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The Child Tax Credit: Selected Legislative Proposals in the 116th Congress

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The Child Tax Credit: Selected Legislative Proposals in the 116th Congress

SUMMARY

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August 28, 2020

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Under current law, the child tax credit reduces the amount families owe in income tax (i.e., *income tax liability*) by up to $2,000 per eligible child. The credit is reduced for higher-income families. The credit is refundable, so lower-income families who owe little or nothing in income taxes may also receive some benefit. Due to the formula used to calculate the refundable portion of the credit, the lowest-income families receive less than the maximum credit.

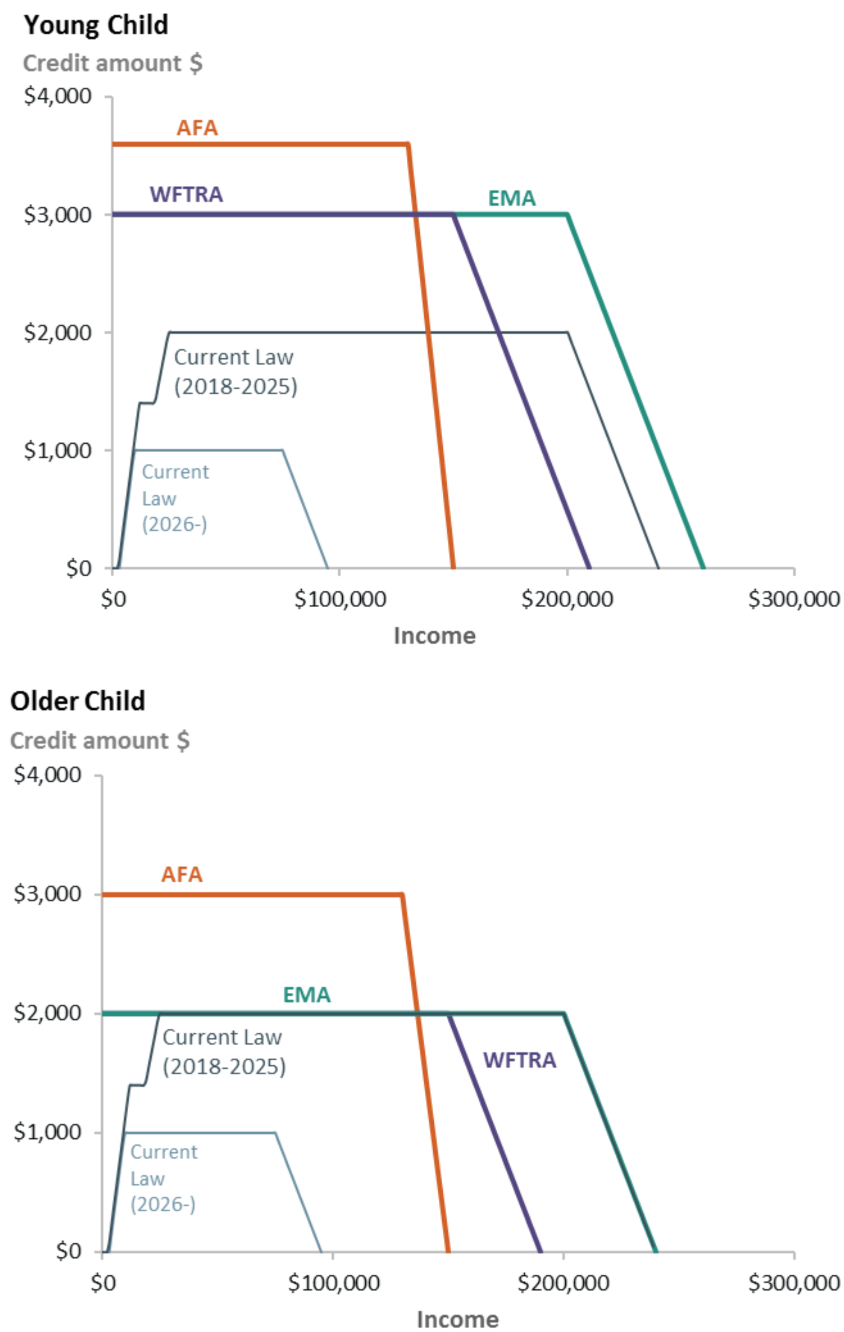
Research indicates that the child tax credit increases the after-tax incomes of most families with children. Benefits, however, tend to be smaller for the poorest and wealthiest families with children. Because the credit amount gradually phases in for lower-income families, they are *less likely* to receive the child credit than moderate- and some higher-income families and tend to receive a smaller credit. Estimates from the Tax Policy Center indicate that approximately 90% of all taxpayers with children receive the child tax credit, averaging $2,370 per taxpayer. In contrast, among the poorest families with children (income under $10,000), slightly less than half receive the credit (47.8%), averaging $250 per taxpayer in that income group (including nonrecipients). Because the credit phases out for the highest income taxpayers, they are also less likely to receive the child credit and receive a smaller credit on average.

In recent years, there has been interest in providing direct benefits to families with children to reduce child poverty in the United States, sometimes in the form of tax benefits like the child credit. In the 116th Congress, legislators have introduced numerous bills that would substantially expand the child tax credit, especially for lower-income families. These proposals include the Economic Mobility Act of 2019 (EMA; H.R. 3300), the Working Families Tax Relief Act of 2019 (WFTRA; S. 1138 and H.R. 3157), and the American Family Act of 2019 (AFA; S. 690 and H.R. 1560).

- **Economic Mobility Act (EMA):** The EMA would create a flat $2,000 per child credit ($3,000 for young children under four years old) for all taxpayers with income below $200,000 ($400,000 if married filing jointly). This would increase the amount of the credit for many low-income families who currently receive less than the maximum credit. These changes would be temporary and, as drafted, in effect for 2019 and 2020.
- **Working Families Tax Relief Act (WFTRA):** The WFTRA would create a flat $2,000 per child credit ($3,000 for young children under six years old) for all taxpayers with income below $150,000 ($200,000 if married filing jointly). Taxpayers with higher income would receive a reduced credit. This would increase the amount of the credit for many low-income families who currently receive less than the maximum credit. These changes would be permanent.
- **American Family Act (AFA):** The AFA would increase the child credit to $3,000 per child ($3,600 for young children under six years old) for taxpayers with income below $130,000 ($180,000 if married filing jointly), with the credit phasing out above these income levels. These changes would be permanent.

Each bill would eliminate the credit's current phase-in (i.e., make it fully refundable) and create a larger credit for younger children, as illustrated in the figure on the next page. In some proposals, the credit would phase out at lower levels of income than under current law. These bills are generally targeted at providing increased benefits to lower-income children, although some moderate- and higher-income families would benefit from the larger credit for young children. If the AFA or WFTRA were to become law, some higher-income families would receive a smaller credit. In comparison, if the EMA were to become law, no families would receive a smaller credit than they do under current law (the credit amount would be the same or greater).

Child Credit Amounts by Income for Selected Legislation
Unmarried Taxpayer with One Qualifying Child



Source: CRS analysis of selected legislation. For more information, see **Table 3** and **Figure 5** in this report.
Note: A stylized example assuming all three legislative proposals would concurrently be in effect in 2020 (if enacted).

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Introduction

In the 116th Congress, legislators have introduced numerous bills that would expand the child tax credit, including the Economic Mobility Act of 2019 (EMA; H.R. 3300), the Working Families Tax Relief Act of 2019 (WFTRA; S. 1138 and H.R. 3157), and the American Family Act of 2019 (AFA; S. 690 and H.R. 1560).[1] These bills would increase the credit amount for lower-income families and families with young children. This report summarizes and compares these proposals, as well as other provisions of these bills that change credit eligibility. The report begins with a brief overview of the child tax credit under current law, including a short summary of its legislative history and recent research on its impact.

