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INSIGHT

The Child Tax Credit: What Lies Ahead?

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The child tax credit has been temporarily modified several times in recent years. On January 16, Senate Finance Committee Chair Ron Wyden and House Ways and Means Chair Jason Smith announced that they had reached the deal on a "framework" that included further changes to the child credit.

Legislative text of this proposal (H.R. 7024) was released January 17, and a markup in the Ways and Means Committee is scheduled for January 19. This Insight provides background to those discussions by summarizing prior legislative changes to the credit and outlining the proposed changes to the child credit in H.R. 7024.

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 $1,600 per child in 2023 and $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.

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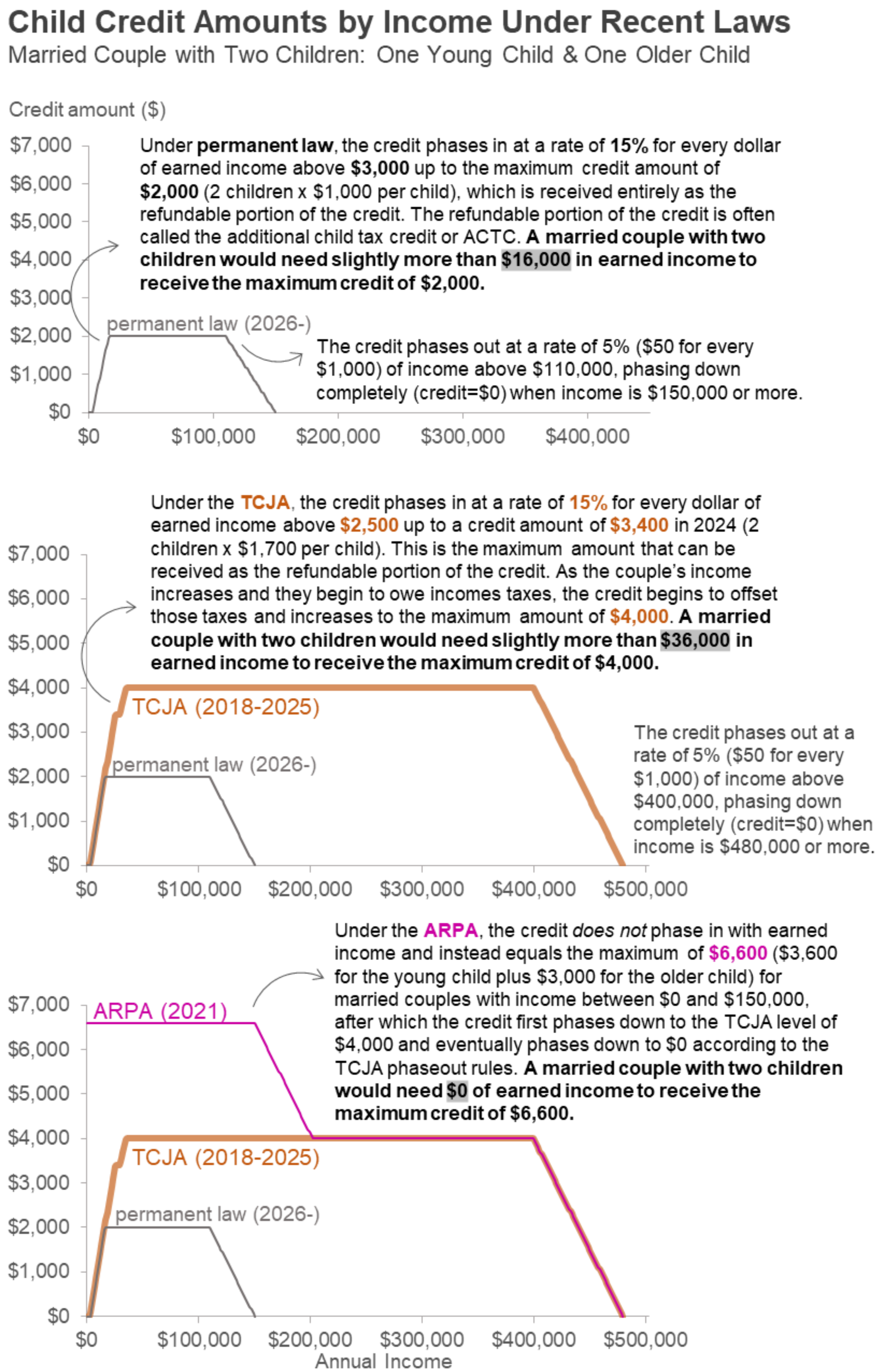
Details of these parameters can be found in the table at the end of this Insight. The impact of these changes on a hypothetical married couple with two children—one young (under 6 years old) and one older (6 to 16 years old)—is illustrated below.



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. 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. 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]. The Tax Relief for American Families and Workers Act of 2024 (H.R. 7024) is similar to these proposals in that it retains a phase-in as part of the overall structure of the credit received by low-income families.

