CLASP
policy solutions that work for low-income people

April 15, 2013

To: Education and Family Benefits Working Group
House Committee on Ways and Means

Thank you for the opportunity to provide input on Family and Education Tax Credits as part of your work to review possible changes to the federal income tax system. CLASP seeks to improve the lives of low-income people. We develop and advocate for federal, state and local policies to strengthen families and create pathways to education and work.

In these comments, we begin with a brief discussion of the growing role of tax preferences in federal policy. We then turn to more specific discussions of the Earned Income Tax Credit (EITC), the Child Tax Credit (CTC), and tax-based student aid for postsecondary education.

Tradeoffs of providing benefits through the tax code

As you are aware, an increasing share of federal policy is now implemented in the form of tax preferences and expenditures, rather than direct payments. This has long been true for middle- and upper-income households, but is increasingly true for lower-income households as well. For example, the mortgage interest deduction is worth nearly three times as much as all rental subsidies provided by the federal government. The EITC is second only to the Supplemental Nutrition Assistance Program (SNAP, formerly food stamps) among cash and near-cash assistance programs, and dwarfs cash assistance provided under the Temporary Assistance for Needy Families (TANF) program. Tax-based aid now accounts for nearly half of non-loan federal financial aid for higher education. This expansion has happened largely under the radar, without much public attention.

The growth in social policy delivered through tax benefits has generally not been a deliberate choice, but rather the natural result of the fact that it has often been easier to win bipartisan support for expanding tax incentives than for direct spending on public benefits. However, it is also important to note that because of the differences in budgetary processes and committee structures, there is little or no ability to shift expenditures between the revenue and direct spending sides of the ledger. Even if this committee were to come to the conclusion that some policy currently implemented through the tax code would be more appropriately administered as a direct program, it would be a mistake to simply drop it from the tax code without a clear commitment to the change from the committees of jurisdiction and the appropriations committee.

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Advantages of providing benefits through the tax code

While no one enjoys filing taxes, tax benefits are generally far easier and less time consuming to apply for than public benefit programs.[1] Most households already need to file a tax return, so the additional burden is minimized. Individuals must only apply once a year, and may apply from home at any hour. Eligibility is typically based on available data, and a system has been developed to maximize use of information available from third parties (such as the information reported by mortgage lenders). If taxpayers have difficulty completing a tax return, there are multiple software options designed to simplify the process and many preparers (paid and free) ready to provide assistance. By contrast, applying for public benefits often involves one or more in-person trips to human services offices, extensive documentation, and sometimes waiting lists. Tax benefits are also far less stigmatized; indeed many recipients of tax benefits are not even aware that they have received government assistance. As a result, tax incentives are generally claimed by a much higher share of eligible households than benefit programs, with one estimate finding 93-96 percent of families with children eligible for the EITC claiming it.[2]

Disadvantages of providing benefits through the tax code

The vast majority of the benefits of tax preferences go to middle and upper-income households. (The EITC, discussed below, is the only real exception to this rule.) This is because most tax preferences are designed as deductions, meaning that they are more valuable to taxpayers in a higher tax bracket than to those in a lower tax bracket, and have no value to households who do not have taxable income, or whose deductions are less than the value of the standard deduction. This is both unfair and inefficient. Even non-refundable credits, such as the child and dependent care tax credit (CDCTC), have minimal value to low-income households.[3]

As argued by Batchelder, Goldberg, and Orszag,[4] if the reason that these tax incentives exist is to subsidize expenditures on goods (education, housing, health insurance) or savings that are socially desirable, there is no rational economic case for providing a greater subsidy for these expenditures to more affluent households than to less affluent ones. They make a persuasive case that a uniform refundable tax credit, whose value does not vary with household income, is the most efficient form of tax incentive for spending or savings. As you consider major tax reform, we urge you to consider transforming more deductions and credits to uniform refundable credits.

In addition to the regressive nature of most tax benefits, there are other issues related to using the tax code to incentivize spending and reduce costs. Because the value of tax incentives is not realized until the household files a return the following year, the incentive is widely separated from the actual decision, and may have a smaller impact than a similar subsidy provided at the time of the expenditure. Moreover, low-income households simply may not be able to make a significant up-front expenditure of educational or child care costs and wait until the following year to be reimbursed. Finally, annual lump sum payments are a less effective means of meeting families' ongoing basic needs compared to monthly allotments. These issues could be addressed through pilots to test new mechanisms for advance payment of credits, including leveraging the additional information about family composition that will be available as the result of the Affordable Care Act.

Earned Income Tax Credit and Child Tax Credit

The Earned Income Tax Credit (EITC) performs two critical functions — directly providing income support to low- and moderate-income families with children, and promoting employment. It is highly effective in these functions – and has perennially enjoyed strong bipartisan support because of its effectiveness. Any proposed changes that would affect the EITC should be evaluated in terms of their effects on both of these functions — and anything that would make it less effective at either task should be rejected.

