

# Analysis of the Romney Child Allowance

Proposed reform would cut child poverty by a third, deep child poverty by half, eliminate marriage penalties, and end welfare traps.

Samuel Hammond & Robert Orr

Niskanen Center program on Poverty and Welfare Policy

This fact sheet provides a preliminary distributional and policy analysis of the comprehensive child benefit reform proposed by Utah Senator Mitt Romney. Under the proposal, the Child Tax Credit (CTC) is replaced by a flat child allowance equal to:

- \$350 per month (\$4,200 per year) for children ages 0-5;
- **\$250 per month** (\$3,000 per year) for children ages 6 to 17;

— available to all children with a valid SSN, as well as expecting parents within 4 months of their child's due date. The maximum monthly payment is capped at \$1,250 per family, and phases-out at a rate of \$50 for every \$1,000 above the current CTC income thresholds of \$200,000 for single filers and \$400,000 for joint-filers. Monthly payments would be administered by the Social Security Administration with any over- / under-payments reconciled through the IRS after filing year-end taxes.

A monthly child allowance enables the consolidation of duplicative policies and programs. The reform therefore proposes abolishing the Temporary Assistance for Needy Families (TANF) block grant, the Child and Dependent Care Tax Credit (CDCTC), and the "head of household" (HoH) tax filing status. The Earned Income Tax Credit (EITC) is replaced by a simplified earnings credit with a maximum value of \$1,000 for single households and \$2,000 for married households filing jointly, independent of the number of child dependents. The EITC for adult dependents is preserved. With the remaining revenue raised by ending the State & Local Tax (SALT) deduction, the reform is anticipated to be deficit neutral.

We find that the Romney child allowance would reduce U.S. child poverty by roughly one third, and deep child poverty by half. Detailed estimates by race, quintile, and state can be found in the appendix.

	Poverty Rate (SPM*)			Poverty Impact			
	Before	After	Percentage Point Reduction	Percent Change	Number of People		
<b>Total US Population</b>	11.67%	10.06%	1.62%	13.84%	5,105,718		
Adults (18+)	11.46%	10.54%	0.93%	8.08%	2,278,028		
Children (Under 18)	12.41%	8.37%	4.04% <b>32.54%</b>		2,827,690		
	Deep Pov	verty Rate†	Deep Poverty Impact				
	Before	After	Percentage Point Reduction	Percent Change	Number of People		
Total US Population	3.94%	3.26%	0.68%	17.37%	2,164,786		
Adults (18+)	4.07%	3.69%	0.38%	9.42%	944,682		
Children (Under 18)	3.48%	1.74%	1.74%	49.99%	1,220,104		

<sup>\*</sup> The Supplemental Poverty Measure (SPM) is an extension of the Official Poverty Measure that accounts for the value of many government programs aimed at low-income households. The 2020 SPM is based on data collected in 2019.

<sup>†</sup> Deep poverty is defined here as 50 percent of the SPM poverty threshold.



### Comparison to the proposed Biden child credit

The Romney child allowance is comparable to the child credit proposed as part of the Biden Administration's \$1.9 trillion relief package, although with some important differences. The Romney child allowance is larger for young children (\$4,200 vs \$3,600), available up-to four months prior to birth, and administered through the SSA assuring it would have a higher rate of up-take for lower income families without reliable tax records. Our full analysis of the Biden proposal is <u>available here</u>.

Critically, the Biden child credit would be deficit financed and only available for one year, while the Romney child allowance is fully paid-for through 2025, and as such could conceivably be made permanent. Deficit financing defers the cost of a spending program, so for the purposes of an apples-to-apples comparison we present our poverty estimates of the Biden child credit alongside the Romney child allowance without its proposed pay-fors, except for the CTC which both proposals would supplant.

We find the impact of the Romney child allowance on poverty, absent its proposed consolidations, performs favorably relative to the Biden child credit. This is primarily due its larger (and earlier) benefit for young children. Notably, however, including the Romney child allowance's proposed consolidations actually *strengthens* its impact on deep poverty relative to the Biden child credit, particularly for adults. This is due to both the young child benefit and the larger EITC for childless workers. Note that under its current design, the EITC is optimized to target households that are just below the poverty line, magnifying its apparent impact on poverty, and, conversely, exaggerating the apparent negative impact of its consolidation, as our deep poverty estimates illustrate.

