

NISKANEN C E N T E R

NEWBORN NEEDS: The Case For An American Baby Bonus

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Key takeaways

- Parents undergo a substantial income shock when they welcome a new baby.
- Programs like the Child Tax Credit and private and state-based paid family leave can help parents navigate this transition, but they leave many parents out or come too long after the baby's birth.
- A baby bonus, paid out to parents shortly after a child is born, is a cost-effective family benefit that helps parents make the best choices for their child.
- Peer nations like Australia and New Zealand have adopted baby bonuses as a complement to their other public and private family benefits programs to good effect.
- A \$2,000 baby bonus would cost a modest \$5.3-\$7.7 billion per year, depending on whether it was a universal program or phased in at a 20 percent rate to be fully claimable at \$10,000 of earnings.

About the author

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Introduction

Every new baby is a blessing, but also a substantial shock to a family's financial stability. A new baby comes with new recurring costs—diapers, wipes, and clothes, as well as bigger investments the family must make—a crib, a safer neighborhood, a sized-up car to fit three carseats.¹ The surrounding community helps meet the family's needs with baby showers and meal trains. The federal government can help smooth the income shocks that come with a new baby, so parents are freer to take a chance on their family's future.

A baby bonus is a one-time family benefit that is delivered shortly after a baby is born. It is limited in scope, since it only applies in the first year of a child's life. It can be delivered at a manageable cost for America even in an era of budget constraints. The support comes when it can have its highest impact, when young couples are early in their careers and a decade or more away from their highest earning years.² It can reduce the pressure to delay having children until it's too late to have any or too late to have as many as the parents hope for.

A baby bonus offers parents the flexibility to spend on the most important needs facing their family. For some families, that may mean being able to afford the basic necessities—diapers and food. For others, a baby bonus can be used to prepare the house to host a grandparent for several months, to help with childcare and recovery. For many, a baby bonus may become a form of paid family leave, offering a modest benefit that allows families to use the unpaid Family Medical Leave Act weeks they've qualified for but could not otherwise afford to take.

A baby bonus is a budget-conscious, carefully targeted family benefit that helps parents at a time when many American families are on track to have fewer children than they hoped for.³ It helps support families when their need is greatest. The nation benefits in turn, by helping couples be freer to make the best choices for their children, and to raise them to keep America growing.

Peer nations like Australia and New Zealand have successfully implemented a baby bonus as a way to set a floor of support for all parents. A baby bonus ensures that parents who are excluded from paid family leave or unable to qualify for other family benefits have a form of support to help them prioritize baby bonding and recovery after birth.

An American baby bonus can be affordable and simple. Qualification and registration can be integrated into our existing payment structures administered by the IRS. The overall cost of a \$2,000 baby bonus is modest in comparison to other family benefit programs. This one-time program would offer support when parents need it most, without creating dependency.

What is a baby bonus?

A baby bonus is a short-term income supplement for new parents in the period following the birth or adoption of a child. It draws on some of the features of the Child Tax Credit and paid family leave programs, offering well-tailored support to working parents. The bonus, which could be provided as a lump sum or paid out weekly, helps families with the rising expenses and declining earning power that typically accompany a new bundle of joy.

