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It's Complicated: Parents, Work and Tax Reform

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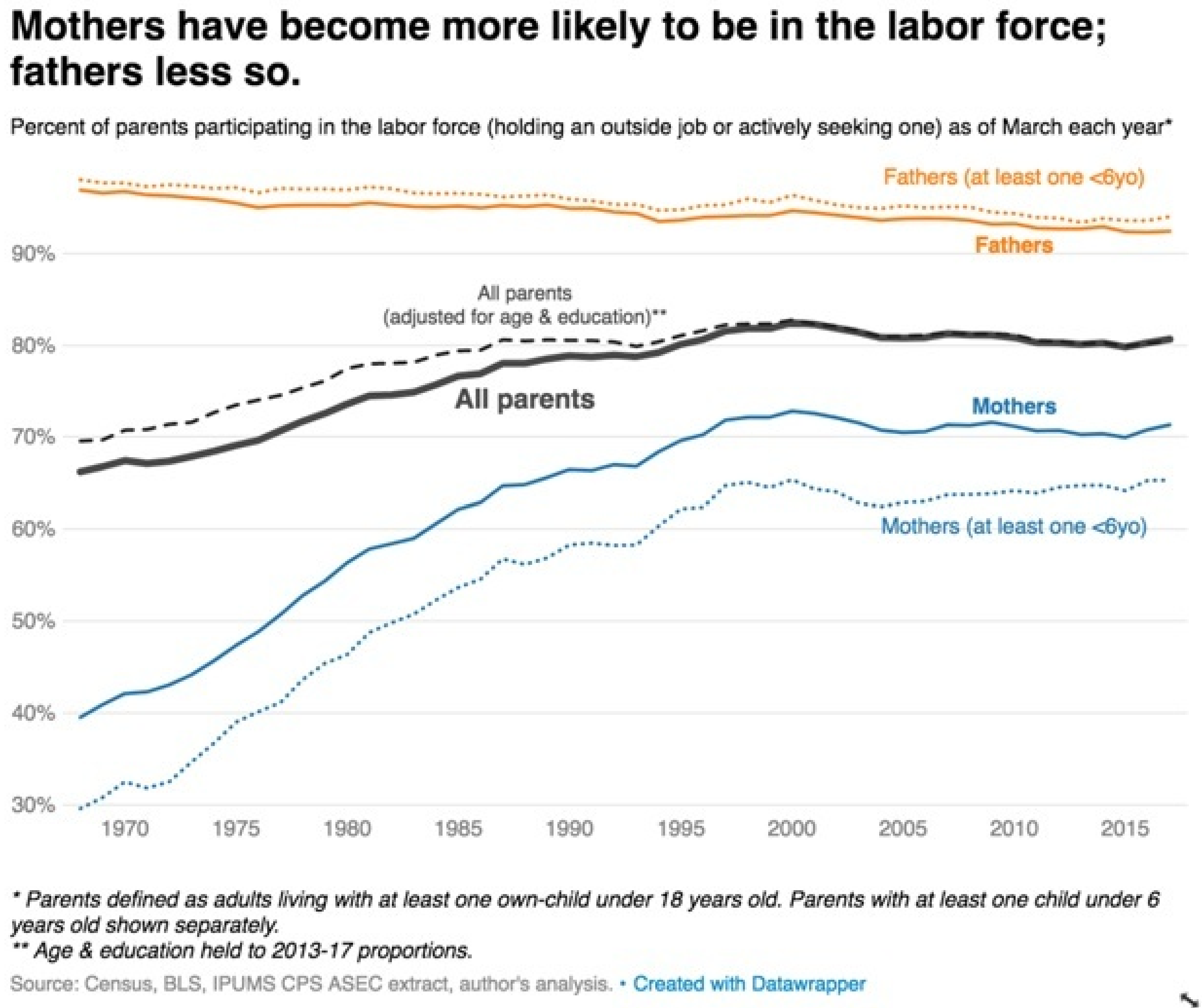
President Trump signed the Tax Cuts and Jobs Act (TCJA), the most significant piece of tax legislation in more than a decade, just a few days shy of Christmas in 2017. Although “working families” were often at the forefront of the debate surrounding the controversial proposal, their omnipresence in the political oratory was disproportionate to their centrality in the bill itself. The tax reform proposal went through several iterations over the last two years—one might argue its gestation period was even longer than that—but its guiding light was always reform of the business tax system and changes to individual income taxes, neither of which pay particular heed to parenthood. In early drafts, in fact, the TCJA’s greater generosity for parent-focused provisions simply offset more onerous proposed changes elsewhere.

