Congressional Research Service
Informing the legislative debate since 1914

INSIGHT

The Child Tax Credit: What Lies Ahead?

January 10, 2024

The child tax credit has been temporarily modified several times in recent years. Media reports suggest policymakers may be interested in modifying the credit again in the near term to benefit low- and moderate-income families. This Insight provides background to those discussions by summarizing recent changes to the credit and outlining current proposals to modify it.

Recent Legislative Changes

Under permanent law—last in effect in 2017 and scheduled to go back in effect in 2026—the child tax credit allowed eligible households to reduce their income tax liability by up to $1,000 per child aged 16 or lower. Lower-income working taxpayers were eligible to receive part or all of this benefit as the refundable portion of the credit, sometimes called the additional child tax credit or ACTC. The ACTC phased in with earned income if households had at least $3,000 of earnings. For higher-income households, the child credit phased out.

The law commonly referred to as the Tax Cuts and Jobs Act (TCJA; P.L. 115-97) made several temporary changes to the permanent credit that are in effect through 2025. The TCJA increased the maximum credit amount to $2,000 per child, modified the ACTC formula to begin phasing in at $2,500 of earned income (compared to $3,000), capped the refundable portion of the credit at $1,400 per child (inflation-adjusted to $1,700 per child in 2024), and increased the income levels at which the credit begins to phase out.

The American Rescue Plan Act of 2021 (ARPA; P.L. 117-2) layered additional temporary changes on top of the TCJA changes for 2021 only. ARPA increased the maximum credit to $3,000 per child ($3,600 per child for young children), eliminated the phase-in of the credit for low-income taxpayers so they were eligible to receive the full or maximum amount of the credit irrespective of how much earned income they had (this is sometimes referred to as "full refundability"), and expanded the eligibility age for children to include 17-year-olds. These changes expired as scheduled at the end of 2021.

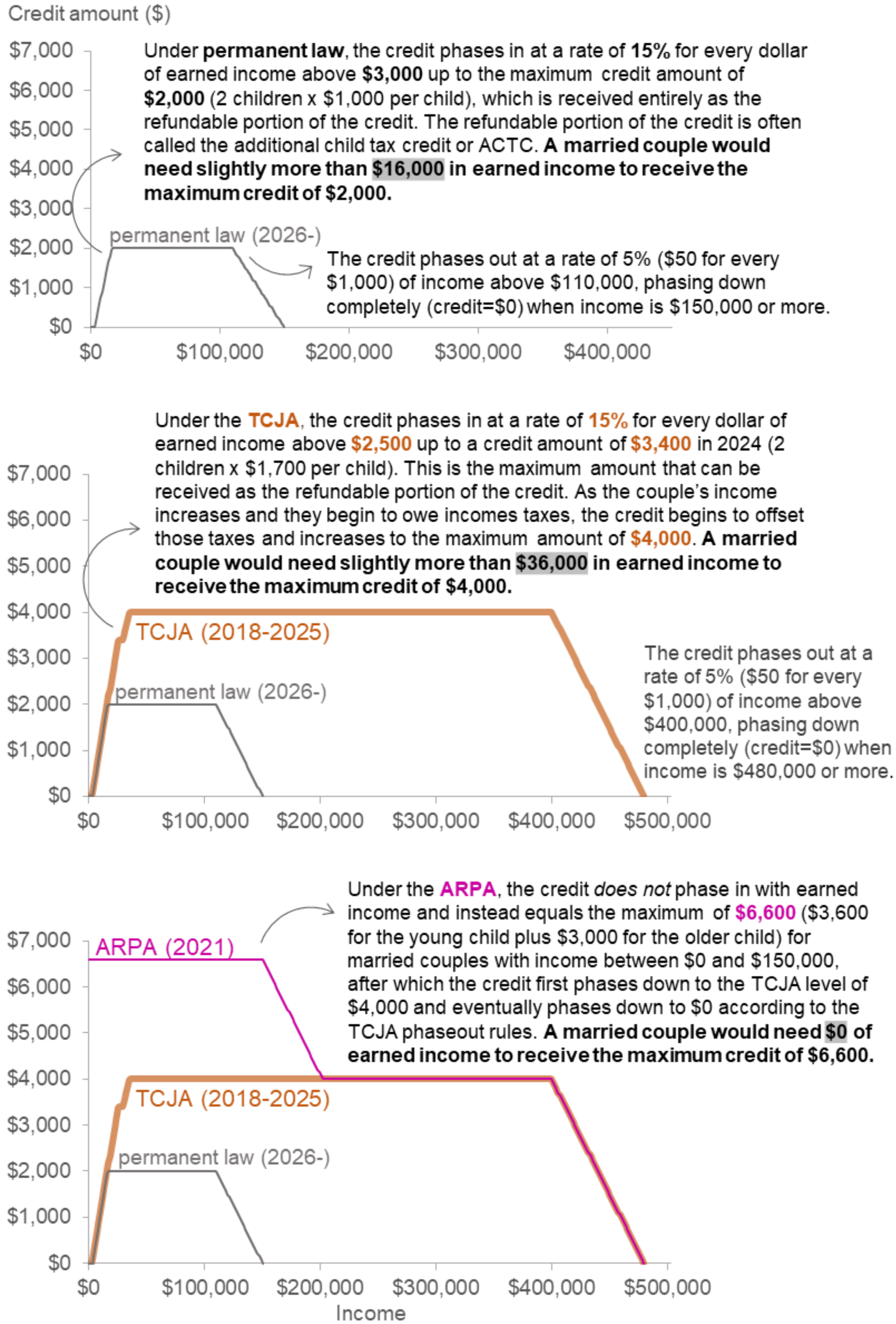
Aside from the TCJA change to the maximum ACTC, none of the parameters of the credit are adjusted for inflation.

