



Tax Policy Center

Urban Institute and Brookings Institution

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Reforming the Child and Dependent Care Tax Credit

Jeffrey Rohaly

Background

The child and dependent care tax credit (CDCTC) is a nonrefundable tax credit designed to help offset the expenses of providing care for children under the age of 13 or disabled dependents as long as a parent or caretaker is working or searching for work.¹ One-earner couples are not eligible for the credit. Under current law, eligible expenses are limited to the lesser of \$3,000 per child (up to a maximum of \$6,000) or the earnings of the lesser-earning spouse. The maximum credit is reduced by any tax-free child-care benefits paid by an employer.

The credit rate applied to eligible expenses is 35 percent for taxpayers with adjusted gross income (AGI) less than \$15,000, phasing down to 20 percent for those with AGI greater than \$43,000. Thus, in theory, a low-income family could qualify for a maximum \$2,100 credit (35 percent of \$6,000). The credit is not refundable, however, and families with incomes under \$15,000 generally owe little or no income tax. Thus, the theoretical maximum rarely applies in practice.

The expansions to the CDCTC enacted by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) expire at the end of 2010. After that, the maximum eligible expenses revert to \$2,400 per child (up to a maximum of \$4,800) and the highest credit rate falls to 30 percent.

Finally, a temporary provision that allowed the use of the CDCTC against both regular tax and AMT liability regardless of tentative AMT expired at the end of 2006. Unless the provision is extended (or the AMT is reformed or repealed) many middle- and upper-middle-income households could lose some or all of the benefits of the CDCTC beginning in 2007.

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¹ For more details about the CDCTC and other federal tax subsidies for child care, see Burman, Maag, and Rohaly (2005). This article updates many of the numbers presented in that earlier work.

Distribution of the CDCTC

For calendar year 2006, the CDCTC provides tax benefits of approximately \$3.3 billion.² The majority of the benefits flows to middle- and upper-middle-income households. Taxpayers with incomes between \$100,000 and \$200,000 receive almost a quarter of the total benefits although those taxpayers represent only 11 percent of all households. Another 40 percent of the benefits go to the 30 percent of households earning between \$50,000 and \$100,000 (table T07-0152). Only 8 percent of the benefits go to households with incomes less than \$30,000. In percentile terms, the top quintile (or fifth) of income earners receives 41 percent of CDCTC benefits; the bottom 40 percent receives only 4 percent (table T07-0153).

If the CDCTC were made fully refundable—so that households with child care expenses could claim the credit regardless of their individual income tax liability—the distribution of the credit’s tax benefits would become more progressive. More than a third of the benefits would go to households with income less than \$30,000; the share going to households with incomes between \$100,000 and \$200,000 would fall to 16 percent (table T07-0154). The share of the benefits going to the bottom 40 percent of households would increase from 4 to 33 percent (table T07-0155).

TPC estimates that if the CDCTC had been fully refundable in 2006, an additional 1.6 million households would have claimed the credit, and the total amount claimed would have increased by \$1.7 billion (table T07-0156).³ Approximately 2.2 million households with incomes less than \$30,000 would have claimed the credit, up from 700,000 under current law. Those with incomes between \$10,000 and \$20,000 would have claimed the highest average credit, \$953. A refundable CDCTC would have been claimed by about 18 percent of potentially eligible households with incomes under \$20,000, up from less than 2.5 percent under current law (table T07-0157).⁴

In contrast, the changes EGTRRA made provided little benefit to very low income households. Half of the benefits of the changes went to those earning between \$50,000 and \$200,000 (table T07-0158). Tax units in the bottom 40 percent of the income distribution received less than 5 percent (table T07-0159). We estimate that the changes did virtually nothing to the number of households claiming the credit, but increased the amount claimed by 20 percent, or \$570 million, in 2006 (table T07-0160). The largest percentage increase in the amount claimed was in the \$30,000 to \$40,000 income class; that group’s reported credit rose by 41 percent, or \$133 million, resulting in an increase in the average credit claimed of \$173.

² Unless otherwise noted, estimates are produced by the Urban–Brookings Tax Policy Center’s microsimulation model of the federal tax system. For a brief description of the current version of the model, see <http://taxpolicycenter.org/TaxModel/tmdb/TMTemplate.cfm?DocID=299>. For a more detailed description, see Rohaly, Carasso, and Saleem (2005).

³ We assume that there are no behavioral changes as a result of making the credit refundable. That is, households do not choose to purchase more, or more expensive, child care.

⁴ A potentially eligible household is one in which there is at least one child under age 13 and in which a positive amount is reported for earnings. For married couples, both spouses must report positive earnings. Earnings are defined as wages and salaries plus self-employment income, less the deduction for self-employment taxes.

Although EGTRRA raised the highest credit rate from 30 to 35 percent, almost no households benefit from the highest rate. For 2006, only an estimated 6.7 percent of CDCTC claimants received higher than a 30 percent credit rate, and only 0.5 percent received the top 35 percent rate (table T07-0161). For married couples, only 0.1 percent of claimants received more than a 30 percent credit rate. In contrast, more than two-thirds of claimants received the lowest credit rate of 20 percent, including almost 92 percent of married couples.

Revenue Cost of CDCTC Reform

As mentioned above, many middle- and upper-middle-income households will begin to lose the benefits of the CDCTC in 2007 unless a temporary provision allowing the credit against the alternative minimum tax is extended.⁵ We estimate that permanent extension of this allowance would cost \$16.7 billion through the end of the 2017 budget window (table T07-0162).⁶ Making the EGTRRA changes to the CDCTC permanent would add \$3.6 billion to the cost.

Because the CDCTC maximum expenses and phase-out thresholds are not indexed for inflation, the real value of the credit erodes over time. Indexing the credit for inflation after 2007 would add \$2.5 billion to the ten-year cost. The combined cost of AMT relief, permanence of the EGTRRA provisions, and indexation would be \$22.8 billion through 2017.

Finally, making the credit fully refundable after 2007, in addition to the changes mentioned above, would add \$18.4 billion to the 10-year cost, resulting in a total revenue cost of \$41.1 billion over the 2007 through 2017 budget window. The CDCTC is projected to cost approximately \$14.6 billion through 2017 under current law. Thus, if the reforms described here were fully implemented, the cost of the credit would increase by a factor of just under three. But the credit would be newly available to many low-income households who cannot benefit from the current nonrefundable CDCTC.

⁵ For analysis of AMT reform options, see Burman et al. (2007), and for the latest AMT estimates and projections, see Rohaly and Leiserson (2006).

⁶ Note that all of the estimates assume that the 2001–2006 tax cuts expire as scheduled at the end of 2010. If the cuts are extended and no permanent AMT relief is enacted, many more households would fall prey to the AMT after 2010, and the cost of allowing the CDCTC against the AMT would rise.

References

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Burman, Leonard E., Elaine Maag, and Jeffrey Rohaly. 2005. "Tax Subsidies to Help Low-Income Families Pay for Child Care." Tax Policy Center Discussion Paper No. 23. Washington, DC: The Urban Institute. <http://www.urban.org/url.cfm?ID=411190>.

Rohaly, Jeffrey, Adam Carasso, and Mohammed Adeel Saleem. 2005. "The Urban-Brookings Tax Policy Center Microsimulation Model: Documentation and Methodology for Version 0304." Washington, DC: The Urban Institute. <http://www.urban.org/url.cfm?ID=411136>.

Rohaly, Jeffrey, and Greg Leiserson. 2006. "The Individual Alternative Minimum Tax Historical Data and Projections: Updated November 2006." Washington, DC: The Urban Institute. <http://www.urban.org/url.cfm?ID=901012>.

