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IN FOCUS

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Key Issues in Tax Reform: The Child Tax Credit

The Credit

The child tax credit (CTC) allows a taxpayer to reduce their federal income tax liability by up to $1,000 per qualifying child. A family with four qualifying children, for example, is eligible for a credit of up to $4,000. If the value of the credit exceeds the amount of tax a family owes, the family may be eligible to receive a full or partial refund of the difference. The total amount of their refund is calculated as 15% (the refundability rate) of earnings that exceed $3,000 (the refundability threshold), up to the maximum amount of the credit. The refundable portion of the child tax credit (the portion that exceeds a taxpayer's income tax liability) is referred to as the additional child tax credit, or ACTC. Low- and moderate-income taxpayers may receive all or some of the child tax credit as the ACTC.

The credit phases out for higher-income taxpayers. For married couples filing jointly, the credit begins to phase out when income exceeds $110,000; for most other taxpayers, this threshold is $75,000. It takes $20,000 of income above each threshold to phase out $1,000 of the tax credit. Hence, a married couple with one qualifying child will be ineligible for the credit if their income exceeds $130,000. If they have two qualifying children, they will be ineligible for the credit if their income exceeds $150,000.

Currently, the maximum credit per child, refundability threshold, and phase-out thresholds are not indexed for inflation (NII). **Table 1** provides an overview of key provisions of the child tax credit under current law.

Table 1. Parameters of the Child Tax Credit

Parameter	Current Law
Max Credit Per Child	$1,000 (NII)
Max Refundable Credit Per Child	$1,000 (NII)
Refundability Threshold	$3,000 (NII)
Refundability Rate	15%
Phase-Out Threshold	$75,000 unmarried (NAI) $110,000 married* (NAI)
Phase-Out Rate	5%

Source: Internal Revenue Code, 26 U.S.C. §24.
Notes: NII = not indexed for inflation. * = married filing jointly.

Generally, a qualifying child for the child tax credit is the taxpayer's dependent child who is under 17 years old and who lives with the taxpayer for more than half the year. In addition, the child must be a U.S. citizen or a resident or national of the United States. The statute requires that taxpayers who claim the child tax credit provide a valid Taxpayer Identification Number (TIN) for each qualifying child on their federal income tax return. Valid TINs include individual taxpayer identification numbers (ITINs) and Social Security numbers (SSNs). ITINs are issued by the Internal Revenue Service (IRS) to noncitizens who do not have and are not eligible to receive SSNs. ITINs are supplied solely so that noncitizens are able to comply with federal tax law, and do not affect immigration status.

History and Background

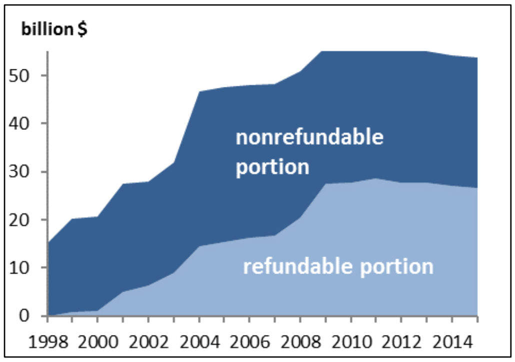
The child tax credit was enacted as part of the Taxpayer Relief Act of 1997 (P.L. 105-34). When it initially went into effect in 1998, the credit was a $500-per-child nonrefundable credit, which primarily benefited middle- and upper-middle-income families. Since enactment, various laws have modified key parameters of the credit, expanding the availability of the benefit to more low-income families while also increasing the amount of the tax credit. The first significant change to the child tax credit occurred with the enactment of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA; P.L. 107-16). EGTRRA increased the amount of the credit over time to $1,000 per child and made it partially refundable under the earned income formula.

In 2008 and 2009, Congress passed legislation—the Emergency Economic Stabilization Act of 2009 (EESA; P.L. 110-343) and the American Recovery and Reinvestment Act of 2009 (ARRA; P.L. 111-5)—that further expanded the availability and amount of the credit to taxpayers whose income was too low to either qualify for the credit or be eligible for the full credit. ARRA lowered the refundability threshold to $3,000 for 2009 through 2010. The ARRA provisions were subsequently extended several times and made permanent by the Protecting Americans from Tax Hikes (PATH) Act (Division Q of P.L. 114-113).

Cost

Administrative data from the IRS show that the amount of aggregate credit dollars claimed by all taxpayers has grown from roughly $15 billion in 1998 to nearly $55 billion in 2015, as illustrated in **Figure 1**. Roughly half the credit offsets income tax liability (the nonrefundable portion of the credit), and the other half exceeds income tax liability (the refundable portion of the credit, or ACTC).

