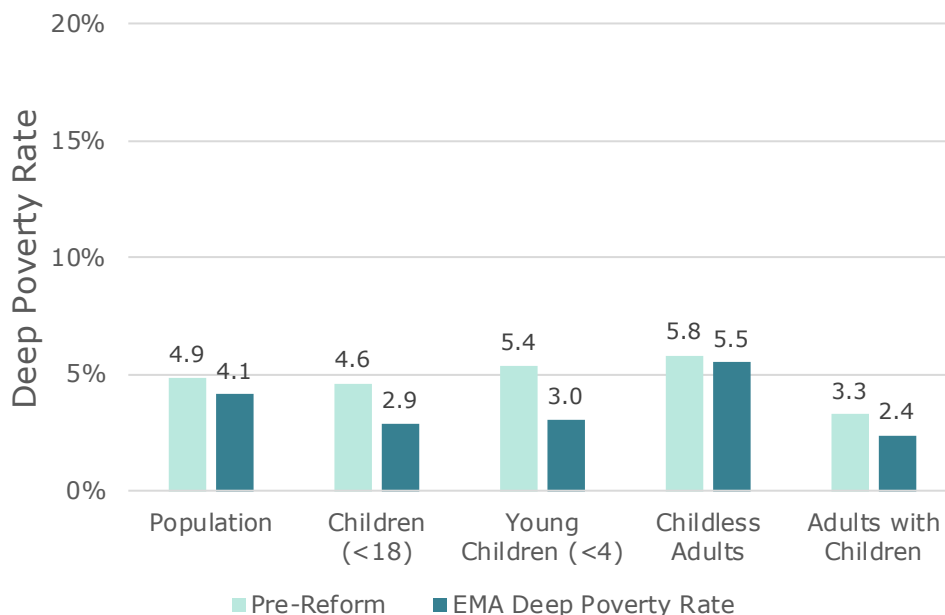
Figure 1. Poverty Impacts of the Economic Mobility Act
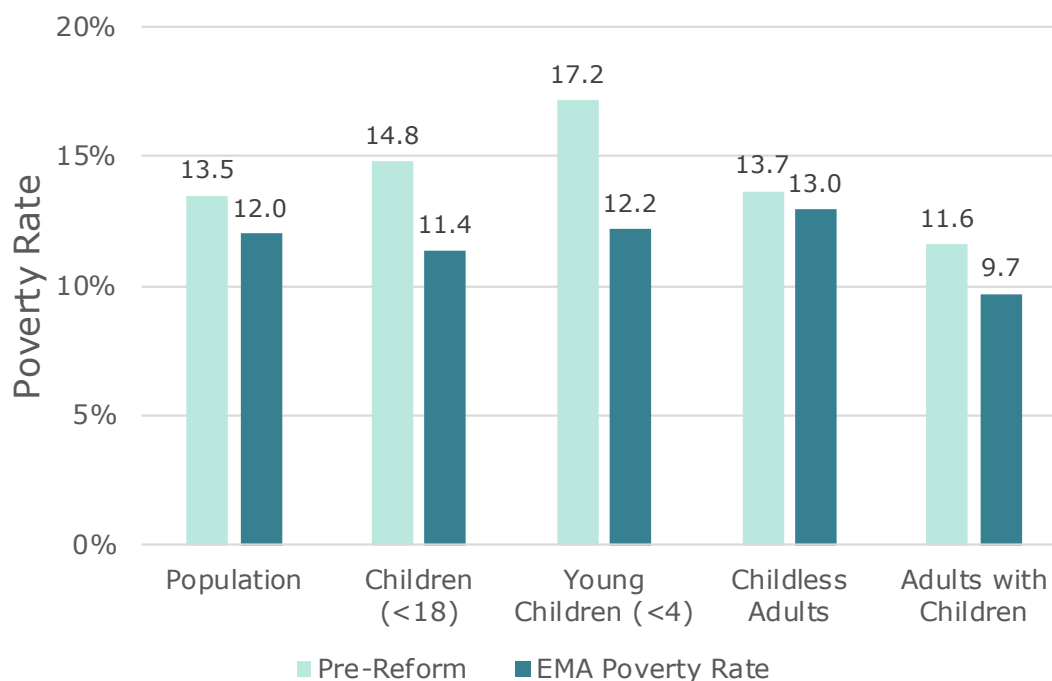
See table A1 in the appendix for the counts of individuals moved out of poverty under the EMA.
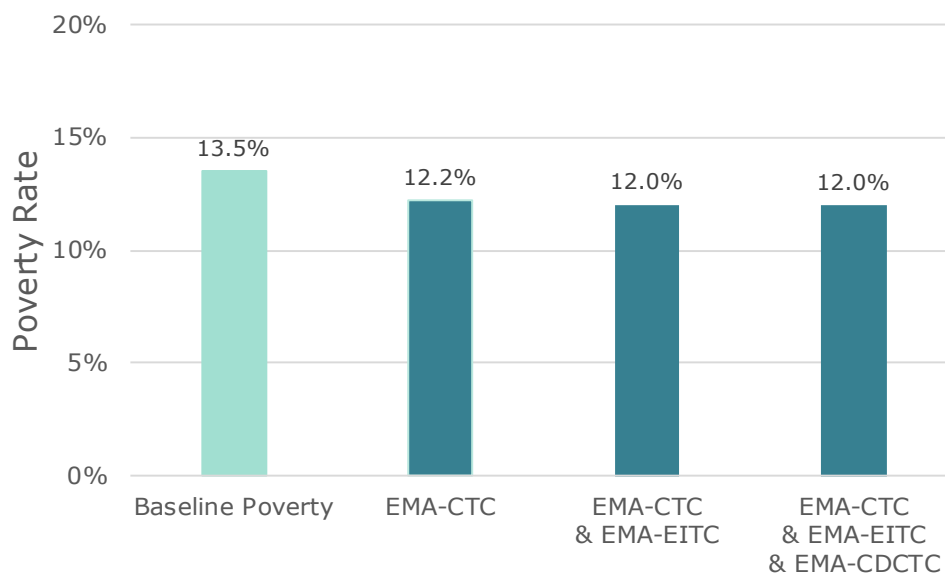
Similar results for deep poverty can be found in figure 2. Again, children would see the largest benefits, with child deep poverty falling by over a third (37 percent) and deep poverty among children under four falling by nearly 45 percent.

