The Child Tax Credit Under the House Ways and Means Committee "Build Back Better" Reconciliation Language: Calculating the Monthly Credit Amount

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In September 2021, the House Ways and Means Committee approved reconciliation language that would, among other changes, effectively extend the expanded child credit in effect in 2021 through the end of 2025. If these changes were to go into effect, eligible taxpayers would receive a monthly per-child benefit of up to $300 for young children and up to $250 for older children through the end of 2025.

- For 2022, the proposal extends the credit in effect in 2021, with some modifications that would affect its administration in certain cases.
- For 2023-2025, the proposal modifies eligibility rules and administration of the credit. These changes are broadly intended to allow the credit to be more "portable" if children move between taxpayers during the year, and limit repayment obligations in certain cases.
- After 2025, under current law, the credit is scheduled to return to its prior-law parameters. However, the Ways and Means language would modify current law such that the credit would permanently be fully refundable.

Major changes to the child tax credit made by the Ways and Means reconciliation language are summarized here. This Insight provides a basic overview of how that monthly payment amount would be calculated.

Calculating the Credit Amount

The proposal would suspend the existing child tax credit under Internal Revenue Code (IRC) Section 24 from 2023 to 2025, and would establish in its place a temporary monthly refundable child credit under a new IRC Section 24A. The credit amount for a given year would equal the sum of the monthly credit allowances. Specifically, a taxpayer's total benefit in a given year would be based on:

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- the number of months they have an eligible child (referred to as a "specified child") and the number of specified children they have per month,
- their filing status in the given year, and
- their lowest income in the given year or the two preceding years (which determines if and to what extent they are subject to the phaseout).

Specified Child

Broadly, a taxpayer could claim a child as a specified child for a given month if the child was under 18 years old, the child lived with the taxpayer for more than half the month, and the child received uncompensated care from the taxpayer.

Maximum Monthly Credit Allowance Amount

First, a taxpayer would calculate their maximum monthly benefit by adding up the maximum credit allowances for each of their specified children in that month. If subject to the phaseout, this maximum monthly benefit amount would be reduced accordingly.

The maximum amount of a credit allowance per month would equal

- $300 per "specified" child 0-5 years old, and
- $250 per "specified" child 6-17 years old.

For example, if a taxpayer had two young children that were their specified children for a given month, they would be eligible for up to $600 in the monthly credit allowance for that month.

Phaseout of the Monthly Credit Allowance Amount (If Applicable)

If a taxpayer's annual income was below an initial phaseout threshold, their benefit amount *would not* be subject to phaseout. It a taxpayer's annual income was above the initial threshold but below a secondary threshold, the total monthly benefit amount would be phased down in a manner comparable to the current phaseout of the 2021 credit. If a taxpayer had annual income above the second phaseout, the total monthly benefit amount would be subject to the initial phaseout as well as a second phaseout. The initial and secondary thresholds are provided in **Table 1**.

Table 1. Phaseout Thresholds for the Monthly Child Credit 2023-2025

As Proposed in the Ways and Means Reconciliation Language

Filing Status	**Initial Threshold** (Annual Income)	**Secondary Threshold** (Annual Income)
Married Filing Jointly/Surviving Spouse	$150,000	$400,000
Head of Household	$112,500	$300,000
Single	$112,500	$200,000
Married Filing Separately	$75,000	$200,000

Source: CRS analysis of the Ways and Means Reconciliation Language.

Note: These amounts would be indexed for inflation.

When determining annual income for purposes of the initial and secondary phaseouts, taxpayers would select their lowest income from the current year and the preceding two years (e.g., for 2023 monthly payments, taxpayers could choose the lowest income from their 2023, 2022, or 2021 income tax return). This is often referred to as a "lookback."

Steps to Phase Out the Monthly Amount

If a taxpayer's annual income (including lookbacks) was greater than the initial threshold, the maximum amount per month would be subject to the initial phaseout. The amount by which the monthly benefit would be phased down after the initial phaseout would be limited, such that taxpayers with income between the initial and secondary thresholds would be eligible for a credit of *at least $167 per child per month* (or $2,000 per child per year, as under current law in 2021).

Initial Phaseout

First, calculate the initial phaseout amount, which equals

$$\frac{1}{12}\ x\ 5\%(annual\ income - initial\ threshold)$$

Then, determine if the limitation applies to this initial phaseout amount. Under this limitation, the initial phaseout amount cannot be *greater than* the smaller of:

(a) $133.33 per month per young child or $83.33 per month per older child, or
(b) $\frac{1}{12}\ x\ 5\%(secondary\ threshold - initial\ threshold)$*

**The limitation under (b) would generally only apply to certain higher-income taxpayers with large families (e.g., six or more young children). See Example 4 below.*

If annual income (including lookbacks) was greater than the secondary threshold, the maximum amount per month would be subject to the initial phaseout (and the limitation, if applicable), followed by a further reduction under the second phaseout.