Proposal	Group	Number in Poverty	Percent Reduction in Poverty	Number in Deep Poverty	Percent Reduction in Deep Poverty
Current	U.S. Total	36,891,950	_	12,465,010	_
Romney: full reform	U.S. Total	31,786,232	13.84%	10,300,224	17.37%
Romney: benefit only	U.S. Total	30,621,937	17.00%	10,280,300	17.53%
Biden child credit	U.S. Total	30,899,646	16.24%	10,333,889	17.10%
Current	Adults (18+)	28,202,825	_	10,024,240	_
Romney: full reform	Adults (18+)	25,924,797	8.08%	9,079,558	9.42%
Romney: benefit only	Adults (18+)	25,491,612	9.61%	9,104,328	9.18%
Biden child credit	Adults (18+)	25,641,624	9.08%	9,126,403	8.96%
Current	Children	8,689,125	_	2,440,770	_
Romney: full reform	Children	5,861,435	32.54%	1,220,666	49.99%
Romney: benefit only	Children	5,130,326	40.96%	1,175,972	51.82%
Biden child credit	Children	5,258,022	39.49%	1,207,486	50.53%

### Methodological assumptions

Our poverty analysis assumes full up-take of the Romney child allowance, which is reasonable given the shift in administration from the IRS to SSA. Our benefit model directly accounts for the reforms to the CTC, EITC and HoH. We account for the TANF reform indirectly by cross-referencing the federal share of state TANF spending by state with Current Population Survey data on persons receiving TANF by state. The elimination of the CDCTC and SALT deduction do not enter into our analysis as neither are available to low-income households. Given the <u>regressivity of the SALT deduction</u>, in particular, a fuller analysis would likely find that the Romney child allowance makes a non-trivial impact on measures of income inequality, as well as poverty.

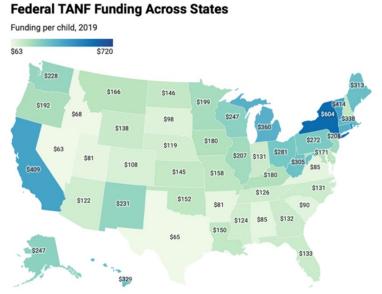


### Analysis of proposed consolidations

#### Temporary Assistance for Needy Families

The Temporary Assistance for Needy Families (TANF) program provides states with fixed block grants to administer social assistance programs, including temporary cash assistance for qualifying families. In 2020, the <u>median TANF cash benefit</u> for a family of three was \$492. In 18 states the monthly TANF benefit for a family of three was \$362 or less. The generosity of TANF varies enormously by state due to its <u>broken allocation formula</u>: the best-funded state now receives more than nine times per child as the worst-funded state, and in a way that is inversely correlated with state fiscal capacity. Replacing TANF with a child allowance would immediately rectify this <u>fiscal disparity</u>, to the benefit of poor families in (fiscally) poor states, in particular.

Abolishing the TANF block grant would not prevent states from financing their social assistance programs from their own revenue, as they largely do so already. Instead, replacing TANF with a child allowance would enable states to divert spending away from cash assistance and towards wrap-around social services for those who need them most. Poor and non-poor families and children would be supported through a common program, eliminating the welfare traps created by TANF's means-test and administrative burdens, thus creating a bridge out of poverty and into the middle-class.



#### Earned Income Tax Credit & Head of Household

The Earned Income Tax Credit (EITC) is an anti-poverty program delivered as a refundable tax credit that phases-in with earnings. Despite its success at reducing poverty, the EITC suffers from a number of design flaws, starting with its <u>sheer complexity</u>. This complexity is largely a byproduct of the EITC's attempt to be both an earnings subsidy and child benefit at the same time, resulting in an unusually high error rate. Under the Romney proposal, the EITC's per-child variation is rolled into the child allowance, allowing the zoo of different EITCs to be replaced by a simplified earnings credit that ensures the vast majority of households come out ahead, while roughly doubling the maximum EITC for childless adults.