Child Tax Credit: Current Law

The child tax credit reduces the amount families owe in income tax (i.e., *income tax liability*) by up to $2,000 per eligible child. The credit is reduced for higher-income families. The credit is refundable, so lower-income families who owe little or nothing in income taxes may also receive some benefit. Due to the formula used to calculate the refundable portion of the child credit, these families generally receive less than the maximum credit.[2]

What is a "taxpayer"?

For the purposes of this report, a *taxpayer* refers to all individuals listed on a federal income tax return (IRS Form 1040). Hence, an individual, their spouse (if married), and any dependents are considered one taxpayer. Other analyses sometimes refer to taxpayers as "tax units." For ease of reading, the terms *taxpayer* and *family* will be used interchangeably in this report, although in other CRS analyses these terms may differ.

How is the child credit calculated under current law?

Under current law, the child tax credit allows eligible taxpayers to reduce their federal income tax liability by up to $2,000 per qualifying child. A qualifying child is generally the taxpayer's dependent child who is under 17 years old. The maximum credit a taxpayer can receive is equal to the number of qualifying children multiplied by $2,000.

If a taxpayer's income tax liability is *less* than the maximum value of the child tax credit, the taxpayer may be eligible to receive all or part of the difference as a refundable credit calculated using the earned income formula. The refundable portion of the child tax credit—that is, the amount which is greater than taxes owed—is often referred to as the additional child tax credit or ACTC. On the federal income tax return, the ACTC is claimed on a separate line after the

[1] This report does not summarize bills that would exclusively change eligibility requirements for the credit or would permanently extend temporary provisions enacted under P.L. 115-97. This report also does not summarize the Advancing Support for Working Families Act (S. 2976/H.R. 5296), a proposal to allow taxpayers to elect to receive an increased child credit upon the arrival of a new child that is later repaid as an increase in general income tax liability over time. A summary of the Advancing Support for Working Families Act can be found in CRS Report R46390, *Paid Family and Medical Leave: Current Policy and Legislative Proposals in the 116th Congress*, by Molly F. Sherlock, Barry F. Huston, and Sarah A. Donovan. To date, there have not been any legislative proposals in the 116th Congress intended to broadly reduce the size of the child tax credit across qualifying taxpayers (although, as discussed below, certain proposals would reduce the credit amount for higher-income taxpayers).

[2] The terms *child tax credit* and *child credit* are used interchangeably throughout this report.

nonrefundable portion of the child credit (the portion of the credit that reduces federal income tax liabilities). The sum of the nonrefundable portion plus the ACTC (the refundable portion) cannot exceed the maximum credit. Under the earned income formula, the ACTC gradually increases, or phases in, as earned income increases (i.e., the credit's "phase-in" range). Specifically, under this formula the ACTC equals 15% of a taxpayer's earned income in excess of $2,500, up to $1,400 per qualifying child (the maximum amount of the ACTC).[3] For example, if a taxpayer has a $200 income tax liability and one qualifying child, the taxpayer could first use the credit to reduce income tax liability to zero and then receive up to $1,400 as the ACTC, for a total credit of up to $1,600.[4] CRS estimates that about one in every five taxpayers (19%) with a credit-eligible child have low incomes that situate them in the credit's phase-in range, as illustrated in **Figure 1**. These taxpayers, by definition, receive less than the maximum credit and generally receive some or all of the credit as the ACTC.

The credit is reduced in value, or phases out, by $50 for every $1,000 of income over specified thresholds—$200,000 for unmarried taxpayers and $400,000 for married couples who file joint tax returns.[5] The phaseout thresholds are not adjusted for inflation. As illustrated in **Figure 1**, CRS estimates that most eligible families have income that places them in the credit's "plateau," where they would receive the maximum credit amount. A small share of high-income families receive little if any credit due to the phaseout.

A taxpayer must provide the qualifying child's social security number (SSN) to receive the credit. The taxpayer must also provide their taxpayer ID and, if married filing jointly, their spouse's taxpayer ID to receive the credit. For the taxpayer (and if applicable, their spouse) this ID can be either an SSN or an individual taxpayer identification number (ITIN).[6] Although using an ITIN does not necessarily mean an individual is unlawfully present, the IRS and the Treasury Inspector General for Tax Administration have concluded that a large proportion of ITIN filers are unlawfully present aliens working in the United States.[7]

Residents of the territories generally do not receive the federal child credit, although families residing in U.S. territories with three or more children may receive the ACTC using an alternative formula.[8]

[3] This amount is annually indexed to inflation, rounded down to the next lowest multiple of $100. To date, this inflation adjustment has not been triggered.

[4] This is less than the maximum of $2,000 per child because the maximum amount of the credit that can be received as a refund—that is, the ACTC—is capped at $1,400. If the maximum ACTC were $2,000, the same taxpayer could receive up to $2,000 in the child tax credit: $200 as a reduction in income tax liability, and $1,800 as the ACTC.

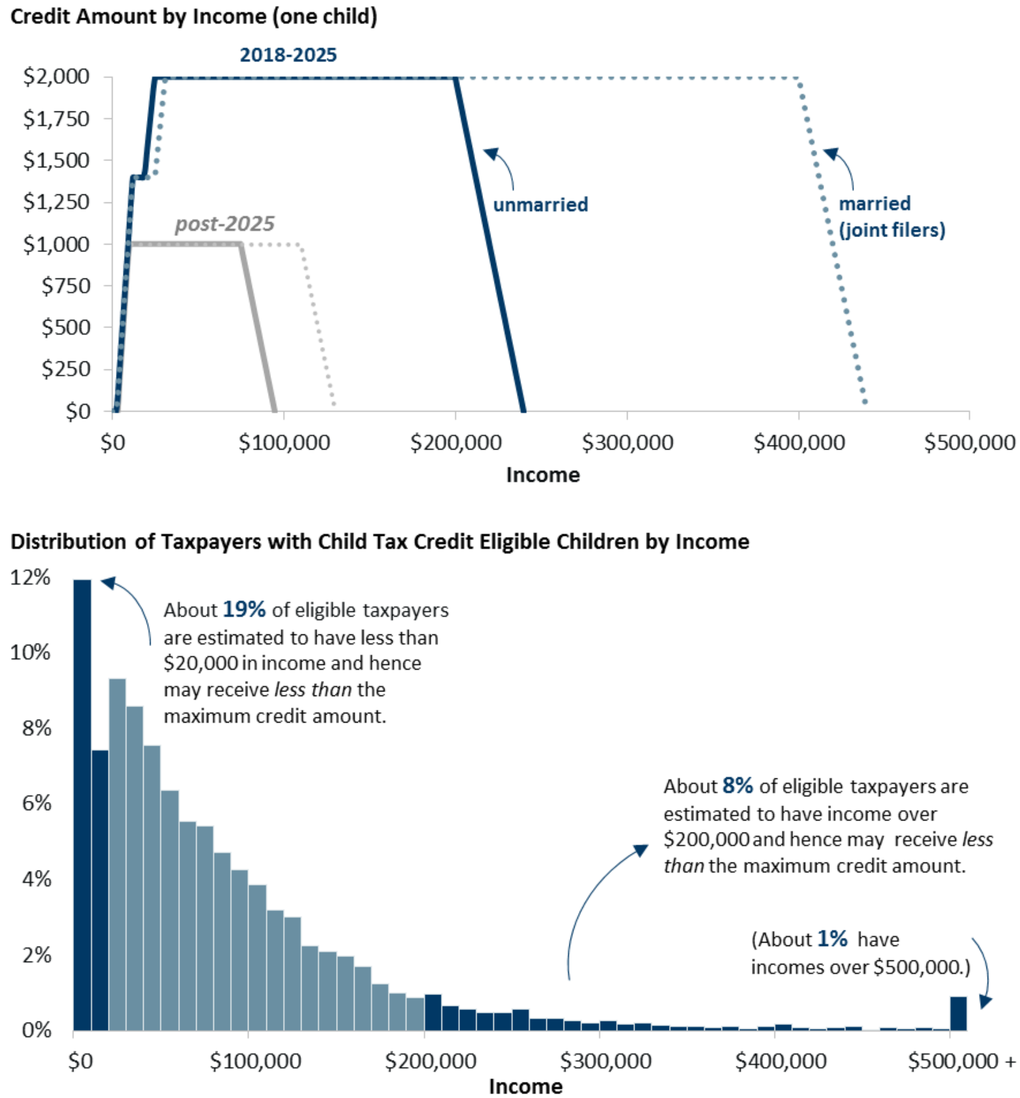
[5] Income for the purposes of phasing out the child tax credit is modified adjusted gross income (MAGI), which is Adjusted Gross Income (AGI) increased by foreign-earned income of U.S. citizens abroad, including income earned in Guam, American Samoa, the Northern Mariana Islands, and Puerto Rico.

