

A New Mothers' Tax Relief Proposal

By Robert Cherry



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The earned income tax credit is an important anti-poverty policy. For 2011 a single mother with an annual income of \$15,000 and one qualifying child receives \$3,094 from the EITC. However, there are several drawbacks caused by the phasing out of benefits as household income rises. If the single mother marries a man who earns \$25,000 annually, virtually all her credits would be lost.¹ That reflects the lost benefits from means-tested programs that can dissuade a working mother from marrying the father of her newborn child.

A second problem with the EITC is that it provides no benefits to lower-middle-income couples with children, because they have too much income to qualify. Also, they do not have enough income to avail themselves of many other benefit programs that are used by those in the upper half of the income distribution, such as flexible spending accounts and child care tax credits. In a 2000 paper, David Ellwood and Jeffrey Liebman labeled that the "middle-class parent penalty."² My new mothers' tax relief (NMTR) proposal attempts to respond to those concerns.

The NMTR's EITC schedule provides more generous credits to families with one preschool-aged

qualifying child. The maximum benefits would be the same as under the current EITC schedule, but the income at which phasing out begins would be raised and the phaseout rate would be lowered for both married couples and single parents. Currently, the phaseout begins at \$16,700 and \$21,700 for single-parent and married families, respectively, and it applies at a 16 percent rate for all families. For married families, however, the NMTR schedule begins to phase out at \$40,000, at a rate of 6 percent. For single-parent households, the phaseout would begin at \$18,000, at a 12 percent rate. Under the NMTR, all married families with a qualifying preschool-aged child would receive some EITC as long as their income is below \$91,600, while single-parent households would receive some EITC as long as their income is below \$43,800.³

The NMTR provides modest benefits to low-income, single-parent families. The major beneficiaries would be low-income and lower-middle-income married families (Table 1). Married families with a qualifying preschool-aged child and income between \$34,000 and \$58,000 would receive at least \$2,000 more than under the current EITC schedule. Those are families that need the most help to care for their young child.

The NMTR also lowers the marriage penalty faced by mothers with newborn children. A marriage penalty (or bonus) arises as a result of changes in pre-credit tax liability and changes in the EITC. Because a single mother files as head of household if she has taxable income, she will face a modest pre-credit marriage penalty if she marries.

The major marriage penalty to be considered by single working mothers, however, is the loss of the EITC. To combat that, there is currently a separate EITC schedule for married families with a phaseout range beginning at a higher income than that for single-parent families. As a result, the marriage penalty is reduced by \$799 for married families with incomes between \$21,700 and \$36,050. However, as income increases, the marriage penalty reduction decreases, phasing out completely at \$41,100, when married couples with one child no

¹Adam Carasso and C. Eugene Steuerle, "The Hefty Penalty on Marriage Facing Many Households With Children," 15 *Future of Children* 157 (Fall 2005).

²David Ellwood and Jeffrey Liebman, "Middle-Class Parent Penalty," National Bureau of Economic Research Working Paper No. 8031 (Dec. 2000).

³The phaseout range of the proposed EITC for married couples with a preschool-aged child matches the 15 percent tax bracket for married-couple families with one child, so that the marginal tax rate for that income range becomes 21 percent.

Income	\$20,000	\$25,000	\$30,000	\$35,000	\$40,000	\$45,000	\$50,000	\$55,000	\$60,000
Married									
Current	\$3,094	\$2,582	\$1,783	\$984	\$185	\$0	\$0	\$0	\$0
NMTR	\$3,094	\$3,094	\$3,094	\$3,094	\$3,094	\$2,794	\$2,494	\$2,194	\$1,894
Gain	\$0	\$512	\$1,311	\$2,110	\$2,909	\$2,794	\$2,494	\$2,194	\$1,894
Single									
Current	\$2,569	\$1,770	\$971	\$172	\$0	\$0	\$0	\$0	\$0
NMTR	\$2,854	\$2,254	\$1,654	\$1,054	\$454	\$0	\$0	\$0	\$0
Gain	\$285	\$484	\$683	\$882	\$454	\$0	\$0	\$0	\$0

longer qualify for the EITC. Given its limited effectiveness, there are currently substantial penalties faced by low-income, single-parent workers considering marriage to a working partner. Table 2 indicates that for virtually all the most likely income combinations, the marriage penalty is greater than \$1,400, and for many combinations, it is well in excess of \$2,000.

Father's Income	Mother's Income				
	\$10,000	\$15,000	\$20,000	\$25,000	\$30,000
\$15,000	\$192	\$1,491	\$1,857	\$1,916	\$1,410
\$20,000	\$893	\$2,192	\$2,571	\$2,207	\$1,562
\$25,000	\$1,434	\$2,754	\$2,748	\$2,199	\$1,554
\$30,000	\$2,004	\$2,939	\$2,756	\$2,209	\$1,560
\$35,000	\$2,191	\$2,941	\$2,758	\$2,209	\$1,536

The NMTR proposal would dramatically lower those marriage penalties, especially for couples with combined incomes between \$35,000 and \$45,000. For some couples it would turn substantial marriage penalties into marriage bonuses. For example, currently if a mother with earnings of \$15,000 marries a partner with earnings of \$25,000, their marriage penalty will be \$2,754. Under the NMTR proposal, however, they would have a small marriage bonus of \$155.

