

# Child Tax Benefits and Children with Complex or Dynamic Living Arrangements

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The federal income tax system provides [substantial amounts of cash assistance](#) for many families with children, often in the form of refundable tax credits. The two largest benefits for families with children (and workers) are the [earned income tax credit \(EITC\)](#) and the [child tax credit](#). To claim these benefits, tax filers and children have to meet numerous requirements.

Policymakers have recently expressed interest in providing [additional cash assistance to families with children, often in the form of tax benefits](#). In the 117<sup>th</sup> Congress, Congress passed the American Rescue Plan Act of 2021 (P.L. 117-2), providing a larger child tax credit that is issued on a periodic basis throughout the year (i.e., advanced) instead of as a lump sum when income tax returns are filed.

Tax rules for claiming children for benefits do not align with the lived experience of some families in the United States, which may lead to confusion for these families and administrative issues for the Internal Revenue Service (IRS). Family living, caregiving, and financial arrangements can be intricate; [a family's understanding of shared childrearing \(and therefore what they may perceive as reasonable when claiming children for tax purposes\)](#) may not match the tax code's extensive set of rules for qualifying children (link requires paid subscription). Some children have more than one individual who is eligible to claim them; others may have no one. Many children move between different living arrangements in often unforeseen ways from year to year or on a more frequent basis. Children who experience these forms of family arrangements are also [disproportionately likely to be from economically vulnerable backgrounds](#).

As a result of the incongruity between children's living arrangements and current tax rules, certain policy aims for the tax system such as limiting burdens on tax filers, encouraging tax compliance, and reducing child poverty may be hampered in practice. Various policy design and implementation choices can affect the extent to which tax benefits readily aid children. This Insight provides an overview of the living arrangements of children as they relates to key tax provisions.

## Complex Family Arrangements

Many children receive significant financial, caregiving, and other forms of support from parents, extended family, or nonrelative kin who may or may not share a residence with them. The tax code, on the other hand, generally allows only one adult or married couple to claim tax benefits for children that are related

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to them (a relationship test), live with them for more than half the year (a residency test), and meet certain other requirements (e.g., a child age test). Generally, benefits for a child cannot be divided between multiple tax filers. In cases where multiple individuals may be eligible to claim a child, tiebreaker rules specify which person can claim the child.

One notable issue is that some children may be ineligible for child tax benefits because they do not live with their parents or any other relatives. To meet the relationship test, current law requires that the child must be the tax filer's biological relative, adopted child, or eligible (i.e., formally placed) foster child. In practice, living arrangements involving non-relative kin are often determined informally.

The disconnect between contemporary family norms and current tax rules likely contributes to the substantial challenges associated with taxpayer compliance and IRS administration with respect to various child tax benefits, as discussed by [academic researchers](#) (link requires paid subscription), the [Government Accountability Office](#), former [National Taxpayer Advocate](#) Nina Olson, and analysts affiliated with the U.S. Department of Treasury (read a [synthesis paper](#) and [data analysis](#)).

Research finds that a [child's likelihood of experiencing family complexity](#) tends to be greater for children who are Black or from less-advantaged socioeconomic backgrounds (as measured by parental education or family income). Many of these children also experience higher levels of instability in their living arrangements (discussed next).

## Dynamic Living Arrangements

Classifying where a child is living for a given month or year to meet a child tax benefit's residency test can be particularly challenging when children alternate between multiple households on an ongoing basis. For example, divorced and separated [parents are increasingly likely to legally share physical placement of their children](#), including cases where children are expected to spend an equal number of nights with each parent. A child's caregivers, including parents, other relatives, and non-relatives, may also informally establish arrangements in which children regularly alternate between households for extended periods of time. The complexity of these arrangements helps explain why, for example, [a sizable share of separated mothers' and fathers' reports of their child's primary residency are inconsistent with one another](#) in survey research (link requires paid subscription).

Finally, for children with dynamic living arrangements, advancing child benefits on a periodic (e.g., monthly) basis may also pose challenges. Studies drawing on different data sources and methodologies estimate that [one-third](#), or perhaps closer to [one-half](#), of U.S. children experience a change involving a parent entering or leaving their household over the course of childhood. (There were more than [72.9 million children under age 18 in 2020](#).) About [one-third of children](#) are estimated to have lived with nonparent, nonsibling relatives at some point during their childhood. One study estimates that [2.1 million children \(almost 3% of all children\)](#) experienced a transition in parental presence or the presence of a parent's partner in the household during a single year (2017). Another study estimates that about [5% of children](#) (younger than age 15) experienced a change in the presence of a parent over a two-year period (2008-2010). Approximately 10% of children in the study experienced a change in the coresidence of a nonparent, nonsibling relative over the same period. A third study estimates that [8% of children](#) experienced a change in family type annually (between 2008 and 2012), with family type defined as either a married couple, a single parent, a cohabiting couple, or relative/foster care. In short, some families may be unable to anticipate who will be eligible to claim a child in the future, and benefits paid based on past information may not reflect a child's current living arrangements.

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