Income support to families with children

The Earned Income Tax Credit (EITC) is one of the largest anti-poverty programs available in the U.S., reaching more than 27 million families and individuals in 2012.[5] The EITC supplements the income of workers whose wages do not pay enough to keep them above the poverty line and families experiencing a temporary decrease in their household income. While there is an EITC available to workers who are not custodial parents, the maximum annual benefit for such workers is just $475, and eligibility is so limited that even minimum wage workers employed full-time, year round earn too much to qualify. Therefore, nearly the entire benefit of the EITC goes to families with children.

In 2011, the EITC lifted the incomes of an estimated 6.1 million people above the poverty line, using the Supplemental Poverty Measure, including 3.1 million children.[6] Overall, the EITC is very well targeted to low- and moderate-income families, with more than 90 percent of its value going to families in the first and second quintiles of the income distribution.[7]

These income increases from the EITC have been shown to have significant impact on children and parents' well-being, both in the short term and for years afterward. The expansions of the EITC in the mid 1990s, and the differences in the value of the credit for families of different sizes, provided natural experiments which have allowed researchers to rigorously measure the effects of the expanded income.

One study found that increased EITC benefits improved mental health for mothers with a high school degree or lower. In addition, the increase in payments increased the probability of mothers reporting excellent or very good health status overall.[8] Another study evaluated the health impact of EITC on infant health outcomes and found that increased EITC income reduces the incidence of low birth weight and increases mean birth weight. For single mothers with 12 years of education or less, an increase of $1000 in EITC was associated with a 7% reduction in low birth weight rate.[9]

EITC benefits have also been linked to improvements in children's educational outcomes. One study found an increase of $1,000 in tax credit raises a child's math and reading test scores.[10] The same study also suggested that the effects are even larger for children growing up in more disadvantaged families. These health and educational impacts are likely to improve children's economic outcomes when they grow up.

Work promotion

The EITC also reduces poverty indirectly, by enabling low-wage workers who are parents to work. Prior to the improvements of the 1990s, low-income single mothers were often made worse off financially by going to work. Even though welfare benefits were (and remain) meager, mothers who began to work would often lose Medicaid coverage for themselves and their children, while incurring child care and other work expenses. This is no longer the case, as the result of a set of key program improvements, including the expansion of the EITC, that were designed to “make work pay.”[11]

As has been extensively reported, employment of single mothers increased dramatically during the late 1990s, and child poverty rates fell to their lowest levels in decades. This is often attributed to ‘welfare reform’ but careful economic studies have found that the expansion of the EITC should actually receive a larger share of the credit. For example, by 1997, the employment rate of single mothers with two or more children had increased by roughly 8 percentage points more than the employment rate of single mothers with one child, who were subject to the same welfare reform policies, but received a smaller EITC benefit.[12] Economist Jeffrey Grogger concludes “In fact, the EITC may be the single most important policy measure for explaining the decrease in welfare and the rise in work and earnings among female headed families in recent years”[13]

Since 2001 the employment of single mothers has declined somewhat from its peak. However, this appears to be due to the overall economy, rather than due to policy changes. In fact, in a dramatic break from historical patterns, less educated single mothers are now just as likely to be employed as similarly educated single women without children.[14]

It is important to look at the role that the EITC plays in the overall system of work supports, not just its isolated effect. Several researchers and policymakers have drawn attention to the potential for work disincentives as a result of the interaction of various benefit programs and taxes. The interaction of various programs’ phase out ranges can create long income “plateaus” where gains in earnings are partially offset by loss of benefits, leaving workers and their families only modestly better off as earnings rise. When programs or credits have short phase-out ranges, these can even produce “cliffs” where families are worse off when earnings rise. Such disincentives are sometimes described as “implicit marginal tax rates,” because the effect of the phase out is similar to an increased tax on earnings.[15] The EITC and CTC play important roles in reducing such implicit marginal tax rates, as they phase in over the same income ranges where other benefit programs, such as SNAP, typically phase out. Studies focused on the EITC indicate that the availability of the credit has a far stronger effect enabling low-income parents to work in the first place than its phase-out has in reducing work effort.

The CTC builds on the EITC

In recent years, the expanded refundability of the Child Tax Credit (CTC) has given it increased value as both an income support and work incentive for low-income families. The combined effect of the EITC and CTC lifted an estimated 9.4 million people — including 4.9 million children — above the poverty line in 2011.[16]

The CTC is designed to offset the additional cost to families of raising children, in recognition that children are of benefit to society as a whole and not just to their immediate families. However, as originally designed, because of its limited refundability, it failed to benefit the lowest income families, who have the most difficulty making the needed investments in children. This exclusion made no sense, and was in part corrected by the changes made in 2009 that allow families to begin to qualify for the CTC once their earnings reach $3000.