[6] Federal tax law requires that taxpayers provide a taxpayer identification number in order to file returns and other documents, and for most taxpayers that tax ID is their SSN. The Internal Revenue Service (IRS) issues ITINs to enable individuals who are not eligible for an SSN to comply with federal tax law. IRC §§6109, 7701(a)(41); Treas. Reg. §301.6109-1.

[7] For more information, see CRS Report R43840, *Federal Income Taxes and Noncitizens: Frequently Asked Questions*, by Erika K. Lunder and Margot L. Crandall-Hollick.

[8] For all families (including those in U.S. territories) with three or more qualifying children, they can calculate the ACTC using an alternative formula. The alternative formula is the amount by which Social Security taxes paid exceed the earned income tax credit (EITC) up to the maximum refundable credit. For most families, the ACTC under the earned income formula will be larger than the ACTC under the alternative formula. However, because residents of U.S. territories are generally ineligible for the EITC, the formula effectively equals the lesser of their Social Security taxes paid or their maximum ACTC. Under the alternative formula, taxpayers with one or two qualifying children are

Figure 1. Child Tax Credit Amount and Share of Taxpayers with Child Tax Credit Eligible Children by Income



Source: Top panel: Internal Revenue Code (IRC) Section 24 and P.L. 115-97. Bottom panel: CRS estimates using TRIM3 and the ASEC 2017 applied to the current IRC (i.e., IRC as amended by P.L. 115-97). For more information on TRIM3, see Appendix A in CRS Report R45971, *The Impact of the Federal Income Tax on Poverty:*

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effectively ineligible for the ACTC.

Residents of American Samoa who file an American Samoan tax return may claim the nonrefundable portion of the child tax credit against their America Samoan income taxes. For residents of American Samoa who have three or more qualifying children, they may also claim the ACTC, but only under the alternative formula. The Treasury covers the cost of any amount of the ACTC provided to America Samoan residents under the alternative formula. Puerto Rico has no child tax credit under Puerto Rican tax law. Puerto Rican residents with three or more qualifying children may claim the federal ACTC under the alternative formula, but only if they file Form 1040-SS with the Internal Revenue Service (IRS). Residents of mirror-code territories (Guam, the Commonwealth of the Northern Mariana Islands, and the U.S. Virgin Islands) may claim the child credit (including the ACTC) under both the earned income formula and the alternative formula as part of their respective territorial systems. The Treasury covers the cost of any amount of the ACTC provided to mirror-code territory residents under the alternative formula (it is unclear if the Treasury also covers the cost of the ACTC under the earned income formula).

Before and After the 2017 Tax Revision ("TCJA"; P.L. 115-97), by Margot L. Crandall-Hollick, Gene Falk, and Jameson A. Carter.

Notes: Top panel: A stylized example assuming the taxpayer has one qualifying child and all income is earned income, with no other sources of income and no above-the-line deductions. In actuality, the ACTC is calculated based on earned income and the credit is phased down based on modified adjusted gross income (MAGI). Married refers to married taxpayers filing joint returns. The "notch" in the graph when the credit amount equals $1,400 (the vertical axis) occurs when the maximum ACTC amount has been reached. Bottom panel: Estimates of all taxpayers (filers and nonfilers) who have at least one child who is eligible for the child tax credit by adjusted gross income (AGI). TRIM3 uses data from the 2017 Annual Social and Economic Supplement (ASEC) to the Current Population Survey (CPS), representing income received and tax liabilities or benefits accrued during calendar year 2016 as well as eligibility as if current law (i.e., the IRC as amended by P.L. 115-97) were in effect in 2016. Taxpayers cannot receive the credit for otherwise eligible children without SSNs, and hence these children are not considered child credit eligible for purposes of these estimates.

Many of the child tax credit's current parameters are temporary and in effect from 2018 through 2025 as a result of changes made by P.L. 115-97 (often referred to as the Tax Cuts and Jobs Act or TCJA).[9] These parameters, and those in effect after 2025, are summarized in **Table 1**. For more information on the child tax credit under current law, see CRS Report R41873, *The Child Tax Credit: Current Law*, by Margot L. Crandall-Hollick.

Table 1. Child Tax Credit Parameters Under Current Law

Parameter	Current Law (2018-2025)	Current Law (2026-)
Credit Amount		
Maximum Credit Amount	$2,000 per child 0-16 years old.	$1,000 per child 0-16 years old.
Maximum Additional Child Tax Credit (ACTC)	$1,400[a] per child aged 0-16 years old.	$1,000 per child aged 0-16 years old.
Refundability Formula for ACTC	15% of earnings above $2,500, not to exceed the maximum of $1,400 per child.	15% of earnings above $3,000, not to exceed the maximum of $1,000 per child.
Phaseout Threshold	$400,000 married filing jointly $200,000 head of household & single $200,000 married filing separately	$110,000 married filing jointly $75,000 head of household & single $55,000 married filing separately
Phaseout Rate	Credit is reduced by $50 for every $1,000 (or fraction thereof) above the phaseout threshold.	Credit is reduced by $50 for every $1,000 (or fraction thereof) above the phaseout threshold.
Other Provisions		
Qualifying Child ID Requirements	Social Security Number (SSN)	SSN or individual taxpayer identification number (ITIN)
Payment Frequency	Annual	Same as 2018-2025

[9] The law's original title, the Tax Cuts and Jobs Act, was stricken before final passage because it violated the Byrd rule, a procedural rule that can be raised in the Senate when bills, like the tax bill, are considered under the process of reconciliation. The law's actual title is "To provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018."

Parameter	Current Law (2018-2025)	Current Law (2026-)
Eligibility to Residents of Puerto Rico and Other Territories	Residents of the territories generally do not receive the federal child credit, although families in territories with three or more children may receive the ACTC using an alternative formula.[a]	Same as 2018-2025

Source: CRS analysis of IRC Section 24, P.L. 115-97, and Joint Committee on Taxation, JCX-17-20.

Notes:

a. Annually adjusted for inflation.

b. The alternative formula is the amount by which Social Security taxes paid exceed the earned income tax credit (EITC) up to the maximum refundable credit. Because residents of territories are generally ineligible for the EITC, the formula effectively equals the lesser of their Social Security taxes paid or their maximum ACTC. For more information, see Joint Committee on Taxation, JCX-17-20.

What is the legislative history of the child credit?