Figure 2. Deep Poverty Impacts of the Economic Mobility Act

Deep Poverty Rate

| | Pre-Reform | EMA Deep Poverty Rate |

Population: 4.9, 4.1
Children (<18): 4.6, 2.9
Young Children (<4): 5.4, 3.0
Childless Adults: 5.8, 5.5
Adults with Children: 3.3, 2.4

The impact of each component of the EMA is shown in figure 3 in a cumulative fashion. We see the bulk of the antipoverty impact is driven by the expansion of the CTC to include all children, including the most disadvantaged children. This component alone drops the poverty rate from 13.5 percent to 12.2 percent. The remaining two components drive down the poverty rate further only incrementally, to the final level of 12.0 percent.

Figure 3. Added Poverty Impact of Each EMA Component

Poverty Rate

Baseline Poverty: 13.5%
EMA-CTC: 12.2%
EMA-CTC & EMA-EITC: 12.0%
EMA-CTC & EMA-EITC & EMA-CDCTC: 12.0%

This exercise is repeated for the child population (figure 4). Again, we see that almost all of the antipoverty impact is driven by the CTC expansion, with only incremental further reductions coming from the other components.

Figure 4. Added Poverty Impact of Each EMA Component Children (<18)
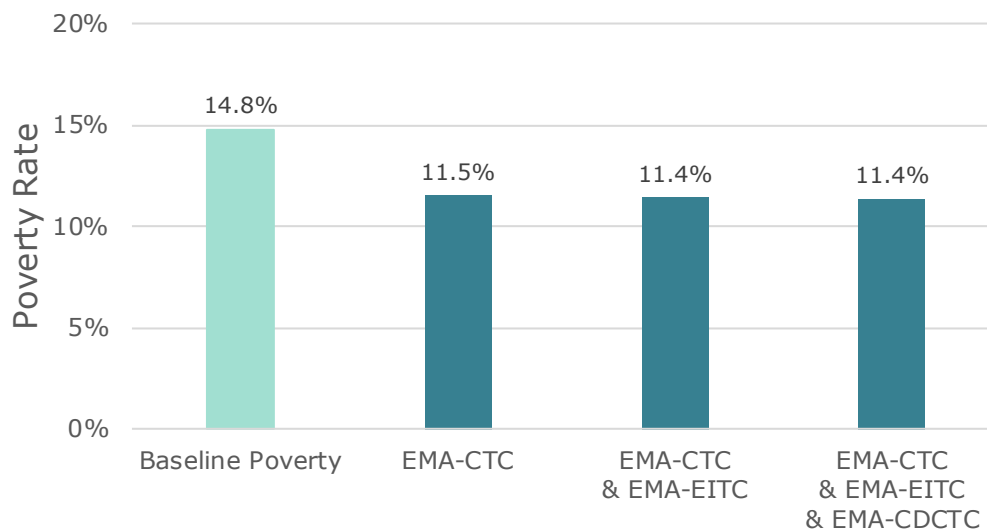
CONCLUSION

What explains these results? As we have shown in the past, those who are currently "left behind" by recent CTC expansions are some of the most disadvantaged segments of the population, especially the most disadvantaged families with children. Thus, this group may provide an important target for substantial poverty alleviation. While childless adults are also largely left behind when it comes to the larger EITC, the expansions for this group in the EMA are modest in monetary terms. Nevertheless, this expansion does result in a modest decline in poverty among this group. Moreover, it would serve to counteract the fact that childless adults are the one group that can be taxed into poverty; however, this is only a partial fix, and childless adults could still be pushed into poverty by their tax liability. The poverty impacts of the CDCTC expansions are also quite modest, likely because they affect mostly those who can already afford to pay for childcare in the first place, and thus target more middle class and more affluent families. Combined, however, the EMA would make a substantial investment in reducing poverty, lifting over 4 million Americans, half of whom would be children, out of poverty.

NOTES

1 The term "left behind" refers to those children who do not receive the full CTC because their parents do not earn enough to qualify.

2 The EMA stipulates that the CTC will only be refundable for 2019 and 2020. To maintain the poverty impacts quantified in this brief after 2020, additional legislation will need to guarantee a fully refundable CTC going forward.

3 Like the EMA's CTC reform, the EMA's reform to the CDCTC only applies to tax years 2019 and 2020. Again, this reform will need to be extended in order to maintain the benefits associated with it.

4 For more information about the EMA, see: https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/Economic%20Mobility%20Act%20of%202019%20Section-By-Section.pdf

5 Some so-called "childless adults" may also be non-resident parents of children living in other households, such that benefits to these adults may also yield additional benefits to children who these models to not capture.

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- The Case for Counting Children in a Carbon Tax Dividend Plan: Net benefits and Poverty Implications for a Per Capita Dividend. July 15, 2019.
- Left Behind: The One-Third of Children in Families Who Earn Too Little to Get the Full Child Tax Credit. May 14, 2019.
- Limiting States' Ability to Waive Federal SNAP Work Requirements: A Closer Look at the Potential Implications. March 26, 2019.
- Earnings Requirements, Benefit Values, and Child Poverty under the Child Tax Credit: Eliminating the Earnings Requirement Does More to Impact Child Poverty than Increasing Benefit Levels. March 5, 2019.
- Progressive Tax Credit Proposals for Addressing U.S. Poverty in the Upcoming 2020 Elections. February 22, 2019.

