



COUNCIL ON CONTEMPORARY FAMILIES

IT'S APRIL 15: Do you Know Where Your Income Taxes Are Going?

A Briefing Paper Prepared for the Council on Contemporary Families

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Americans tend to think we are better off than families in most other industrial countries because we pay lower income taxes. But when we factor in the higher amount Americans pay for health care, child care, and education, the comparison is not always in our favor. Where do American families' tax dollars go and what family "value" do they get in return?

For every \$100 in income tax:

- \$32 goes to national defense
- \$19 goes to interest on the national debt
- \$15 goes to supplemental programs such as TANF, child tax credits, and farm subsidies
- \$14 goes to health
- \$6 goes to education, employment, and social services
- \$4 goes to transportation
- \$2 goes to administration of justice
- \$2 goes to environment and natural resources
- \$2 goes to international affairs
- \$1 goes to community and regional development
- \$1 goes to agriculture
- \$1 goes to science, space, and technology
- \$1 goes to the commerce and housing fund

Federal Programs and Tax Incentives for Families

U.S. parents can reduce their tax burdens by claiming dependents, which results in a \$3,100 reduction in taxable income. For a married couple filing jointly with a \$50,000 income, this is worth a maximum of \$510 per child per year, or \$1,020 for a family with two children. The child tax credit also gives families a maximum of \$1,000 tax credit for each child, bringing the benefit up to \$1,510 for a one-child family in that tax bracket. On the other hand, the average household pays more than \$2,300 a year for health insurance and medical care -- and risks being liable for much more should a family member face a catastrophic illness.

The child and dependent care tax credit allows families to credit a percentage of their childcare expenses. The credit is a percentage of child care costs, up to a maximum of \$3,000 for one child or \$6,000 for two or more children. Taxpayers with earned incomes over \$43,000 will receive 20% of that amount, and the percentage increases as earned

income decreases. The maximum credit a couple making \$50,000 can receive is \$1,200. But for families who purchase child care, this makes only a small dent in the \$7,300 average day care bill for one child each year.

Tax credits are also available for higher education expenses. The Hope Credit is worth up to \$1,650 per tax year for up to two years per student. The Lifetime Learning Credit allows up to \$2000 credit per return. In 2007, legislators voted to increase individual Pell Grant amounts to a new maximum of \$4,310. This will be increased to \$5,400 in 2012-13. This may sound like an impressive increase. But in 1980, the Pell Grant covered 99% of the average cost of tuition, fees, AND room and board at a four-year public college. Today, the Pell Grant does not even cover the full cost of tuition and fees at such a college.

Thus, even at their height, the financial benefits of the last decade's tax cuts for middle class families never equaled the financial benefits that citizens of many other countries receive in the form of monthly child allowances, universal health care, subsidized parental leaves and child care, and college assistance.

Poor families get some extra help. The Earned Income Tax Credit is a refundable tax credit. If the family does not have enough income to benefit from the credit, they get the same amount as a cash return. The EITC maximum for a worker with one child is \$2,853, and the maximum for more than one child is \$4,176. The credit is probably the most effective anti-poverty program in America, lifting many poor working families above the poverty line.

Impoverished families also receive modest monthly payments out of the TANF program, are eligible for Medicaid and food stamps, and may be able to participate in Head Start pre-school programs, which are funded under education.

And wealthy families also get some extra help. All homeowner families benefit from the mortgage deduction for interest payments on home loans, but this disproportionately benefits upper-income families. Half of all tax subsidies for homeownership go to the wealthiest 3.2 percent of households.

So how do we compare to other countries?

In most of Western Europe, citizens enjoy the right to near-universal health care. They do not have to forego routine care for financial reasons, and are not financially wiped out by catastrophic health emergencies. In America, this occurs frequently enough that one-quarter of financial bankruptcies originate in medical problems not covered by insurance.

Families in Europe generally pay far less in college expenses than do most American families. In Sweden, students are not charged for tuition. In the United Kingdom, tuition is £3145 (\$6,234). Thanks to subsidies, it is free for those households making less than £32,690 (\$64,798). Meanwhile, students in households making between £32,690 (\$64,798) and £60,004 (\$118, 940) receive a stipend worth up to £1574 (\$3,120), based on income.

Every other industrial nation in Western Europe, and most of the rest of the world as well, provides paid maternity leave, and in some cases paid paternity leave as well. Canada offers Employment Insurance for both maternity and paternity leave, allowing a couple to take up to 50 weeks leave, which can be divided between mother and father, at 55 percent of pay, up to a maximum of \$435 per week. In addition, Canada's Universal Child Care Benefit pays families \$100 per month for each child under age six. In Germany women get 6 weeks paid leave before the birth of a child and 8 weeks afterward. Either the mother or father is guaranteed up to three years unpaid but job-protected leave for child care. In Norway, parental leave allowance is 54 weeks at 80% pay or 44 weeks at 100%. The mother must take three weeks before birth and six weeks immediately after if she intends to use any leave. The father must take five weeks off if he wants to participate in the share. Other than that, the parents can share the time off any way they wish. Adoptive parents are eligible for 51 weeks off at 80% pay or 41 weeks at 100%. In Greece, either parent can use up to 17 months of leave time, and receive an additional hour off per day until the child is 30 months old, or two hours per day for 12 months and one hour per day for the next six months. In Belgium, free early childhood education is available to all children starting at the age of 2 ½.

For Further Information

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About CCF

The Council on Contemporary Families is a non-profit, non-partisan organization dedicated to providing the press and public with the latest research and best-practice findings about American families. Our members include demographers, economists, family therapists, historians, political scientists, psychologists, social workers, sociologists, as well as other family social scientists and practitioners.

Founded in 1996 and now based in the School of Education and Human Development at the University of Miami, the Council's mission is to enhance the national understanding of how and why contemporary families are changing, what needs and challenges they face, and how these needs can best be met. To fulfill that mission, the Council holds annual conferences, open to the public, and issues periodic briefing papers and fact sheets.

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