The reform also eliminates of the EITC's implicit <u>marriage penalty</u>, which for some households can be as high as 15% - 25% of family income. Marriage penalties in the tax code have plausibly contributed to the decline in working-class marriage rates. Ending the "<u>head of household</u>" (HoH) filing status helps in this regard, as well. Most other developed countries have either individualized their tax systems, or allow tax units to file as either single or married, making HoH an anachronism in comparison. As Elaine Maag of the Tax Policy Center <u>explains</u>, "[the] head of household filing status offers a 'per tax unit' adjustment that only applies to single parents relative to childless individuals. Married couples get no similar adjustment. In essence, the tax code provides a special subsidy for the first child for single parents, but not for the first child of married parents."

Visit NiskanenCenter.org to find our full paper, The Conservative Case for a Child Allowance.



## Appendix 1: Poverty estimates by race and resource quintile

	Current*	Romney: Full reform	Romney: Benefit only	Biden credit
		Pover	ty - All	
Asian	2,265,344	2,112,614	2,055,764	2,073,393
Black	6,837,351	5,681,667	5,393,930	5,431,817
Hispanic	10,175,243	8,208,372	7,682,273	7,807,768
Other	1,870,048	1,522,923	1,490,676	1,496,395
White (Non-Hispanic)	15,743,964	14,260,656	13,999,295	14,090,273
		Poverty	y - Child	
Asian	387,062	309,913	276,502	285,981
Black	1,801,828	1,112,066	940,269	942,995
Hispanic	3,382,673	2,274,622	1,957,784	2,031,507
Other	601,491	378,589	349,847	353,374
White (Non-Hispanic)	2,516,071	1,786,245	1,605,924	1,644,164
		Deep Pov	verty - All	
Asian	878,766	750,403	756,096	764,135
Black	2,245,376	1,763,749	1,767,155	1,767,155
Hispanic	2,598,583	1,933,011	1,907,937	1,928,312
Other	625,783	492,861	496,138	496,138
White (Non-Hispanic)	6,116,502	5,360,200	5,352,974	5,378,150
		Deep Pove	erty - Child	
Asian	130,079	78,291	78,291	82,311
Black	480,034	192,173	192,173	192,173
Hispanic	724,733	342,265	327,334	339,624
Other	171,768	95,134	92,686	92,686
White (Non-Hispanic)	934,156	512,802	485,488	500,692

<sup>\*</sup>Analysis based on the 2020 Supplemental Poverty Measure.

Proposal	Cash Resource Quintile (SPM)	Percent Change in After-Tax Income	Share of Net Transfer
	Lowest	3.60%	26.45%
	Second	1.22%	17.84%
Romney: Full reform	Middle	0.90%	18.05%
Ronniey. Fun felorin	Fourth	0.68%	18.62%
	Top	0.34%	19.04%
	All	0.80%	100.00%
	Lowest	4.74%	27.58%
	Second	1.68%	19.44%
D D l l	Middle	1.15%	18.15%
Romney: Benefit only	Fourth	0.82%	17.75%
	Top	0.38%	17.08%
	All	1.00%	100.00%
	Lowest	4.45%	28.61%
	Second	1.52%	19.32%
D' 1 1'1	Middle	1.02%	17.79%
Biden credit	Fourth	0.73%	17.37%
	Top	0.34%	16.91%
	All	0.91%	100.00%