Table T07-0152
Child and Dependent Care Tax Credit (CDCTC)
Distribution of Federal Tax Benefits by Cash Income Class, 2006¹

| Cash Income Class (thousands of 2006 dollars) ^{2,3} | Percent of Tax Units ⁴ | | Percent Change in After-Tax Income ⁵ | Share of Total Federal Tax Benefits | Average Federal Tax Benefit | | Share of Federal Taxes | | Average Federal Tax Rate ⁶ | |
|--|-----------------------------------|------------------------|--|---|-----------------------------|---------|------------------------|-----------------------|---------------------------------------|-----------------------|
| | With Tax Benefit | Without Tax Benefit | | | Dollars | Percent | Change (%) Points) | Under the Proposal | Change (%) Points) | Under the Proposal |
| Less than 10 | 0.0 | 100.0 | 0.0 | 0.0 | 0 | 0.0 | 0.0 | 0.2 | 0.0 | 3.9 |
| 10-20 | 0.2 | 99.8 | 0.0 | 0.4 | -1 | -0.1 | 0.0 | 0.9 | 0.0 | 4.5 |
| 20-30 | 2.3 | 97.7 | 0.1 | 7.7 | -13 | -0.5 | 0.0 | 2.4 | -0.1 | 9.8 |
| 30-40 | 4.7 | 95.3 | 0.1 | 12.4 | -27 | -0.5 | 0.0 | 3.7 | -0.1 | 14.0 |
| 40-50 | 4.7 | 95.3 | 0.1 | 9.8 | -27 | -0.4 | 0.0 | 4.4 | -0.1 | 16.6 |
| 50-75 | 6.6 | 93.4 | 0.1 | 22.8 | -35 | -0.3 | 0.0 | 11.9 | -0.1 | 18.5 |
| 75-100 | 8.6 | 91.4 | 0.1 | 17.6 | -45 | -0.3 | 0.0 | 11.0 | -0.1 | 20.0 |
| 100-200 | 9.0 | 91.0 | 0.1 | 23.9 | -49 | -0.2 | 0.0 | 24.0 | 0.0 | 22.4 |
| 200-500 | 6.5 | 93.5 | 0.0 | 4.7 | -36 | -0.1 | 0.0 | 15.5 | 0.0 | 25.6 |
| 500-1,000 | 3.7 | 96.3 | 0.0 | 0.5 | -21 | 0.0 | 0.0 | 6.8 | 0.0 | 27.7 |
| More than 1,000 | 2.5 | 97.5 | 0.0 | 0.2 | -18 | 0.0 | 0.0 | 19.1 | 0.0 | 32.4 |
| All | 4.1 | 95.9 | 0.0 | 100.0 | -22 | -0.2 | 0.0 | 100.0 | 0.0 | 21.3 |

Baseline Distribution of Income and Federal Taxes
by Cash Income Class, 2006¹

| Cash Income Class (thousands of 2006 dollars) ^{2,3} | Tax Units ⁴ | | Average Income (Dollars) | Average Federal Tax Burden (Dollars) | Average After-Tax Income ⁵ (Dollars) | Average Federal Tax Rate ⁶ | Share of Pre- | Share of Post- | Share of |
|--|------------------------|---------------------|--------------------------------|---|--|---|---------------------|---------------------|---------------------|
| | Number (thousands) | Percent of Total | | | | | Percent of Total | Percent of Total | Percent of Total |
| Less than 10 | 19,138 | 13.0 | 5,634 | 222 | 5,411 | 3.9 | 1.1 | 1.4 | 0.2 |
| 10-20 | 25,619 | 17.4 | 14,909 | 669 | 14,240 | 4.5 | 4.1 | 4.9 | 0.9 |
| 20-30 | 19,881 | 13.5 | 24,735 | 2,428 | 22,307 | 9.8 | 5.2 | 6.0 | 2.4 |
| 30-40 | 15,077 | 10.2 | 34,840 | 4,912 | 29,928 | 14.1 | 5.6 | 6.1 | 3.7 |
| 40-50 | 11,930 | 8.1 | 44,708 | 7,437 | 37,271 | 16.6 | 5.7 | 6.0 | 4.4 |
| 50-75 | 21,009 | 14.3 | 61,462 | 11,387 | 50,075 | 18.5 | 13.7 | 14.2 | 11.9 |
| 75-100 | 12,719 | 8.6 | 86,239 | 17,270 | 68,969 | 20.0 | 11.7 | 11.8 | 11.0 |
| 100-200 | 15,955 | 10.8 | 134,074 | 30,123 | 103,951 | 22.5 | 22.7 | 22.4 | 24.0 |
| 200-500 | 4,214 | 2.9 | 287,808 | 73,596 | 214,211 | 25.6 | 12.9 | 12.2 | 15.5 |
| 500-1,000 | 727 | 0.5 | 677,545 | 187,667 | 489,878 | 27.7 | 5.2 | 4.8 | 6.8 |
| More than 1,000 | 383 | 0.3 | 3,081,101 | 997,978 | 2,083,123 | 32.4 | 12.5 | 10.8 | 19.1 |
| All | 147,237 | 100.0 | 63,974 | 13,616 | 50,358 | 21.3 | 100.0 | 100.0 | 100.0 |

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 1006-2).

Number of AMT Taxpayers (millions). Baseline: 3.6 Proposal: 3.6

(1) Baseline is current law without the child and dependent care tax credit (CDCTC). Proposal allows the CDCTC.

(2) Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see

<http://www.taxpolicycenter.org/TaxModel/income.cfm>

(3) For the income levels at each quintile and the top income percentiles used in this table, see

<http://www.taxpolicycenter.org/TaxModel/percentiles.cfm>

(4) Includes both filing and non-filing units but excludes those that are dependents of other tax units.

(5) After-tax income is cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax.

(6) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, and the estate tax) as a percentage of average cash income.

Table T07-0153
Child and Dependent Care Tax Credit (CDCTC)
Distribution of Federal Tax Benefits by Cash Income Percentile, 2006¹

| Cash Income Percentile ^{2,3} | Percent of Tax Units ⁴ | | Percent Change in After-Tax Income ⁵ | Share of Total Federal Tax Benefits | Average Federal Tax Benefit | | Share of Federal Taxes | | Average Federal Tax Rate ⁶ | |
|---------------------------------------|-----------------------------------|---------------------|---|-------------------------------------|-----------------------------|---------|------------------------|--------------------|---------------------------------------|--------------------|
| | With Tax Benefit | Without Tax Benefit | | | Dollars | Percent | Change (%) Points) | Under the Proposal | Change (%) Points) | Under the Proposal |
| Lowest Quintile | 0.0 | 100.0 | 0.0 | 0.0 | 0 | 0.0 | 0.0 | 0.4 | 0.0 | 3.4 |
| Second Quintile | 1.0 | 99.0 | 0.0 | 4.1 | -5 | -0.3 | 0.0 | 2.1 | 0.0 | 7.2 |
| Middle Quintile | 4.6 | 95.4 | 0.1 | 23.7 | -26 | -0.5 | 0.0 | 7.5 | -0.1 | 14.3 |
| Fourth Quintile | 6.4 | 93.6 | 0.1 | 30.8 | -34 | -0.3 | 0.0 | 17.0 | -0.1 | 18.6 |
| Top Quintile | 8.6 | 91.4 | 0.0 | 41.4 | -46 | -0.1 | 0.1 | 72.8 | 0.0 | 25.3 |
| All | 4.1 | 95.9 | 0.0 | 100.0 | -22 | -0.2 | 0.0 | 100.0 | 0.0 | 21.3 |
| Addendum | | | | | | | | | | |
| Top 10 Percent | 7.8 | 92.2 | 0.0 | 19.9 | -44 | -0.1 | 0.1 | 57.7 | 0.0 | 26.8 |
| Top 5 Percent | 6.5 | 93.5 | 0.0 | 8.6 | -38 | 0.0 | 0.1 | 45.9 | 0.0 | 28.1 |
| Top 1 Percent | 3.8 | 96.2 | 0.0 | 1.0 | -23 | 0.0 | 0.0 | 28.2 | 0.0 | 30.7 |
| Top 0.5 Percent | 2.8 | 97.2 | 0.0 | 0.4 | -19 | 0.0 | 0.0 | 23.1 | 0.0 | 31.6 |
| Top 0.1 Percent | 2.0 | 98.0 | 0.0 | 0.1 | -14 | 0.0 | 0.0 | 14.4 | 0.0 | 33.2 |