When it was initially enacted in 1997, the child tax credit was a $500-per-child nonrefundable credit designed to provide tax relief to middle- and upper-middle-income families. According to the Joint Committee on Taxation

> Congress believed that [prior to the child tax credit] the individual income tax structure [did] not reduce tax liability by enough to reflect a family's reduced ability to pay taxes as family size increases.... The Congress believed that a tax credit for families with dependent children will reduce the individual income tax burden of those families, will better recognize the financial responsibilities of raising dependent children, and will promote family values.[10]

Subsequent legislative changes modified key parameters of the credit, expanding eligibility to more low-income families and increasing the credit's size. The first significant change to the child tax credit occurred when the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA; P.L. 107-16) was enacted. EGTRRA increased the amount of the credit to $1,000 per child.[11] In addition, as a result of EGTRRA, certain low-income taxpayers with earned income over $10,000 became eligible to receive part or all of the child credit as the ACTC using the earned income formula.[12] Similar to current law, under this formula the ACTC was equal to 15% of earned income above the refundability threshold ($10,000) up to the maximum credit amount.

[10] For more information, see U.S. Congress, Joint Committee on Taxation, *General Explanation of Tax Legislation Enacted in 1997*, JCS-23-97, December 17, 1997, pp. 6-7.

[11] Under EGTRRA, the maximum amount of the child credit was originally scheduled to phase in to $1,000 per child by 2010, at which point this change was scheduled to expire and revert to $500 per child. Legislation enacted in 2003 accelerated this phase-in such that by 2003 the maximum child credit was $1,000 per child. P.L. 111-312 extended the $1,000 per child amount for 2011 and 2012, and this change was ultimately made permanent by P.L. 112-240. For more information, see Table 2 in CRS Report R45124, *The Child Tax Credit: Legislative History*, by Margot L. Crandall-Hollick.

[12] According to the Tax Policy Center, "The refundable CTC was originally designed in 2001 to coordinate with the earned income tax credit (EITC). Once earnings reached $10,020 for families with two children in 2001, there was no further increase in the EITC. The earnings threshold for the refundable CTC was set at $10,000 so families could now receive a subsidy for earnings in excess of that amount. Like the earned income amount for the EITC, the $10,000 earnings threshold was indexed for inflation. When the earnings threshold for the refundable CTC was reduced—first to $8,500 in 2008 and then to $3,000 in 2009—that link between the phase-in of the refundable CTC and the EITC was

In 2008 and 2009, Congress passed laws—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. EESA lowered the refundability threshold from $10,000 to $8,500 for 2008. ARRA lowered the refundability threshold further to $3,000 for 2009 through 2010, a change that was eventually made permanent by the Protecting Americans from Tax Hikes (PATH) Act of 2015 (Division Q of P.L. 114-113).

At the end of 2017, Congress passed the TCJA (P.L. 115-97), which, in addition to making numerous other changes to the tax code, temporarily modified the child tax credit. The TCJA increased the maximum amount of the credit to $2,000 per child, increased the maximum amount of the refundable portion of the credit (i.e., the maximum ACTC) to $1,400, increased the income level at which the credit begins to phase out, and reduced the refundability threshold from $3,000 to $2,500. For many taxpayers, the TCJA expansion of the child credit offset other changes in the law that would have increased tax liabilities, including the law's temporary suspension of the personal exemption.[13]

What is the impact of the child credit?

The child tax credit increases the after-tax incomes of all but the poorest and wealthiest families with children, as illustrated in **Table 2**. Lower-income families are *less likely* to receive the child credit under current law than moderate- and some higher-income families and tend to receive a smaller credit. Estimates from the Tax Policy Center (**Table 2**) indicate that approximately 90% of all taxpayers with children receive the child tax credit, averaging $2,370 per taxpayer. In contrast, among the poorest families with children (income under $10,000), slightly less than half receive the credit (47.8%), averaging $250 per taxpayer in that income group (including nonrecipients). Low-income families are less likely to have income tax liability and have less earned income compared to higher-income families. Low levels of tax liability limit the amount of the nonrefundable portion of the credit, while low levels of earned income limit the amount of the ACTC. The highest-income families are also less likely to receive the child credit and receive a smaller credit on average, as illustrated in **Table 2**, as a result of the credit's phaseout. For example, among some of the wealthiest families with children (income between $500,000 and $1 million), less than half receive the credit (38.6%), which averages $930 per taxpayer in that income group.

broken." See Tax Policy Center, *What is the child tax credit?* Briefing Book, May 2020, https://www.taxpolicycenter.org/briefing-book/what-child-tax-credit.

[13] Elaine Maag, *The Tax Cuts and Jobs Act's bottom line for families? Not much change*, American Enterprise Institute, October 4, 2019, https://www.aei.org/economics/the-tax-cuts-and-jobs-acts-bottom-line-for-families-not-much-change/ ; and Isabel V. Sawhill and Christopher Pulliam, *Lots of plans to boost tax credits: which is best?* Brookings Institution, January 15, 2019, https://www.brookings.edu/research/lots-of-plans-to-boost-tax-credits-which-is-best/.

Table 2. Share of Taxpayers Who Receive the Child Credit and Average Credit Amount, by Income Level in 2019

Income Level[a]	% of All Taxpayers	% of Taxpayers who Receive the Child Credit	Child Tax Credit as % of After-Tax Income	Average Child Credit per Taxpayer
TAXPAYERS WITH CHILDREN[b]				
Less than $10,000	2.4	47.8	3.5	$250
$10,000-$20,000	8.5	68.0	4.8	$850
$20,000-$30,000	10.4	84.8	5.7	$1,520
$30,000-$40,000	8.6	90.8	6.2	$2,160
$40,000-$50,000	6.9	94.3	5.7	$2,450
$50,000-$75,000	13.6	96.4	5.0	$2,790
$75,000-$100,000	9.7	98.8	3.9	$2,980
$100,000-$200,000	23.7	99.5	2.6	$3,040
$200,000-$500,000	13.2	98.2	1.2	$2,790
$500,000-$1,000,000	1.8	38.6	0.2	$930
More than $1,000,000	0.8	0.5	0.0	$10
All	**100**	**90.2**	**2.2**	**$2,370**
ALL TAXPAYERS				
Less than $10,000	7.2	4.9	0.5	$30
$10,000-$20,000	12.6	14.0	1.2	$170
$20,000-$30,000	11.3	24.2	1.8	$430
$30,000-$40,000	9.1	26.9	1.9	$620
$40,000-$50,000	7.6	26.8	1.7	$680
$50,000-$75,000	14.2	29.2	1.5	$810
$75,000-$100,000	9.5	32.1	1.3	$920
$100,000-$200,000	18.2	40.8	1.0	$1,210
$200,000-$500,000	8.2	48.4	0.6	$1,350
$500,000-$1,000,000	1.0	20.1	0.1	$480
More than $1,000,000	0.5	0.3	0.0	$10
All	**100**	**28.2**	**0.9**	**$720**

Source: Tax Policy Center Model T20-0091.

Notes: Taxpayers include both filers and nonfilers.

a. Income is defined as expanded cash income (ECI), which equals cash income plus certain other tax-exempt forms of income and benefits like food stamps. These estimates include the $500 credit for non-child tax credit eligible dependents.

b. Taxpayers with children are those eligible to claim an exemption for children at home or away from home or with children qualifying for the child tax credit or earned income tax credit (EITC).