1. Nickerson, Jordan, and David H. Solomon. "Car Seats as Contraception." *Journal of Law and Economics* (2020).

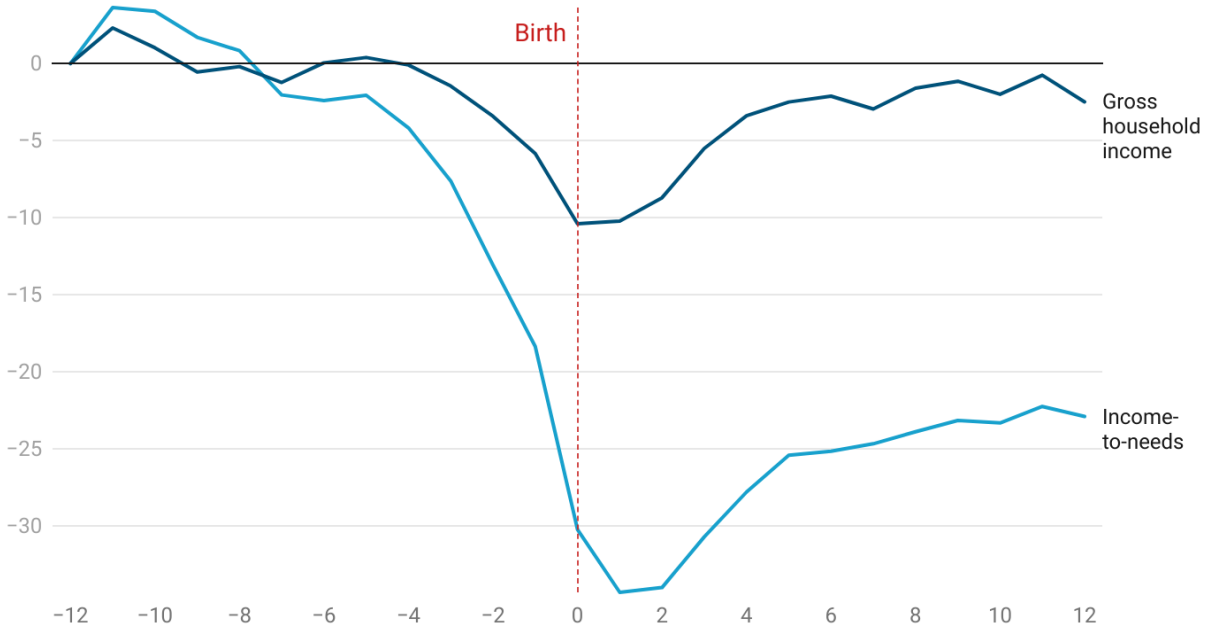
2. Hammond, Samuel. "Family Matters: Toward Universal Paid Family Leave." Niskanen Center, July 7, 2021. <https://www.niskanencenter.org/family-matters-toward-universal-paid-family-leave/>.

3. Piano, Clara and Stone, Lyman, "The Fertility Gap and Economic Freedom," (September 6, 2023).

Parents see a substantial decline in their income around the birth of a new baby.⁴ Just when they most need to save up, mothers in particular can have disruptions to their ability to work.

Figure 1: Income shocks at birth

Average percent change in income relative to pre-pregnancy levels.



Source: Stanczyk (2020) • Created with Datawrapper

Parents also have children when they're earlier in their careers and can command lower salaries than they will when they are older. The income smoothing effect of a baby bonus helps them navigate both these challenges. The payment helps adjust for the immediate dip, and it also functions as a kind of temporal redistribution from their higher earning years, when their larger tax payments will subsidize the families that follow them. A baby bonus is more flexible than either the Child Tax Credit or paid family leave, and it would exist as a helpful complement to these programs. Unlike the Child Tax Credit, a baby bonus could come right after a child is born—there would be no wait until next year's tax season to get the money that parents need for a crib and a carseat today. It can be more generously structured than the CTC because it is a supplement for a single, critical year, not an ongoing payment.

A baby bonus can supplement employer-based and state-based parental leave programs⁵ for parents who have access to them, and it provides critical support for those who don't. A baby bonus is more adaptable to different household circumstances than existing or contemplated paid family leave programs. Paid family leave focuses on wage replacement. A parent who does not have a sufficient work history is not eligible for paid leave. In practice, these work history requirements mean that as many as 30 percent of young parents

4. Stanczyk, Alexandra B. "The Dynamics of U.S. Household Economic Circumstances around a Birth." *Demography* 57, no. 4 (July 23, 2020): 1271-1296. <https://read.dukeupress.edu/demography/article-abstract/57/4/1271/168097/The-Dynamics-of-U-S-Household-Economic>.

5. McCabe, Joshua. *New York Baby Bonus Would Better Support All New Parents*. Niskanen Center, October 7, 2024.

would be excluded from various proposals for paid parental leave.⁶ A college student would not be eligible for a wage-based program, nor would a daughter who took a step back from work to care for an aging parent just before conceiving her own child. Families with a stay-at-home parent can also rely on a baby bonus to help cover the mother's need to take a pause from her domestic work. A stay-at-home parent isn't eligible for any wage replacement program, but still sees a sudden limit to what their household can afford to take on.

State experiments with contributory paid family leave programs are showing promising results for the parents who can use them. Paid family leave programs, financed by state payroll taxes, can scale with earnings, allowing states to make them more generous to beneficiaries.⁷

A flat federal baby bonus serves a different purpose. It establishes a floor for family benefits, one that all or nearly all or nearly all families can count on. A baby bonus can provide a modest, baseline benefit to parents who are doing things right, but struggle to qualify for other benefits. A baby bonus is a tested program that has worked for peer nations and can work for America, too.