Baseline Distribution of Income and Federal Taxes
by Cash Income Percentile, 2006¹

| Cash Income Percentile ^{2,3} | Tax Units ⁴ | | Average Income (Dollars) | Average Federal Tax Burden (Dollars) | Average After-Tax Income ⁵ (Dollars) | Average Federal Tax Rate ⁶ | Share of Pre-Tax Income | Share of Post-Tax Income | Share of Federal Taxes | |
|---------------------------------------|------------------------|------------------|--------------------------|--------------------------------------|---|---------------------------------------|-------------------------|--------------------------|------------------------|--|
| | Number (thousands) | Percent of Total | | | | | Percent of Total | Percent of Total | Percent of Total | |
| Lowest Quintile | 28,860 | 19.6 | 7,727 | 265 | 7,462 | 3.4 | 2.4 | 2.9 | 0.4 | |
| Second Quintile | 29,449 | 20.0 | 19,690 | 1,426 | 18,265 | 7.2 | 6.2 | 7.3 | 2.1 | |
| Middle Quintile | 29,448 | 20.0 | 35,657 | 5,117 | 30,539 | 14.4 | 11.2 | 12.1 | 7.5 | |
| Fourth Quintile | 29,448 | 20.0 | 62,346 | 11,603 | 50,743 | 18.6 | 19.5 | 20.2 | 17.0 | |
| Top Quintile | 29,447 | 20.0 | 195,755 | 49,542 | 146,213 | 25.3 | 61.2 | 58.1 | 72.8 | |
| All | 147,237 | 100.0 | 63,974 | 13,616 | 50,358 | 21.3 | 100.0 | 100.0 | 100.0 | |
| Addendum | | | | | | | | | | |
| Top 10 Percent | 14,724 | 10.0 | 292,372 | 78,452 | 213,920 | 26.8 | 45.7 | 42.5 | 57.6 | |
| Top 5 Percent | 7,361 | 5.0 | 443,043 | 124,724 | 318,319 | 28.2 | 34.6 | 31.6 | 45.8 | |
| Top 1 Percent | 1,472 | 1.0 | 1,248,587 | 383,126 | 865,461 | 30.7 | 19.5 | 17.2 | 28.1 | |
| Top 0.5 Percent | 736 | 0.5 | 1,984,734 | 626,606 | 1,358,128 | 31.6 | 15.5 | 13.5 | 23.0 | |
| Top 0.1 Percent | 147 | 0.1 | 5,889,414 | 1,955,717 | 3,933,697 | 33.2 | 9.2 | 7.8 | 14.4 | |

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 1006-2).

Number of AMT Taxpayers (millions). Baseline: 3.6 Proposal: 3.6

(1) Baseline is current law without the child and dependent care tax credit (CDCTC). Proposal allows the CDCTC.

(2) Tax units with negative cash income are excluded from the lowest quintile but are included in the totals. For a description of cash income, see

<http://www.taxpolicycenter.org/TaxModel/income.cfm>

(3) For the income levels at each quintile and the top income percentiles used in this table, see

<http://www.taxpolicycenter.org/TaxModel/percentiles.cfm>

(4) Includes both filing and non-filing units but excludes those that are dependents of other tax units.

(5) After-tax income is cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax.

(6) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, and the estate tax) as a percentage of average cash income.

Table T07-0154
Fully Refundable Child and Dependent Care Tax Credit (CDCTC)
Distribution of Federal Tax Benefits by Cash Income Class, 2006¹

| Cash Income Class (thousands of 2006 dollars) ^{2,3} | Percent of Tax Units ⁴ | | Percent Change in After-Tax Income ⁵ | Share of Total Federal Tax Benefits | Average Federal Tax Benefit | | Share of Federal Taxes | | Average Federal Tax Rate ⁶ | |
|--|-----------------------------------|------------------------|--|---|-----------------------------|---------|------------------------|-----------------------|---------------------------------------|-----------------------|
| | With Tax Benefit | Without Tax Benefit | | | Dollars | Percent | Change (%) Points) | Under the Proposal | Change (%) Points) | Under the Proposal |
| Less than 10 | 2.7 | 97.3 | 0.4 | 7.7 | -20 | -8.9 | 0.0 | 0.2 | -0.4 | 3.6 |
| 10-20 | 3.5 | 96.5 | 0.2 | 17.4 | -33 | -5.0 | 0.0 | 0.8 | -0.2 | 4.3 |
| 20-30 | 3.8 | 96.2 | 0.1 | 11.3 | -28 | -1.2 | 0.0 | 2.4 | -0.1 | 9.7 |
| 30-40 | 5.1 | 94.9 | 0.1 | 9.8 | -32 | -0.7 | 0.0 | 3.7 | -0.1 | 14.0 |
| 40-50 | 4.9 | 95.1 | 0.1 | 6.9 | -28 | -0.4 | 0.0 | 4.4 | -0.1 | 16.6 |
| 50-75 | 6.8 | 93.3 | 0.1 | 15.6 | -37 | -0.3 | 0.0 | 11.9 | -0.1 | 18.5 |
| 75-100 | 8.7 | 91.3 | 0.1 | 11.8 | -46 | -0.3 | 0.0 | 11.0 | -0.1 | 20.0 |
| 100-200 | 9.1 | 90.9 | 0.1 | 15.9 | -49 | -0.2 | 0.0 | 24.0 | 0.0 | 22.4 |
| 200-500 | 6.5 | 93.5 | 0.0 | 3.1 | -36 | -0.1 | 0.0 | 15.5 | 0.0 | 25.6 |
| 500-1,000 | 3.8 | 96.2 | 0.0 | 0.3 | -21 | 0.0 | 0.0 | 6.8 | 0.0 | 27.7 |
| More than 1,000 | 2.6 | 97.5 | 0.0 | 0.1 | -18 | 0.0 | 0.1 | 19.1 | 0.0 | 32.4 |
| All | 5.3 | 94.7 | 0.1 | 100.0 | -33 | -0.3 | 0.0 | 100.0 | -0.1 | 21.2 |

Baseline Distribution of Income and Federal Taxes
by Cash Income Class, 2006¹

| Cash Income Class (thousands of 2006 dollars) ^{2,3} | Tax Units ⁴ | | Average Income (Dollars) | Average Federal Tax Burden (Dollars) | Average After-Tax Income ⁵ (Dollars) | Average Federal Tax Rate ⁶ | Share of Pre- | Share of Post- | Share of |
|--|------------------------|---------------------|--------------------------------|---|--|---|---------------------|---------------------|----------|
| | Number (thousands) | Percent of Total | | | | | Percent of Total | Percent of Total | |
| Less than 10 | 19,138 | 13.0 | 5,634 | 222 | 5,411 | 3.9 | 1.1 | 1.4 | 0.2 |
| 10-20 | 25,619 | 17.4 | 14,909 | 669 | 14,240 | 4.5 | 4.1 | 4.9 | 0.9 |
| 20-30 | 19,881 | 13.5 | 24,735 | 2,428 | 22,307 | 9.8 | 5.2 | 6.0 | 2.4 |
| 30-40 | 15,077 | 10.2 | 34,840 | 4,912 | 29,928 | 14.1 | 5.6 | 6.1 | 3.7 |
| 40-50 | 11,930 | 8.1 | 44,708 | 7,437 | 37,271 | 16.6 | 5.7 | 6.0 | 4.4 |
| 50-75 | 21,009 | 14.3 | 61,462 | 11,387 | 50,075 | 18.5 | 13.7 | 14.2 | 11.9 |
| 75-100 | 12,719 | 8.6 | 86,239 | 17,270 | 68,969 | 20.0 | 11.7 | 11.8 | 11.0 |
| 100-200 | 15,955 | 10.8 | 134,074 | 30,123 | 103,951 | 22.5 | 22.7 | 22.4 | 24.0 |
| 200-500 | 4,214 | 2.9 | 287,808 | 73,596 | 214,211 | 25.6 | 12.9 | 12.2 | 15.5 |
| 500-1,000 | 727 | 0.5 | 677,545 | 187,667 | 489,878 | 27.7 | 5.2 | 4.8 | 6.8 |
| More than 1,000 | 383 | 0.3 | 3,081,101 | 997,978 | 2,083,123 | 32.4 | 12.5 | 10.8 | 19.1 |
| All | 147,237 | 100.0 | 63,974 | 13,616 | 50,358 | 21.3 | 100.0 | 100.0 | 100.0 |

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 1006-2).

