Comparing Bipartisan Proposals for a Federal Child Allowance Expansion

This week, in response to the Biden Administration's American Rescue Plan, which includes an expansion of the Child Tax Credit and the potential for it to be administered on a monthly basis, Senator Mitt Romney (R-UT) proposed a similarly robust child allowance, the Family Security Act. This document provides an overview of the trade-offs of each proposal, with JFI researchers weighing in from the perspective of extensive cash-transfer expertise in an effort to inform better long-term policy on child allowances. Notably, a new proposal from Representative Richard Neal closely mirrors the AFA.

Child allowances are a significant improvement over existing methods of providing benefits to families with children, including the EITC and the CTC in its current form, which exclude the poorest 20% of children living in households with minimal income and are only paid out once per year. By providing direct cash transfers for every child, an allowance is a powerful poverty-reduction tool that helps create the kind of financially stable environment that has consistently been shown to improve children's well-being.

Key comparisons within each piece of legislation center around the following areas:

- Amounts for parents (EITC+CTC)
- EITC benefit for parents without children
- Payment mechanism
- Eligibility phase-out
- Impacts for states
- Budgetary allocation
- Poverty impacts

Executive Summary

The child allowance proposals within the Biden plan and the Romney plan both represent a net increase in federal benefits for households with children. The Biden proposal redesigns the CTC closer to a child allowance by providing all low-income families with monthly payments. However, under the Biden plan, administering through the tax credit system means the program could face implementation limits of existing EITC programs, as seen in the implementation of the CARES Act Economic Impact Payments. The Biden proposal's debt-financing through budget reconciliation also means the program requires annual renewal. The Romney proposal administers through the Social Security Administration (SSA) while doing away with child tax refunds alongside the EITC. The net effect is a debt-neutral proposal that promises to ensure the program continues, while increasing the child benefit for many families, and creating more accessible administration with checks and debit cards on a monthly basis to even non-tax-filing households. However, it may also represent a marginally reduced benefit to single parent households with one child depending on their income level.

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<tr><th></th><th>Biden Proposal</th><th>Romney Proposal</th></tr>
<tr><td rowspan="2">Amounts for Parents (EITC + CTC)</td><td>- $300/month for children 0-5 and $250/month for children 6-17.

- No per-household caps</td><td>- $350/month for children 0-5 and $250/month for children 6-17.

- Per-household cap of $1250/month meaning that households will not receive the benefit for more than ~5 children (depending on household composition)

- Households with children would receive the Romney child allowance but would no longer receive additional EITC funds for their children

- Mothers can begin receiving the benefit for a child during pregnancy up to 4 months before the due date.</td></tr>
<tr><td colspan="2">- Under the Biden proposal, households with children receiving the EITC may receive a more generous CTC benefit. No household will be worse off under the Biden plan than under the status quo.

- Under Romney proposal, the child component of the EITC is removed. This means households with children will generally receive a net smaller EITC but a larger child allowance through SSA. Almost all households are better off or break even under this plan but a small number of single parent households with only children over the age of 5 will suffer a small decrease in net benefits.

- Given younger children are more expensive to care for, both plans offer more to younger children though the Romney plan is more generous ($350/month versus $300/month). The Romney plan also allows parents to begin receiving the benefit up to 4 months before birth. This emulates a “best practice” implemented in other countries with a robust child allowance.</td></tr>
<tr><td rowspan="2">EITC benefit for individuals without dependent children</td><td>- Does not alter the EITC for individuals without dependent children, but the larger stimulus plan is likely to include separate EITC reforms.

- Current EITC benefit maximums:
- $538 for no qualifying children
- $3,584 for 1 child
- $5,920 for 2 children
- $6,660 for 3 or more children</td><td>- Removes the child component of the EITC, creates a standardized benefit for adults regardless of the presence of a child

- Proposed EITC benefit maximums:
- $538 -> $1000, if single
- $538 -> $2000, if filing jointly</td></tr>
<tr><td colspan="2">- No benefits for individuals without dependents under Biden proposal. However, if Biden ARP includes EITC additions, this may reverse.[1]

- With Romney proposal, Individuals without dependent children do better under than under the status quo</td></tr>
<tr><td>Payment mechanism</td><td>- IRS administered</td><td>- SSA administered</td></tr>
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<tr><td rowspan="2"></td><td>- Makes CTC fully refundable as part of tax refund upon filing taxes

- Potential for monthly payments option, depending on legislation</td><td>- True “child allowance” providing monthly income to support families with children regardless of tax filing

- Replaces the Child Tax Credit in tax code.</td></tr>
<tr><td colspan="2">- IRS currently lacks capacity to do monthly payments so Biden proposal requires IRS infrastructure investment

- With Biden’s proposal, tax-based benefits run into implementation troubles, with non-filers receiving nothing (20% of eligible families), and those that use paid tax prep (54% of filers) lose a portion of the benefit to fees, an est. 13-22% of the benefit.[2]

- SSA has infrastructure for monthly payments and is mandated to do so through direct deposit or Direct Express debit cards, eliminating check cashers from the cash pipeline for efficient disbursement in Romney’s proposal, and less loss to servicers.