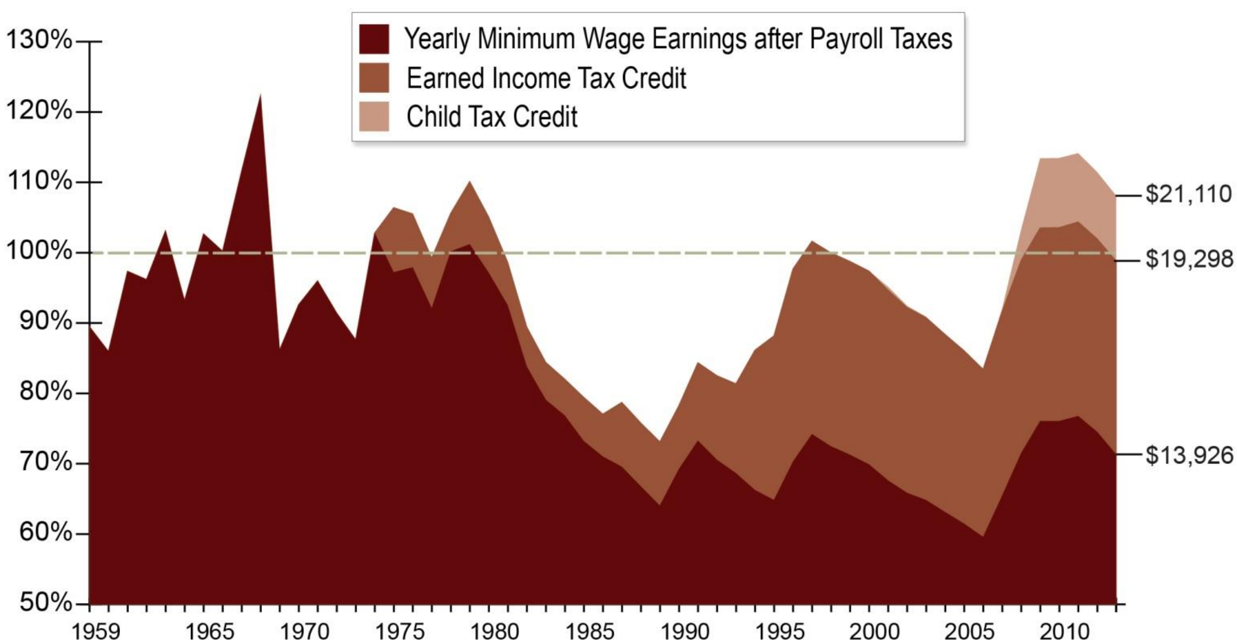
The CTC is less targeted than the EITC, as families do not begin to lose its benefit until their income reaches $110,000 (for married couples filing jointly). Therefore, it benefits families throughout the income distribution.[17] An advantage of this structure is that it does not phase out during the same income range that the EITC and most means tested benefits do, so that it does not increase these families' implicit marginal tax rate.

The need for the EITC and CTC has grown with the rise of low-wage work

The cost to taxpayers of the EITC and the refundable portion of the CTC has grown significantly over the past two decades. However, this can only be understood in the context of the growth of low-wage work.

Without EITC and CTC, Low-Wage Work Doesn't Work

Minimum Wage Worker's Earnings and Credits
as Share of the Poverty Line for a Family of 3[18]



The 2013 poverty threshold for a family of three is $19,530.

Throughout the 1960s and 1970s, a minimum wage worker who worked full-time year round earned nearly enough to keep a family of three at the official poverty level. Starting in the late 1970s, the value of the minimum wage declined sharply, and the earnings of the full-time, year round minimum wage worker fell further and further below the poverty level. However, with the expansion of the EITC in the 1990s, the combination of the EITC and full-time minimum wage work was briefly enough to lift a family of three to the poverty level, fulfilling President Clinton's pledge that "if you work, you shouldn't be poor." However, this package again immediately began to be eroded by inflation and fell below the poverty line until the next minimum wage increase. Currently, a family of three with a single full-time wage earner is only at 77 percent of the poverty level without the refundable tax credits.

EITC and CTC in tax reform

The EITC and CTC have been highly effective in their dual missions of providing critical income support to low-income families and promoting work. As Congress considers reforms to the tax code, it should abide by the central principal of first, do no harm, and should reject any changes that would interfere with their effectiveness in these goals.

In addition, CLASP urges Congress to:

- **Extend 2009 improvements to the EITC and CTC.** The 2009 improvements included reducing the marriage penalty in the EITC, adding a third tier of benefits to increase the anti-poverty effectiveness of the EITC for large families, and lowering the threshold for the phase-in of refundability for the CTC. These improvements were only extended for five years, through 2017, as part of the recent fiscal cliff deal. There is no reason these improvements should have been treated differently than the other tax changes that were made permanent; and CLASP supports their permanent extension.

- **Improve the EITC for childless adults, including non-custodial parents.** As noted above, individuals without dependent children are eligible only for a very modest EITC. Childless adults have not benefited from the expansions of work incentives in recent years, which may be one factor contributing to the low labor force participation rates we are now experiencing. Non-custodial parents in particular may face very high implicit marginal tax rates beginning with the first dollars earned, because a portion of their earnings is withheld to meet their child support obligations. CLASP therefore strongly supports proposals to expand the EITC for childless adults in order to help "make work pay" for all workers.