Research indicates that the refundable portion of the child tax credit (the ACTC) in conjunction with the larger earned income tax credit (EITC) reduces poverty, especially child poverty. CRS estimates that refundable tax credits (the ACTC and EITC) helped prevent 8.1 million individuals—of whom 4.2 million were children—from falling into poverty in 2016.[14] In the context of the federal income tax system, these refundable tax credits helped to reduce poverty among all individuals by more than two percentage points (from 14.5% to 12.3%), while reducing child poverty by more than five percentage points (from 17.5% to 12.0%).[15]

In recent years, there has been increased interest in providing direct benefits to families with children to reduce child poverty in the United States, sometimes in the form of tax benefits.[16] The National Academy of Sciences (NAS) included a "child allowance" as part of a package of policies to reduce child poverty over 10 years.[17] Other research has shown that increasing the amount of the child credit that low-income families receive—for example, by eliminating the current credit's phase-in so that the credit is "fully refundable"—would substantially reduce child poverty.[18] In addition, the IRS Taxpayer Advocate has proposed a near-universal child tax credit in part to "acknowledge that families at all income levels need a minimum amount of resources to adequately care for children."[19]

Expanding the child tax credit would reduce federal income tax revenue. If enacted in isolation, an expanded child tax credit would increase the budget deficit. Revenue losses associated with an expanded child tax credit could be offset by increased revenue elsewhere in the tax system, or by

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[14] These amounts are estimated as if current tax law were in effect in 2016. Specifically, the microsimulation model used to derive these estimates—the TRIM3 model—uses data from the 2017 Annual Social and Economic Supplement (ASEC) to the Current Population Survey (CPS), representing income received and tax liabilities or benefits accrued during calendar year 2016 as well as eligibility as if current law (i.e., the IRC as amended by P.L. 115-97) were in effect in 2016.

[15] See Figures 3 and 6 in CRS Report R45971, *The Impact of the Federal Income Tax on Poverty: Before and After the 2017 Tax Revision ("TCJA"; P.L. 115-97)*, by Margot L. Crandall-Hollick, Gene Falk, and Jameson A. Carter, The Impact of the Federal Income Tax on Poverty: Before and After the 2017 Tax Revision ("TCJA"; P.L. 115-97), by Margot L. Crandall-Hollick, Gene Falk, and Jameson A. Carter. Note that subsequent unpublished revisions to these estimates by CRS found that the individual rate fell from 14.8% to 12.3% and the child poverty rate fell from 17.8% to 12.1% in 2016.

[16] For example, see Jason DeParle, "The Tax Break for Children, Except the Ones Who Need It Most," *The New York Times*, December 16, 2019, https://www.nytimes.com/2019/12/16/us/politics/child-tax-credit.html; and Dylan Matthews, "Mitt Romney and Michael Bennet just unveiled a basic income plan for kids," *Vox*, December 16, 2019, https://www.vox.com/future-perfect/2019/12/16/21024222/mitt-romney-michael-bennet-basic-income-kids-child-allowance.

[17] The report recommended a monthly benefit of $166 per child ($2,000 per child per year) or a $250 monthly benefit ($3,000 per child per year) as a replacement for the current child tax credit and personal exemption. According to estimates from the National Academy of Sciences report, "The more substantial child allowance option, which would replace the child tax credit and child tax exemption with a universal $3,000 payment per child per year ... would generate a 5.3 percentage point reduction in poverty. The less substantial child allowance option (with a $2,000 annual payment, lower maximum eligibility age, and different phase-out) is estimated to produce a 3.4 percentage-point poverty reduction." See Chapter 5: "Ten Policy and Program Approaches to Reducing Child Poverty," in The National Academies of Science, Engineering, and Medicine, *A Roadmap to Reducing Child Poverty* (Washington, DC: The National Academies Press, 2019), p. 152, https://www.nap.edu/catalog/25246/a-roadmap-to-reducing-child-poverty.

[18] See for example Robert Greenstein, Elaine Maag, Chye-Ching Huang, et al., *Improving the Child Tax Credit for Very Low–Income Families*, U.S. Partnership on Mobility from Poverty, April 2018, https://www.mobilitypartnership.org/improving-child-tax-credit-very-low-income-families.

[19] See Part II in National Taxpayer Advocate, *Earned Income Tax Credit | Making the EITC Work for Taxpayers and the Government*, Special Report to Congress, 2019, p. 16, https://taxpayeradvocate.irs.gov/objectivesreport2020-v3.

reduced spending. It could also be possible to design revenue-neutral changes in the child tax credit, where the credit would be expanded for some tax payers while being reduced for others.

Selected Legislation in the 116th Congress

Several bills introduced in the 116th Congress would expand the child credit—the Economic Mobility Act of 2019 (EMA; H.R. 3300), the Working Families Tax Relief Act of 2019 (WFTRA; S. 1138 and H.R. 3157), and the American Family Act of 2019 (AFA; S. 690 and H.R. 1560). Each bill would eliminate the credit's current phase-in (i.e., make the credit fully refundable) and create a larger credit for younger children. In some proposals, the credit would phase out at lower income levels than under current law. These bills are generally targeted at providing increased benefits to lower-income children, although some moderate- and higher-income families would benefit from the larger credit for young children. Some higher-income families would, if the AFA or WFTRA were to become law, receive a smaller credit. In comparison, if the EMA were to become law, families would receive either the same credit or a larger credit. Each bill is briefly summarized below and compared in **Table 3** and **Figure 5**.

The Economic Mobility Act of 2019 (EMA; HR. 3300)[20]

The EMA would create a flat $2,000 per child credit ($3,000 for young children) for all taxpayers with income below $200,000 ($400,000 if married filing jointly), with the credit phasing out according to the same parameters as current law. This would increase the amount of the credit for many low-income families who currently receive less than the maximum credit. These changes would be temporary and, as drafted, in effect for 2019 and 2020. The major EMA modifications to the child credit would include:

- **Creating a larger credit for young children:** The EMA would increase the per-child credit amount to $3,000 for each of a taxpayer's qualifying children aged zero to three years old.
- **Increasing the maximum ACTC:** The bill would increase the maximum ACTC amount from $1,400 to $2,000 per qualifying child ($3,000 for young children). This change would eliminate the difference between the maximum refundable and nonrefundable amounts of the CTC.
- **Making the child credit fully refundable:** The EMA would eliminate the phase-in of the ACTC. As a result, eligible families with little or no income would be able to receive the maximum amount of the CTC ($2,000 for children 4 to 16 years old; $3,000 for those 3 years old and younger). For these families, a large share (and in some cases all) of their child tax credit would be received as the ACTC.

The bill would also authorize the Treasury to make payments to the territories to cover the full cost of the child credit under this proposal (the nonrefundable and the refundable portion).[21] Other

20 The bill discussed in this report reflects the legislative text voted favorably out of committee on June 20, 2019, and reported to the House on February 4, 2020. For more information, see House Committee on Ways and Means, Markup of Tax Legislation, 116th Cong., 1st sess., June 20, 2019, https://waysandmeans.house.gov/legislation/markups/markup-hr-3298-child-care-quality-and-access-act-2019-hr-3299-promoting-respect and H.Rept. 116-384.

21 American Samoa and Puerto Rico (non-mirror code territories) would have to submit a plan to the Treasury to be compensated for the full cost of the child credit. In addition, under this bill, taxpayers who claimed the child credit at the territorial level (i.e., as part of their territorial income tax return), would be ineligible to claim it at the federal level.