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APPENDIX

Table A1. Count of Individuals Moved Out of Poverty under EMA

Count of Individuals Moved out of Poverty	
Population	4,800,000
Children (<18)	2,500,000
Young Children (<4)	800,000
Childless Adults	900,000
Adults with Children	1,300,000
Count of Individuals Moved out of Deep Poverty	
Population	2,300,000
Children (<18)	1,300,000
Young Children (<4)	400,000
Childless Adults	400,000
Adults with Children	600,000

Figure A1. Population Poverty Rate with each Individual Component of the EMA
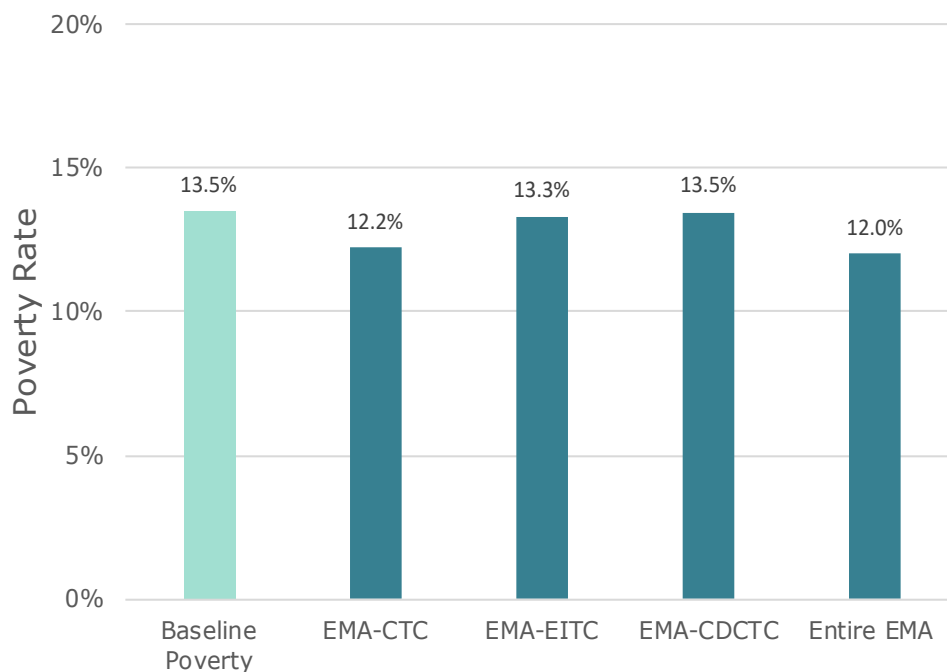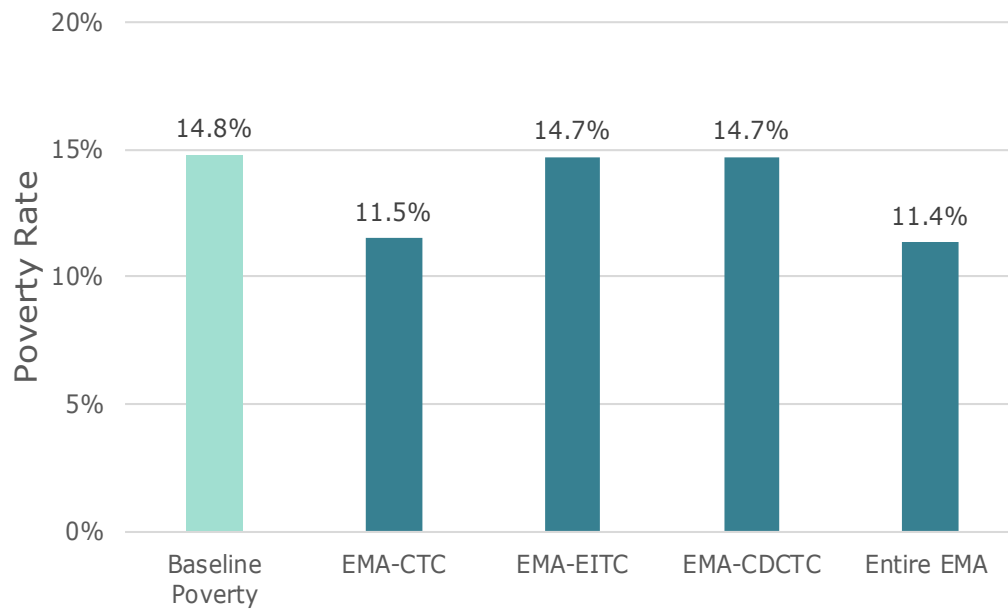
Figure A2. Population Poverty Rate with each Individual Component of the EMA—Children (<18)