Father's Income	Mother's Income				
	\$10,000	\$15,000	\$20,000	\$25,000	\$30,000
\$15,000	\$512	\$1,311	\$1,825	\$2,425	\$2,111
\$20,000	\$1,311	\$2,110	\$2,614	\$2,310	\$1,811
\$25,000	\$2,110	\$2,909	\$2,509	\$2,010	\$1,511
\$30,000	\$2,909	\$2,794	\$2,209	\$1,710	\$1,211
\$35,000	\$2,794	\$2,494	\$1,909	\$1,410	\$911

To complete the NMTR schedule, we first must specify that only one preschool-aged child per family qualifies. For families with more than one preschool-aged qualifying child, the NMTR sched-

ule must be constructed so that those families receive the same amount for each additional child that they do now. That is simple to accomplish. Let us take one income level from the EITC schedule for 2011: \$30,000. The NMTR schedule would increase the EITC by \$683 for single-parent families with income of \$30,000, and that same increase would be provided to families with one or two additional children. Similarly, the new schedule would increase by \$1,311 the EITC for married couples with incomes of \$30,000, which would be the same increase for families with one or two additional children.

	Single Head of Household			Married Couple Household		
	One	Two	Three	One	Two	Three
	Current	\$971	\$2,314	\$2,953	\$1,783	\$3,384
NMTR	\$1,654	\$3,997	\$3,636	\$3,094	\$4,695	\$5,334
Gain	\$683	\$683	\$683	\$1,311	\$1,311	\$1,311

The actual legislative proposal would have to establish when to start the phaseout ranges and the phaseout rates for single-parent and married-couple families with a preschool-aged child. Lawmakers also must determine the age limit of qualifying children. Those decisions will establish who the new benefits will target, how generous they will be, and how many years they will be effective.

By targeting benefits only to low- or lower-middle-income families with a preschool-aged child, the program costs should be manageable. In 2010 more than half of the 12.5 million children under three years old lived in households that had income either too low or too high to benefit from the proposal. Given the distribution of single-parent and married-couple households at various income levels, I estimate that the annual cost would be \$8.5 billion if it is limited to families with children under

three years old and \$15 billion if it is limited to families with children under six years old.⁴

Once those decisions are made, the taxpayer would use the current EITC schedule if she had no preschool-aged qualifying children and the NMTR schedule if she did. Because families with a qualifying preschool-aged child but with income below a specific level are unaffected, they could use the current EITC schedule. That way, the new schedule would begin at the current income level for which the benefit for single-parent families phases out and would continue through the income level at which married-couple families with three children are no longer eligible for the credit. Married couples with higher incomes that are still eligible could use a worksheet to compute their EITC.

Assessing Political and Social Benefits

Tax proposals can be judged by their beneficiaries and how they affect behavior. Much of the tax reform focus of liberal Democrats has been on targeting benefits to low-income families. The NMTR would provide very small tax benefits to families with incomes less than \$30,000 and no tax benefits to families with incomes exceeding \$100,000. Instead, most of the benefits would target lower-middle-income, married-couple families. By extending EITC benefits to those families, the NMTR would respond effectively to the middle-income parent penalty.

Attempts to reduce the marriage penalty should be supported for equity reasons, but the penalty's effect on marriage is unclear. Researchers have found that there is a strong preference among lower-income, less-educated women to have children before marriage.⁵ The NMTR is more likely than other proposals to affect marriage behavior for two reasons. First, it would be effective at reducing the marriage penalty faced by working, single mothers with preschool-aged children. Second, it would focus on the women who are most likely to be considering a more permanent bonding: new mothers who are romantically involved with the

father. The NMTR would allow them to make marriage decisions absent federal tax considerations.

While mothers and their partners may not know the details or precise calculations, many are well aware of the broad financial ramifications of marriage. They know that single mothers with low income have many cash benefits that are lost as income increases. Jason DeParle and Sabrina Tavernise have pointed out that if low-income single mothers marry, "their official household income would rise, which could cost them government benefits."⁶ Thus, reducing the marriage penalty might modestly change behavior.

The NMTR proposal would primarily provide benefits to lower-middle-income, married-couple families. By contrast, C. Eugene Steuerle's proposal to reduce marriage penalties is embedded in a set of policies that enhance the earnings of single, low-income men. Proposals by Carasso, Edelman, Holzer, and Offner primarily focus on benefits to low-income families.⁷ Thus, even though it would lower marriage penalties more substantially, the NMTR may be deemed less desirable by many analysts because it does not focus benefits on the neediest individuals or families.

Finally, there is the political viability of tax proposals. The NMTR has an easily understood narrative: provide needed funds to new mothers and substantially reduce marriage penalties. The NMTR has a simple implementation: an alternative tax schedule that those families would use to find their EITC. Maybe most importantly, it would reach a constituency that has felt alienated from government benefits: those families that experience the lower-middle-income parent penalty. By supporting a policy that targets benefits to those families, government can demonstrate that it truly cares about them.

⁶Jason DeParle and Sabrina Tavernise, "For Women Under Thirty, Most Births Occur Outside Marriage," *The New York Times* (Feb. 17, 2012).

⁷For these and other proposals that reduce the marriage penalty, see Carasso et al., "The Next Stage for Social Policy: Encouraging Work and Family Formation Among Low-Income Men," Urban Institute Discussion Paper 28 (Oct. 2008).

⁴For distribution of households with young children by family status, see Michelle Chau et al., "Basic Facts About Low-Income Children," National Center for Children in Poverty (Oct. 2011). For households with children by income level, see Census Bureau, "HINC-03 — People in Households — Households, by Total Money Income in 2010, Age, Race and Hispanic Origin of Householder," available at http://www.census.gov/hhes/www/cpstables/032011/hhinc/new03_010.htm.

⁵See Kathryn Eden and Maria Kefalas, *Promises I Can Keep: Why Poor Women Put Motherhood Before Marriage* (2005); and Institute for Research on Poverty, "Expectations of Marriage Among Unmarried Couples: New Evidence From Fragile Families Study," 22 *Focus* 13 (Summer 2002).