H.R. 7024

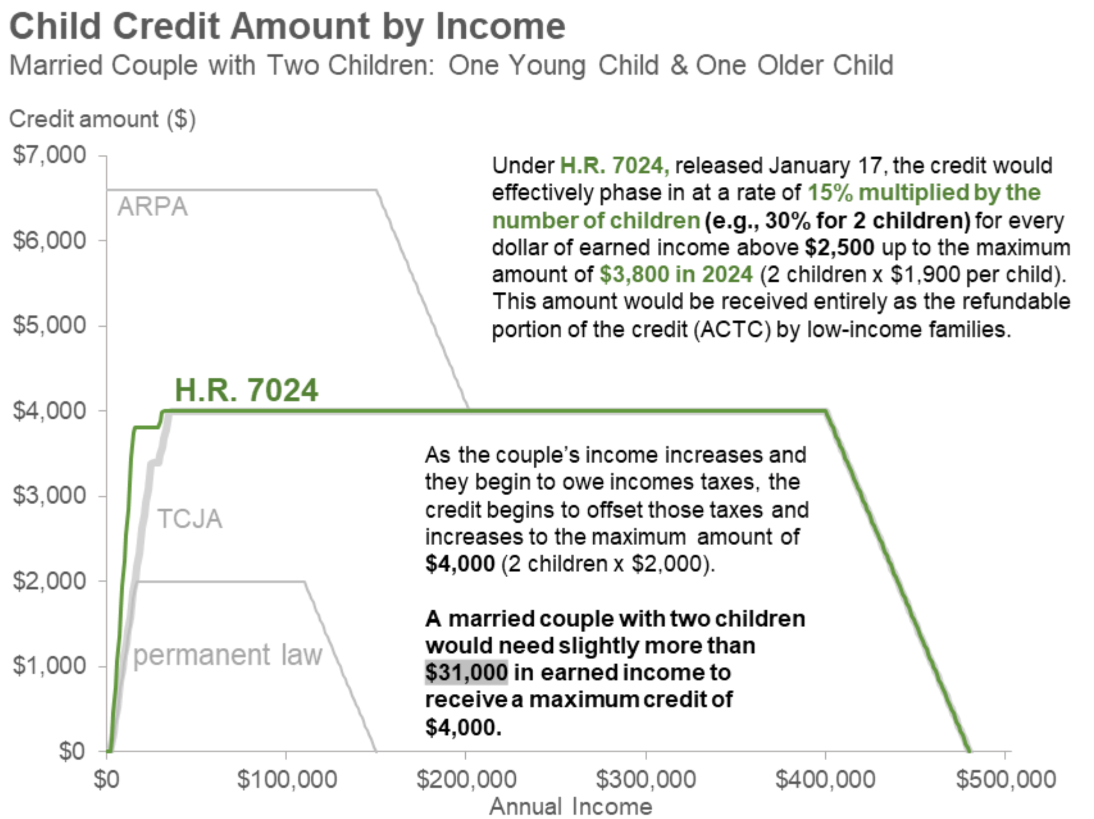
H.R. 7024, released January 17, included several provisions that would expand the child tax credit for low-income families, including:

1. **The ACTC would be calculated per child:** After the ACTC amount is calculated under current law (15% of earned income above $2,500), it would then be multiplied by the number of children. This amount would still be subject to the ACTC limit (the ACTC maximum multiplied by the number of children). This provision would effectively phase in the credit faster for families with more children.
2. **The maximum amount of the ACTC would increase:** The ACTC maximum would rise from $1,600 to $1,800 per child in 2023 and from $1,700 to $1,900 per child in 2024 and equal $2,000 (adjusted for inflation) in 2025.
3. **Taxpayers could use prior-year earned income to calculate the ACTC:** Taxpayers could calculate the ACTC using their prior-year earned income if their current-year earned income was less than their prior-year earned income. (This is similar to a temporary provision enacted during the COVID-19 pandemic.) This would apply for 2024 and 2025.

The framework also proposes adjusting the child credit for inflation since 2022 in 2024 and 2025, meaning moderate- and higher-income taxpayers would likely receive a credit of more than $2,000 per child in 2024 and 2025.

A substitute amendment released by Chair Smith includes an additional provision that would direct the IRS, to the extent practicable, to recalculate the credit on 2023 returns based on the changes in the bill if a taxpayer had filed their return before these changes took effect (2023 returns can be filed beginning on January 29, 2024).

The Center on Budget and Policy Priorities (CBPP) estimates that of the 19 million children in low-income families that currently receive less than the maximum credit, 16 million of them would benefit from this proposal and 400,000 would be lifted out of poverty the first year it was in effect.



Source: CRS based on IRC Section 24 and the January 17 legislative text of H.R. 7024.
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. In addition, under H.R. 7024, taxpayers could, for 2024 and 2025, calculate the ACTC using their prior-year earned income if their current-year earned income was less than their prior-year earned income, which is not illustrated in the chart.

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 Joint Committee on Taxation estimates the cost of these changes to be an average of $11 billion per year ($33 billion between FY2024 and FY2026).

Selected Child Credit Parameters

Under Selected Laws and H.R. 7024

Parameter	Permanent Law (2026)	TCJA	ARPA	H.R. 7024
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 (adjusted for inflation in 2024 & 2025)
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	**$1,600** per child 0-16 years old in 2023 **$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	**$1,800** per child 0-16 years old in in 2023 **$1,900** per child 0-16 years old in in 2024 **$2,000** per child 0-16 years old in in 2025 (this amount would be adjusted for inflation in 2025)
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%** of earned income above **$2,500 multiplied by the number of children** capped at **maximum ACTC** per child x number of children

Source: CRS based on IRC Section 24 and the January 17 legislative text of H.R. 7024.

Notes: In addition, under H.R. 7024, taxpayers could calculate the ACTC in 2024 and 2025 using their prior-year earned income if their current-year earned income was less than their prior-year earned income.

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