

# FISCAL CLIFF COULD PLUNGE MILLIONS OF KIDS INTO POVERTY

December 2012

With pending automatic cuts, expiring tax rates and tax credits, and expiring legislation, kids could suffer serious harm from the decisions policy makers must make in the coming weeks. If certain provisions are not renewed or if investments are cut, millions of children and families could be plunged back into poverty. This sheet highlights the key areas that matter to kids.

## FAMILY TAX POLICY

The Child Tax Credit (CTC) and Earned Income Tax Credit (EITC) are two of the most effective anti-poverty investments for children and working families. **Combined, these credits lift 5 million children out of poverty annually. In 2009, Congress passed significant improvements to these credits, which alone kept nearly 1 million kids from poverty in 2010.**<sup>1</sup> With more than one in every five children in poverty, preserving these improvements is vital.

If Congress and the President do nothing, current improvements will expire, as well as previous improvements to changes made in 2001 and 2003. The longer Congress waits to act, the more likely the EITC & CTC would remain as pre-2001 versions, which are less targeted to the needs of working families with children and make it harder for parents to meet their children's basic needs. The CTC, for example, would be cut in half. **Should the 2001/2003 versions of these credits, and others such as the Child and Dependent Care Tax Credit, also be lost<sup>2</sup>, more than 14 million working families with children and incomes of less than \$50,000 could see a tax increase of about \$1,000.**<sup>3</sup>

The American Opportunity Tax Credit also saw improvements in 2009, helping low and middle income families pay for college. S. 3421, which passed the Senate earlier this summer, extends current policy – meaning that the 2009 anti-poverty improvements to the EITC, CTC, and other credits would continue. H.R. 8, which passed the House of Representatives this summer, would allow the 2009 improvements to expire, pushing more working families into poverty.

2009 Tax Credit Improvements <sup>4</sup>	2003/2001 Tax Credit Improvements <sup>5</sup>
<ul style="list-style-type: none"> <li>Helped 13 million families &amp; 26 million kids nationwide</li> <li>Could push 1 million kids and their families into poverty, increasing the number of kids in poverty to over 17 million<sup>6</sup></li> </ul>	<ul style="list-style-type: none"> <li>The CTC would be cut in half and the value of the EITC and CDCTC significantly reduced.</li> <li>14 million working families with kids and incomes less than \$50,000 could see a tax increase of about \$1,000</li> </ul>

The Payroll Tax cut, which reduced social security taxes paid by 2% for all Americans is all set to expire at the end of 2012. This lapse could also hit middle and low income working families particularly hard. **On average, a family of four earning incomes just over the poverty level could see a tax increase of over \$400.**

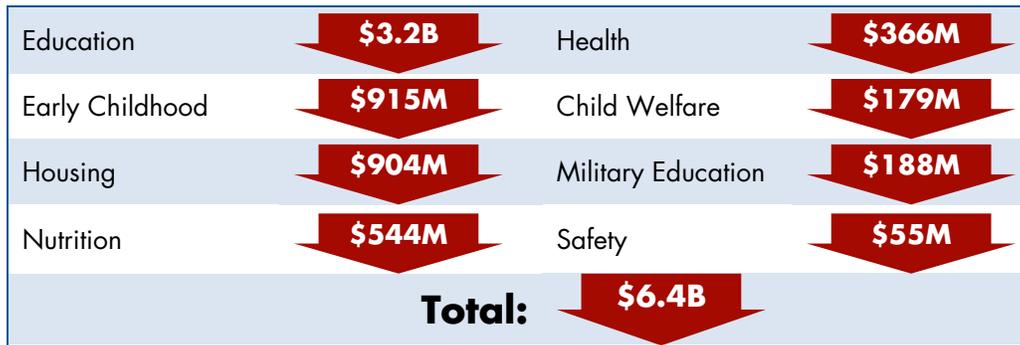
	Families with Children	Annual Household Income	Average Tax Increase
<b>Payroll Tax</b>	5,335,000	\$20,000 - \$30,000	\$408
	4,816,000	\$30,000 - \$40,000	\$573
	4,037,000	\$40,000 - \$50,000	\$709
	8,599,000	\$50,000 - \$75,000	\$1,006

*Data from the Tax Policy Center at the Urban Institute & Brookings Institute*

If Congress does not act, with the expiration of tax credits and the payroll tax, low and middle income families will see an average tax increase of nearly \$1,400.<sup>7</sup>

## SEQUESTRATION – AUTOMATIC SPENDING CUTS

On January 2, 2013, if across the board cuts known as sequestration, go into effect, federal funding for kids will be cut by \$6.4 billion<sup>8</sup> in Fiscal Year 2013. Education funding is cut the most, with over \$3.2 billion lost. Early childhood funding and children’s housing will both be cut by more than \$900 million. Child nutrition, particularly the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), and children’s health will also take large cuts.