In the interests of reducing the cost of the EITC to the federal government, some have suggested that it should be more closely targeted to poor families ― after all, more than half of the total benefit of the EITC goes to families with incomes above $20,000 a year.[19]

The idea of narrowing the targeting of the EITC has two major problems:

- The official poverty threshold is helpful for statistical purposes, but is far below the levels needed to achieve a modestly acceptable standard of living in most areas. Based on the Department of Housing and Urban Development's 'fair market rent' guidelines, overall a family would need an annual income of $39,080 in order for an average two-bedroom rental unit to be affordable, far above the official poverty threshold for a family of four.[20] When work expenses, particularly child care, are taken into account, many families with incomes as high as twice the poverty level still have great difficulty meeting their basic needs.

- Reducing the benefit available to middle income households requires increasing the phase-out rate for benefits. These create high implicit marginal tax rates and work disincentives. As discussed below, it may not be feasible to completely address the issue of implicit marginal tax rates because of cost concerns, but Congress should adopt a goal of not adding to work disincentives.

Many observers have noted that the complexity of the tax code is a source of confusion and burden to taxpayers. A number of proposals have been offered that would consolidate multiple provisions of the tax code that provide relief to working families. These proposals are designed to simplify rules, reduce marriage penalties, and remove cliffs and plateaus from the phase out of benefits. However, it is important to understand the tradeoffs in such proposals, including the possibilities of losers as well as winners.

- Simplification is not cheap. For example Maag and Holt estimated that their simplification proposal would cost $33 billion in 2010, compared to the 2009 tax law.[21] However, the 2009 law included the Making Work Pay credit, which has since expired. This proposal would be significantly more expensive compared to current law. This proposal also reduced benefits for some households while raising them for others. If proposals are designed to avoid leaving some families worse off than under current policy, the cost will raise correspondingly.

- Aligning the phase-out limits for different tax provisions would increase simplicity, but would also significantly increase the implicit marginal tax rate for households in that income range, unless the phase out rate was slowed for each provision as well.

- Slowing the phase-out of benefits can increase costs significantly. Such changes increase benefits to higher earning recipients and add new less-needy individuals or families to the pool of eligible recipients. This may be appropriate, especially as it is clear that these slightly less-needy families often still struggle to afford basic goods and services. However, if the goal is to produce an overall cost-neutral package, not decreasing overall revenues or increasing spending, such increases will have to be balanced by reducing benefits or tax incentives elsewhere, or by beginning the phase-out at lower income levels. Therefore, it is essential to analyze the winners and losers for any proposed changes.

Finally, it is important to recognize the limits of simplification. Much of the complexity in the tax code is a reflection of complexity in people's lives. For example, while it may be possible to further align the definitions of a dependent child across different tax provisions, this will not solve the underlying issue that an increasing number of children do not live in a single household all year and are supported by adults who do not file joint tax returns. There is not going to be a simple rule that resolves all of the questions about who should claim these children as dependents.

Reforming education tax credits

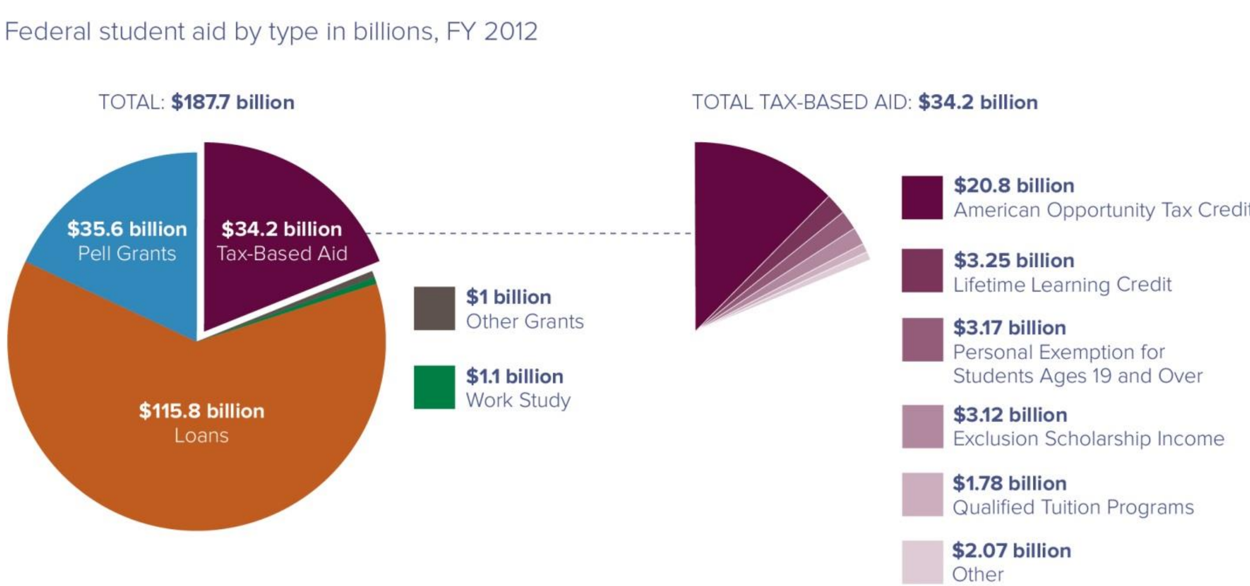
As discussed above, there are advantages and disadvantages to delivering benefits through the tax code. Because certain features of tax-based student aid limit its ability to increase access and success, CLASP believes that tax-based aid is a second-best strategy to grant aid. However, because policymakers on both sides of the aisle have shown significant support for this form of aid and because of its dramatic increase in size, it is important that we find ways to make it work better for students. Specifically, CLASP believes that policymakers should seek to make tax-based aid:

- *More effective*, in terms of increasing access to and completion of college by low-income underrepresented populations who not may otherwise attend,
- *More efficient*, in terms of maximizing the impact of limited federal dollars, and
- *Simpler* for students and their families to understand and use.

In our recent paper, *Reforming Student Aid: How to Simplify Tax Aid and Use Performance Metrics to Improve College Choices and Completion*, we discuss various options to alter the education tax benefits that, when combined, create a general framework for reform. Descriptive information about the provisions and various reform options are discussed below.

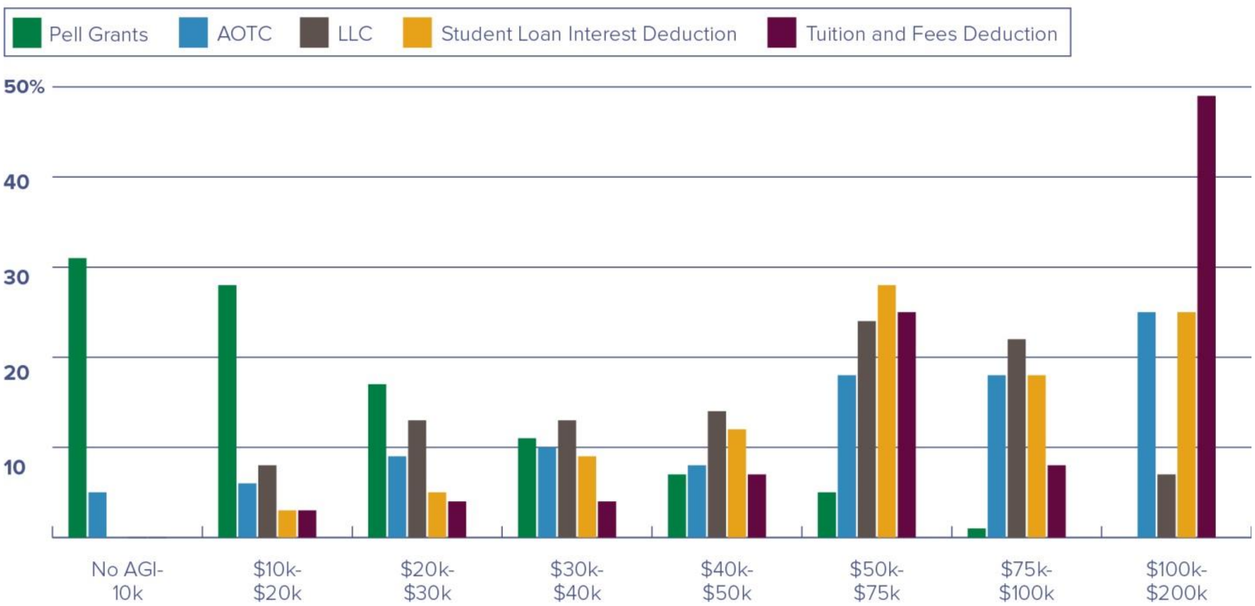
Background

From 2000 to 2012, tax-based aid grew from just over $7 billion to $34.2 billion, a more than four-fold increase.[22] Despite making up nearly half of the nation's investment in non-loan student aid, it goes largely unnoticed both by policymakers and beneficiaries. According to Suzanne Mettler of Cornell University, almost 60 percent of individuals who claim a higher education tax credit do not realize they have received help from the government to pay for college.[23]



Tax-based student aid also provides substantial support to individuals who are already highly likely to attend college and so may have little effect on access or completion. In 2013, the Tax Policy Center estimates that 25 percent of the benefits of the American Opportunity Tax Credit (AOTC) will go to families making more than $100,000 per year; 29 percent of the benefits of the Lifetime Learning Credit (LLC) will go to families making more than $75,000; and almost half of the benefits of the Tuition and Fees Deduction will go to households with annual incomes of $100,000 or more.[24]