Other nations' baby bonuses

Baby bonuses are a tested, successful way to provide support to new parents. Our peer nations have built and sustained baby bonus programs that provide a minimum benefit for all families. In Australia and New Zealand, baby bonus programs have provided critical support for new parents for over 20 years and offer a model for the United States. Their programs are near-universal, and are intended to complement, not replace, other, more generous paid family leave or benefits programs parents may qualify for.

Australia

Australia introduced its baby bonus under a conservative-led government in 2004. The baby bonus built on an existing Maternity Allowance program dating back to 1996. The bonus was a payment for all Australian mothers of AU\$3,000.

One impetus for the Australian baby bonus was the limited progress women had made in bargaining for paid maternity leave. Even by 2007, less than half of large organizations offered paid maternity leave, and there was a wide disparity between the public and private sectors: Three quarters of women in the public sector had access to paid maternity leave but only a quarter did in the private sector.⁸

The baby bonus program established a universal benefit and took a stance of neutrality, supporting all Australian families. It didn't pick winners and losers based on which sector women worked in, whether they worked for a large or a small business, or how parents divided work and care responsibilities. In particular, the Australian program was intended to be equitable for stay-at-home parents, who could not draw on paid family leave from work, but still needed extra support to navigate the arrival of a new baby. A baby bonus served all women, whether they were more work-oriented, home-oriented, or adaptive depending on their opportunities and their family's needs.⁹

6. McCabe, Joshua, and David Trimmer. "Left Out: A Framework for Non-Contributory Paid Parental Leave ." Niskanen Center, January 17, 2024. <https://www.niskanencenter.org/left-out-a-framework-for-non-contributory-paid-parental-leave/>

7. Ritter, Sarah. "Funding Mechanisms for State Paid Family and Medical Leave Programs." Prenatal-to-3 Policy Impact Center, January 15, 2025. <https://pn3policy.org/funding-mechanisms-for-state-paid-family-and-medical-leave-programs/>.

8. O'Neill, MS, and RE Johns. "The History of Welfare and Paid Maternity Leave in Australia." *IERA 2009 17th Annual Conference: Book of Proceedings* (January 2009): 172-196. p 187.

9. Hakim, Catherine. "Competing Family Models, Competing Social Policies." *Australian Institute of Family Studies*. Family Matters No.64 Autumn 2003, July 2011.

The baby bonus was generous and nearly universal. The initial bonus was set at AU\$3,000. It had no work or earnings requirement, in order to reach the Australian families that most needed the support. Initially it was not means-tested, but it was later revised to phase out for families making over AU\$150,000.

Offering a baby bonus was part of how Australia supported horizontal equity in their family policy. Horizontal equity means that families with the same disposable income bear the same tax burden. Families with small children have less disposable income than households with the same wage level but no dependents, so many countries, including America, provide broad-based benefits for children through specific tax credits or exemptions for children. Australia's baby bonus was not initially means-tested since it aimed both to provide a safety net for the poorest parents and to promote horizontal equity for more stable working families.¹⁰

New Zealand

New Zealand introduced a baby bonus in the form of a Parental Tax Credit in 1999. It was a project of the conservative Shipley government, and it aimed to assist parents who were unable to claim paid parental leave or income support.¹¹ Families received their baby bonus in weekly installments of NZ\$150 per week for eight weeks.

The New Zealand baby bonus was intended to serve lower-income working families, so it has a more aggressive phaseout to exclude upper-middle-class and upper-class families. The phaseout thresholds vary based on the number of children in the family, and the credit phases out at a rate of 3.26 percent above the threshold.¹² For a family with one child, the credit would begin phasing out at NZ\$37,500; for a family with two or three children, the phaseouts would begin at NZ\$45,700 and NZ\$53,800.¹³ New Zealand's subsequent governments continued to refine the baby bonus as the years went on. In 2015, New Zealand raised the weekly credit to NZ\$220 and extended the payment period from 8 weeks to 10 weeks. That raised the total value of the credit to NZ\$2,905.

In 2018, the Parental Tax Credit was replaced by the Best Start payment, which was intended to serve a broader range of families. The original PTC was aimed at a narrow band of families who worked but had fairly low incomes. The Best Start payment was closer to universal, with additional levels of support available to lower-income families.