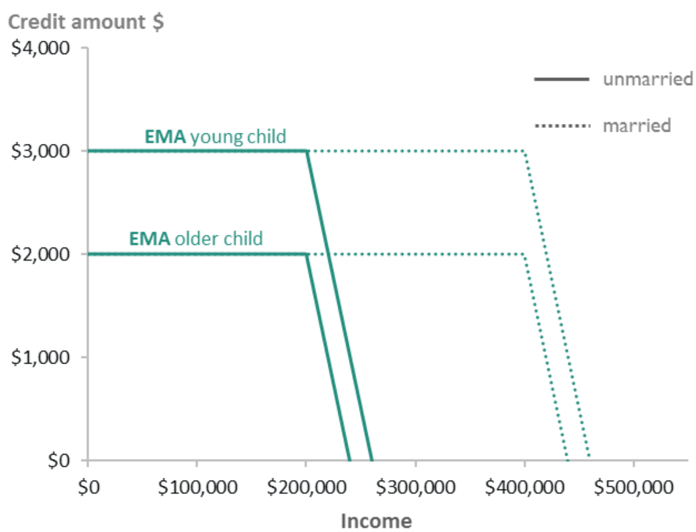
aspects of the credit formula, including the $2,000 per child maximum credit (which would be applicable only to older children under the bill), the income level at which the credit begins to phase out, and the credit's phaseout rate, would be unchanged from current law.

According to the Joint Committee on Taxation (JCT), two of the EMA's temporary changes to the child tax credit—increasing the maximum ACTC and making the credit fully refundable (and the permanent expansion of these changes to families in U.S. territories)—would cost $50.7 billion over 10 years (2019-2029).[22]

The Child Credit Amount by Income Under the EMA

As illustrated in **Figure 2**, the *young* child credit under the EMA would equal $3,000 per young child for taxpayers with income under $200,000 ($400,000 for married joint filers). This credit would then phase out by $50 for every $1,000 of income above $200,000 ($400,000 for married joint filers). Hence, if a taxpayer had one young child, the credit would phase down over a range of $60,000 and equal zero when income was $260,000 or more ($460,000 or more for married joint filers).[23] The *older* child credit under the EMA would equal the current-law child credit (in other words, the lines for current law and the EMA overlap over this income range, as illustrated in **Figure 5**).[24]

Figure 2. Economic Mobility Act (EMA) Child Credit Amount by Income



Source: CRS analysis of H.R. 3300.

[22] Joint Committee on Taxation, *Estimated Revenue Effects Of* H.R. 3300, *The "Economic Mobility Act Of 2019," Scheduled For Markup By The Committee On Ways And Means On June 20, 2019*, June 18, 2019, JCX-29R-19. The $3,000 credit for children under four years old was added as an amendment during the Ways and Means Committee's consideration of H.R. 3300.

[23] The phaseout range would increase proportionally by number of children. Thus, if a taxpayer had three young children, the credit would phase out over a range of $180,000 of income (e.g., from $200,000 to $380,000 for an unmarried taxpayer).

[24] Specifically, the credit would equal $2,000 for taxpayers with income under $200,000 ($400,000 for married joint filers), phasing out over a $40,000 range of income per child at a rate of $50 for every $1,000 over the phaseout threshold (e.g., from $200,000 to $240,000 for an unmarried taxpayer with one older child).

Notes: A stylized example assuming the taxpayer has one qualifying child and all income is earned income, with no other sources of income and no above-the-line deductions claimed. Unmarried refers to taxpayers who file as single and head of household, married refers to married taxpayers filing joint returns. Note that the changes made by the EMA would be temporary and, as drafted, in effect in 2019 and 2020.

The Working Families Tax Relief Act of 2019 (WFTRA; HR. 3157/S. 1138)[25]

The WFTRA would create a flat $2,000 per child credit ($3,000 for young children) for all taxpayers with income below $150,000 ($200,000 if married filing jointly). Taxpayers with higher income would receive a reduced credit. This would increase the amount of the credit for many low-income families who currently receive less than the maximum credit. These changes would be permanent. The major WFTRA modifications to the child credit would include:

- **Creating a larger credit for young children:** The WFTRA would increase the per-child credit amount to $3,000 for each of a taxpayer's qualifying children aged zero to five years old.
- **Increasing the maximum ACTC:** The bill would increase the maximum ACTC amount from $1,400 to $2,000 per qualifying child ($3,000 for young children). This change would eliminate the difference between the maximum refundable and nonrefundable amounts of the CTC.
- **Making the child credit fully refundable:** The WFTRA would eliminate the phase-in of the ACTC, making the credit fully refundable. Hence, families with little or no income would receive the maximum amount of the child credit. For these families, a large share (and in some cases all) of their child tax credit would be received as the ACTC.
- **Changing the phaseout of the credit:** The bill would lower the income threshold at which the credit would begin to phase out to $150,000 ($200,000 for married joint filers). This is a lower phaseout threshold in comparison to the current-law phaseout in effect through 2025, although these thresholds would be higher than the phaseout levels scheduled to be in effect beginning in 2026.

Other modifications include a provision to direct the IRS to pay the credit on a monthly basis (e.g., a $3,000 annual credit for a young child would be paid as $250 monthly payments). Other aspects of the credit formula, including the $2,000 per child maximum credit (which would be applicable only to older children under the bill), the child taxpayer ID requirements, and the rate at which the credit phases out, would be unchanged from current law.

The Child Credit Amount by Income Under the WFTRA

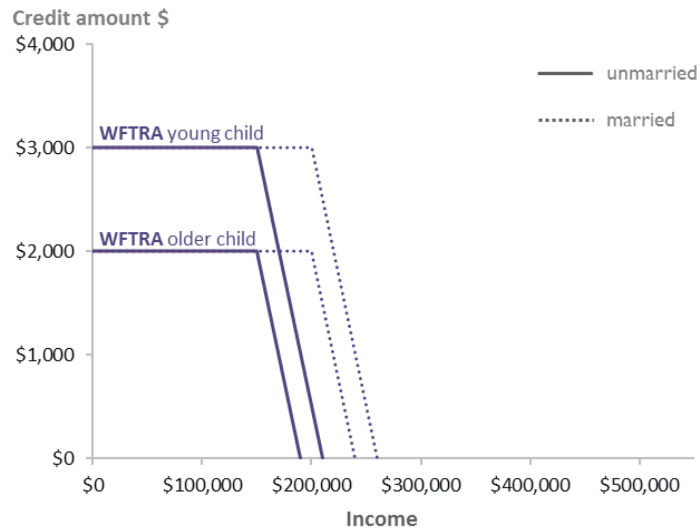
As illustrated in **Figure 3**, the *young* child credit under the WFTRA would equal $3,000 per young child for taxpayers with income under $150,000 ($200,000 for married joint filers). This credit would then phase out by $50 for every $1,000 of income above $150,000 ($20,000 for married joint filers). Hence, if a taxpayer had one young child, the credit would phase out over a range of $60,000 and equal zero when income was $210,000 or more ($260,000 or more for married joint filers).[26] The *older* child credit under the WFTRA would equal $2,000 per child

[25] The bills discussed in this report reflect the legislative texts as introduced.

[26] The phaseout range would increase proportionally by number of children. Thus, if a taxpayer had three young children, the credit would phase out over a range of $180,000 of income (e.g., from $200,000 to $380,000 for an unmarried taxpayer).

credit for taxpayers with income under $150,000 ($200,000 for married joint filers). The credit for older children would phase out over a $40,000 range of income per child at a rate of $50 for every $1,000 over the phaseout threshold (e.g., from $150,000 to $190,000 for an unmarried taxpayer with one older child).

Figure 3. Working Families Tax Relief Act (WFTRA) Child Credit Amount by Income



Source: CRS analysis of H.R. 3157 and S. 1138.

Notes: A stylized example assuming the taxpayer has one qualifying child and all income is earned income, with no other sources of income and no above-the-line deductions claimed. Unmarried refers to taxpayers who file as single and head of household, married refers to married taxpayers filing joint returns.