The TCJA therefore was never first and foremost about *parents specifically.*

But parents still do see meaningful changes in the TCJA. In the end, most parents who work in wage jobs—at least while the TCJA is in effect—will see lower taxes and higher take-home income. On the broader question of the relationship between families and work, however, the era of the TCJA is more equivocal. Parents yearning to work more will find they now face greater rewards for doing so. But parents seeking more balance between work and family life will find that many of the riches of tax reform elude them.

The State of Parents and the Labor Market

The tax reform bill passed in the context of near-historical highs in parental labor force participation. Fifty years ago, about two-thirds of parents with young children were in the labor force, meaning they either held a job outside the home or were actively seeking one. Today that number is around 80%. Though parental labor force participation fell slightly in response to the Great Recession, it has been on the rise for the last couple of years and is gradually returning to its pre-2000 high.



In economic discourse it is easy to talk about labor force participation as an unqualified positive, and to get lost in the discipline's often-dehumanizing terms of art: labor is a "factor" of production which, when combined with capital, the other factor, is what creates "output." Utilizing more labor is one way the economy grows, at least in the near-term. A growing economy is a more prosperous and successful one. Etc, etc. An economist's instinctive reaction to the rise in parental labor force participation, for example, might not be to marvel at its heights but to ask why it did not grow more after 2000!

Of course, there often is a legitimate and substantial upside from rising workforce participation, not just from income gains but also from intangible factors like resistance to future recession, community cohesion, and basic dignity. For this reason, weak or stagnant US labor force participation in certain contexts—for example, among men in their prime working years—is a real concern that merits attention.

And for some parents who have proactively sought to work more, this rise in participation partially reflects positive trends, such as the erosion of employment barriers to women in certain occupations once open solely to men.

Finally, a portion of these gains are not due to changes in the economy itself, but rather due to changes in the characteristics of parents themselves. Americans are having kids at an increasingly older age than prior generations, which means today's parents tend to be further along in their careers, on average, and so have more labor force attachment. And like all Americans, modern parents are also more educated on average, further strengthening their labor force attachment. In fact, if all the parents of the last 50 years looked more like the parents of the last five years in terms of age and education, then labor force participation would have been higher back in the late 1960s, and thus the subsequent gains somewhat milder.

But rising participation should also prompt nuanced reflection. When children are involved, having both parents working outside the home *inevitably* involves serious trade-offs, particularly when parents feel compelled to do so just to scrape by a sufficient living. And rising parental participation in the labor market could be a signal of weak social support for parents.

Moreover, these trade-offs between work and family are becoming more consequential and more unequal. Work is not the automatic ticket to *relative* prosperity the way it used to be, and it is not just a figment of our grandparents' imaginations that one wage earner used to be sufficient for married parents to enjoy a comfortable lifestyle.

Up until 1980, only one wage earner was necessary for a typical married family with kids to roughly keep up with overall US median income. Then the double-dip recessions of 1980 and 1982 hit, and single-earner families have never recovered the ground they lost to dual-earner families. In 2017 single-earner families earned only 82% of the overall US median, a 50-year low.

In fact, the American economy today looks increasingly like one where both parents "have" to work to get ahead. Dual-earner income began pulling away in 1990; whereas once two working parents could expect to bring in about 25% more than the US median, in 2017 their income was 51% higher. As single-earner families lose ground, dual-earner families keep increasing their lead.