Number of AMT Taxpayers (millions). Baseline: 3.6 Proposal: 3.6

(1) Baseline is current law without the child and dependent care tax credit (CDCTC). Proposal allows a fully refundable CDCTC.

(2) Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see

<http://www.taxpolicycenter.org/TaxModel/income.cfm>

(3) For the income levels at each quintile and the top income percentiles used in this table, see

<http://www.taxpolicycenter.org/TaxModel/percentiles.cfm>

(4) Includes both filing and non-filing units but excludes those that are dependents of other tax units.

(5) After-tax income is cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax.

(6) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, and the estate tax) as a percentage of average cash income.

Table T07-0155
Fully Refundable Child and Dependent Care Tax Credit (CDCTC)
Distribution of Federal Tax Benefits by Cash Income Percentile, 2006¹

| Cash Income Percentile ^{2,3} | Percent of Tax Units ⁴ | | Percent Change in After-Tax Income ⁵ | Share of Total Federal Tax Benefits | Average Federal Tax Benefit | | Share of Federal Taxes | | Average Federal Tax Rate ⁶ | |
|---------------------------------------|-----------------------------------|---------------------|---|-------------------------------------|-----------------------------|---------|------------------------|--------------------|---------------------------------------|--------------------|
| | With Tax Benefit | Without Tax Benefit | | | Dollars | Percent | Change (%) Points) | Under the Proposal | Change (%) Points) | Under the Proposal |
| Lowest Quintile | 2.9 | 97.1 | 0.3 | 13.6 | -23 | -8.8 | 0.0 | 0.4 | -0.3 | 3.1 |
| Second Quintile | 3.6 | 96.4 | 0.2 | 19.1 | -32 | -2.2 | 0.0 | 2.1 | -0.2 | 7.1 |
| Middle Quintile | 5.0 | 95.0 | 0.1 | 18.6 | -31 | -0.6 | 0.0 | 7.5 | -0.1 | 14.3 |
| Fourth Quintile | 6.5 | 93.5 | 0.1 | 21.0 | -35 | -0.3 | 0.0 | 17.0 | -0.1 | 18.6 |
| Top Quintile | 8.6 | 91.4 | 0.0 | 27.6 | -46 | -0.1 | 0.1 | 72.9 | 0.0 | 25.3 |
| All | 5.3 | 94.7 | 0.1 | 100.0 | -33 | -0.3 | 0.0 | 100.0 | -0.1 | 21.2 |
| Addendum | | | | | | | | | | |
| Top 10 Percent | 7.8 | 92.2 | 0.0 | 13.2 | -44 | -0.1 | 0.1 | 57.7 | 0.0 | 26.8 |
| Top 5 Percent | 6.5 | 93.5 | 0.0 | 5.7 | -38 | 0.0 | 0.1 | 45.9 | 0.0 | 28.1 |
| Top 1 Percent | 3.8 | 96.2 | 0.0 | 0.7 | -23 | 0.0 | 0.1 | 28.2 | 0.0 | 30.7 |
| Top 0.5 Percent | 2.8 | 97.2 | 0.0 | 0.3 | -19 | 0.0 | 0.1 | 23.1 | 0.0 | 31.6 |
| Top 0.1 Percent | 2.0 | 98.0 | 0.0 | 0.0 | -14 | 0.0 | 0.0 | 14.4 | 0.0 | 33.2 |

Baseline Distribution of Income and Federal Taxes
by Cash Income Percentile, 2006¹

| Cash Income Percentile ^{2,3} | Tax Units ⁴ | | Average Income (Dollars) | Average Federal Tax Burden (Dollars) | Average After-Tax Income ⁵ (Dollars) | Average Federal Tax Rate ⁶ | Share of Pre-Tax Income | Share of Post-Tax Income | Share of Federal Taxes | |
|---------------------------------------|------------------------|------------------|--------------------------|--------------------------------------|---|---------------------------------------|-------------------------|--------------------------|------------------------|--|
| | Number (thousands) | Percent of Total | | | | | Percent of Total | Percent of Total | Percent of Total | |
| Lowest Quintile | 28,860 | 19.6 | 7,727 | 265 | 7,462 | 3.4 | 2.4 | 2.9 | 0.4 | |
| Second Quintile | 29,449 | 20.0 | 19,690 | 1,426 | 18,265 | 7.2 | 6.2 | 7.3 | 2.1 | |
| Middle Quintile | 29,448 | 20.0 | 35,657 | 5,117 | 30,539 | 14.4 | 11.2 | 12.1 | 7.5 | |
| Fourth Quintile | 29,448 | 20.0 | 62,346 | 11,603 | 50,743 | 18.6 | 19.5 | 20.2 | 17.0 | |
| Top Quintile | 29,447 | 20.0 | 195,755 | 49,542 | 146,213 | 25.3 | 61.2 | 58.1 | 72.8 | |
| All | 147,237 | 100.0 | 63,974 | 13,616 | 50,358 | 21.3 | 100.0 | 100.0 | 100.0 | |
| Addendum | | | | | | | | | | |
| Top 10 Percent | 14,724 | 10.0 | 292,372 | 78,452 | 213,920 | 26.8 | 45.7 | 42.5 | 57.6 | |
| Top 5 Percent | 7,361 | 5.0 | 443,043 | 124,724 | 318,319 | 28.2 | 34.6 | 31.6 | 45.8 | |
| Top 1 Percent | 1,472 | 1.0 | 1,248,587 | 383,126 | 865,461 | 30.7 | 19.5 | 17.2 | 28.1 | |
| Top 0.5 Percent | 736 | 0.5 | 1,984,734 | 626,606 | 1,358,128 | 31.6 | 15.5 | 13.5 | 23.0 | |
| Top 0.1 Percent | 147 | 0.1 | 5,889,414 | 1,955,717 | 3,933,697 | 33.2 | 9.2 | 7.8 | 14.4 | |

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 1006-2).

Number of AMT Taxpayers (millions). Baseline: 3.6 Proposal: 3.6

(1) Baseline is current law without the child and dependent care tax credit (CDCTC). Proposal allows a fully refundable CDCTC.

(2) Tax units with negative cash income are excluded from the lowest quintile but are included in the totals. For a description of cash income, see

<http://www.taxpolicycenter.org/TaxModel/income.cfm>

(3) For the income levels at each quintile and the top income percentiles used in this table, see

<http://www.taxpolicycenter.org/TaxModel/percentiles.cfm>

(4) Includes both filing and non-filing units but excludes those that are dependents of other tax units.

(5) After-tax income is cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax.

(6) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, and the estate tax) as a percentage of average cash income.

