

Repealing the Child Tax Credit hurts Vermont families

Senate Bill 56 holds the promise of better childcare at lower cost to more Vermont families. But the bill as passed by the Senate in late March repeals the Child Tax Credit. This would harm the same families, and many others.

S.56 expands the Child Care Financial Assistance Program (CCFAP) and reduces the cost of care for many families. The bill also aims to improve the quality of childcare by increasing the amount CCFAP pays to providers. However, to help pay for the reforms, S.56 repeals the state Child Tax Credit (CTC) passed just last year, eliminating a \$1,000 credit that eligible households now receive for each child under six.¹ The repeal would leave at least 8,200 Vermont households worse off financially.

Childcare assistance, current and reformed

CCFAP is currently available to families with incomes up to 350 percent of the federal poverty level (FPL)—about \$87,000 for a family of three. For families up to 150 percent of the federal poverty level, CCFAP covers the entire cost of care with no out-of-pocket payment by the family. This would still be true under the bill. Families between 150 and 350 percent of FPL currently pay from \$25 to \$200 a week—\$1,300 to \$10,400 a year—depending on their bracket.

The bill cuts the out-of-pocket cost at each poverty bracket by \$25 a week (\$1,300 a year). This flat dollar-amount reduction has a relatively greater effect on families at lower income levels. A family at 185 percent of the federal poverty level, for example, would see its weekly outlay go from \$25 to zero—a 100 percent reduction. The cost for a family at 350 percent of poverty would drop from \$200 a week to \$175—or 12.5 percent.

S.56 would also reform CCFAP to extend eligibility to families with incomes up to 600 percent of the federal poverty level (almost \$150,000 for a family of three), with family contributions going up with income.

Child Tax Credit repeal

Repeal of the Child Tax Credit undermines those savings for everyone.

According to U.S. Census data, an estimated 19,300 Vermont households are eligible for the full \$1,000 tax credit for each child under six. Table 1, based on U.S. Census data, shows the number of households eligible for the Child Tax Credit by poverty level and number of children under six. The households fall into four groups, each affected differently by the Senate bill.

- *Up to 150 percent of the federal poverty level (FPL)*. All 5,600 families in this group have no copayment now for childcare, and that would still be true under the new plan. They would not realize any savings in childcare but would lose the tax credit.

TABLE 1:

Number of CTC-eligible households

Poverty level	Children under 6	\$125,000 income or less
Up to 150% of FPL	1	3,941
	2	1,487
	3	213
	subtotal	5,641
150% to 350% of FPL	1	6,663
	2	2,405
	3	151
	subtotal	9,219
350%+ of FPL	1	3,455
	2	971
	3	39
	subtotal	4,465
Total households		19,325

Data source: IPUMS USA, University of Minnesota, www.ipums.org, American Community Survey 2021 5-year estimates

Families can be difficult to define from Census microdata. This analysis uses households as a proxy for families.

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¹ Families with annual income up to \$125,000 are eligible for a \$1,000 refundable tax credit for each child under six. Families with income between \$125,000 and \$175,000 are eligible for a partial credit.

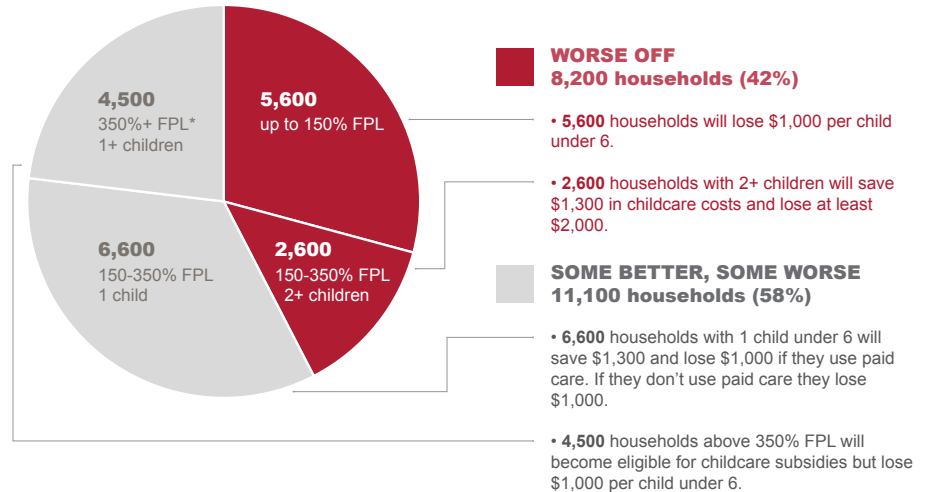
- *150 to 350 percent of FPL with two or more children.* The 2,600 families in this group would be worse off. If they participate in CCFAP, they would see a \$25-a-week reduction in their childcare copayment (\$1,300 a year). With two or more children, the loss of the tax credit (\$2,000 and up) would exceed the childcare savings. If they don't participate in CCFAP, they would simply lose at least \$2,000.

- *150 to 350 percent of FPL with one child.* The 6,600 families in this group would realize a net saving if they now receive CCFAP subsidies. Their annual childcare costs would drop by \$1,300, and they would lose \$1,000 in CTC—a net gain of \$300. If they don't receive subsidies, they would lose \$1,000.

- *Over 350 percent of FPL with one or more children.* These 4,500 families are not currently eligible for childcare subsidies, but they would be under the new plan. If they use paid child care, this group is likely to benefit even after losing the tax credit, because they are currently paying the full cost.

S.56 is under debate in the House, which has indicated that it intends to retain the CTC and find another way to improve childcare quality and affordability without harming the families it is meant to help.

Repealing Child Tax Credit would undermine benefits of childcare reform 19,300 households eligible for the full Vermont Child Tax Credit (with children under 6 and an annual household income under \$125,000)



* Federal Poverty Level

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