

## Middle Class Proposal #2

## Making Child Care Affordable

**Child care costs are a major burden for modern families. On average, families with young children spend about \$6,700 a year on child care—or more than the price of one year’s in-state college tuition. Families now spend more on child care than they do on gas and almost as much as they spend on groceries. Doubling the child care tax credit can make child care more affordable for young families working to juggle career and family.**

### THE PROBLEM

Child care that costs as much as college

#### Quality child care is expensive.

Quality child care can easily top \$10,000. The average cost of full-time day care ranges from \$4,500 to \$14,500 nationwide.<sup>1</sup> Families with children under 5 spend an average of \$128 a week on child care—or \$6,708 over the course of a year.<sup>2</sup> This is more than the cost of one year’s tuition at a state university,<sup>3</sup> as much as what the average family spends on groceries and more than what the average family spends on gas.<sup>4</sup> In addition, child care costs have been rising. In 1985, weekly child care costs averaged just \$73 per week in today’s dollars.<sup>5</sup>

#### Child care is a must for most families with children.

A generation ago, a working mother with young children was unusual. Today, it is the norm. Fully 63% of mothers with children under the age of six worked outside the home in 2005, compared with 39% in 1975.<sup>6</sup> Nine out of ten children under 5 who have a working mom are in a regular child care arrangement.<sup>7</sup> While some of these children are cared for by grandparents or other relatives, half of middle-class working moms with children under age 5 rely on day care centers or other paid care.<sup>8</sup> Nationwide, on any given day, more than 6.7 million children under age 5 are in child care outside the home.<sup>9</sup>

#### The tax code as it pertains to child care is stingy and out of date.

Surveys find that parents worry about the high cost of child care. In one poll, parents rated cost to be their top child care concern after quality.<sup>10</sup> The same poll found that for seventy-five percent of parents, making child care more affordable would be the most important or one of the most important ways to help working families.<sup>11</sup> The tax code, however, only provides middle-class families a paltry tax break for child care expenses. The maximum benefit of \$1,200 for families with

more than \$43,000 in household income is an amount that hasn't changed in years and has failed to account for inflation or rising costs.<sup>12</sup>

## THE SOLUTION

### Double the tax break for child care costs by eliminating the middle class tax credit penalty

The current child care tax credit allows families with more than \$43,000 in household income to take a credit against only 20% of their child care costs. This means that a middle-class family must spend at least \$6,000 on child care to get the maximum benefit of \$1,200.<sup>13</sup> For families with less than \$43,000 in household income, however, the credit may equal as much as 35% of child care costs, resulting in a maximum benefit of \$2,100.

A simple change in tax law would allow middle-class families to get a bigger tax break to cover the rising cost and necessity of child care. Having a single 35% tax credit rate for all families would eliminate the disparities in the tax credit and nearly double the maximum allowable credit from \$1,200 to \$2,100 to help account for the increased cost for child care.<sup>14</sup>

## THE ROLLOUT

### Ideas for launching and publicizing an increased child care tax cut

- **Press conference/speech at a local child care center with working parents and their kids.**

## CRITIQUES & RESPONSES

### Doubling the Child Care Tax Credit

#### *It's too expensive.*

So is child care for the 4.6 million American families<sup>15</sup> who pay for child care. This proposal would cost a modest \$400 million a year (\$2.4 billion over five years and \$5.5 billion over ten years).<sup>16</sup> It's a small price to pay for better enabling American families to cope with high child care costs. Two-thirds of working-age households are two-earner households—that is the reality of the modern economy.<sup>17</sup>

Moreover, this tax break for the middle class (as well as many other middle class tax cuts) would be fully paid for by allowing President Bush's tax giveaways to millionaires expire. This step would save \$753 billion in revenue over the next ten years.<sup>18</sup> For every \$1 in tax cuts that went to middle class families in the past eight years, \$108 went to people earning \$1 million or more.<sup>19</sup> It's time to redirect attention to the middle-class.

***Shouldn't we also have a policy that supports stay-at-home moms?***

Absolutely. Part of the middle class success agenda includes a college tuition tax cut, elder care tax credit, adult/mid-career scholarships, and health care bridge insurance – they all help single earner families.

It used to be that most mothers stayed at home; today most mothers work outside the home. It could be because they want to, or it could be because they have to. Whatever the reason, the reality is that it is now very expensive for both parents to work because child care is so high-priced. This proposal is designed to help people keep more of what they earn so they can get ahead.

## Endnotes

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<sup>1</sup> National Association of Child Care Resource and Referral Agencies, "2007 Price of Child Care." Available at [http://www.naccrra.org/randd/docs/2007\\_Price\\_of\\_Child\\_Care.pdf](http://www.naccrra.org/randd/docs/2007_Price_of_Child_Care.pdf)

<sup>2</sup> U.S. Census Bureau, Survey of Income and Program Participation, "Who's Minding the Kids? Table 6, Average Weekly Child Care Expenditures of Families with Employed Mothers that Make Payments, by Age Groups and Selected Characteristics: Spring 2005 (Numbers and Percentages)," available at <http://www.census.gov/population/www/socdemo/child/ppl-2005.html>