Percentage of benefit by type and income category in 2013



Options to reform tax-based aid

Make the AOTC work better for low- and middle-income students

- *Expand the current refundability structure*: To incentivize enrollment, persistence, and completion by reducing financial hardship, the American Opportunity Tax Credit (AOTC) must target households most likely to respond to a financial incentive, in this case, students who are qualified to attend postsecondary education but face significant financial barriers to doing so. Refundability is an essential tool to achieving that goal. CLASP recommends that policymakers consider two types of changes to the current refundability structure that could be pursued separately or in combination. First, policymakers should consider increasing the overall refundability percentage from its current rate of 40 percent, to 60, 80, or even 100 percent of the credit. Policymakers could also "frontload" the refundable benefit. For instance, if the credit is 100 percent refundable but only for the first $1000, then the maximum value of the refundable and non-refundable credits will not change, but the credit will work much better for students who attend low-cost institutions that typically have less qualifying expenses. See **Appendix One** for a menu of options to improve the refundability structure of the AOTC.

- *Index the credit for inflation:* Unlike its predecessor, the Hope Credit, the AOTC is not indexed for inflation. While not matching cost increases in higher education, adjusting the maximum credit for inflation would at least provide some buffer against price increases until something more substantial is done to address the cost of postsecondary education more broadly.

- *Replace the four-year cap on the AOTC with a lifetime maximum dollar cap:* The American Opportunity Tax Credit (AOTC) limits the time a student can claim the credit to the first four years of postsecondary education. However, the law is silent on whether this means academic years or calendar years and as a result the limit is applied inconsistently. Implementing an overall dollar cap on the benefits a student can receive would treat all students, part-time and full-time, equally and remove any confusion for students and institutions caused by the four-year limit.[25]
- *Expand the definition of qualified expenses:* The AOTC defines qualified expenses as tuition, fees, and materials required for enrollment or attendance at an eligible educational institution. By contrast, the Department of Education calculates financial need for student grant and loan programs based on an estimated cost of attendance which includes tuition and fees, room and board, required equipment, supplies and materials, transportation, dependent care expenses, disability-related expenses, and loan fees. The definition of qualified expenses for purposes of claiming the AOTC does not accurately represent the costs a student incurs to enroll in postsecondary education. Further, including only tuition, fees, and materials in qualified expenses unfairly disadvantages those students who attend low-tuition institutions, such as community colleges, even if their other expenses necessary to attend college are high.

Simplify and better target current tax-based aid

In order to support the above improvements to the AOTC, Congress could consider consolidating and targeting current aid by:

- *Lengthening the phase-out ranges of the AOTC*: The AOTC has broad income-eligibility parameters. For married couples, the AOTC begins to phase-out at an adjusted gross income of $160,000 - the 84th income percentile in 2011 for married households filing jointly. For single filers, the AOTC starts to phase-out at adjusted gross incomes of $70,000 - the 90th income percentile in 2011 for single and head-of-household tax units. By starting these phase outs at lower levels of income and extending their length, we can preserve substantial benefit for upper-middle-income households while better targeting benefits on those most sensitive to the price of education.
- *Consolidating benefits:* Policymakers may also want to consider consolidating some of the available benefits. In the packages below, we discuss consolidating with the AOTC some or all of these benefits: the tuition and fees deduction, the Lifetime Learning Credit (LLC), and the student loan interest deduction.

Improve outreach and delivery of tax-based aid

Whatever the package of tax-based aid improvements and simplifications that policymakers choose, we urge them also to consider reforms that would improve outreach and delivery of tax-based student aid to make it more useful to all households and raise awareness generally. Without such reforms, timing and information problems will always constrain the impact of tax-based student aid. In particular, we urge policymakers to:

- *Pilot "real-time" payment of the AOTC to deliver tax aid at the time of enrollment*: The timing and complexity of federal tax-based student aid limits its effect on college access and persistence. Real-time payment of the AOTC would align delivery of the largest tax-based student aid benefit with delivery of other federal financial aid. In addition, providing the AOTC funds to students upon enrollment eliminates the time lag between paying tuition and obtaining an annual tax refund. This lag, which can be over a year, creates very real cash flow problems for students.
- *Expand outreach activities*: Experience with other refundable tax credits for low-income families, such as the Earned Income Tax Credit, suggests that outreach campaigns, including free tax-preparation help, can significantly increase receipt of such benefits among low-income households. Schools are reluctant to provide information to students about the AOTC because it is against the law to provide "tax advice" without training and information on individual circumstances. If the IRS provided sample materials that schools could use safely, then they might be more willing to do so. Making the AOTC more visible at the time that students and parents are applying for financial aid could increase the impact of the credit on decisions about enrollment and college choice.
- *Add the AOTC to the Department of Education's Financial Aid Shopping Sheet*: The AOTC does not appear in <u>any</u> of the major aid information tools created by the Department of Education and thus is invisible to students and parents at the time they decide about attending or persisting in college. Finding ways to integrate tax-based aid into Net Price Calculators and the Financial Aid Shopping Sheet will dramatically raise the visibility of these benefits.
- *Require the Departments of Treasury and Education to link financial aid and tax data*: The disconnection between Education and IRS data has implications for policymakers trying to improve tax-based student aid. For example, the lack of appropriate data limits the ability of Treasury to conduct targeted outreach and education efforts to eligible tax filers who are not claiming tax-based student aid. By linking data in a way that maintains student privacy, policymakers can better understand how tax-based student aid is being used.