Here are some of the real impacts to kids and families across the nation:

- Nearly 100,000 kids would lose Head Start.
- Nearly 500,000 kids would lose special education services.
- The cuts to WIC could leave up to 734,000 women and infants without nutrition assistance.
- 180,000 families would lose access to affordable housing and many could end up homeless.

## UNEMPLOYMENT INSURANCE

If nothing is done, Emergency Unemployment Compensation will also expire at the end of 2012. With more than 6 million children living in families with an unemployed parent and close to half (2.8 million) of these children with a parent who is long-term unemployed for six months or longer, it is imperative that Congress act to renew the Emergency Unemployment Compensation (EUC) program through 2013.

Without action, over 2 million Americans – many of whom are parents – will face an immediate cutoff of their unemployment benefits. These insurance benefits average \$291 per week, per worker and help families cover basic needs such as housing, food, and clothing. In 2011, unemployment insurance provided support to 26 million workers and their families – **and kept 2.3 million people, including 1 million children, from poverty. Unemployment insurance also reduced the poverty rate for families who received it by 40 percent.**<sup>9</sup> It is estimated that for every \$1 dispersed in unemployment insurance, \$1.55 is put into the economy, a 55% return on investment.<sup>10</sup>

## MANDATORY SPENDING

If Congress takes no action, most major mandatory programs that impact kids, like Medicaid and the Supplemental Nutrition Assistance Program (SNAP) would be untouched. However, in plans that have been proposed, these areas would be significantly impacted.

Medicaid helps insure more than 30 million children and has been on the “chopping block” in several proposals. Several plans, including the House passed FY2013 Budget Resolution, have proposed turning Medicaid into a block grant **that could cut funding by nearly \$810 billion over 10 years, and potentially increase the number of uninsured children by nearly 8 million.**<sup>11</sup> At a time when families are struggling, no parent should have to decide whether they can afford to take their child to the doctor.

## Fiscal Cliff Could Plunge Millions of Kids into Poverty

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At a time when one in five children are at risk of hunger, SNAP helps provide nutritious food to families most in need. **In 2010 alone, SNAP helped lift 1.7 million children out of poverty.** No cuts should be made that jeopardize the health and well-being of those children.

### CONCLUSION

For kids, the cost of inaction is significant. 1 million children could be pushed into poverty. Millions of working families could see their taxes increase by thousands of dollars. Hundreds of thousands of families and kids would lose nutrition assistance, education supports, and access to affordable housing. Thousands more could be left homeless. The wrong action by policymakers could be just as devastating.

Investments in children are not the cause of our fiscal imbalance and to ensure a bright future, we need to make sure they are cut no further. A budget built on the backs of children is a move in the wrong direction.

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<sup>1</sup> CBPP (June 26, 2012) “Studies Show EITC Encourages Work and Success in School and Reduces Poverty.”

<sup>2</sup> First Focus (August 2012) “Making Children a Priority in the 2012 Tax Debate.”

<http://www.firstfocus.net/sites/default/files/FF%20Fact%20Sheet%20Tax%20Bills%20July-Aug%202012.pdf>

<sup>3</sup> Research available from Urban Institute/Brookings Institute Tax Policy Center.

<sup>4</sup> Citizens for Tax Justice (July 19, 2012) “The Debate over Tax Cuts: It’s Not Just About the Rich.”

<http://ctj.org/pdf/refundablecredits2012.pdf>

<sup>5</sup> Research available from Urban Institute/Brookings Institute Tax Policy Center.

<sup>6</sup> There are currently 16.2 million kids living in poverty, representing 23% of all children in the United States.

<sup>7</sup> Low and middle-income families are defined throughout as having incomes up to \$50,000. The estimated net tax increase for these families adds the average loss of tax credits to the average increased payroll tax liability.

<sup>8</sup> Using data from the Office of Management and Budget, an 8.2% cut was applied to non-defense discretionary programs, a 7.6% cut was used for non-defense mandatory programs, and a 9.4% cut was applied to all non-exempt defense programs.

<sup>9</sup> National Employment Law Project (November 2012) “Federal Unemployment Insurance Reduces Family Economic Hardship.”

<http://www.nelp.org/page/-/UI/2012/Fact-Sheet-Unemployment-Insurance-Economic-Hardship.pdf?nocdn=1>.

<sup>10</sup> Mark Zandi (February 7, 2012) “Bolstering the Economy: Helping American Families by Reauthorizing the Payroll Tax Cut and UI Benefits.” <https://www.economy.com/mark-zandi/documents/2012-02-07-JEC-Payroll-Tax.pdf>

<sup>11</sup> First Focus (October 2012) “Medicaid Block Grants are Bad for Kids.”

<http://www.firstfocus.net/sites/default/files/Medicaid%20Block%20Grant%20Facts.pdf>