## Appendix 1: Poverty estimates by race and resource quintile

	Current*	Romney: Full reform	Romney: Benefit only	Biden credit
		Pover	ty - All	
Asian	2,265,344	2,112,614	2,055,764	2,073,393
Black	6,837,351	5,681,667	5,393,930	5,431,817
Hispanic	10,175,243	8,208,372	7,682,273	7,807,768
Other	1,870,048	1,522,923	1,490,676	1,496,395
White (Non-Hispanic)	15,743,964	14,260,656	13,999,295	14,090,273
		Poverty	y - Child	
Asian	387,062	309,913	276,502	285,981
Black	1,801,828	1,112,066	940,269	942,995
Hispanic	3,382,673	2,274,622	1,957,784	2,031,507
Other	601,491	378,589	349,847	353,374
White (Non-Hispanic)	2,516,071	1,786,245	1,605,924	1,644,164
		Deep Pov	verty - All	
Asian	878,766	750,403	756,096	764,135
Black	2,245,376	1,763,749	1,767,155	1,767,155
Hispanic	2,598,583	1,933,011	1,907,937	1,928,312
Other	625,783	492,861	496,138	496,138
White (Non-Hispanic)	6,116,502	5,360,200	5,352,974	5,378,150
		Deep Pove	erty - Child	
Asian	130,079	78,291	78,291	82,311
Black	480,034	192,173	192,173	192,173
Hispanic	724,733	342,265	327,334	339,624
Other	171,768	95,134	92,686	92,686
White (Non-Hispanic)	934,156	512,802	485,488	500,692

<sup>\*</sup>Analysis based on the 2020 Supplemental Poverty Measure.

Proposal	Cash Resource Quintile (SPM)	Percent Change in After-Tax Income	Share of Net Transfer
	Lowest	3.60%	26.45%
	Second	1.22%	17.84%
Romney: Full reform	Middle	0.90%	18.05%
Konniey. Fun felorin	Fourth	0.68%	18.62%
	Тор	0.34%	19.04%
	All	0.80%	100.00%
	Lowest	4.74%	27.58%
	Second	1.68%	19.44%
Dominovi Donofit only	Middle	1.15%	18.15%
Romney: Benefit only	Fourth	0.82%	17.75%
	Тор	0.38%	17.08%
	All	1.00%	100.00%
	Lowest	4.45%	28.61%
	Second	1.52%	19.32%
Biden credit	Middle	1.02%	17.79%
biaen credit	Fourth	0.73%	17.37%
	Тор	0.34%	16.91%
	All	0.91%	100.00%