A framework for reform of tax-based education aid

These first two sets of options can be packaged in various ways to further the goal of increasing access and completion. CLASP has done this by creating three alternative proposals that provide a general framework for reform. All rely on improving the AOTC and simplifying the array of available tax aid. Each proposal also adjusts the AOTC for inflation to provide a buffer against price increases.

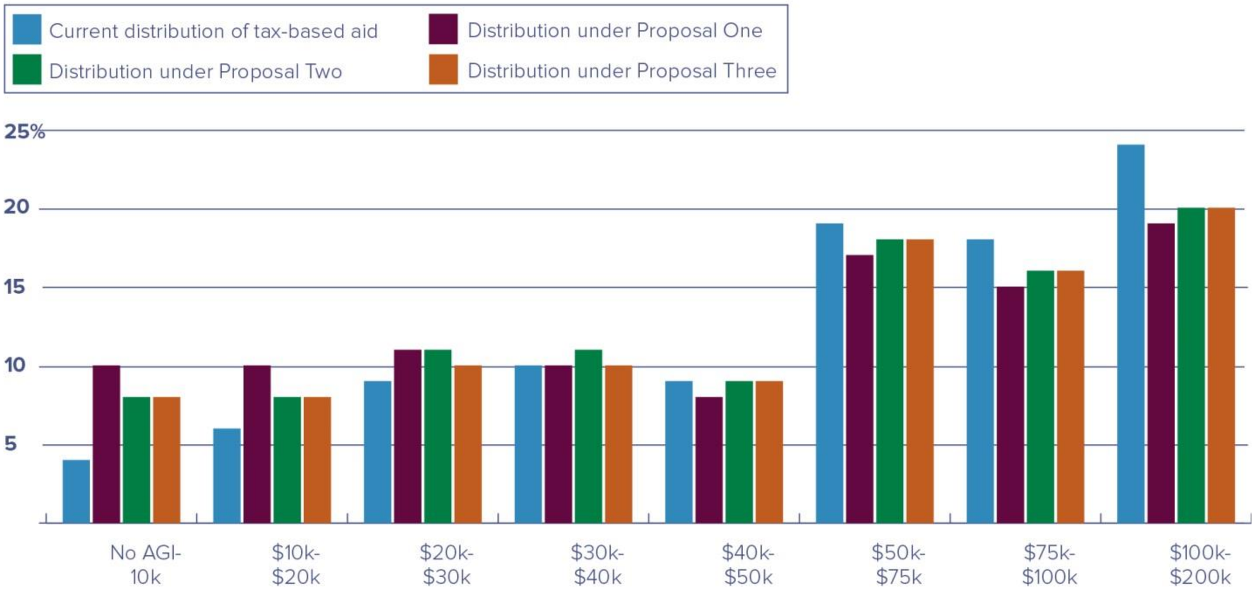
CLASP also recommends that policymakers consider adopting the outreach and delivery improvements discussed above, as well as a limited expansion of qualified expenses and replacement of the AOTC's four-year limit with a lifetime dollar cap; however, these were not included in the reform packages below because of revenue modeling limitations.

Figures in the parentheses indicate the revenue raised (or lost) over a ten-year period versus **a current policy baseline**.[26]

- *Proposal One*: Simplify tax aid to just the AOTC and front load refundability (-$0.8 billion, 2013-2022).

- *Proposal Two*: Simplify tax aid but preserve both the AOTC and the Lifetime Learning Credit for **undergraduates** only. Also, front load AOTC refundability ($4.8 billion, 2013-2022).
- *Proposal Three*: Simplify tax aid but preserve both the AOTC and the student loan interest deduction. Front load refundability of the AOTC ($3.6 billion, 2013-2022).[27]

Percent distribution of tax-based student aid by type and income category in 2013



Notes: **Proposal One** - adjusts the refundability rate of the AOTC to 100 percent of the first $2,000; indexes the AOTC for inflation; triples the length of the AOTC phase-out range (60-90k for single filers, 120-180k for married filing jointly); and, eliminates the Tuition and Fees Deduction, the Lifetime Learning Credit, and the Student Loan Interest Deduction. **Proposal Two** - adjusts the refundability rate of the AOTC to 100 percent of the first $1,500; indexes the AOTC for inflation; triples the length of the AOTC phase-out range (60-90k, 120-180k); eliminates the Tuition and Fees Deduction and the Student Loan Interest Deduction; and, eliminates the Lifetime Learning Credit for graduate students only. **Proposal Three** - adjusts the refundability rate of the AOTC to 100 percent of the first $1,500; indexes the AOTC for inflation; triples the length of the AOTC phase-out range (60-90k, 120-180k); and, eliminates the Tuition and Fees Deduction and the Lifetime Learning Credit.