The American Family Act of 2019 (AFA; HR. 1560/S. 690)[27]

The AFA would increase the child credit to a flat $3,000 per child ($3,600 for young children) for taxpayers with income below $130,000 ($180,000 if married filing jointly), with the credit phasing out above these income levels. All the changes under the AFA would be permanent. The major AFA modifications to the child credit would include:

- **Creating a larger credit for young children:** The AFA would increase the per-child credit amount to $3,600 for each of a taxpayer's qualifying children aged zero to five years old.
- **Increasing the maximum credit amount (including the ACTC):** The bill would increase the maximum credit (including the maximum ACTC) to $3,000 per qualifying child ($3,600 per young child). This change would eliminate the difference between the maximum refundable and nonrefundable child credit amounts, while also providing a larger credit for many moderate- and some upper-income families that receive $2,000 per child credit under current law.
- **Making the child credit fully refundable:** The AFA would eliminate the phase-in of the ACTC, making the credit fully refundable. Hence, families with little or no income would

27 The bills discussed in this report reflect the legislative texts as introduced.

receive the maximum amount of the child credit. For these families, a large share (and in some cases all) of their child tax credit would be received as the ACTC.

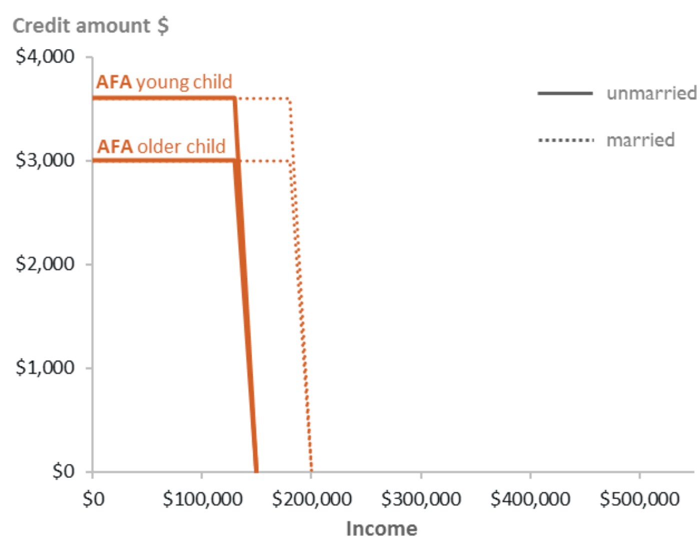
- **Changing the phaseout threshold and phaseout rate of the credit:** The bill would lower the income threshold at which the credit would begin to phase out to $130,000 ($180,000 for married joint filers). The rate at which the credit would phase out would be greater (15% for older children, 18% for younger children) than under current law (5%).

H.R. 1560 and S. 690 differ on the maximum age of an eligible older child. Under the House bill, the age limit would increase by a year and include 17-year-olds, whereas the Senate version would retain the 16-year-old limit. Other modifications would include authorizing the Treasury to make payments to the territories to cover the full cost of the child credit under this proposal (as proposed under the EMA), increasing the credit's payment frequency, and allowing taxpayers to claim the credit for otherwise eligible children without SSNs (i.e., children with ITINs).

The Child Credit Amount by Income Under the AFA

As illustrated in **Figure 4**, the *young* child credit under the AFA would equal $3,600 per child for taxpayers with income under $130,000 ($180,000 for married joint filers). This credit would then phase out by $180 for every $1,000 of income above $130,000 ($180,000 for married joint filers), or an effective 18% phaseout rate.

Figure 4. American Family Act (AFA) Child Credit Amount by Income



Source: CRS analysis of H.R. 1560 and S. 690.

Notes: A stylized example assuming the taxpayer has one qualifying child and all income is earned income, with no other sources of income and no above-the-line deductions claimed. Unmarried refers to taxpayers who file as single and head of household, married refers to married taxpayers filing joint returns.

Hence, if a taxpayer had one young child, the credit would phase down over a range of $20,000 and equal zero when income was $150,000 or more ($200,000 or more for married joint filers).[28]

[28] The phaseout range would increase proportionally by number of children. Thus, if a taxpayer had three young children, the credit would phase out over a range of $60,000 of income (e.g., from $130,000 to $190,000 for an unmarried taxpayer).

The *older* child credit under the AFA would equal $3,000 for taxpayers with income under $130,000 ($180,000 for married joint filers). As with the young child credit, the credit for older children would phase out over a $20,000 range of income per child at a rate of $150 for every $1,000 over the phaseout threshold (or an effective 15% phaseout rate). In other words, the $3,000 credit would phase out between $130,000 and $150,000 for an unmarried taxpayer with one older child.

A proposal similar to H.R. 1560 was included as part of the Heroes Act (H.R. 6800). The proposal included the first three changes to the child tax credit included in the AFA (i.e., a $3,600 credit for young children, a $3,000 credit for older children, and a fully refundable credit). The Heroes Act child credit expansion would also expand the eligibility age to include 17-year-olds, direct the IRS to pay out the credit monthly, and extend eligibility to residents of the territories. The Heroes Act child credit expansion would be temporary and only in effect for 2020.[29] According to JCT, the temporary Heroes Act changes to the child tax credit would cost $118.8 billion over 10 years (2020-2030).[30]

[29] The bill would not change the phaseout threshold or phaseout rate of the credit from current law. For more information, see CRS Report R46358, *Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act: Division B—Revenue Provisions*, coordinated by Molly F. Sherlock. A similar expansion to the child tax credit was also included in the Take Responsibility for Workers and Families Act (H.R. 6379). For more information, see CRS Report R46283, *The Take Responsibility for Workers and Families Act: Division T—Revenue Provisions*, coordinated by Molly F. Sherlock.

[30] Joint Committee on Taxation, Estimated Revenue Effects of The Revenue Provisions Contained In H.R. 6800, The "Health And Economic Recovery Omnibus Emergency Solutions ('Heroes') Act," Scheduled For Consideration By The House Of Representatives On May 15, 2020, May 15, 2020, JCX-15-20.

Table 3. Major Changes to the Child Tax Credit under Selected Legislative Proposals

Parameter	Economic Mobility Act (EMA) H.R. 3300 (Rep. Neal)	Working Families Tax Relief Act (WFTRA) S. 1138 /H.R. 3157 (Sen. Brown/Rep. Kildee)	American Family Act (AFA) S. 690/H.R. 1560 (Sen. Bennet/Rep. DeLauro)
Maximum Credit Amount	$3,000 per child 0-3 years old $2,000 per child 4-16 years old	$3,000[a] per child 0-5 years old $2,000[a] per child 6-16 years old	$3,600[a] per child 0-5 years old $3,000[a] per child 6-16 years old[b]
Maximum Additional Child Tax Credit (ACTC)	$3,000 per child 0-3 years old $2,000 per child 4-16 years old *(i.e., all of the child credit can be received as the ACTC.)*	$3,000[a] per child 0-5 years old $2,000[a] per child 6-16 years old *(i.e., all of the child credit can be received as the ACTC.)*	$3,600[a] per child 0-5 years old $3,000[a] per child 6-16 years old[b] *(i.e., all of the child credit can be received as the ACTC.)*
Refundability Formula for ACTC	No formula; credit is equal to fixed amount per child and is fully refundable. Hence, taxpayers with no income tax liability and no earned income would receive the maximum amount.	No formula; credit is equal to fixed amount per child and is fully refundable. Hence, taxpayers with no income tax liability and no earned income would receive the maximum amount.	No formula; credit is equal to fixed amount per child and is fully refundable. Hence, taxpayers with no income tax liability and no earned income would receive the maximum amount.
Phaseout Threshold	$400,000 married filing jointly $200,000 head of household & single $200,000 married filing separately *Same as current law*	$200,000 married filing jointly $150,000 head of household & single $100,000 married filing separately	$180,000 married filing jointly $130,000 head of household & single $90,000 married filing separately
Phaseout Rate	Credit is reduced by $50 for every $1,000 (or fraction thereof) above the phaseout threshold. *Same as current law*	Credit is reduced by $50 for every $1,000 (or fraction thereof) above the phaseout threshold. *Same as current law*	Credit is reduced by "applicable amount" for every $1,000 (or fraction thereof) above the phaseout threshold. Applicable amount[a] =$150 if all children are 6 years or older =$180 if all children are under 6 years

