

## Interesting Facts Revealed by the Worksheets

1. Taxpayers (HH, 2 children) receive no tax benefits for their child care expenses until their income reaches about \$20,000. Thus, no one can qualify for the full 35% credit allowed by section 21 of the I.R.C.
2. Taxpayers (HH, 2 children) have a negative federal tax burden (payroll and income tax combined) until their income reaches about \$28,000.
3. However, taxpayers (HH, 2 children) start facing marginal effective tax rates of about 20% at an income level of \$18,000.
4. By \$26,000, this marginal tax rate jumps to 36%; which is slightly higher than the marginal tax rate facing taxpayers with incomes of \$100,000.
5. The highest marginal tax rates are faced by taxpayers in the \$32-36,000 income range.
6. Other means-tested welfare programs phase out over similar income ranges, creating even higher marginal rates, potentially in excess of 100%. (Holt & Romich, Marginal Tax Rates Facing Low- and Moderate-Income Workers Who Participate in Means-Tested Transfer Programs, LX Nat'l Tax J. 253 (2007)).
7. The tax benefits of having children are almost entirely eaten up by child care costs of \$3000 per child for 2-child families.
8. The outcomes are similar for 1 child families, but at income levels \$4000 lower.

## Worksheet Peculiarities

1. The tables treat FICA taxes inconsistently: both employer and employee shares of these taxes are included in "taxes paid" columns, but only the employee share is deducted when determining taxpayers' "posttax cash" and for purposes of calculating taxpayers' "marginal tax rates" (MTR) because employees only see their share of this tax.
2. All amounts are computed assuming taxpayers claim the standard deduction.

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