Details of these parameters can be found in the table at the end of this Insight. The impact of these changes on a hypothetical married couple with two children—one young (under 6 years old) and one older (6 to 16 years old)—is illustrated below.

Congressional Research Service
https://crsreports.congress.gov
IN12297

Child Credit Amounts by Income Under Recent Laws

Married Couple with Two Children: One Young Child & One Older Child



Source: CRS based on IRC Section 24.

Notes: For these figures, a young child is 0-5 years old. An older child is 6-16 years old. Under ARPA, older children include 17-year-olds.

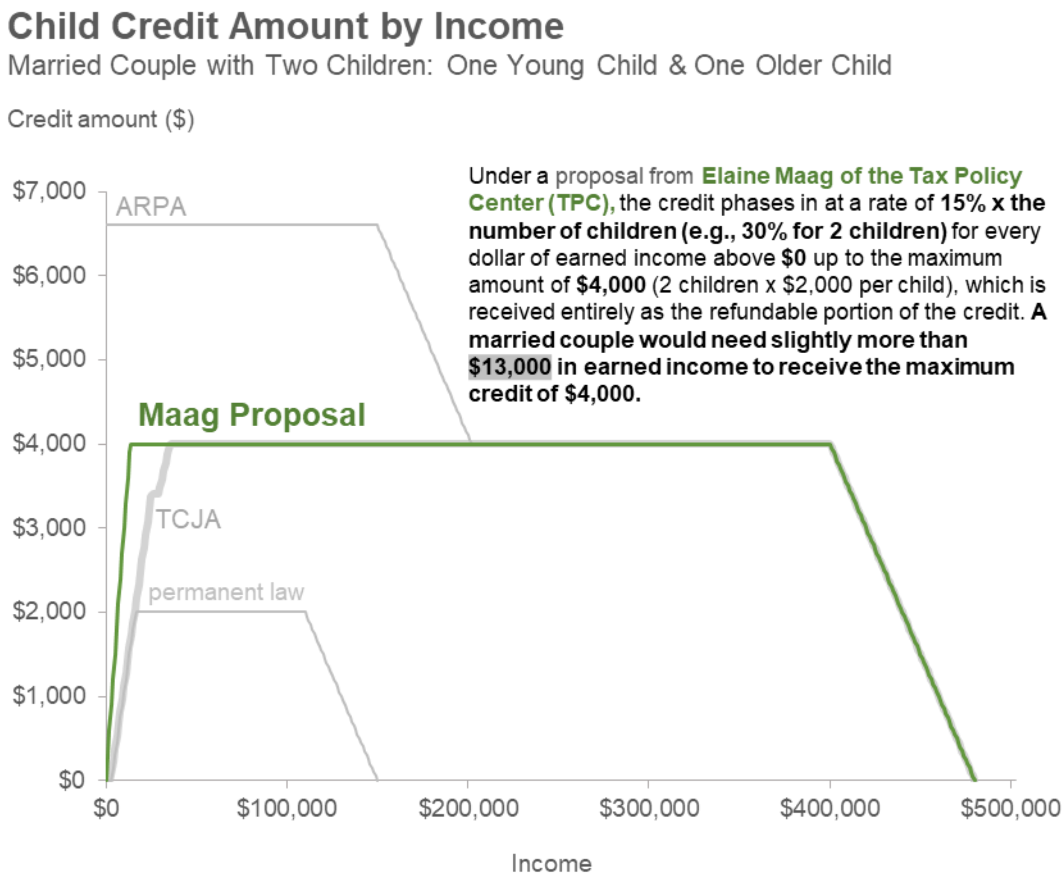
Proposals in the 118th Congress

Many policymakers remain interested in expanding the credit, especially to benefit low- and moderate-income families, which research suggests benefited the most from the ARPA changes. Various proposals have been introduced to modify the child credit in the 118th Congress. Some of these proposals would reinstate a modified version of the ARPA changes (e.g., S. 1992, H.R. 3899, H.R. 5953).