The various reform packages above make it clear that it is possible to make tax-based student more efficient and effective by simplifying and better targeting current benefits. Furthermore, these goals can be achieved within a budget neutral framework while preserving substantial support for middle-income households. Although delivering student aid through the tax system is a "second best" strategy compared with grant aid, since nearly half of all non-loan student aid is now delivered in this way, it is essential to make it work better for students and families.

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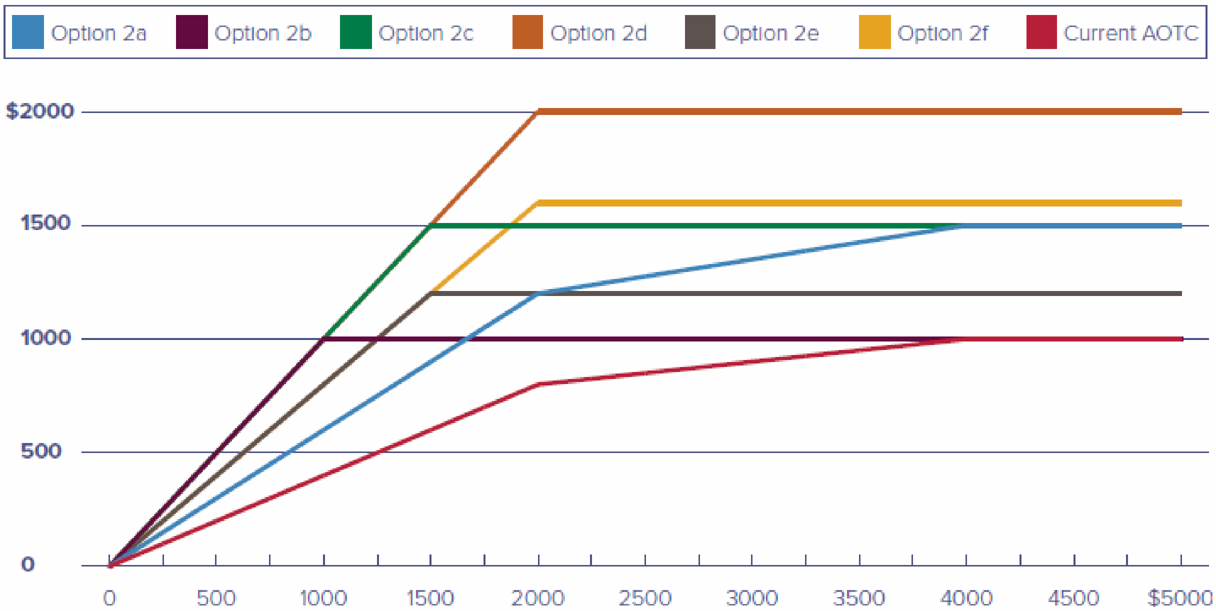
Appendix One: Options to Improve the AOTC

Current policy: Eligible tax units with zero tax liability can receive 40 percent of their AOTC credit value as a cash refund. Because the maximum credit is $2,500, the maximum refundable credit is $1,000.

Option Description	Change in Maximum Refundable Credit Value
2a: Refund 60 percent of the entire credit value.	The maximum refundable credit increases from $1,000 to $1,500.
2b: Refund 100 percent of the first $1,000 of the credit value.	The maximum refundable credit remains at $1,000.
2c: Refund 100 percent of the first $1,500 of the credit value.	The maximum refundable credit increases to $1,500.
2d: Refund 100 percent of the first $2,000 of the credit value.	The maximum refundable credit increases to $2,000.
2e: Refund 80 percent of the first $1,500 of the credit value.	The maximum refundable credit increases to $1,200.
2f: Refund 80 percent of the first $2,000 of the credit value.	The maximum refundable credit increases to $1,600.

Notes: In each of the above options, the maximum nonrefundable credit remains at $2,500.

AOTC refundable credit value based on a student's qualified expenses



Notes: As a student's qualified expenses increase, so does the value of the credit. The height of the line indicates the maximum refundable credit value based on a student's qualified expenses.

[1] Elizabeth Lower-Basch, *Tax Credits and Public Benefits: Complementary Approaches to Supporting Low-Income Families*, Center for Law and Social Policy, 2008..
[2] U.S. General Accounting Office, *Earned Income Tax Credit Eligibility and Participation,* GAO-02-290R, December 20, 2011. http://www.gao.gov/new.items/d02290r.pdf.
[3] The Tax Policy Center estimates that 0.2 percent of the value of the CDCTC goes to households in the bottom quintile of income distribution. "Tax Benefit of the Child and Dependent Care Credit; Distribution of Federal Tax Change by Cash Income Percentile, 2013" Urban-Brookings Tax Policy Center, March 21, 2013, Table T13-0116, http://www.taxpolicycenter.org/numbers/displayatab.cfm?Docid=3874&DocTypeID=2.
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