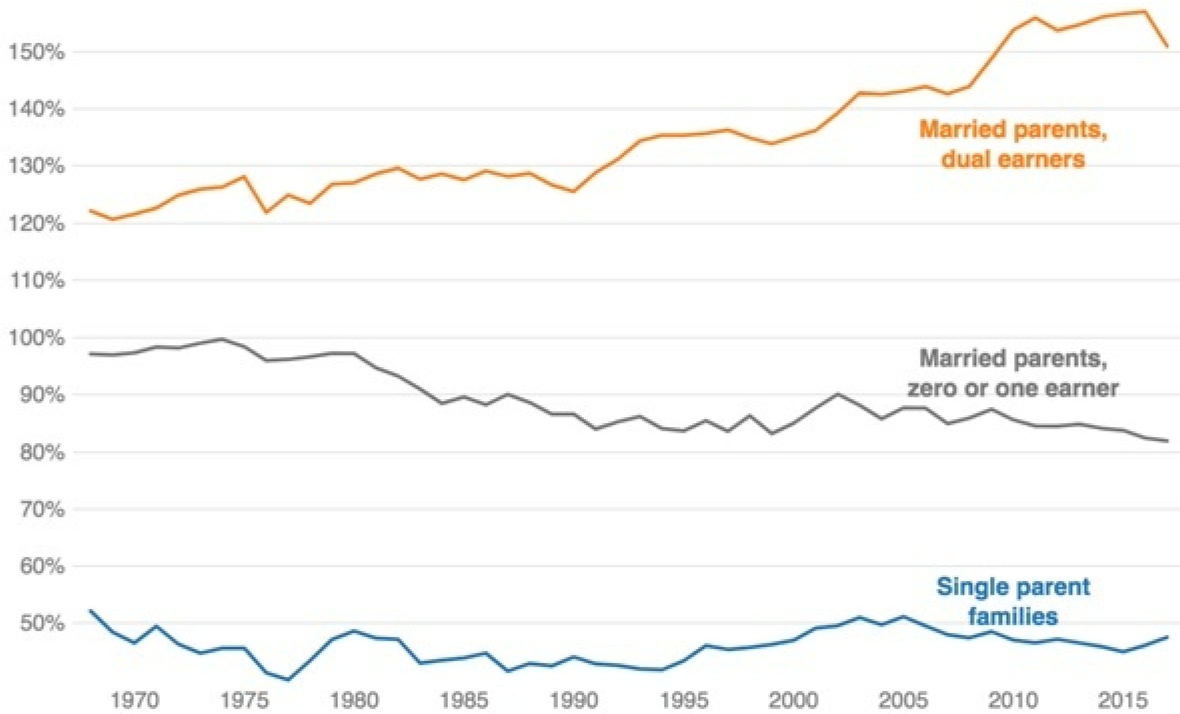
But even here, the struggles of dual-earner families to gain ground can be Sisyphean. Having both parents work incurs additional economic costs, of course—not to mention human costs—that counteract their wage gains. To illustrate but one, the growth in dual-earner income since the late 1960s has only just kept pace with the cost of child care.

Some other recent developments are undeniably positive: for example, child poverty is at a record low in the United States. This is partially thanks to absolute wage growth over the last 50 years. But the labor market alone cannot claim all the credit here: it also owes much to the introduction and expansion of targeted public programs like the Child Tax Credit, the Earned Income Tax Credit, and food stamps. And despite all of this, one in seven American children remain impoverished. These lessons are important to keep in mind as we continue working to lift the remaining one in seven children out of poverty.

All of these factors may in part explain, or be explained by, the far greater rarity of single-earner parental families today.

Only dual earner parents have made income gains relative to the overall median.