## Appendix 2: Poverty estimates by state

	Poverty - All				Poverty - Child			
State	Current	Biden credit	Romney: Full reform	Romney: Benefit only	Current	Biden credit	Romney: Full reform	Romney: Benefit only
Alabama	509,639	434,187	445,898	425,336	125,329	80,838	88,527	74,717
Alaska	77,926	61,072	64,946	61,072	22,834	13,585	15,015	13,585
Arizona	776,001	526,349	591,593	526,349	232,386	84,017	114,088	84,017
Arkansas	334,158	287,949	280,273	280,089	69,360	40,930	41,992	38,020
California	6,295,355	5,400,637	5,515,908	5,337,372	1,567,098	1,083,757	1,155,914	1,046,139
Colorado	625,912	519,198	530,324	519,198	147,013	93,658	101,336	93,658
Connecticut	312,060	278,589	274,336	278,589	63,412	42,272	42,272	42,272
Delaware	81,845	63,024	66,207	60,994	19,908	9,512	11,899	9,106
District of Columbia	96,710	85,193	86,576	85,193	15,445	8,707	9,007	8,707
Florida	2,936,419	2,433,412	2,473,100	2,412,406	584,219	310,938	344,316	294,133
Georgia	1,266,185	1,055,154	1,101,405	1,066,558	320,685	193,524	226,147	203,431
Hawaii	154,486	122,637	140,165	122,637	35,426	15,018	28,031	15,018
Idaho	115,323	93,670	96,275	93,670	24,783	11,504	13,892	11,504
Illinois	1,152,495	949,513	975,847	949,513	278,201	171,674	189,111	171,674
Indiana	649,006	527,399	530,220	509,838	179,832	106,125	106,831	98,374
Iowa	255,853	190,020	204,607	180,449	76,023	37,309	46,016	30,928
Kansas	194,868	155,572	150,390	150,214	60,544	36,447	34,114	33,232
Kentucky	463,936	390,901	382,865	382,865	107,095	55,143	52,464	52,464
Louisiana	704,073	561,228	566,784	544,571	194,468	110,696	121,416	98,770
Maine	114,789	94,679	104,425	94,679	18,724	8,874	14,722	8,874
Maryland	656,036	616,150	644,712	616,150	136,023	106,384	125,125	106,384
Massachusetts	714,064	655,208	666,776	647,233	114,530	77,743	85,097	71,762
Michigan	949,294	750,556	813,827	767,886	253,898	138,601	185,145	158,300
Minnesota	329,544	313,123	302,614	313,123	63,729	52,275	50,146	52,275
Mississippi	432,784	326,822	341,038	320,435	115,257	50,510	59,951	46,798
Missouri	462,008	377,550	384,275	368,775	96,720	45,515	47,757	39,665
Montana	87,820	72,173	76,321	72,173	19,970	10,151	12,997	10,151
Nebraska	157,404	132,421	132,421	132,421	45,888	34,460	34,460	34,460
Nevada	326,218	260,018	272,737	256,982	63,136	26,173	34,969	25,414
New Hampshire	99,811	92,502	85,629	85,629	16,693	12,221	8,148	8,148
New Jersey	874,175	825,138	846,541	825,138	175,570	150,508	160,308	150,508
New Mexico	253,629	198,022	212,006	201,353	54,606	23,914	34,337	29,411
New York	2,760,128	2,368,608	2,430,164	2,346,744	645,621	427,506	463,168	418,761
North Carolina	1,272,603	990,674	981,106	953,998	314,543	164,620	161,430	149,328
North Dakota	59,085	49,307	52,784	48,793	11,992	4,848	7,517	4,591
Ohio	1,125,930	877,859	897,591	857,248	295,279	145,419	160,151	140,754
Oklahoma	381,386	317,773	331,430	317,773	83,952	44,991	51,369	44,991
Oregon	385,134	347,466	351,584	347,466	63,845	41,111	42,530	41,111
Pennsylvania	1,137,730	1,039,974	1,052,060	1,024,416	207,414	156,475	166,591	149,917
Rhode Island	74,224	55,532	57,329	54,170	19,874	8,794	9,993	8,114
South Carolina	677,378	542,216	554,352	542,216	153,150	67,739	74,827	67,739
South Dakota	81,668	67,821	69,840	64,739		16,278	17,945	
Tennessee	709,408	605,395	630,536		24,433	83,826	102,560	14,527
Texas		0,0,0		615,399	150,227			91,205
Utah	3,321,827	2,700,357	2,894,772	2,687,970	866,066	498,678	626,156	490,420 42,897
	261,587	223,143	222,835	217,750	66,136	46,493	45,787	
Vermont	54,152	42,045	42,930	42,045	15,060	6,962	7,787	6,962
Virginia	883,562	786,654	801,211	786,654	201,656	151,005	159,242	151,005
Washington	552,965	478,199	476,500	471,017	118,233	76,694	78,300	72,385
West Virginia	185,972	149,519	157,000	148,147	33,596	14,636	19,339	14,934
Wisconsin	457,782	371,072	383,056	371,072	106,888	55,552	65,415	55,552
Wyoming	49,603	35,965	38,112	35,427	12,355	3,413	5,777	3,234



