



BACKGROUND

2003 TAX CUTS LEAVE MILLIONS OF CHILDREN BEHIND

The cost of the tax package is more than enough to provide full health coverage to all 9.2 million American children without health insurance and Head Start's comprehensive services for all 1.8 million children who need it to enter school ready to learn.

The Children's Defense Fund estimates that in 2004:

- Insuring all 9.2 million uninsured children younger than 19 would cost \$13 billion.¹
- Head Start for all 1.8 million eligible children in need younger than age 5 would cost \$25 billion.²

These costs are a fraction of the tax cut package price tag in 2004: \$149 billion. The first five years of the tax cut package cost \$343 billion, greatly exceeding the cost of fully funding health insurance and Head Start.

The tax cuts Congress approved provide nothing to one in four American children younger than 17 – including nearly half of all Black and Latino children – because their parents earn too little.

Roughly 18 million American children under 17 – more than 25 percent – receive no help from the tax cuts.³ More than 40 percent of Latino children and 45 percent of Black children do not benefit from the tax cut package.

¹ CDF estimates based on unit cost data from the American Academy of Pediatrics, and CDF tabulations of uninsured children from the March 2002 Current Population Survey, assuming a medical cost inflation rate of 5 percent a year.

² CDF estimates based on data from the U.S. Head Start Bureau and the Census Bureau, inflated using CBO GDP price inflator. Figures assume that 80 percent of income-eligible children “need” Head Start; for the other 20 percent, parents would prefer an option other than Head Start.

³ The simulations involve applying tax rules to a nationally representative group of more than 30,000 families with children in the Census Bureau’s March 2002 Current Population Survey, the source for the government’s official annual poverty estimates. The analysis examined the major provisions of the tax cuts, including tax rate cuts, expansion of the lower brackets, marriage penalty relief, and cuts in dividend and capital gains taxes.

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The child tax credit portion of the tax cut package affects the most children. The package raised the child tax credit to a \$1000 maximum per child in 2003 and 2004 (up from \$600 per child). This increase leaves behind millions of children, including those children whose parents earn less than the \$10,500 required to qualify for the credit in 2003.

Twelve million children in working families whose parents have higher earnings are also left behind by the increase in the child tax credit (for example, married families with three children making between \$10,500 and \$26,625). These families qualified for a partial child credit under prior law, and continue to do so, but will not receive more. For families who owe limited federal income tax, the law limits child credit refunds in 2003 and 2004 to 10 cents for every dollar parents earn above \$10,500. The tax bill originally passed by the U.S. Senate would have helped working families by increasing this rate to 15 cents per dollar. The final tax bill dropped this improvement.

In total, about one in four children under age 17 live in families who are not eligible to receive any increase in the child tax credit due to low parental earnings.

The stock dividend tax cut does nothing for more than 9 in 10 Latino and Black children or for 7 out of 10 White children, because their families do not receive any stock dividends.

Based on government survey data for 2001⁴, the Children's Defense Fund found that:

- 94 percent of Latino children gain nothing from a cut in the stock dividend tax because their families have no stock dividend income.
- 92 percent of Black children gain nothing from a cut in the stock dividend tax because their families have no stock dividend income.
- 72 percent of White non-Latino children gain nothing from a cut in the stock dividend tax because their families have no stock dividend income.
- Of the 755,000 Latino children whose families did report dividend income in 2001, the typical (median) annual tax savings from even a complete repeal of the dividend tax would have received less than \$16 per child.⁵

⁴ CDF tabulations from the March 2002 Current Population Survey.

⁵ The estimate of the per-child value of repealing the dividend tax is conservative and is based on a calculation of each family's per-child dividend income multiplied by the family's marginal tax rate.