Some policymakers, however, have expressed concerns that extending the ARPA changes would discourage some recipients from working. Under permanent law and the TCJA changes, the credit phases in with earned income for low-income households. This effectively requires a low-income single parent to work, or at least one parent among a low-income married couple to work. The ARPA credit, in contrast, had no work requirement, since the credit did not phase in with earned income.

Most research conducted during the pandemic did not find that the ARPA child credit discouraged people from working, although the findings may have been complicated by specific economic issues associated with the COVID-19 pandemic and the fact that the ARPA credit was in place for only one year. Most estimates of the impact of the ARPA credit on employment if the credit were to be extended for longer or made permanent predict a relatively modest impact on employment. (These estimates vary significantly with numerous required modeling assumptions.)

Concerns about the employment effects of an ARPA credit may persuade some policymakers to focus on expanding the existing credit for low-income families while retaining a phase-in. To date, there have been a few detailed alternatives to expand the credit to low-income families, aside from those that extend the ARPA changes. One proposal from Elaine Maag of the Tax Policy Center would expand the credit for low-income families, while retaining the work requirement implicit in the phase-in. The impact of the Maag proposal changes on a hypothetical married couple with two children—one young (under 6 years old) and one older (6 to 16 years old)—is illustrated below.



Source: CRS based on IRC Section 24 and Elaine Maag, "Options to Improve the Child Tax Credit for Low-Income Families: An Update," Tax Policy Center, November 29, 2023.

Notes: For this figure, a young child is 0-5 years old. An older child is 6-16 years old. Under ARPA, older children include 17-year-olds.

Maag has proposed expanding the child credit for low-income families by adjusting that credit formula to (1) begin phasing in the refundable portion of the credit with the first dollar of earned income, (2) repeal the $1,400 limit on the ACTC so that the maximum amount of the refundable portion is $2,000, and (3) increase the phase-in so it equals 15% per child as opposed to 15% per taxpayer (i.e., options 1-3 from her proposal combined). According to Maag, combined these options are estimated to reduce the number of children in low-income families who receive less than the maximum credit amount from 19 million children to 6 million children.

Other options to phase in a child benefit more rapidly include Senator Romney's Family Security Act 2.0 and Jacob Bastian of R Street's proposal [proposal #1]. Unlike the Maag proposal, these proposals would also increase the maximum credit. (Proposals to increase the credit amount and allow a smaller "fully refundable" credit for nonworking households include Maag's option 5, Bastian's proposals 2 and 3, and a proposal from Wendy Edelberg and Melissa S. Kearney of the Hamilton Project.)

Policymakers may also be interested in retaining the overall TCJA child credit, with adjustment to other parameters of the credit (including making a larger credit for younger children like in H.R. 4520), or modifying the ID requirements (like S. 332). They may also seek to modify some or all of the child credit parameters—like the maximum credit amount—so the parameters increase with inflation.

Budgetary Impact

The average annual cost of the permanent law child credit is about $50 billion per year. The TCJA changes, if extended, are estimated by CBO to cost an additional $80 billion per year. For 2021, the ARPA changes increased the costs of the TCJA-modified credit by an additional $105 billion per year according to estimates from the Joint Committee on Taxation (JCT). The Maag proposal is estimated to cost an additional $8 billion per year on top of the TCJA changes.

Selected Child Credit Parameters

Under Selected Laws and the Maag Proposal

Parameter	Permanent Law (2026)	TCJA	ARPA	Maag Proposal
Maximum credit	**$1,000** per child 0-16 years old	**$2,000** per child 0-16 years old	**$3,600** per child 0-5 years old **$3,000** per child 6-17 years old	**$2,000** per child 0-16 years old
Maximum ACTC The additional child tax credit (ACTC) is the refundable portion of the credit for low-income taxpayers	**$1,000** per child 0-16 years old	**$1,700** per child 0-16 years old in 2024 *This amount is statutorily $1,400, adjusted for inflation*	**$3,600** per child 0-5 years old **$3,000** per child 6-17 years old	**$2,000** per child 0-16 years old
ACTC formula	15% of earned income above **$3,000** capped at **$1,000** per child x number of children	15% of earned income above **$2,500** capped at **$1,700** per child x number of children in 2024	**No phase-in.** Eligible low-income taxpayers receive the full or maximum ACTC amount, irrespective of earned income	15% per child of earned income above **$0** capped at **$2,000** per child x number of children (e.g., 15% for 1 child; 30% for 2 children; 45% for 3 children)

Source: CRS based on IRC Section 24 and Elaine Maag, "Options to Improve the Child Tax Credit for Low-Income Families: An Update," Tax Policy Center, November 29, 2023.

Author Information

Margot L. Crandall-Hollick
Specialist in Public Finance

Disclaimer