<sup>3</sup> The average total tuition and fees at four-year public colleges and universities in 2006-07 was \$5,836. College Board, "Trends in College Pricing 2006", available at [http://www.collegeboard.com/prod\\_downloads/press/cost06/trends\\_college\\_pricing\\_06.pdf](http://www.collegeboard.com/prod_downloads/press/cost06/trends_college_pricing_06.pdf)

<sup>4</sup> On average, child care costs for families using child care account for over 6 percent of total monthly income. By comparison, families spent about 7 percent of their monthly income on groceries in 2005, and 4 percent of their income on gas. U.S. Bureau of Labor Statistics, "Consumer Expenditures in 2005," February 2007, available at <http://www.bls.gov/cex/csxann05.pdf>

<sup>5</sup> U.S. Census Bureau, Survey of Income and Program Participation, "Who's Minding the Kids? Weekly Child Care Costs 1985-2005," available at <http://www.census.gov/population/www/socdemo/childcare.html>

<sup>6</sup> Anne Kim, et al, "The New Rules Economy: A Policy Framework for the 21<sup>st</sup> Century," Third Way, February 2007, available at [http://www.thirdway.org/data/product/file/71/Third\\_Way\\_New\\_Rules\\_Economy\\_Report.pdf](http://www.thirdway.org/data/product/file/71/Third_Way_New_Rules_Economy_Report.pdf). Based on data from the U.S. Census Bureau, Current Population Survey, March Supplements.

<sup>7</sup> U.S. Census Bureau, Survey of Income and Program Participation, "Who's Minding the Kids? Table 2B, Primary Child Care Arrangements of Preschoolers Under 5 Years Old Living with Employed Mothers by Selected Characteristics: Spring 2005 (Percentages)," available at <http://www.census.gov/population/www/socdemo/child/ppl-2005.html>

<sup>8</sup> U.S. Census Bureau, Survey of Income and Program Participation, "Who's Minding the Kids? Table 5, Families with Employed Mothers that Make Child Care Payments, by Age Groups and Selected Characteristics: Spring 2005 (Numbers and Percentages)," available at <http://www.census.gov/population/www/socdemo/child/ppl-2005.html>

<sup>9</sup> U.S. Census Bureau, Survey of Income and Program Participation, "Who's Minding the Kids? Table 1A, Child Care Arrangements of Preschoolers Under 5 Years Old Living with Mother, by Employment Status of Mother and Selected Characteristics: Spring 2005 (Numbers)," available at <http://www.census.gov/population/www/socdemo/child/ppl-2005.html>

<sup>10</sup> National Association of Child Care Resource and Referral Agencies, "Parents' Perceptions of Child Care in the United States," May 2006. Available at <http://www.naccrra.org/policy/docs/PollReport.pdf>

<sup>11</sup> Ibid.

<sup>12</sup> See IRS Publication 503: Child and Dependent Care Expenses, available at <http://www.irs.gov/pub/irs-pdf/p503.pdf>

<sup>13</sup> Ibid.

<sup>14</sup> The Child and Dependent Care Credit is currently calculated as a percentage of qualifying child care expenses, up to a maximum of \$3,000 per child (and \$6,000 per family). For families with incomes of \$15,000 or less, the credit is equal to 35% of qualified expenses, and for families earning between \$15,000 and \$43,000, the credit is phased down gradually from 35% to 20%. For families earning more than \$43,000 the credit is equal to only 20% of qualified expenses. This proposal would allow all families to get the same 35% credit, thereby increasing the maximum allowable credit from \$1,200 per family to \$2,100. See IRS Publication 503: Child and Dependent Care Expenses, available at <http://www.irs.gov/pub/irs-pdf/p503.pdf>

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<sup>15</sup> U.S. Census Bureau, Survey of Income and Program Participation, "Who's Minding the Kids? Table 5, Families with Employed Mothers that Make Child Care Payments, by Age Groups and Selected Characteristics: Spring 2005 (Numbers and Percentages)," available at <http://www.census.gov/population/www/socdemo/child/ppl-2005.html>

<sup>16</sup> Third Way calculation based on the take-up rate of the existing tax credit, number of households eligible, and their estimated tax liability.

<sup>17</sup> Anne Kim, et al, "The New Rules Economy: A Policy Framework for the 21<sup>st</sup> Century," Third Way, February 2007, available at [http://www.thirdway.org/data/product/file/71/Third\\_Way\\_New\\_Rules\\_Economy\\_Report.pdf](http://www.thirdway.org/data/product/file/71/Third_Way_New_Rules_Economy_Report.pdf).

<sup>18</sup> Third Way calculation based on Tables 3, 4, 5, and 6 of Greg Leiserson and Jeffrey Rohaly, "The Distribution of the 2001-2006 Tax Cuts: Updated Projections, November 2006," Tax Policy Center, Urban Institute and Brookings Institution, available at <http://www.taxpolicycenter.org/publications/url.cfm?ID=411378>.

<sup>19</sup> Greg Leiserson and Jeffrey Rohaly, "The Distribution of the 2001-2006 Tax Cuts: Updated Projections, November 2006," Tax Policy Center, Urban Institute and Brookings Institution. See Table 3 in the Appendix. According to this table, the average millionaire will receive a tax cut of \$130,423 in 2008, while the average person making \$50,000-\$75,000 will receive just \$1,203 in tax relief. This translates into a ratio of 108 to 1.