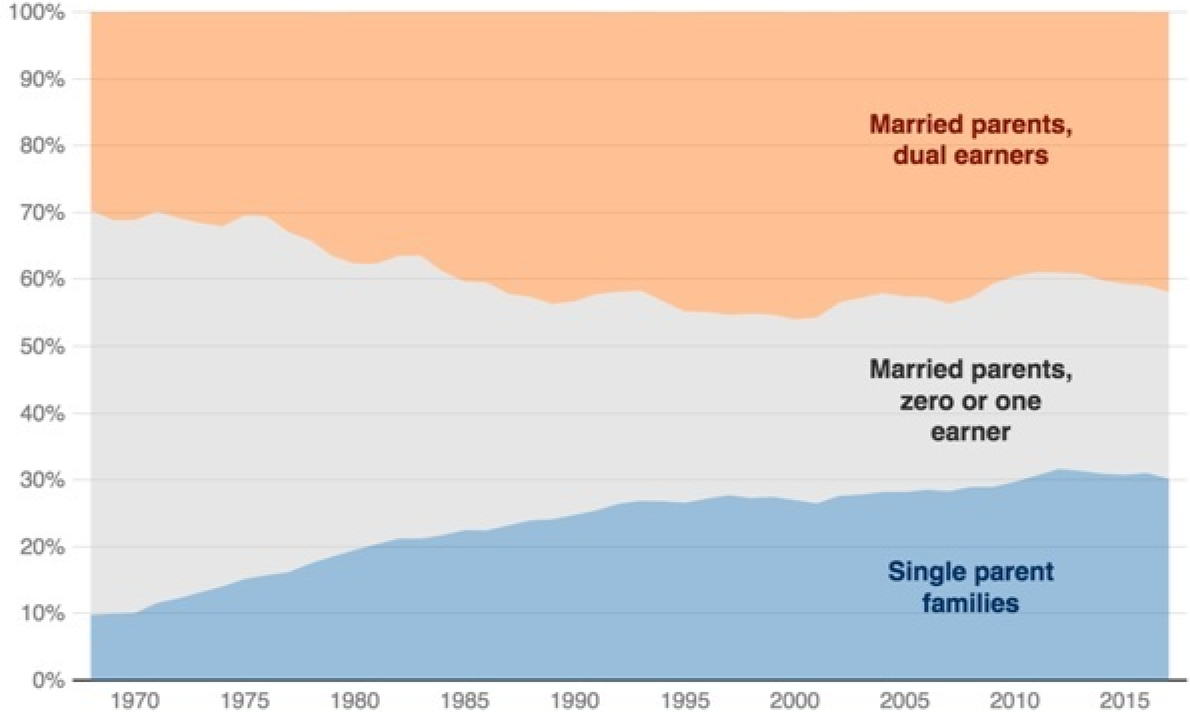
Median family income by parental family type, as a percent of overall median family income



Source: Census, BLS, IPUMS CPS ASEC extract, author's analysis. • Created with Datawrapper

Single-earner married parents are far less common than 50 years ago.

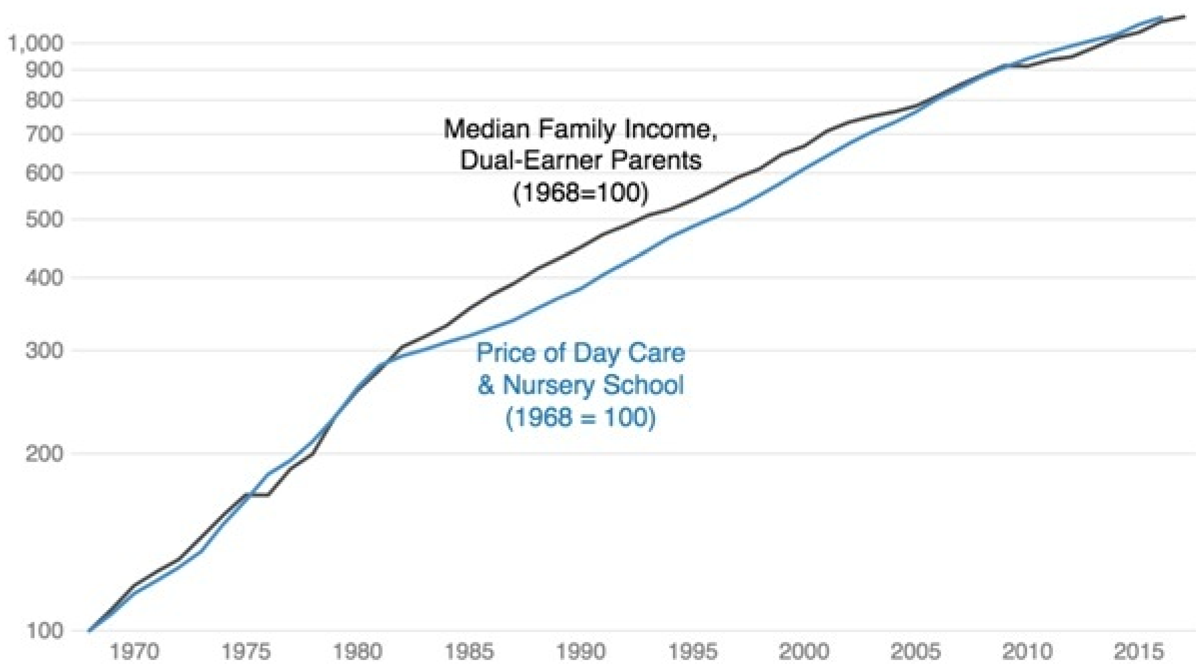
Percent of all families with children < 18 years old as of March each year



Source: Census, BLS, IPUMS CPS ASEC extract, author's analysis. • Created with Datawrapper

Dual-earner parents have only just kept up with the cost of child care.