Best Start payments pay NZ\$73 per week for every child until they turn one. For parents with access to paid parental leave, Best Start payments start when they exhaust that leave and continue until the baby turns one. There are no income requirements.¹⁴ The maximum Best Start payment is NZ\$3,838.

After a baby turns one, the family is still eligible for Best Start payments up til age three, but the benefit becomes means-tested. Presently, the benefit phases out at a rate of 21 percent for every dollar earned over

10. Saunders, Peter. "[Throwing the Baby Bonus out with the Bathwater.](#)" *ABC News Australia*, March 24, 2008.

11. In this way, it had a source-of-income requirement rather than the more common earnings requirement we see in the United States. The best analogy for the American context is that parents would not be eligible if they were receiving unemployment insurance or TANF benefits.

12. [Fact Sheet Parental Tax Credit](#). New Zealand Government, May 15, 2015.

13. David Liebschutz, "Taxes and Poverty in New Zealand: The Impact of the Tax and Benefit Systems on Low-Income New Zealanders." (Ian Axford Fellowships Office, 1999). https://www.fulbright.org.nz/wp-content/uploads/2011/12/axford1999_liebschutz.pdf.

14. Sohpie Moullin and Barry Milne. "[The effects of unconditional cash transfers on child abuse and neglect in early childhood: Evidence from New Zealand](#)" *Child Abuse & Neglect* 161 (2025).

NZ\$79,000.¹⁵ These revisions made it easier for families to know what to expect in their child's first year, and broadened the applicability of the credit during the critical first year while allowing it to be means-tested in subsequent years.

These programs offer models that American policymakers can adapt to our own nation's needs. Both Australia and New Zealand found success in offering a baby bonus that reached a broad swath of working families. For the poorest families, it was a lifeline; for others, it was a supplemental support that helped them weather the income shocks any family might face in their baby's first year.

A baby bonus for America

An American baby bonus could mirror the best elements of the policies of our peer nations. A baby bonus should be simple, time-limited, and administered without sudden benefit cliffs or phaseouts at very low levels. It should be delivered without too great a delay after the baby has been born.

An American baby bonus, unlike Australia or New Zealand's, does not need to intermesh with an existing paid family leave program. Instead, our nation's baby bonus would need to interlock gracefully with existing family benefits and earnings requirements to make sure the bonus can reach working families. We can imitate the broad reach of our peer nations while gently phasing out the credit for the richest families, mirroring the CTC phaseout that begins at \$200,000 for single filers and \$400,000 for those married and filing jointly.

One prospective form for an American baby bonus is a \$2,000 payment to parents after the birth or adoption of a child. The baby bonus could be paid out universally or phase in with a modest earnings requirement. The goal is to allow a broad range of parents to claim the credit. Any earnings requirement should provide a realistic path to claiming the credit to families with one parent working, those with one or both parents enrolled in school or training, and those who worked part of the year but were forced to cut hours due to pregnancy complications.

A baby bonus should be neutral as to the timing of a child's birth. Parents should not be disadvantaged by having a child early in the tax year, as with the current CTC and Earned Income Tax Credit (EITC). These calendar cliffs result in very different levels of support offered to families depending on when their child is born. In fact, every \$1,000 of additional tax benefits is associated with a 1 percent higher chance of babies with late December due dates being born in December, not January.¹⁶

The arbitrary cutoffs are good news for researchers, who can use the December 31 / January 1 dividing line to conduct quasi-random studies of the impact of child-related family benefits like the EITC, but it's bad news for families, who receive disparate treatment in similar circumstances.¹⁷ The families whose children are born on the correct side of the calendar split for the EITC wind up seeing those children have higher incomes in their early twenties. Small differences in resources in the critical first year may produce durable differences in outcomes for the families because they have more cushion to handle adverse events like necessary repairs to a car a parent relies on to get to work.¹⁸ These are the kind of moderate cost shocks that

15. "Working for Families: Best Start." New Zealand Inland Revenue. <https://www.ird.govt.nz/working-for-families/types/best-start>.

16. LaLumia, Sara, James M. Sallee, and Nicholas Turner. "New Evidence on Taxes and the Timing of Birth." *American Economic Journal: Economic Policy* 7, no. 2 (May 1, 2015): 258–293.

17. Barr, Andrew, Jonathan Eggleston, and Alexander Smith. "Investing in Infants: The Lasting Effects of Cash Transfers to New Families." NBER (August 1, 2022).