Table T07-0156
Fully Refundable Child and Dependent Care Tax Credit (CDCTC)
Returns and Amount Reported Compared to Current Law, 2006 ¹

| Cash Income Class (thousands of 2006 dollars) ^{2,3} | Current Law | | | | | Fully Refundable CDCTC | | | | | Change Due to Refundability | | | | | |
|--|-----------------------|---------------------|-------------------------|---------------------|------------------------|------------------------|---------------------|-------------------------|---------------------|------------------------|-----------------------------|------------|-------------------------|------------|----------------|------------|
| | Returns | | Reported Credit | | Average Credit (\$) | Returns | | Reported Credit | | Average Credit (\$) | Returns | | Reported Credit | | Average Credit | |
| | Number (thousands) | Percent Of Total | Amount (\$ millions) | Percent Of Total | | Number (thousands) | Percent Of Total | Amount (\$ millions) | Percent Of Total | | Number (thousands) | Percentage | Amount (\$ millions) | Percentage | Dollars | Percentage |
| Less than 10 | 0 | 0.0 | 0.0 | 0.0 | n/a | 524 | 6.6 | 377.2 | 7.4 | 719 | 524 | n/a | 377.2 | n/a | n/a | n/a |
| 10-20 | 125 | 2.0 | 29.2 | 0.9 | 235 | 916 | 11.6 | 873.1 | 17.2 | 953 | 792 | 635.6 | 843.8 | 2885.1 | 718 | 305.8 |
| 20-30 | 604 | 9.6 | 317.2 | 9.3 | 525 | 776 | 9.8 | 618.5 | 12.2 | 797 | 172 | 28.6 | 301.3 | 95.0 | 271 | 51.7 |
| 30-40 | 762 | 12.1 | 456.8 | 13.4 | 599 | 793 | 10.0 | 528.0 | 10.4 | 666 | 30 | 3.9 | 71.2 | 15.6 | 67 | 11.2 |
| 40-50 | 573 | 9.1 | 332.0 | 9.7 | 580 | 588 | 7.4 | 349.0 | 6.9 | 594 | 15 | 2.6 | 17.1 | 5.1 | 14 | 2.4 |
| 50-75 | 1,399 | 22.1 | 749.2 | 21.9 | 536 | 1,421 | 18.0 | 774.9 | 15.3 | 545 | 23 | 1.6 | 25.7 | 3.4 | 10 | 1.8 |
| 75-100 | 1,099 | 17.4 | 574.9 | 16.8 | 523 | 1,106 | 14.0 | 581.8 | 11.5 | 526 | 7 | 0.6 | 6.9 | 1.2 | 3 | 0.6 |
| 100-200 | 1,447 | 22.9 | 778.5 | 22.8 | 538 | 1,453 | 18.4 | 786.3 | 15.5 | 541 | 7 | 0.5 | 7.7 | 1.0 | 3 | 0.5 |
| 200-500 | 278 | 4.4 | 155.0 | 4.5 | 558 | 278 | 3.5 | 155.6 | 3.1 | 559 | 1 | 0.2 | 0.5 | 0.4 | 1 | 0.1 |
| 500-1,000 | 28 | 0.4 | 15.1 | 0.4 | 546 | 28 | 0.4 | 15.2 | 0.3 | 548 | 0 | 0.6 | 0.1 | 0.8 | 2 | 0.3 |
| More than 1,000 | 10 | 0.2 | 6.9 | 0.2 | 700 | 10 | 0.1 | 7.0 | 0.1 | 703 | 0 | 0.9 | 0.1 | 1.3 | 3 | 0.4 |
| All | 6,323 | 100.0 | 3,414.9 | 100.0 | 540 | 7,899 | 100.0 | 5,071.3 | 100.0 | 642 | 1,576 | 24.9 | 1,656.5 | 48.5 | 102 | 18.9 |

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 1006-2).

(1) Calendar year.

(2) Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>

(3) Includes both filing and non-filing units. Tax units that are dependents of other taxpayers are excluded from the analysis.

(4) Earnings are defined as the sum of wages and salaries plus self-employment income less the deduction for self-employment taxes. For married tax units, both spouses must have positive earnings.

Table T07-0157
Fully Refundable Child and Dependent Care Tax Credit (CDCTC)
Qualifying Tax Units with Earnings that Benefit Compared to Current Law, 2006 ¹

| Cash Income Class (thousands of 2006 dollars) ^{2,3} | Qualifying Tax Units with Earnings ⁴ | | Current Law Returns with CDCTC | | Fully Refundable CDCTC Returns | |
|--|--|---------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| | Number (thousands) | Percent Of Total | Number (thousands) | Percent of Qualifying Units | Number (thousands) | Percent of Qualifying Units |
| Less than 10 | 2,946 | 8.7 | 0 | 0.0 | 524 | 17.8 |
| 10-20 | 4,949 | 14.6 | 125 | 2.5 | 916 | 18.5 |
| 20-30 | 4,613 | 13.6 | 604 | 13.1 | 776 | 16.8 |
| 30-40 | 3,624 | 10.7 | 762 | 21.0 | 793 | 21.9 |
| 40-50 | 2,741 | 8.1 | 573 | 20.9 | 588 | 21.4 |
| 50-75 | 5,242 | 15.4 | 1,399 | 26.7 | 1,421 | 27.1 |
| 75-100 | 3,642 | 10.7 | 1,099 | 30.2 | 1,106 | 30.4 |
| 100-200 | 4,901 | 14.4 | 1,447 | 29.5 | 1,453 | 29.7 |
| 200-500 | 1,081 | 3.2 | 278 | 25.7 | 278 | 25.8 |
| 500-1,000 | 150 | 0.4 | 28 | 18.4 | 28 | 18.5 |
| More than 1,000 | 71 | 0.2 | 10 | 13.9 | 10 | 14.0 |
| All | 33,989 | 100.0 | 6,323 | 18.6 | 7,899 | 23.2 |

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 1006-2).

(1) Calendar year.

(2) Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>

(3) Includes both filing and non-filing units. Tax units that are dependents of other taxpayers are excluded from the analysis.

(4) Earnings are defined as the sum of wages and salaries plus self-employment income less the deduction for self-employment taxes. For married tax units, both spouses must have positive earnings. The tax unit must have at least one child less than thirteen years of age to be considered a "qualifying" tax unit.

Table T07-0158
EGTRRA Changes to Child and Dependent Care Tax Credit (CDCTC)
Distribution of Federal Tax Change by Cash Income Class, 2006¹

| Cash Income Class (thousands of 2006 dollars) ^{2,3} | Percent of Tax Units ⁴ | | Percent Change in After-Tax Income ⁵ | Share of Total Federal Tax Change | Average Federal Tax Change | | Share of Federal Taxes | | Average Federal Tax Rate ⁶ | |
|--|-----------------------------------|----------------------|--|---|----------------------------|---------|-------------------------------------|-----------------------|---------------------------------------|-----------------------|
| | With Tax Cut | With Tax Increase | | | Dollars | Percent | Change (%) Under the Proposal | Under the Proposal | Change (%) Under the Proposal | Under the Proposal |
| Less than 10 | 0.0 | 0.0 | 0.0 | 0.0 | 0 | 0.0 | 0.0 | 0.2 | 0.0 | 3.9 |
| 10-20 | 0.0 | 0.0 | 0.0 | 0.1 | 0 | 0.0 | 0.0 | 0.9 | 0.0 | 4.5 |
| 20-30 | 1.9 | 0.0 | 0.0 | 11.3 | -3 | -0.1 | 0.0 | 2.4 | 0.0 | 9.8 |
| 30-40 | 4.3 | 0.0 | 0.0 | 21.4 | -7 | -0.2 | 0.0 | 3.7 | 0.0 | 14.0 |
| 40-50 | 4.1 | 0.0 | 0.0 | 12.5 | -6 | -0.1 | 0.0 | 4.4 | 0.0 | 16.6 |
| 50-75 | 3.3 | 0.0 | 0.0 | 17.7 | -4 | 0.0 | 0.0 | 11.9 | 0.0 | 18.5 |
| 75-100 | 3.8 | 0.0 | 0.0 | 13.1 | -5 | 0.0 | 0.0 | 11.0 | 0.0 | 20.0 |
| 100-200 | 4.3 | 0.0 | 0.0 | 19.4 | -6 | 0.0 | 0.0 | 24.0 | 0.0 | 22.4 |
| 200-500 | 3.2 | 0.0 | 0.0 | 4.1 | -5 | 0.0 | 0.0 | 15.5 | 0.0 | 25.6 |
| 500-1,000 | 1.7 | 0.0 | 0.0 | 0.4 | -3 | 0.0 | 0.0 | 6.8 | 0.0 | 27.7 |
| More than 1,000 | 1.6 | 0.0 | 0.0 | 0.2 | -3 | 0.0 | 0.0 | 19.1 | 0.0 | 32.4 |
| All | 2.4 | 0.0 | 0.0 | 100.0 | -4 | 0.0 | 0.0 | 100.0 | 0.0 | 21.3 |