Median family income of dual-earner parents (indexed, 1968 = 100)
Price index for day care & nursery school (indexed, 1968 = 100)
Logarithmic scale



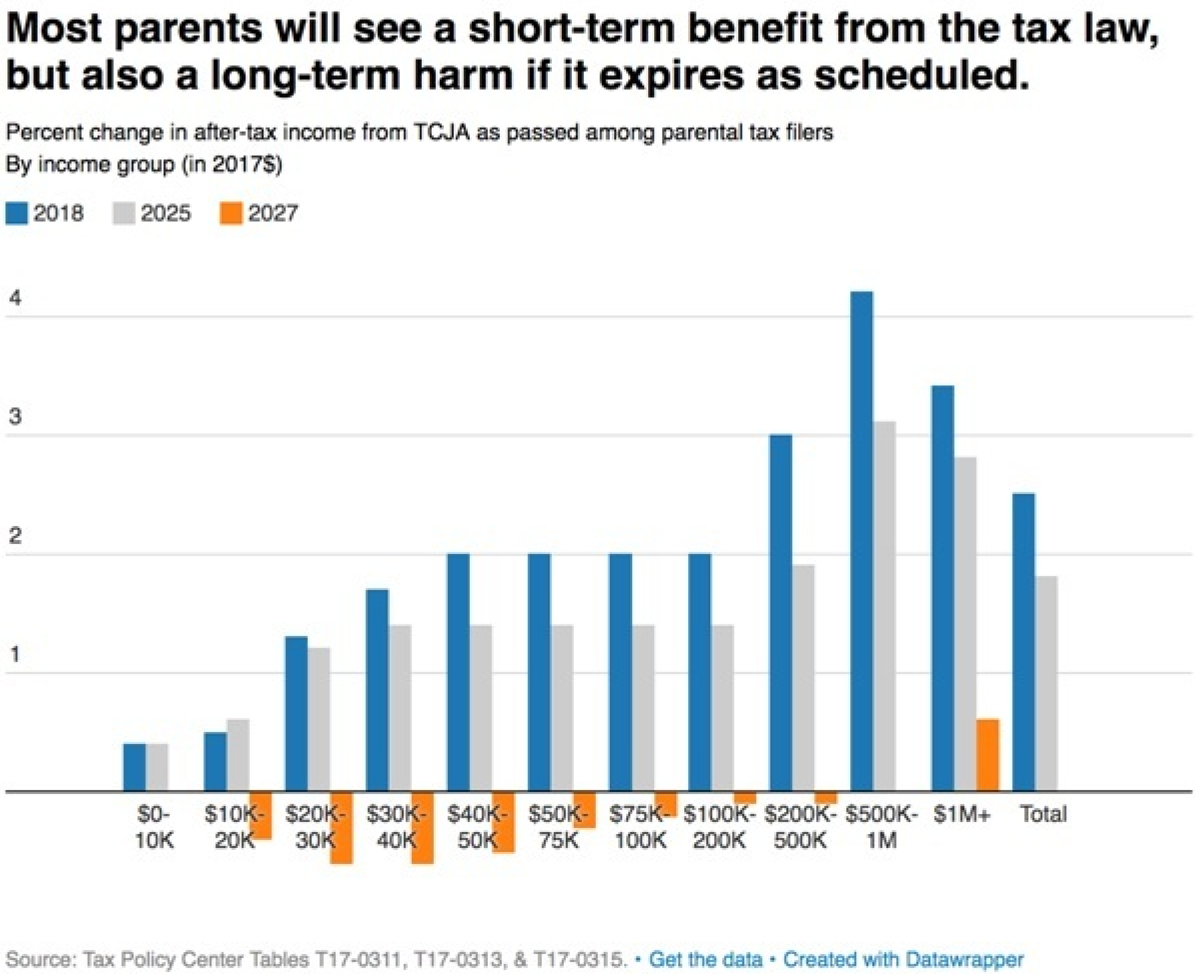
Source: Census, BLS, IPUMS CPS ASEC extract, BEA, author's analysis. • Created with Datawrapper

What Did Tax Reform Change?

It is into this complex context that President Trump signed the TCJA last December.