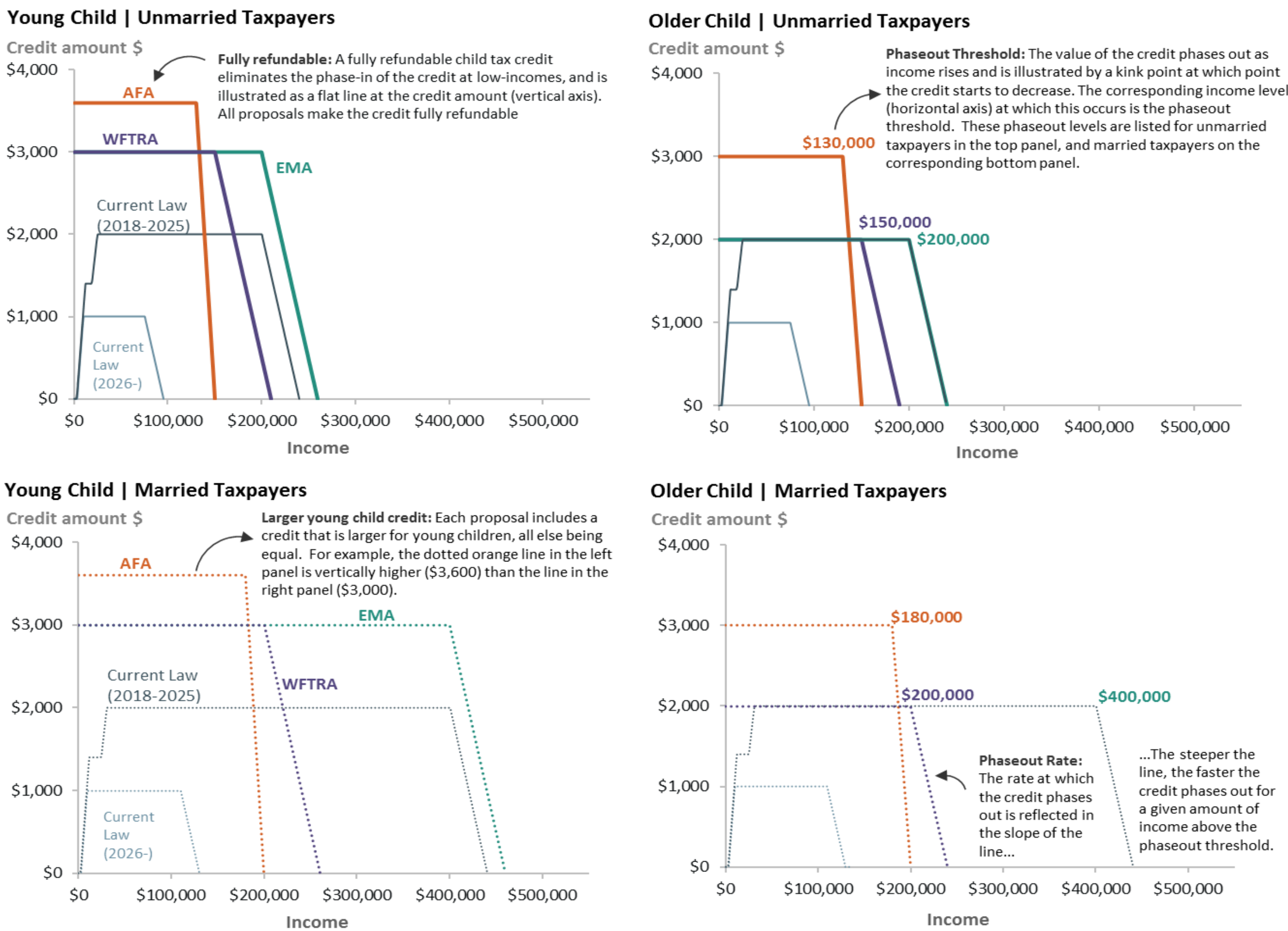
Parameter	Economic Mobility Act (EMA) H.R. 3300 (Rep. Neal)	Working Families Tax Relief Act (WFTRA) S. 1138 /H.R. 3157 (Sen. Brown/Rep. Kildee)	American Family Act (AFA) S. 690/H.R. 1560 (Sen. Bennet/Rep. DeLauro)
Qualifying Child ID Requirements	2019-2020: Social Security Number (SSN). *Same as current law*	2019-2025: Social Security Number (SSN). 2026-: SSN or individual taxpayer identification number (ITIN). *Same as current law*	2020-: SSN or Individual taxpayer identification number (ITIN).
Payment Frequency	Annual *Same as current law*	Monthly The legislation directs the Treasury Secretary to make the credit advanceable on a monthly basis, or "as the Secretary determines to be administratively feasible."	Monthly The legislation directs the Treasury Secretary to make the credit advanceable on a monthly basis, or "as the Secretary determines to be administratively feasible."
Payments to Residents of Puerto Rico and Other Territories	Treasury is authorized to make payments to all territories for the aggregate cost of the child credit under this proposal (the nonrefundable and refundable portion of the child credit). Unlike the rest of the bill, this would be a permanent change.	*Same as current law*	Treasury is authorized to make payments to all territories for the aggregate cost of the child credit under this proposal (the nonrefundable and refundable portion of the child credit).
Modifications to Other Tax Benefits	Yes, modifies earned income tax credit (EITC), and child and dependent care tax benefits.	Yes, modifies earned income tax credit (EITC) and regulates paid preparers.	No, only modifies the child credit.
Applicable Years	2019 and 2020 (Payment to territorial residents would be permanent.)	2019- (Permanent change)	2020- (Permanent change)

Sources: CRS analysis of Internal Revenue Code (IRC) Section 24 and the Economic Mobility Act (EMA; H.R. 3300), the Working Families Tax Relief Act (WFTRA; S. 1138 and H.R. 3157), and the American Family Act (AFA; S. 690 and H.R. 1560).

a. Annually adjusted for inflation.

b. H.R. 1560 would extend the eligibility age for this credit to include 17-year-olds (i.e., 6-17 years old).

Figure 5. Child Tax Credit Amount Under AFA, EMA, and WFTRA by Income



Sources: CRS Analysis of Internal Revenue Code (IRC) Section 24 and the Economic Mobility Act (EMA; H.R. 3300), the Working Families Tax Relief Act (WFTRA; S. 1138 and H.R. 3157) and the American Family Act (AFA; S. 690 and H.R. 1560).

Notes: Note that the changes made by these bills would all be concurrently in effect in 2020 if these bills were to be enacted. Stylized examples assume the taxpayer has one qualifying child and all income is earned income, with no other sources of income and no above-the-line deductions. Unmarried refers to taxpayers who file as single and head of household, married refers to married taxpayers who file their taxes jointly. The definition of "young child" and "older child" varies by bill. For the EMA, a young child is under four years old; for the WFTRA and the AFA, a young child is under six years old. Older children would generally be those who were 16 years and younger but not considered young children. However, H.R. 1560 would extend the eligibility age for this credit to include 17-year-olds (i.e., 6-17 years old). Where only one line is visible because of overlap, credit amounts are the same; see **Table 3** for details.

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