Baseline Distribution of Income and Federal Taxes
by Cash Income Class, 2006¹

| Cash Income Class (thousands of 2006 dollars) ^{2,3} | Tax Units ⁴ | | Average Income (Dollars) | Average Federal Tax Burden (Dollars) | Average After-Tax Income ⁵ (Dollars) | Average Federal Tax Rate ⁶ | Share of Pre- | Share of Post- | Share of |
|--|------------------------|---------------------|--------------------------------|---|--|---|-----------------------------------|-----------------------------------|--------------------------------------|
| | Number (thousands) | Percent of Total | | | | | Tax Income Percent of Total | Tax Income Percent of Total | Federal Taxes Percent of Total |
| Less than 10 | 19,138 | 13.0 | 5,634 | 222 | 5,411 | 3.9 | 1.1 | 1.4 | 0.2 |
| 10-20 | 25,619 | 17.4 | 14,909 | 668 | 14,240 | 4.5 | 4.1 | 4.9 | 0.9 |
| 20-30 | 19,881 | 13.5 | 24,735 | 2,419 | 22,317 | 9.8 | 5.2 | 6.0 | 2.4 |
| 30-40 | 15,077 | 10.2 | 34,840 | 4,893 | 29,947 | 14.0 | 5.6 | 6.1 | 3.7 |
| 40-50 | 11,930 | 8.1 | 44,708 | 7,415 | 37,292 | 16.6 | 5.7 | 6.0 | 4.4 |
| 50-75 | 21,009 | 14.3 | 61,462 | 11,356 | 50,106 | 18.5 | 13.7 | 14.2 | 11.9 |
| 75-100 | 12,719 | 8.6 | 86,239 | 17,231 | 69,008 | 20.0 | 11.7 | 11.8 | 11.0 |
| 100-200 | 15,955 | 10.8 | 134,074 | 30,081 | 103,993 | 22.4 | 22.7 | 22.4 | 24.0 |
| 200-500 | 4,214 | 2.9 | 287,808 | 73,565 | 214,243 | 25.6 | 12.9 | 12.2 | 15.5 |
| 500-1,000 | 727 | 0.5 | 677,545 | 187,649 | 489,896 | 27.7 | 5.2 | 4.8 | 6.8 |
| More than 1,000 | 383 | 0.3 | 3,081,101 | 997,963 | 2,083,138 | 32.4 | 12.5 | 10.8 | 19.1 |
| All | 147,237 | 100.0 | 63,974 | 13,597 | 50,376 | 21.3 | 100.0 | 100.0 | 100.0 |

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 1006-2).

Number of AMT Taxpayers (millions). Baseline: 3.6 Proposal: 3.6

(1) Calendar year. Baseline is current law but without the changes made to the Child and Dependent Care Tax Credit (CDCTC) by EGTRRA. EGTRRA makes the following changes to the CDCTC: increase the maximum credit rate from 30 to 35 percent; increase allowable expenses from \$2,400 to \$3,000 for one eligible individual and to \$6,000 from \$4,800 for two or more eligible individuals; increase the start of the phasedown of the credit rate from \$10,000 to \$15,000 of AGI.

(2) Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see

<http://www.taxpolicycenter.org/TaxModel/income.cfm>

(3) For the income levels at each quintile and the top income percentiles used in this table, see

<http://www.taxpolicycenter.org/TaxModel/percentiles.cfm>

(4) Includes both filing and non-filing units but excludes those that are dependents of other tax units.

(5) After-tax income is cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax.

(6) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, and the estate tax) as a percentage of average cash income.

Table T07-0159
EGTRRA Changes to Child and Dependent Care Tax Credit (CDCTC)
Distribution of Federal Tax Change by Cash Income Percentile, 2006¹

| Cash Income Percentile ^{2,3} | Percent of Tax Units ⁴ | | Percent Change in After-Tax Income ⁵ | Share of Total Federal Tax Change | Average Federal Tax Change | | Share of Federal Taxes | | Average Federal Tax Rate ⁶ | |
|---------------------------------------|-----------------------------------|-------------------|---|-----------------------------------|----------------------------|---------|------------------------|--------------------|---------------------------------------|--------------------|
| | With Tax Cut | With Tax Increase | | | Dollars | Percent | Change (% Points) | Under the Proposal | Change (% Points) | Under the Proposal |
| Lowest Quintile | 0.0 | 0.0 | 0.0 | 0.0 | 0 | 0.0 | 0.0 | 0.4 | 0.0 | 3.4 |
| Second Quintile | 0.6 | 0.0 | 0.0 | 4.8 | -1 | -0.1 | 0.0 | 2.1 | 0.0 | 7.2 |
| Middle Quintile | 4.2 | 0.0 | 0.0 | 38.1 | -7 | -0.1 | 0.0 | 7.5 | 0.0 | 14.3 |
| Fourth Quintile | 3.2 | 0.0 | 0.0 | 24.0 | -4 | 0.0 | 0.0 | 17.0 | 0.0 | 18.6 |
| Top Quintile | 4.0 | 0.0 | 0.0 | 33.2 | -6 | 0.0 | 0.0 | 72.8 | 0.0 | 25.3 |
| All | 2.4 | 0.0 | 0.0 | 100.0 | -4 | 0.0 | 0.0 | 100.0 | 0.0 | 21.3 |
| Addendum | | | | | | | | | | |
| Top 10 Percent | 3.8 | 0.0 | 0.0 | 16.8 | -6 | 0.0 | 0.0 | 57.7 | 0.0 | 26.8 |
| Top 5 Percent | 3.4 | 0.0 | 0.0 | 7.6 | -5 | 0.0 | 0.0 | 45.9 | 0.0 | 28.1 |
| Top 1 Percent | 2.0 | 0.0 | 0.0 | 0.9 | -3 | 0.0 | 0.0 | 28.2 | 0.0 | 30.7 |
| Top 0.5 Percent | 1.7 | 0.0 | 0.0 | 0.4 | -3 | 0.0 | 0.0 | 23.1 | 0.0 | 31.6 |
| Top 0.1 Percent | 1.2 | 0.0 | 0.0 | 0.1 | -2 | 0.0 | 0.0 | 14.4 | 0.0 | 33.2 |