For many families, the simple bottom line question is “Will we see lower taxes?” And broadly, the answer is “yes,” at least over the next seven years. All together, around 80% of parental filers should see a tax cut each year before 2026, with the average relief among all parents being roughly equivalent to a 2.5% raise.

This benefit, however positive though it may be for most families, is not evenly distributed. Higher-income filers, particularly those above $200,000 in income, will see a larger percentage rise in their after-tax incomes. Whereas a parent making $35,000 could expect to see a 1.7% jump, families making $800,000 would see more than double that on average. As a consequence, the tax law will manage to both increase most incomes across the board but also make incomes more unequal than before.



Crucially too, Congress wrote the TCJA so that tax relief for households expires in 2026; this lowered the official 10-year cost of the legislation to make it more palatable to legislators concerned about the deficit. If the law is not extended come 2026, more than half of all filers, including most middle-class families, will then see a tax hike. Advocates for the law insist that a future Congress is all but guaranteed to be politically constrained to extend these cuts, pointing to the extension of the 2001/3 tax cuts when they expired at the end of 2010 as precedent. However this is not a fait accompli, and Congress has in recent history allowed other middle-class tax cuts to expire, such as the Making Work Pay tax credit in 2010.

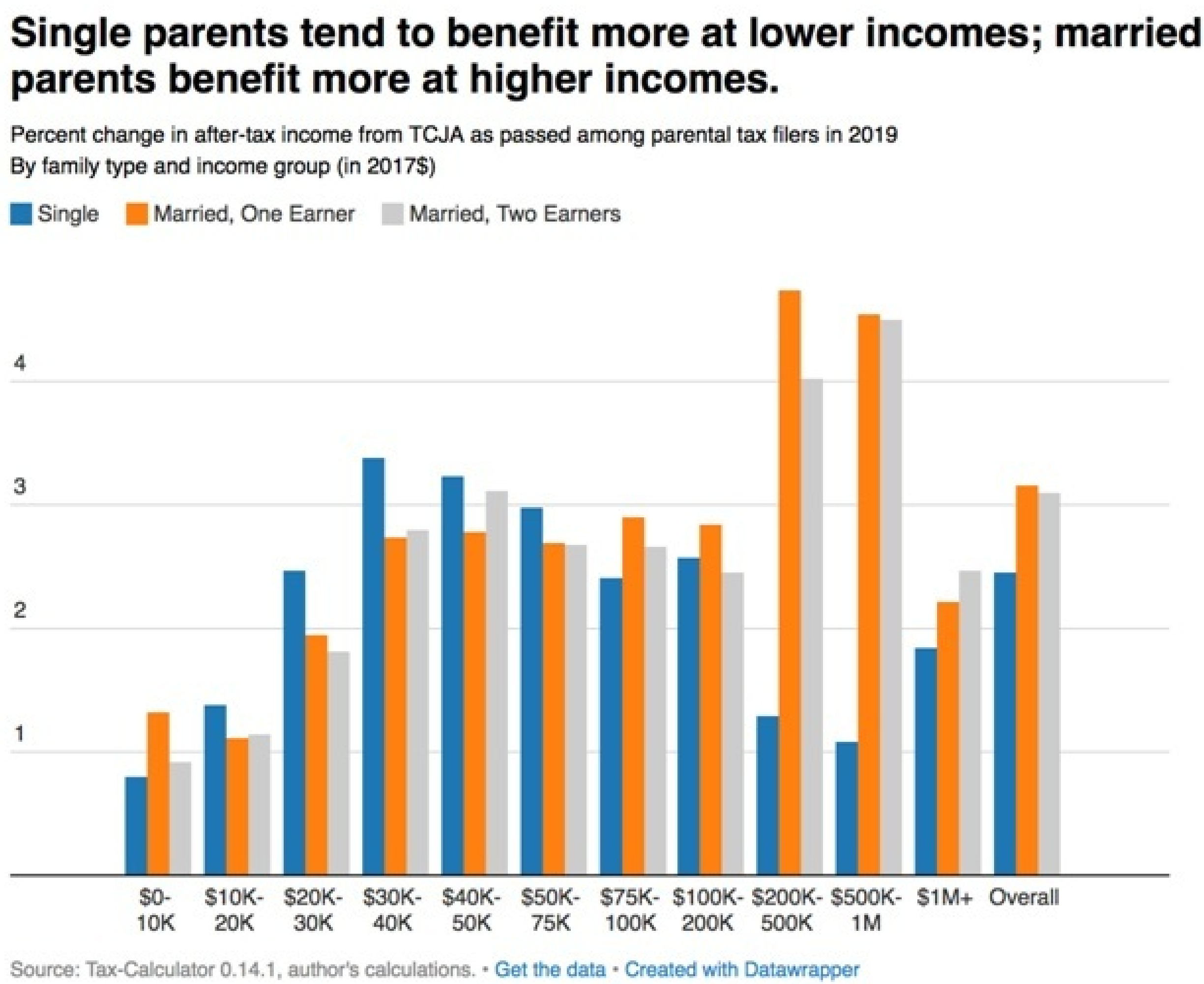
So in the near-term, most parents will see some benefit, though it will vary by income.

