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IN FOCUS

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The Child Tax Credit and the Conference Report to H.R. 1

The Credit for 2017

In 2017, the child tax credit (CTC) allows taxpayers 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 refund amount 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 (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 the entire year 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

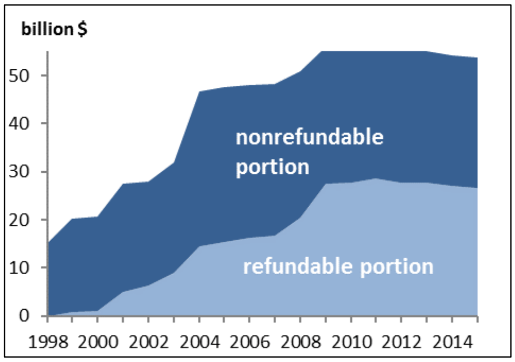
The child tax credit was enacted as part of the Taxpayer Relief Act of 1997 (P.L. 105-34). When it initially went into effect in 1998, the credit was a $500-per-child nonrefundable credit, which primarily benefited middle- and upper-middle-income families. Since enactment, various laws have modified 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 2008 (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 its current level of $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

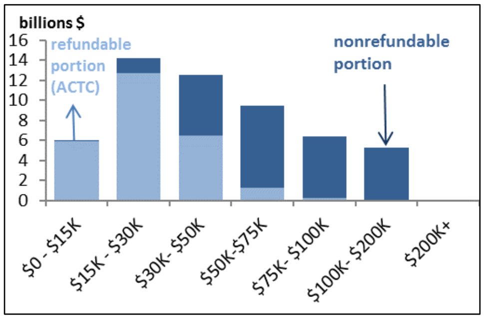


Source: IRS Statistics of Income.

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.

The Conference Report to H.R.1

Table 2 provides a summary of changes to the child tax credit made by the conference report to H.R. 1 as of December 18, 2017. Under the report, these changes would go into effect in 2018 and expire at the end of 2025.

Table 2. How the Conference Report to H.R.1 Modifies the Child Tax Credit

Credit Parameter	Conference Report to H.R.1 (In effect 2018-2025)
Max Credit Per Child	$2,000 (NII)
Max Refundable Credit Per Child per Child	$1,400 (II-rounded to next lowest multiple of $100)
Refundability Threshold	$2,500 (NII)
Phase-Out Threshold	$200,000 unmarried $400,000 married* (NII)

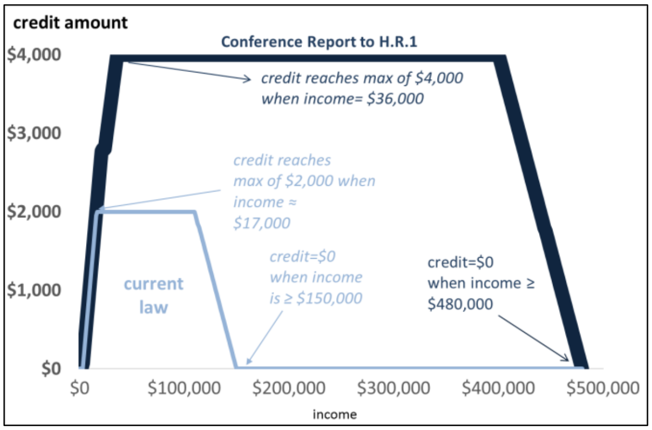
Sources: The conference report to H.R. 1.
Notes: NII = not indexed for inflation. II = indexed for inflation.
* = married filing jointly.

The refundability rate (15%), the phase-out rate (5%), and child age requirement are unchanged from current law.

In addition, the conference report would require taxpayers to provide an SSN for any child for whom they claim the credit. (The SSN must be issued before the due date of the tax return.) Failure to provide the child's current SSN may result in the taxpayer being denied the credit (both the nonrefundable and refundable portions of the credit). The conference report to H.R. 1 also creates a $500 nonrefundable credit for each non-child dependent, which is beyond the scope of this In Focus. A qualifying child who is ineligible to receive the child tax credit because that child did not have an SSN may nonetheless qualify for the nonrefundable $500 credit.

For most taxpayers, the amount of the credit would increase, but by different amounts depending on income. In the example in **Figure 3**, taxpayers with income under $17,000 would see the credit amount increase by $75 or less; those with income between $36,000 and $110,000 would see their credit amount increase by $2,000; and those with income between $150,000 and $400,000 would see an increase of $4,000.

Figure 3. Credit Amount by Income Level for a Married Couple with Two Children Under Current Law and the Conference Report to H.R.1



Sources: CRS calculations based on current law and the conference report to H.R. 1.
Notes: Assumes all income is from earnings, earnings equal adjusted gross income (AGI), and the taxpayer claims the standard deduction.

The Joint Committee on Taxation (JCT) estimates the expansion of the child tax credit would cost $573 billion between 2018 and 2027 (this cost includes the $500 credit for non-child dependents). Over that same time period, the SSN requirement would save nearly $30 billion. 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.

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