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Growth in the Earned Income and Child Tax Credits

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The last decade has seen a surge in the use of the tax system to deliver dollars to families with children. As late as the early 1990s, the most important tax provision applying to children was the dependent exemption. For several decades, however, Congress failed to increase this exemption in line with per capita income growth and, until 1985, for inflation as well. Meanwhile, expenditure programs like Medicaid and Food Stamps were available to a growing number of families with children.

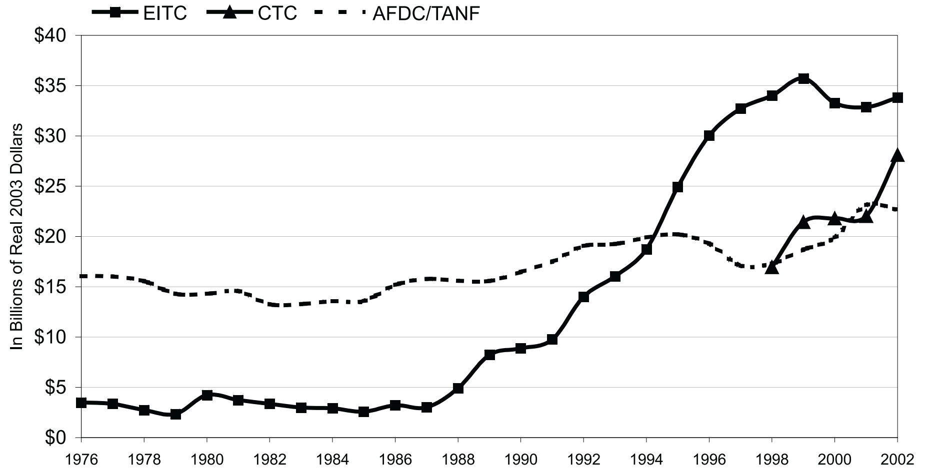
Beginning with tax reform in 1986, Congress expanded the earned income tax credit (EITC) in a series of legislative steps (1986, 1990, 1993, 2001). Meanwhile, lawmakers created the child tax credit (CTC) in 1997 and expanded it in 2001.

The chart below shows historic, real spending levels in the EITC and the CTC. It also shows spending on welfare, defined as Aid to Families with Dependent Children (AFDC) and its replacement, Temporary Assistance to Needy Families (TANF).

The administration has already proposed an acceleration of the CTC effective for 2003, so this credit may become larger still, at least in the short term. The chart shows that the EITC and CTC are each larger than AFDC/TANF in terms of spending — the EITC eclipsed these welfare programs around 1995, and the CTC surpassed them around 2001, just three years after its creation.

The EITC has grown nearly nine-fold in real terms since its inception in 1976. The CTC has grown 66 percent since it began in 1998. AFDC/TANF expenditures have grown more slowly over the years — just 32 percent since 1976. By some measures, the EITC is now the single largest source of federal spending on children.

Real Federal Spending on the Earned Income Tax Credit, Child Tax Credit, and AFDC/TANF



Notes: "AFDC" = Aid to Families with Dependent Children; "TANF" = Temporary Assistance to Needy Families. EITC and CTC aggregate amounts include both outlays and receipts. Sources: For EITC and CTC: IRS for years 1976-2000 and FY 2002 Budget for year 2000 and FY 2003 Budget for years 2001-03; For Family Support: FY 2003 Budget for all years.

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