A different way of assessing the impact of the TCJA on families is whether the benefits are primarily geared to incentivize parents to work more or to support parents who stay at home.

Broadly, the law does a bit of both, though the full weight of the benefits lean towards parents who work more. Most of the benefits to households come from changes that lower what economists call *marginal tax rates.* Think of the marginal tax rate as the added tax one would pay by working a little bit more. The lower the marginal tax rate, generally the more likely it is that someone will decide it is worthwhile to devote more time to wage labor rather than to time at home. The TCJA's cuts to the individual income tax brackets, for example, as well as its increase in the standard deduction, are designed to lower marginal tax rates for many families.

To be clear, lower marginal tax rates do not *force* people to work more, and in fact many households who do not change their work hours at all can still see some benefit. However, the policies are designed to nudge families toward more work, not less.

These policies play out differently across income groups and marriage statuses. While all types of families see a positive benefit on average in the early years, low- and middle-income single parents tend to see a greater benefit than married parents. Married one-earner households do however begin to see a small relative advantage from the tax law above $75,000 in income, and then a significant one above $200,000 in income.

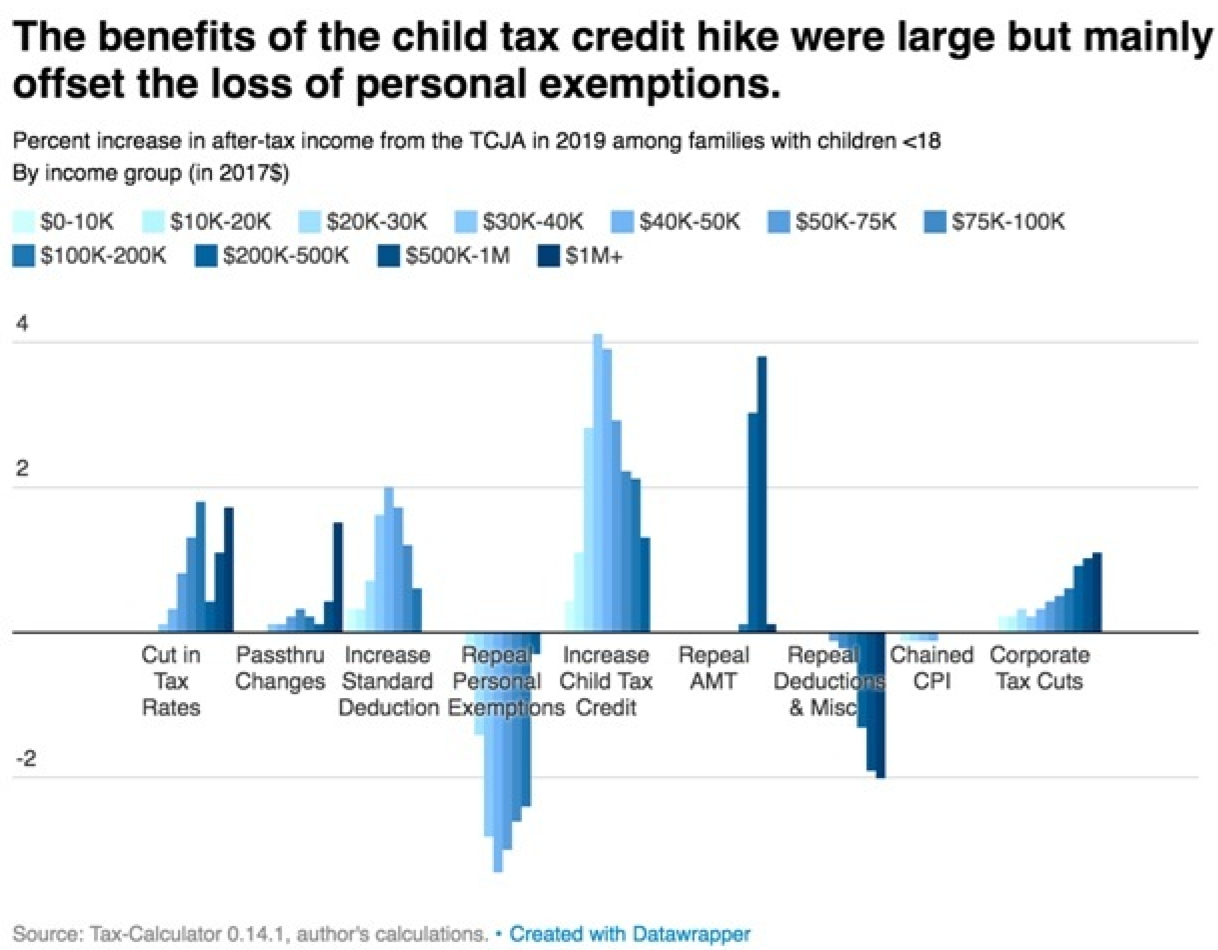


The policy change that most breaks with the strategy of prioritizing work incentives is the law's expansion of the Child Tax Credit. Under the TCJA, up to $2,000 per child can now be used to offset any federal tax income liability a family has (up from $1,000 previously). Even if families have no income tax liability, up to $1,400 per child may still be folded into their refunds.

The new Child Tax Credit rules are, without question, more generous than the prior parameters of the program, and a great deal of the benefit to families, especially low-income families, stems to this change.

But even the Child Tax Credit has elements of work incentives. Part of it is "nonrefundable," meaning families need to have at least some federal income tax liability to enjoy the full benefit of the credit. And the refundable portion only phases in gradually with income. Both of these mechanics mean that for many working-class families, the Child Tax Credit still represents a cut in marginal tax rates that requires more work to maximize its benefit. The upshot is that a married family with three children would have to earn around $43,000 before they see the full amount of the Child Tax Credit. To its proponents, these work incentives are a feature, not a bug. But it may come as a surprise to some that the piece of the tax code most often touted as "pro-family" is more accurately described as "pro-working-parent" for many.