TECHNICAL APPENDIX

Data: We estimated the impact of the Economic Mobility Act (EMA) using data covering calendar years 2016 to 2018 from the Annual Social and Economic Supplement (ASEC) to the Current Population Survey (CPS)—the national household survey used to calculate poverty statistics in the United States. Importantly, tax filers in these surveys were subject to tax law before the recent Tax Cuts and Jobs Act, so we first begin by using the National Bureau of Economic Research's TAXSIM 27 tax calculator to simulate the poverty rate if TCJA had been in effect for those filing taxes with regard to the income that they reported in the ASEC.[1]

Method: Estimating what the poverty rate would be if the EMA were in effect required that we adjust the value of the Child Tax Credit (CTC), the Earned Income Tax Credit (EITC), and the Child and Dependent Care Tax Credit (CDCTC), with each adjustment made according to the reforms outlined in the EMA proposal. Below, we discuss the methods used to make each of these adjustments. After calculating the value of the CTC, EITC, and CDCTC under the EMA, we used the values that we calculated to update the estimate of family resource used to evaluate poverty status under the Supplemental Poverty Measure (SPM) and recalculated the poverty rate with these updated estimates of family resources to quantify the impacts of the changes proposed in the EMA.

Child Tax Credit Adjustment: The EMA expands the Child Tax Credit, making it fully refundable for all children in families with incomes below the existing CTC phase-out thresholds and increasing the CTC to $3,000 per child for children under 4 years old. To model this expansion, we identified all families in the ASEC whose CTC under current tax law was less than the credit that they would receive with the EMA expansion (that is, those families that did not have enough in earnings to qualify for the full CTC under current law) and calculated the CTC that they would receive under the EMA. Their credit value under the EMA amounted to $2,000 per child ages 4 to 16 and $3,000 per child under 4 years old.

Earned Income Tax Credit Adjustment: Under the EMA, the EITC would increase benefits for tax filers without dependent children by increasing both the phase-in and phase-out rates from 7.65 to 15.3 percent of each dollar of earnings (or each dollar above the phase-out threshold), increasing the maximum credit from $549 to $1,464, and increasing the beginning phase-out threshold from $8,650 to $11,310. We simulated these changes by estimating the eligible benefits under the EMA relative to estimated benefits under the current EITC based on the program parameters as well as reported earnings, adjusted gross income, and the number of eligible children in the tax unit.

Child and Dependent Care Tax Credit Adjustment: The CDCTC is a nonrefundable credit based on an eligible portion of a family's spending on childcare. Under the current CDCTC, the eligible portion of spending on childcare cannot exceed $6,000 and is capped at greater of the secondary earner's income (if present) and $3,000 per eligible child. The EMA makes the credit fully refundable and raises the maximum eligible childcare spending to $6,000 per child capped at $12,000 total. It also increases the maximum credit from 35 to 50 percent of eligible childcare spending, which begins to phase down to 20 percent after adjusted gross income passes $120,000 (compared to $15,000 previously). We simulate the status quo and reform versions of the CDCTC according to these parameters and use the difference to estimate the effect of EMA on family income.