Baseline Distribution of Income and Federal Taxes
by Cash Income Percentile, 2006¹

| Cash Income Percentile ^{2,3} | Tax Units ⁴ | | Average Income (Dollars) | Average Federal Tax Burden (Dollars) | Average After-Tax Income ⁵ (Dollars) | Average Federal Tax Rate ⁶ | Share of Pre-Tax Income | Share of Post-Tax Income | Share of Federal Taxes |
|---------------------------------------|------------------------|------------------|--------------------------|--------------------------------------|---|---------------------------------------|-------------------------|--------------------------|------------------------|
| | Number (thousands) | Percent of Total | | | | | Percent of Total | Percent of Total | Percent of Total |
| Lowest Quintile | 28,860 | 19.6 | 7,727 | 265 | 7,462 | 3.4 | 2.4 | 2.9 | 0.4 |
| Second Quintile | 29,449 | 20.0 | 19,690 | 1,422 | 18,268 | 7.2 | 6.2 | 7.3 | 2.1 |
| Middle Quintile | 29,448 | 20.0 | 35,657 | 5,098 | 30,559 | 14.3 | 11.2 | 12.1 | 7.5 |
| Fourth Quintile | 29,448 | 20.0 | 62,346 | 11,573 | 50,773 | 18.6 | 19.5 | 20.2 | 17.0 |
| Top Quintile | 29,447 | 20.0 | 195,755 | 49,502 | 146,252 | 25.3 | 61.2 | 58.1 | 72.8 |
| All | 147,237 | 100.0 | 63,974 | 13,597 | 50,376 | 21.3 | 100.0 | 100.0 | 100.0 |
| Addendum | | | | | | | | | |
| Top 10 Percent | 14,724 | 10.0 | 292,372 | 78,414 | 213,958 | 26.8 | 45.7 | 42.5 | 57.7 |
| Top 5 Percent | 7,361 | 5.0 | 443,043 | 124,691 | 318,352 | 28.1 | 34.6 | 31.6 | 45.9 |
| Top 1 Percent | 1,472 | 1.0 | 1,248,587 | 383,107 | 865,480 | 30.7 | 19.5 | 17.2 | 28.2 |
| Top 0.5 Percent | 736 | 0.5 | 1,984,734 | 626,590 | 1,358,144 | 31.6 | 15.5 | 13.5 | 23.0 |
| Top 0.1 Percent | 147 | 0.1 | 5,889,414 | 1,955,705 | 3,933,709 | 33.2 | 9.2 | 7.8 | 14.4 |

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 1006-2).

Number of AMT Taxpayers (millions). Baseline: 3.6 Proposal: 3.6

(1) Calendar year. Baseline is current law but without the changes made to the Child and Dependent Care Tax Credit (CDCTC) by EGTRRA. EGTRRA makes the following changes to the CDCTC: increase the maximum credit rate from 30 to 35 percent; increase allowable expenses from \$2,400 to \$3,000 for one eligible individual and to \$6,000 from \$4,800 for two or more eligible individuals; increase the start of the phasedown of the credit rate from \$10,000 to \$15,000 of AGI.

(2) Tax units with negative cash income are excluded from the lowest quintile but are included in the totals. For a description of cash income, see

<http://www.taxpolicycenter.org/TaxModel/income.cfm>

(3) For the income levels at each quintile and the top income percentiles used in this table, see

<http://www.taxpolicycenter.org/TaxModel/percentiles.cfm>

(4) Includes both filing and non-filing units but excludes those that are dependents of other tax units.

(5) After-tax income is cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax.

(6) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, and the estate tax) as a percentage of average cash income.

Table T07-0160
EGTRRA Changes to Child and Dependent Care Tax Credit (CDCTC)
Returns and Amount Reported Compared to Pre-EGTRRA Law, 2006 ¹

| Cash Income Class (thousands of 2006 dollars) ^{2,3} | Pre-EGTRRA Law | | | | | Current Law | | | | | Change Due to EGTRRA | | | | | |
|--|-----------------------|---------------------|-------------------------|---------------------|------------------------|-----------------------|---------------------|-------------------------|---------------------|------------------------|-----------------------|------------|-------------------------|------------|----------------|------------|
| | Returns | | Reported Credit | | Average Credit (\$) | Returns | | Reported Credit | | Average Credit (\$) | Returns | | Reported Credit | | Average Credit | |
| | Number (thousands) | Percent Of Total | Amount (\$ millions) | Percent Of Total | | Number (thousands) | Percent Of Total | Amount (\$ millions) | Percent Of Total | | Number (thousands) | Percentage | Amount (\$ millions) | Percentage | Dollars | Percentage |
| Less than 10 | 0 | 0.0 | 0.0 | 0.0 | n/a | 0 | 0.0 | 0.0 | 0.0 | n/a | 0 | n/a | 0.0 | n/a | n/a | n/a |
| 10-20 | 125 | 2.0 | 28.0 | 1.0 | 224 | 125 | 2.0 | 29.2 | 0.9 | 235 | 0 | 0.0 | 1.3 | 4.6 | 10 | 4.6 |
| 20-30 | 602 | 9.5 | 244.7 | 8.6 | 406 | 604 | 9.6 | 317.2 | 9.3 | 525 | 2 | 0.3 | 72.5 | 29.6 | 119 | 29.2 |
| 30-40 | 760 | 12.0 | 323.9 | 11.4 | 426 | 762 | 12.1 | 456.8 | 13.4 | 599 | 2 | 0.3 | 133.0 | 41.1 | 173 | 40.7 |
| 40-50 | 573 | 9.1 | 260.8 | 9.2 | 455 | 573 | 9.1 | 332.0 | 9.7 | 580 | 0 | 0.0 | 71.1 | 27.3 | 124 | 27.3 |
| 50-75 | 1,399 | 22.1 | 653.9 | 23.0 | 467 | 1,399 | 22.1 | 749.2 | 21.9 | 536 | 0 | 0.0 | 95.3 | 14.6 | 68 | 14.6 |
| 75-100 | 1,099 | 17.4 | 505.5 | 17.8 | 460 | 1,099 | 17.4 | 574.9 | 16.8 | 523 | 0 | 0.0 | 69.4 | 13.7 | 63 | 13.7 |
| 100-200 | 1,447 | 22.9 | 676.4 | 23.8 | 468 | 1,447 | 22.9 | 778.5 | 22.8 | 538 | 0 | 0.0 | 102.1 | 15.1 | 71 | 15.1 |
| 200-500 | 278 | 4.4 | 133.3 | 4.7 | 480 | 278 | 4.4 | 155.0 | 4.5 | 558 | 0 | 0.0 | 21.7 | 16.3 | 78 | 16.3 |
| 500-1,000 | 28 | 0.4 | 13.0 | 0.5 | 470 | 28 | 0.4 | 15.1 | 0.4 | 546 | 0 | 0.0 | 2.1 | 16.3 | 77 | 16.3 |
| More than 1,000 | 10 | 0.2 | 5.8 | 0.2 | 587 | 10 | 0.2 | 6.9 | 0.2 | 700 | 0 | 0.0 | 1.1 | 19.1 | 112 | 19.1 |
| All | 6,319 | 100.0 | 2,845.2 | 100.0 | 450 | 6,323 | 100.0 | 3,414.9 | 100.0 | 540 | 4 | 0.1 | 569.7 | 20.0 | 90 | 19.9 |

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 1006-2).

(1) Calendar year. Baseline is current law but without the changes made to the Child and Dependent Care Tax Credit (CDCTC) by EGTRRA. EGTRRA makes the following changes to the CDCTC: increase the maximum credit rate from 30 to 35 percent; increase allowable expenses from \$2,400 to \$3,000 for one eligible individual and to \$6,000 from \$4,800 for two or more eligible individuals; increase the start of the phasedown of the credit rate from \$10,000 to \$15,000 of AGI.

(2) Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>

(3) Includes both filing and non-filing units. Tax units that are dependents of other taxpayers are excluded from the analysis.

(4) Earnings are defined as the sum of wages and salaries plus self-employment income less the deduction for self-employment taxes. For married tax units, both spouses must have positive earnings.