- Romney’s proposal increases the number of SSA payments processed monthly, requiring likely some financial support to bolster existing capacity</td></tr>
<tr><td rowspan="2">Eligibility phase- out</td><td>- “Front end” phase out
Benefit received depends on federally taxable income in previous year so households with higher income in previous will receive a reduced payment</td><td>- “Back end” phase out
Everyone receives full benefit and then wealthier families have all or part of it taxed back when they fill federal income taxes</td></tr>
<tr><td colspan="2">- “Front end” systems avoid tax clawbacks but use outdated information that may not reflect current reality. Can be dangerous during recessions (see CARES Act), checks easier to administer because standardized by household size

- “Back end” systems ensure everyone gets full aid but come tax time “wealthier” households must pay back some or all of the benefit. Clawbacks can surprise/hurt families (especially those with modest and/or volatile income).

- Higher phase-out starting points in both reduce the risk to households

- Biden plan phaseouts are unclear. They may remain as-is (200k/400k) but the American Family Act on which the Biden plan is based used $130k for singles and $180k for joint filers. The Neil plan in the House instead creates a separate credit on top of the existing CTC with a 75k/200k phase out.[3] Shifting the phase-out downward increases the chance that households are harmed under any phase out system so leaving the phase out as is (if there must be a phase out) is preferable.

- Romney plan starts phase out at 200k for singles and 400k for couples, consistent with current CTC. clawbacks should not generate many nasty surprises.

- Unless the Neil plan is adopted, neither proposal is likely to cause major difficulties because the phase out points are fairly high. The Romney plan’s backend approach may be somewhat easy to administer since check sizes are standardized by household size.</td></tr>
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<tr><td rowspan="2">Impacts for states</td><td>- No loss of federal assistance to states through TANF or otherwise</td><td>- Ends the federal TANF block grant to states (~16 billion dollars yearly), and the SALT deduction (already capped by TCJA of 2017)</td></tr>
<tr><td colspan="2">- In Biden's proposal, $16.5 billion in TANF block grants continue to be used by states for a variety of anti-poverty programs (however, only $2.9 billion is used for direct cash assistance[4])
- With Romney proposal, states lose TANF block grant money, but in the short-term, MOE payments could soften the impact on services provided by TANF funds
- Loss of TANF funding means potential reduction in services (e.g. childcare subsidies) funded by states
- Removing SALT deduction could pressure states, municipalities to reduce their taxes and services</td></tr>
<tr><td rowspan="2">Budgetary allocation</td><td>- Debt-financed.
- No increase in taxes or decrease in existing benefits</td><td>- Budget neutral
- Ends federal block grant component of TANF, ends SALT deductions, modifies EITC</td></tr>
<tr><td colspan="2">- Under Biden proposal, net expenditure goes up because an overlay on existing system, likely passed through reconciliation and requires reapproval because debt-financed and not budget-neutral
- Romney proposal provides more permanent child benefit because budget-neutral, no reconciliation revision needed.[5]</td></tr>
<tr><td rowspan="2">Poverty Impact</td><td>- The Biden proposal is in flux but the American Family Act on which it is based was recently estimated to reduce child poverty by 39 - 42 percent (using the Supplemental Poverty Measure) during its duration.[6]</td><td>- Estimated to reduce child poverty by 32 percent (using the Supplemental Poverty Measure) during duration.[7]</td></tr>
<tr><td colspan="2">- Biden's proposal reduces child poverty by a greater amount without cutting other benefits
- Because it is not budget neutral, the Biden plan cannot be made permanent via Budget Reconciliation. This adds uncertainty relative to the Romney plan over its net long run effect on (child) poverty.
- Romney plan cuts benefits to some, but overall increases benefits to parents. As packaged it could be made permanent with a single vote via Budget Reconciliation.</td></tr>
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Footnotes:

1. If, for example, the LIFT act serves as a model for EITC reform, households without children may benefit more from the ARP package. LIFT offered the childless up to $3,000 per year. https://www.vox.com/future-perfect/2018/10/19/17995374/kamala-harris-lift-act-basic-income-cash-eitc

2. See fuller analysis of this implementation challenge here, “The EITC,” from Hilary Hoynes, 2019: https://journals.sagepub.com/doi/abs/10.1177/0002716219881621

3. A first look at the CTC proposed by the Biden Administration appeared in the *Washington Post*: https://www.washingtonpost.com/us-policy/2021/02/07/child-benefit-democrats-biden/

4. See a full breakdown by Center for Budget & Policy Priorities here: https://www.cbpp.org/research/family-income-support/temporary-assistance-for-needy-families

5. Biden's plan could be renewed yearly in budget reconciliation bills and eventually made permanent/paired with pay-fors as was done with CTC and EITC changes included in American Recovery and Reinvestment Act (ARRA) though this requires a set of political conditions that may not hold. https://www.vox.com/future-perfect/2020/9/18/21444103/child-tax-credit-2020-joe-bden

6. See the Niskanen Center’s analysis here, https://www.expandthechildtaxcredit.com/the-american-family-act and Center for Poverty and Social Policy estimates here: https://www.povertycenter.columbia.edu/news-internal/2019/3/5/the-afa-and-child-poverty

7. See full poverty impact estimates by the Niskanen Center: https://www.niskanencenter.org/wp-content/uploads/2021/02/Analysis-of-the-Romney-Child-Allowance_final.pdf

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