	Deep Poverty - All			Deep Poverty - Child				
State	Current	Biden credit	Romney: Full reform	Romney: Benefit only	Current	Biden credit	Romney: Full reform	Romney: Benefit only
Alabama	245,528	197,517	199,528	197,517	51,640	20,871	20,871	20,871
Alaska	23,950	20,808	20,808	20,808	6,256	4,104	4,104	4,104
Arizona	154,431	113,667	113,667	113,667	31,794	8,453	8,453	8,453
Arkansas	119,310	101,373	101,373	101,373	21,106	9,929	9,929	9,929
California	1,920,959	1,617,019	1,590,705	1,600,568	327,136	173,077	162,748	162,748
Colorado	294,532	267,556	247,772	255,371	74,938	56,434	49,123	49,123
Connecticut	100,508	86,940	95,783	86,940	20,438	10,213	17,288	10,213
Delaware	26,290	20,132	20,132	20,132	6,016	3,354	3,354	3,354
District of Columbia	30,440	29,176	29,176	29,176	1,648	805	805	805
Florida	1,056,608	956,571	954,081	956,571	161,550	100,147	100,147	100,147
Georgia	504,080	384,277	378,864	384,277	120,743	49,246	49,246	49,246
Hawaii	44,991	40,947	39,940	40,947	2,868	1,362	1,362	1,362
Idaho	38,806	38,806	38,806	38,806	3,744	3,744	3,744	3,744
Illinois	400,100	322,156	339,295	322,156	81,914	38,711	46,056	38,711
Indiana	206,016	189,162	189,162	189,162	51,623	45,061	45,061	45,061
Iowa	94,279	69,937	69,937	69,937	16,855	2,963	2,963	2,963
Kansas	97,278	68,163	68,212	68,163	27,434	7,549	8,434	7,549
Kentucky	206,814	144,736	144,736	144,736	43,088	1,524	1,524	1,524
Louisiana	266,200	194,100	195,083	194,100	61,163	17,381	17,381	17,381
Maine	40,529	36,751	36,751	36,751	6,032	3,184	3,184	3,184
Maryland	240,063	204,157	204,157	204,157	66,596	44,282	44,282	44,282
Massachusetts	202,537	197,563	202,537	197,563	14,843	11,527	14,843	11,527
Michigan	337,226	247,429	247,429	247,429	86,659	40,980	40,980	40,980
Minnesota	129,261	81,970	90,712	81,970	37,140	6,387	10,079	6,387
Mississippi	170,661	144,898	143,948	144,898	31,918	17,263	17,263	17,263
Missouri	116,965	116,965	116,965	116,965	3,573	3,573	3,573	3,573
Montana	39,634	34,848	34,848	34,848	6,266	2,980	2,980	2,980
Nebraska	54,533	46,956	46,956	46,956	18,078	13,190	13,190	13,190
Nevada	103,709	92,192	92,192	92,192	14,086	6,811	6,811	6,811
New Hampshire	19,814	19,814	19,814	19,814	1,093	1,093	1,093	1,093
New Jersey	284,428	244,635	255,313	237,236	51,601	33,928	37,487	30,229
New Mexico	96,864	69,389	68,284	69,389	23,971	5,362	5,362	5,362
New York	721,964	626,837	619,844	626,837	148,696	95,801		95,801
North Carolina		, 0,	77	, 0,	1 / /		94,053	
North Dakota	384,251	316,418	309,261	316,418	63,578	28,530	28,530	28,530
Ohio	19,173	17,897	17,897	17,897	1,717	1,079	1,079	1,079
	399,261	284,130	279,048	284,130	91,994	17,444	17,444	17,444
Oklahoma	149,892	139,884	139,884	139,884	29,341	21,789	21,789	21,789
Oregon	114,412	110,272	110,272	110,272	19,724	16,963	16,963	16,963
Pennsylvania	356,052	287,182	283,818	287,182	77,003	34,798	34,798	34,798
Rhode Island	20,683	12,768	12,768	12,768	5,483	-	-	-
South Carolina	263,159	244,003	238,245	244,003	36,636	28,984	28,984	28,984
South Dakota	41,504	36,489	35,464	36,489	11,167	7,486	7,486	7,486
Tennessee	260,218	203,739	194,378	198,147	48,685	17,483	13,289	13,289
Texas	1,252,567	986,807	991,931	974,845	277,488	125,514	128,076	119,533
Utah	120,369	108,258	108,258	108,258	31,467	23,027	23,027	23,027
Vermont	19,900	15,731	15,731	15,731	6,209	3,533	3,533	3,533
Virginia	277,084	233,634	241,667	233,634	43,552	17,489	21,505	17,489
Washington	173,269	168,651	158,613	168,651	21,865	20,326	21,941	20,326
West Virginia	63,036	51,264	51,264	51,264	9,427	1,411	1,411	1,411
Wisconsin	147,722	77,655	83,044	77,655	41,601	-	2,695	-
Wyoming	13,150	11,664	11,874	11,664	1,328	338	338	338