Table T07-0161
Child and Dependent Care Tax Credit
Number of Returns and Amount Reported By Applicable Credit Rate, 2006 ¹

| Credit Rate (percent) | All Returns | | | | | Married Filing Joint Returns | | | | | Single and Head of Household Returns ² | | | | |
|--------------------------|-----------------------|---------------------|-------------------------|---------------------|------------------------|------------------------------|---------------------|-------------------------|---------------------|------------------------|---|---------------------|-------------------------|---------------------|------------------------|
| | Number | | Reported Credit | | Average Credit (\$) | Returns | | Reported Credit | | Average Credit (\$) | Returns | | Reported Credit | | Average Credit (\$) |
| | Number (thousands) | Percent Of Total | Amount (\$ millions) | Percent Of Total | | Number (thousands) | Percent Of Total | Amount (\$ millions) | Percent Of Total | | Number (thousands) | Percent Of Total | Amount (\$ millions) | Percent Of Total | |
| 20 | 4,301 | 68.0 | 2,299.3 | 67.3 | 535 | 3,545 | 91.8 | 1,859.4 | 92.7 | 524 | 756 | 30.7 | 439.9 | 31.2 | 582 |
| 21 | 93 | 1.5 | 51.4 | 1.5 | 551 | 49 | 1.3 | 24.0 | 1.2 | 492 | 44 | 1.8 | 27.4 | 1.9 | 616 |
| 22 | 129 | 2.0 | 78.2 | 2.3 | 608 | 27 | 0.7 | 12.5 | 0.6 | 461 | 102 | 4.1 | 65.7 | 4.7 | 647 |
| 23 | 166 | 2.6 | 92.0 | 2.7 | 555 | 53 | 1.4 | 24.7 | 1.2 | 464 | 112 | 4.6 | 67.3 | 4.8 | 598 |
| 24 | 165 | 2.6 | 93.3 | 2.7 | 565 | 53 | 1.4 | 25.4 | 1.3 | 482 | 113 | 4.6 | 67.9 | 4.8 | 603 |
| 25 | 169 | 2.7 | 94.8 | 2.8 | 561 | 34 | 0.9 | 15.9 | 0.8 | 466 | 135 | 5.5 | 78.9 | 5.6 | 585 |
| 26 | 220 | 3.5 | 145.9 | 4.3 | 663 | 28 | 0.7 | 16.3 | 0.8 | 592 | 193 | 7.8 | 129.6 | 9.2 | 673 |
| 27 | 160 | 2.5 | 103.2 | 3.0 | 644 | 32 | 0.8 | 14.3 | 0.7 | 449 | 128 | 5.2 | 88.9 | 6.3 | 692 |
| 28 | 156 | 2.5 | 93.2 | 2.7 | 597 | 11 | 0.3 | 4.2 | 0.2 | 397 | 146 | 5.9 | 89.0 | 6.3 | 611 |
| 29 | 187 | 3.0 | 112.3 | 3.3 | 600 | 14 | 0.4 | 3.8 | 0.2 | 265 | 173 | 7.0 | 108.5 | 7.7 | 628 |
| 30 | 152 | 2.4 | 83.7 | 2.5 | 551 | 13 | 0.3 | 3.7 | 0.2 | 279 | 139 | 5.6 | 80.0 | 5.7 | 577 |
| 31 | 121 | 1.9 | 67.5 | 2.0 | 560 | 2 | 0.1 | 0.5 | 0.0 | 191 | 118 | 4.8 | 67.0 | 4.8 | 567 |
| 32 | 124 | 2.0 | 56.3 | 1.6 | 455 | 0 | 0.0 | 0.0 | 0.0 | 0 | 124 | 5.0 | 56.3 | 4.0 | 455 |
| 33 | 87 | 1.4 | 27.6 | 0.8 | 316 | 0 | 0.0 | 0.0 | 0.0 | 0 | 87 | 3.5 | 27.6 | 2.0 | 316 |
| 34 | 62 | 1.0 | 13.5 | 0.4 | 218 | 0 | 0.0 | 0.0 | 0.0 | 0 | 62 | 2.5 | 13.5 | 1.0 | 218 |
| 35 | 31 | 0.5 | 2.9 | 0.1 | 92 | 0 | 0.0 | 0.6 | 0.0 | 2053 | 31 | 1.3 | 2.3 | 0.2 | 73 |
| All | 6,323 | 100.0 | 3,414.9 | 100.0 | 540 | 3,861 | 100.0 | 2,005.1 | 100.0 | 519 | 2,462 | 100.0 | 1,409.7 | 100.0 | 573 |

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 1006-2).

(1) Calendar year. The maximum credit rate is 35 percent for those with AGI less than \$15,000. The credit rate is reduced by 1 percentage point for each \$2,000 of income (or fraction thereof) by which AGI exceeds \$15,000 with a minimum credit rate of 20 percent.

(2) Also includes married individuals filing a separate return.

Table T07-0162
Child and Dependent Care Tax Credit (CDCTC) Options
Static Impact on Individual Income Tax Liability and Revenue (\$ billions), 2007-17¹

| | Year | | | | | | | | | | | |
|--|------|------|------|------|------|------|------|------|------|------|--------|---------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2007-17 |
| Fiscal Year Revenue² | | | | | | | | | | | | |
| Option 1: Allow CDCTC Regardless of Tentative AMT³ | -0.3 | -1.5 | -1.7 | -1.9 | -1.8 | -1.1 | -1.3 | -1.5 | -1.7 | -1.9 | -2.1 | -16.7 |
| Option 2: Option 1 Plus Make EGTRRA Changes Permanent⁴ | -0.3 | -1.5 | -1.7 | -1.9 | -1.9 | -1.7 | -1.9 | -2.1 | -2.3 | -2.5 | -2.7 # | -20.2 |
| Option 3: Option 2 Plus Index for Inflation⁵ | -0.3 | -1.5 | -1.7 | -2.0 | -2.1 | -1.9 | -2.1 | -2.4 | -2.7 | -3.0 | -3.3 | -22.8 |
| Option 4: Option 3 Plus Make Fully Refundable⁶ | -0.3 | -1.9 | -3.5 | -3.8 | -4.0 | -3.8 | -4.1 | -4.4 | -4.8 | -5.1 | -5.5 | -41.1 |
| Addendum: Current Law Revenue Loss Due to CDCTC | -1.8 | -1.7 | -1.6 | -1.5 | -1.4 | -1.3 | -1.2 | -1.1 | -1.0 | -0.9 | -0.8 | -14.6 |
| Calendar Year Liability | | | | | | | | | | | | |
| Option 1: Allow CDCTC Regardless of Tentative AMT | -1.5 | -1.7 | -1.8 | -2.0 | -1.1 | -1.3 | -1.5 | -1.6 | -1.8 | -2.0 | -2.2 | -18.4 |
| Option 2: Option 1 Plus Make EGTRRA Changes Permanent | -1.5 | -1.7 | -1.8 | -2.0 | -1.6 | -1.8 | -2.0 | -2.2 | -2.4 | -2.7 | -2.9 # | -22.5 |
| Option 3: Option 2 Plus Index for Inflation | -1.5 | -1.7 | -1.9 | -2.1 | -1.8 | -2.1 | -2.3 | -2.6 | -2.9 | -3.2 | -3.5 | -25.6 |
| Option 4: Option 3 Plus Make Fully Refundable | -1.5 | -3.5 | -3.8 | -4.0 | -3.7 | -4.0 | -4.4 | -4.7 | -5.0 | -5.4 | -5.8 | -45.8 |
| Addendum: Current Law Revenue Loss Due to CDCTC | -1.9 | -1.8 | -1.7 | -1.6 | -1.5 | -1.4 | -1.3 | -1.2 | -1.1 | -1.0 | -0.9 | -15.4 |

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 1006-2).

(1) Baseline is current law.

(2) Fiscal-year revenue numbers assume a 20-80 split. The actual effect on receipts could differ.

(3) Under current law, the temporary provision that allows the CDCTC regardless of tentative AMT expired on 12/31/06. This proposal would make the provision permanent.

(4) EGTRRA makes the following changes to the CDCTC: increase the maximum credit rate from 30 to 35 percent; increase allowable expenses from \$2,400 to \$3,000 for one eligible individual and to \$6,000 from \$4,800 for two or more eligible individuals; increase the start of the phasedown of the credit rate from \$10,000 to \$15,000 of AGI. These provisions are scheduled to sunset 12/31/10. This proposal makes these provisions permanent.

(5) The maximum eligible expenses and the AGI level at which the credit rate begins to phase down would be indexed for inflation starting 01/01/08. The rounding factor for indexation would be the nearest multiple of \$10, the same as for the Earned Income Tax Credit.

(6) Taxpayers would be eligible for the credit regardless of individual income tax liability, effective 01/01/08.