Second Phaseout

For taxpayers with income above the secondary threshold, the monthly amount, after applying the initial phaseout, would be further reduced by an amount equal to

$$\frac{1}{12}\ x\ 5\%(annual\ income - secondary\ threshold)$$

The payment could not be phased down below zero.

Stylized Examples of Calculating the Monthly Benefit Amount

Below are four stylized examples illustrating how credit amounts would be calculated in different hypothetical situations in 2023 based on the reconciliation language.

Example 1 | Taxpayer Subject to Initial Phaseout without Limitation

Assumptions
Head of household filer in 2023
Annual income of $150,000 in 2023 (and lowest in the lookback period)
Three "specified" young children per month

Maximum monthly amount
The taxpayer's maximum monthly benefit for each of the months they could claim their three children would be **$900**.

Initial phaseout
Since their income would be above the initial threshold, they would reduce the **$900** monthly maximum by **$156**

$$\frac{1}{12} x\ 5\%(\$150{,}000 - \$112{,}500) = \mathbf{\$156}$$

Limitation: The limitation **would NOT apply** since **$156 is less than** the lesser of…

(a) $400 $(= 3\ x\ \$133.33)$ or
(b) $781 $(= \frac{1}{12} x\ 5\%(\$300{,}000 - \$112{,}500)$

Monthly amount after phaseout
Since the taxpayer would reduce their maximum monthly payment of **$900** by **$156**, their total monthly benefit would be **$744**.

Example 2 | Taxpayer Subject to Initial Phaseout with Limitation

Assumptions
Married joint filer in 2023
Annual income of $185,000 in 2023 (and lowest in the lookback period)
One "specified" young child per month

Maximum monthly amount
The taxpayer's maximum monthly benefit for each of the months they could claim their child would be **$300**.

Initial phaseout
Since their income would be above the initial threshold, they would reduce the **$300** monthly maximum by **$133**

$$\frac{1}{12} x\ 5\%(\$185{,}000 - \$150{,}000) = \$146$$

Limitation: The limitation **would apply** since $146 **is greater than** the lesser of…

(a) **$133** $(= 1\ x\ \$133.33)$ or
(b) $1,042 $(= \frac{1}{12} x\ 5\%(\$400{,}000 - \$150{,}000)$

Monthly amount after phaseout
Since the taxpayer would reduce their maximum monthly payment of **$300** by **$133**, their total monthly benefit would be **$167**.

Example 3 | Taxpayer Subject to Both Phaseouts

Assumptions
Married joint filer in 2023
Annual income of $420,000 in 2023 (and lowest in the lookback period)
One "specified" young child per month

Maximum monthly amount
The taxpayer's maximum monthly benefit for each of the months they could claim their child would be **$300**.

Initial phaseout
Since their income would be above the initial threshold, the taxpayer would reduce the **$300** maximum by **$133**

$$\frac{1}{12} x\ 5\%(\$420{,}000 - \$150{,}000) = \$1{,}125$$

Limitation: The limitation **would apply** since $1,125 **is greater than** the lesser of…

(a) **$133** (=$1\ x\ \$133.33$) or
(b) $1,042 (=$\frac{1}{12} x\ 5\%(\$400{,}000 - \$150{,}000)$

Second Phaseout
Since their income would be above the secondary threshold, the taxpayer would further reduce their monthly benefit by **$83**.

$$\frac{1}{12} x\ 5\%(\$420{,}000 - \$400{,}00) = \textbf{\$83}$$

Monthly amount after phaseout
Since the taxpayer would reduce their maximum monthly payment of **$300** by **$133** after the initial phaseout, and a further **$83** after the second phaseout, their total monthly benefit would be **$84**.

Example 4 | Taxpayer Subject to Both Phaseouts

Assumptions
Head of household filer in 2023
Annual income of $320,000 in 2023 (and lowest in the lookback period)
Six "specified" young children per month

Maximum monthly amount
The taxpayer's maximum monthly benefit for each of the months they could claim their six children would be **$1,800**.

Initial phaseout
Since their income would be above the initial threshold, the taxpayer would reduce the **$1,800** maximum by **$781**

$\frac{1}{12} x\ 5\%(\$320,000 - \$112,500) = \$865$

Limitation: The limitation **would apply** since $865 **is greater than** the lesser of…

(a) $798 (=$6\ x\ \$133.33$) or
(b) **$781** (=$\frac{1}{12} x\ 5\%(\$300,000 - \$112,500)$)

Second Phaseout
Since their income would be above the secondary threshold, the taxpayer would further reduce their monthly benefit by **$83**.

$\frac{1}{12} x\ 5\%(\$320,000 - \$300,00)$= **$83**

Monthly amount after phaseout
Since the taxpayer would reduce their maximum monthly payment of **$1,800** by **$781** after the initial phaseout, and a further **$83** after the second phaseout, their total monthly benefit would be **$936**.

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