Tax Alliance *for* ECONOMIC MOBILITY

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# THE CHILD TAX CREDIT (CTC)

## What is the CTC?

Enacted in 1997 and expanded with bipartisan support since 2001, the Child Tax Credit (CTC) helps working families offset the cost of raising children.[1] It is worth up to $2,000 per eligible child (under age 17 at the end of the tax year). The CTC also includes a $500 non-refundable credit for families with qualifying non-child dependents.

Taxpayers eligible for the credit subtract it from the total amount of federal income taxes they would otherwise owe. For example, if a couple with two qualifying children owe $4,600 in taxes without the credit, they would owe $600 in taxes with it, because the credit would reduce their tax bill by $2,000 for each child.

### CTC Snapshot

1. The CTC is a federal tax credit that helps offset the cost of raising children.
2. The CTC is partially refundable, which means that it benefits low-income working families and helps reduce child poverty.
3. The 2017 tax law's touted $1,000 per-child increase in the CTC is not available to 26 million children in low- and moderate-income working families.
4. Policymakers should work to make the CTC fully refundable or, at the very least, work to make a larger credit available to low- and moderate-income working families.

## Helping Low-Income Working Families

The CTC includes a refundable component. This means that if the value of the CTC exceeds the amount of federal income tax a family owes, the family may receive part or all of the difference in the form of a refund check. As a result, many working families can benefit from the credit even if their incomes are so low that they owe little or no federal income tax in a given year. These families still pay payroll taxes, however.

When filing taxes for 2018 (due in April 2019), under the new tax law, working families can receive a refund equal to 15% of their earnings above $2,500; this refund can be worth up to $1,400 per child. For example, an unmarried mother with two children who earns $14,000 in 2018 could receive 15% of $11,500, or $1,725, as a refund. This refundability feature is important for low-income working families, who otherwise wouldn't receive the tax benefits available to higher-income families to help offset the cost of raising children.

## Reducing Poverty and Expanding Children's Opportunities

The value of the CTC increases with a household's earnings, up to $2,000 per child (or $1,400 per child for the refundable portion). A family that earns less than $2,500 is ineligible for the credit, however, and an unmarried parent with two children who earns between $2,500 and less than $30,000 receives only a partial credit. Because higher-income households need less help to pay the costs of raising children, couples with two children and incomes above $400,000 ($200,000 for single or head-of-household filers) receive a smaller CTC, and those with incomes above $480,000 ($280,000 for singles and household heads) receive no CTC.

Despite these shortcomings, which policymakers should address, the CTC is a powerful tool to fight poverty. It lifted approximately 2.8 million people out of poverty in 2017, including 1.6 million children, and lessened poverty for another 13.1 million people, including 6.7 million children. It lifts even more families with children out of poverty when combined with the Earned Income Tax Credit (EITC). Respectively, women and people of color make up 60% and 30% of those who self-reported receiving the CTC in 2018[2] and, because they make up a disproportionate share of the low-wage workforce, they particularly benefit from the boost in income that the CTC can provide. Research suggests that boosting working families' incomes can expand opportunities for children, such as by improving school performance. There is also research showing that lifting low-income families' income when a child is young not only tends to improve a child's immediate well-being, but is associated with better health, more schooling, more hours worked, and higher earnings in adulthood.

## The 2017 Tax Law and the CTC

The 2017 tax law increased the maximum credit available per-child from $1,000 to $2,000. While this is a step in the right direction, it is limited in part by the fact that the full credit is still not accessible to many low- and moderate-income families since it is not fully refundable. As a result, children in these families qualify for only a very small or no CTC increase at all, even though they stand to benefit from it more than any other group. This is particularly true for very young children, who have higher poverty rates than older children and for whom research finds big developmental impacts from even modest improvements in family income.

Eleven million children, for example, are in low-income families that only receive a token CTC increase of $75 or less. That is because, under prior law, the refundable portion of the CTC was limited to 15% of earnings above $3,000 a year and the 2017 tax law only reduced that threshold to $2,500. An unmarried parent with two children earning $14,500, therefore, only gets a $75 CTC increase under the new tax law, because she does not have enough earnings to receive a larger refundable credit. An additional 15 million children in modest-income working families also don't receive the full CTC increase because the refundable portion is limited to $1,400 per child (adjusted for inflation moving forward) instead of the full $2,000. This cap on refundability is new: before the 2017 tax law, if a child's parents had enough earnings, they could qualify for the full $1,000-per-child CTC. And changes in the 2017 tax law mean that approximately one million children in low-income working families who lack a social security number will be denied the CTC.

Just as startling, the law's expansion of the upper income limits for when CTC eligibility would begin to phase out now means that a married couple with two children earning $400,000 would for the first time be eligible for a $4,000 CTC, while an unmarried mother with two children earning $14,500—about $6,000 below the federal poverty line—would be eligible for an increase of just $75 to her CTC.

## Ways to Improve the CTC

The CTC should be made fully refundable to further help low-income families. Policymakers should also let the credit begin to phase in at the first dollar of earnings, increase the phase-in rate, and eliminate the $1,400 refundability cap. After making these improvements, policymakers should consider increasing the size of the credit, especially for very young children, given the research noted above showing that they would benefit the most.

*Resources*:

- "Policy Basics: The Child Tax Credit," Center on Budget and Policy Priorities, April 18, 2018, https://www.cbpp.org/research/federal-tax/policy-basics-the-child-tax-credit.
- "2017 Tax Law's Child Credit: A Token or Less-Than-Full Increase for 26 Million Kids in Working Families," Center on Budget and Policy Priorities, August 27, 2018, https://www.cbpp.org/research/federal-tax/2017-tax-laws-child-credit-a-token-or-less-than-full-increase-for-26-million.
- "The Federal Tax Code: Restricting Eligibility for the Child Tax Credit and Latinos," UnidosUS, November 2017, http://publications.unidosus.org/bitstream/handle/123456789/1809/Restricting%20CTC_FINAL.pdf?sequence=1&isAllowed=y.
- "Immigrant Eligibility for the Child Tax Credit," UnidosUS, November 2017, http://publications.unidosus.org/bitstream/handle/123456789/1787/immigranteligibilityforctc.pdf?sequence=6&isAllowed=y.

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[1] Much of the material in this factsheet comes from "Policy Basics: The Child Tax Credit," Center on Budget and Policy Priorities, April 18, 2018, https://www.cbpp.org/research/federal-tax/policy-basics-the-child-tax-credit The Center on Budget and Policy Priorities is a member of the Tax Alliance for Economic Mobility.

[2] UNIDOS U.S. calculations based on CPS March 2018 Annual Social and Economic Supplement. In terms of gender, about 60 percent of CTC recipients were women. *Id*