Figure 1. Total Child Tax Credit Dollars, 1998-2015

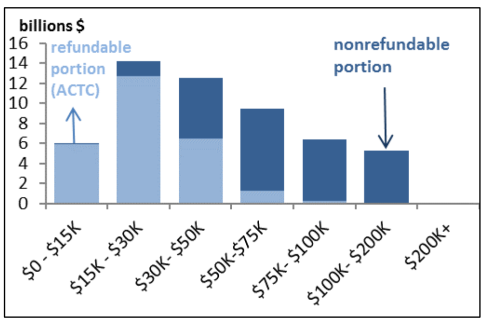


Source: IRS Statistics of Income.

Distribution of Benefits

The CTC is widely distributed across the income distribution, with families at most income levels benefiting, as illustrated in **Figure 2**. Lower-income families benefit from the CTC because of its refundability. The benefit to upper-income families (e.g., those with income over $200,000) is limited because the credit phases out at higher income levels.

Figure 2. Distribution of Total Child Tax Credit Dollars by Adjusted Gross Income (AGI), 2015



Source: IRS Statistics of Income, Table 3.3.

Tax Reform Proposals

Table 2 provides a comparison of changes to the child tax credit made by the current versions of the House and Senate tax reform bills.

Table 2. How House and Senate Tax Reform Proposals Modify the Child Tax Credit

Credit Parameter	H.R. 1, as Reported	Senate Bill, Chairman's Mark
Max Credit Per Child	$1,600 (NII)	$1,650 (NII)
Max Refundable Credit Per Child	$1,000 (NII after 2022)	$1,000 (II)
Refundability Threshold	$3,000 (NII)	$2,500 (NII)
Phase-Out Threshold	$115,000 unmarried $230,000 married* (NII)	$500,000 unmarried $1 million married* (NII)

Sources: H.R. 1, as reported, and JCX-51-17.

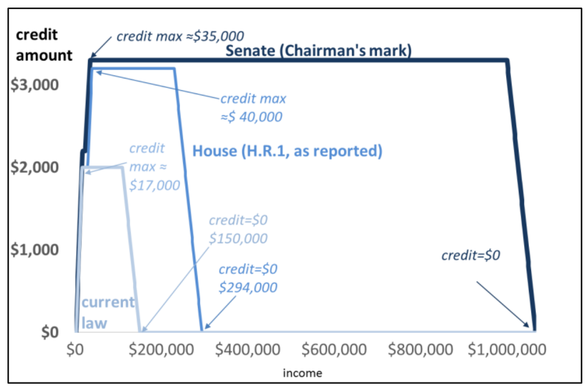
Notes: NII = not indexed for inflation. II = indexed for inflation. * = married filing jointly.

In both bills, the refundability rate and the phase-out rate are unchanged from current law (see **Table 1**). The Senate tax reform legislation would also increase the age limit of the qualifying child to include 17 year olds.

In addition, both bills would change the ID requirement for qualifying children. H.R. 1, as reported, would require taxpayers to provide the name and SSN for any child for whom they claim the credit. The Senate bill would limit this requirement to taxpayers claiming the ACTC. Failure to provide the child's current SSN may result in the taxpayer being denied the credit under math error authority. These changes would go into effect in 2018 as currently drafted. (Both bills would create new tax benefits for nonchild dependents. These tax provisions are beyond the scope of this In Focus.)

For most taxpayers, the amount of the credit would increase. One example of this is illustrated in **Figure 3**. However, lower-income taxpayers would generally receive little if any benefit from the proposed tax reform changes to the credit.

Figure 3. Credit Amount by Income Level for a Married Couple with 2 Children Under Current Law and Proposals



Sources: CRS calculations based on current law; H.R. 1, as reported; and the chairman's mark as described in JCX-51-17.

Notes: This is a stylized example that assumes that all income is from earnings, earnings equal adjusted gross income (AGI), and the taxpayer claims the standard deduction. In addition, under H.R. 1, the taxpayer is assumed to claim $600 of the family credit.

Changes to the child tax credit are only one component of H.R. 1 and do not necessarily indicate how this bill would affect income tax liabilities generally. Some families that receive a higher child tax credit under this bill could pay more in taxes; others may pay less. The Joint Committee on Taxation (JCT) has estimated that although taxes would fall for all taxpayers in 2019, they would increase for some taxpayers by 2023 in comparison to current law.

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