18. *Ibid.*

have big consequences. Families with children born on the January side of the split don't miss out on a year of the CTC, but they lag in receiving the credit when their finances are likely to be fragile and get their final year of benefits when they are likely to need it less urgently. For these reasons, simply augmenting the CTC with a young child bonus will not have the same effects as a timely baby bonus.

A true baby bonus would pay out promptly after birth, instead of being held until tax time in the year following the baby's birth. A baby bonus can only help parents cover the cost of parental leave if it comes close to when they may be taking unpaid leave.

Administering a baby bonus

Parents would certify the birth of their child at the hospital or with the help of their birth attendant, adding one more form to the stack of papers they complete at discharge. This is already the point at which parents begin the application process for a Social Security card and birth certificate. It should be easy to capture nearly all births by requesting certification at this point. The new certification form could be sent to the IRS and/or the SSA.

As part of the form, the parents would designate to whom the payment should be sent—by default, this would be the mother of the infant. The designation should match whom the parents expect to be able to claim the child for the CTC, but a one-time payment with a minimal or zero earnings requirement would not need the same number of rules and tie-breakers as the CTC or EITC.

Peer nations already rely on parental certification of a primary caregiver to the government in order to administer family benefit and tax programs. Australia, Canada, New Zealand, and the United Kingdom have parents register a primary caregiver and, when custody or other living arrangements change, parents provide documentation supporting the change. By contrast, the United States relies on relatives to follow complicated eligibility and tie-breaker rules for who can claim a child. The result is a system where fraud or errors are common and verification is difficult.¹⁹ Because a baby bonus is only paid out once, it would be fairly simple to have the qualifying caregiver registered at birth, without a need for repeated updates in subsequent years.

There is also a strong argument for processing the payments through the IRS. Family benefits are simplified when they are managed under the same agency, and the IRS already oversees the Child Tax Credit, Child and Dependent Care Tax Credit, and Earned Income Tax Credit. Since a baby bonus is intended to be paid out as quickly after birth as possible, it would not depend on the timing of when parents file taxes. Ideally, the notification to the IRS would happen automatically, as smoothly as the notification to the Social Security Administration, so that parents only need to add one form to the large stack they fill out before they and their baby are discharged from the hospital.

When the IRS distributed economic impact payments during the coronavirus pandemic, the agency had all the information needed to reach households that had filed taxes in 2019 or 2018, as well as households that had not needed to file taxes, but already had information on file due to receiving Social Security, disability, or certain other federal benefits.²⁰ Those who had previously given their bank information to the IRS were able to

19. McCabe, Josh and Sargeant, Leah. "Disentangling In-Work And Child Tax Credits To Address Improper Payments." Niskanen Center. March 26, 2025.

20. Guenther, Gary. *Delivery of Economic Impact Payments* (EIPs). IN11393. Congressional Research Service, October 6, 2020.

receive a payment by direct deposit; others received a check sent to their last address on file. The hardest group of households to reach were those that had not filed taxes in 2018 or 2019 and had not previously received federal benefit payments. These households had to register themselves with the IRS in order to receive payments. The IRS was still sending catch-up payments to these households as late as December 2024.²¹

A baby bonus would be much less likely to be paid late or to misintended beneficiaries than the coronavirus Economic Impact Payments. Because the baby bonus payment would be triggered alongside the processing of the Certificate of Live Birth, the IRS would be able to access the parents' current mailing address and their Social Security numbers, allowing the agency to mail a check easily.

Modeling the cost of a baby bonus

A fully universal baby bonus would pay out \$2,000 for every baby born in the United States. The program is less costly than other family benefits because it only applies in the first year of the child's life. The total cost would be \$7.7 billion per year as calculated using PolicyEngine, a microsimulation model of American tax policy and benefits programs.²² Because it is limited to the first year of life, it would have a very modest effect on child poverty (lowering the child poverty rate by 0.4 percentage points).

To lower the fiscal impact further, a baby bonus could also operate with a phase-in structure that allowed parents to claim the full benefit at a modest earnings threshold of \$10,000. This represents a phase-in rate of 20% starting at the first dollar earned by the household. Applying an earnings requirement and corresponding phase-in of benefits lowers the overall cost of a baby bonus to \$5.3 billion.²³ Child poverty would decrease by 0.2 percentage points. This threshold would allow a family with a minimum wage earner to fully claim the benefit.