Another thing to keep in mind is that the expansion of the Child Tax Credit in the TCJA does not exist in a vacuum. The law scaled back or even repealed other provisions that benefited parents. So looked at holistically, a large part of the Child Tax Credit expansion just offsets these negative changes, and the bottom line gain to families ends up being much less. For example, families used to be able to exempt $4,050 from their taxable income *per family member*, a benefit that quickly grew valuable for parents with young children. The TCJA repealed this exemption.



The final law also did not go nearly as far as proposals from both parties to strengthen the Child Tax Credit even further. A proposal from Senators Marco Rubio and Mike Lee would have made the full $2,000 per child credit refundable and allowed it to phase-in with the first dollar of wages (the final TCJA requires parents earn $2,500 before the credit starts phasing in), which would have allowed more benefits to accrue to the parents most in need. An even more ambitious proposal from Senators Bennet and Brown would have made the child tax credit a true child allowance supporting both working and stay-at-home parents, with a $3,000-per-child credit ($3,600 for children under 6) fully refundable regardless of income. Among other things, researchers at Columbia University estimated that this plan would have cut the child poverty rate in half. These proposals were offered as amendments to the TCJA, but neither made it into the final law.

Conclusion

As America enters 2018 with a very different tax code than what we had in 2017, we will find that the new tax law makes some improvements and builds some new bridges between families and the labor market. Parents will for the most part enjoy a tax break in the law's first seven years, though the law's long-term durability is not yet certain. Should it expire, the tax code could make parents far worse off than today.

Moreover, the TCJA shows that as we grapple with real problems around labor force participation—many still left over from the 2001 recession—families are getting swept up in the notion that a rising workforce is an unqualified good, and that "pro-family" policies necessarily must encourage more work. In doing so, we are missing opportunities to reinforce support for parents even further in a way that fundamentally changes the trade-off between family and work.

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