Baby bonus design	Phase-in rate	Full credit available	Total cost
Universal	n/a	\$0 earnings	\$7.7 billion
Earnings requirement	20%	\$10,000 earnings	\$5.3 billion

A phase-in and earnings requirement reduces cost and rewards work but introduces complexity. An earnings test requires the government to match the record of birth with a household's prior tax filings, rather than simply have the notice of birth include a designation of the parent claiming the child. A baby bonus without an earnings requirement can be paid out in full, immediately following the birth of the baby, without worry about clawbacks. A baby bonus with an earnings requirement might benefit from a lookback period, so parents could fully qualify on the basis of the prior year's earnings, without worrying about how a return to work or a layoff will affect their eligibility in the year of the child's birth.

A low earnings requirement will include most households in the program. These families are likely to be the ones that are most likely to already be ineligible for FMLA or paid family leave because they are students, caregivers, or otherwise unattached to the workforce.

21. "IRS Announces Special Payments Going This Month to 1 Million Taxpayers Who Did Not Claim 2021 Recovery Rebate Credit." Internal Revenue Service, December 20, 2024.

22. *Policy Engine*. v1.214.0 https://policyengine.org/us/policy?reform=56800&focus=policyOutput.policyBreakdown®ion=enhanced_us&timePeriod=2024&baseline=2

23. *Policy Engine*. v1.214.0 https://policyengine.org/us/policy?reform=73154&focus=policyOutput.policyBreakdown®ion=enhanced_us&timePeriod=2024&baseline=2

The case for an earnings-based phase-in is weaker for a baby bonus than for other family benefits like the CTC. A baby bonus comes at the time when parents' connection to work may be disrupted through no fault of their own. A mother may lose hours at her shift job due to medical appointments or need to leave work earlier than she planned when a pregnancy complication forces her onto bedrest. After delivery, a child may have an unanticipated NICU stay that forces parents to take leave, or a mother may have a birth injury that means she can't return to her old job.

A one-time baby bonus doesn't pose a danger of creating dependency on a benefit, and low-income families will still be subject to the earnings phase-ins of the CTC and the EITC. It could make sense for the one-time baby bonus to operate differently, so that it can be responsive to the unique needs of parents following the birth of a child.

A baby bonus that complements existing credits

The baby bonus phase in should operate independently of the phase-ins for the Additional Child Tax Credit and Child Tax Credit. The aim of the baby bonus is for it to be a fully refundable tax credit that working families can reliably anticipate claiming. If it were a young-child supplement to the CTC or ACTC, then some working families would not be able to receive the full baby bonus, especially if they already had older children.

When families lack sufficient tax liability to claim the full value of the CTC, the ACTC allows them to receive up to \$1,700 per child as a fully refundable credit, dependent on sufficient earnings. The ACTC phases in at a 15 percent rate starting after the first \$2,500 of household earnings. The more children a household has, the more income it takes to fully phase in the ACTC or CTC.

For example, for a working family with a full-time earner making \$30,000 a year (a \$15/hour job) and two kids, their income tax liability is totally wiped out by the standard deduction. They receive \$3,400 through the ACTC for their two children. Reaching the full ACTC phase-in for two children requires \$25,166 in earnings, leaving just \$5,000 to be applied to a young-child CTC or separate baby bonus phase-in.

The baby bonus should either be universally available or have its own earnings requirement and phase-in to avoid putting it out of reach for low- and moderate-income working families with multiple children. Some sibling rivalry is inevitable when a new baby is born, but it shouldn't be a feature of the tax code.

Conclusion

A baby bonus is an affordable, effective way for the government to support families in their most challenging years. Other nations have found that these universal programs help all families prioritize time with their children after birth and weather the transition to their postpartum work-life balance. The cost of a baby bonus is modest in the context of other family benefits, and the payment comes right when families need it most.

In addition to the financial benefits to families, a baby bonus is an important signal of support for families at a time when birth and marriage rates are in decline. Fewer Americans are forming the families they hope for. A baby bonus is a promise that when parents take the risk of bringing a new child into the world, they will receive support in making the best choices for that child.

No parent knows every challenge they will face when they first see their child face-to-face in the delivery room. For one family, a baby bonus will mean more time for baby bonding; for another, a security deposit in a safer neighborhood; for another, help with the hospital bill when the tiny baby caught his big sister's fever. A baby bonus is powerful because it is a force multiplier for a parent's love.