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INSIGHT

How Would a Child Benefit Under the Family Security Act (FSA) 2.0 Compare to the Child Tax Credit?

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Recent reports suggest congressional interest in the creation of a child allowance, either by extending the temporary 2021 changes to the child credit or by creating a new child benefit that would replace the child credit. This Insight briefly compares the child benefit proposed by Senators Romney, Burr, and Daines as part of the Family Security Act 2.0 (FSA 2.0) on June 15, 2022, with the child tax credit (including the 2021 expansion) in **Table 1** and in **Figure 1**.

Under FSA 2.0, families with children would be eligible for a monthly cash benefit of up to $350 per month for each young child (aged 0-5) and $250 per month for each older child (aged 6-17) for up to six children. Pregnant families could receive an additional payment of $700 per month during the last four months of pregnancy. This benefit would be a cash payment administered by the Social Security Administration (SSA), and would replace the existing child tax credit administered by the Internal Revenue Service (IRS). For the lowest-income families, the benefit would phase in with the first dollar of income, with a faster phase-in rate for families with more and/or younger children. For the highest-income families, the benefit amount would phase out, similar to the current child tax credit.

Limitations With This Summary

FSA 2.0 has been released as a summary proposal, without introduction (as yet) of bill text. Hence, some details of how the proposed child benefit would affect families are not available and this Insight, which is based solely on information contained in the summary, cannot provide a comprehensive overview of the proposal.

Other Policy Changes Made by the Proposal

In addition to creating a child benefit, FSA 2.0 would also modify other tax provisions for families which are beyond the scope of this Insight. These changes include eliminating the head of household (HOH) filing status for single parents and single taxpayers with adult dependents; modifying the EITC to create one formula for those with children and one formula for families without children; and modifying the

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child and dependent care credit so that it is limited to adult dependents. The proposal would also eliminate the state and local tax (SALT) deduction.

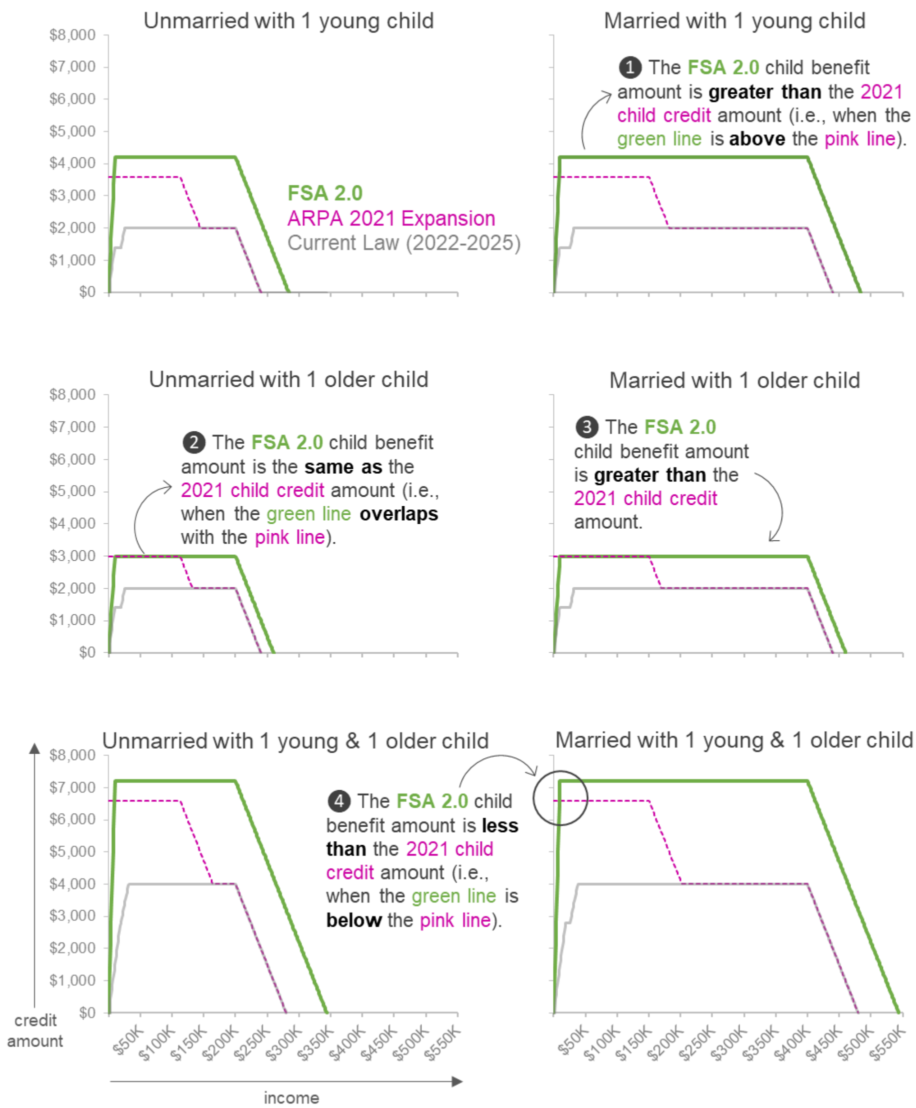
Advocates for FSA 2.0 argue that it would simplify many of the child benefits in the tax code into one transparent cash benefit, reducing child poverty by almost 13%. Others find that when taken as a whole—including the modifications to other family tax benefits—some low-income families would be worse off under FSA 2.0 than under current law, primarily due to the changes in the EITC and elimination of the HOH filing status.

Figure 1. Stylized Examples of Annual Child Benefit Amounts

Generally, eligible families would receive a **larger child benefit** under FSA 2.0 than under the **current-law child tax credit in 2022**.

Policymakers may be interested in comparing the annual child benefit amount under FSA 2.0 to the 2021 expanded child credit. In these cases, the benefit amount would depend on the number and age of the children and family income, as illustrated below.

❶ Some low-income families with young children, as well as moderate- and higher-income families with young children, would receive a **larger child benefit** under FSA 2.0 than under the 2021 expanded child credit. ❷ Moderate-income families with *only* older children would tend to receive the **same amount** under FSA 2.0 and the 2021 expanded child credit. ❸ Higher-income families with *only* older children would tend to receive a **larger child benefit** under FSA 2.0 compared to the 2021 expanded child credit. ❹ The lowest-income families would receive a **smaller child benefit** under FSA 2.0 than under the 2021 expanded child credit.



*Note that these charts only illustrate **one provision of FSA 2.0**—the child benefit—and do not illustrate the impact of other aspects of the policy like proposed changes to the earned income tax credit (EITC) and head of household (HOH) filing status (e.g., an unmarried taxpayer is assumed to file as a head of household in these charts).*

Source: CRS analysis of Internal Revenue Code Section 24 and the Family Security Act 2.0 summary as released on June 15, 2022.

Notes: These are stylized examples assuming 2022 income tax parameters are in effect and families have relatively simple tax situations (e.g., they claim the standard deduction).

Table 1. Selected Parameters of the Child Benefit Under the Family Security Act 2.0 Proposal Released June 15, 2022, and the Current Law Child Tax Credit

	CURRENT LAW[a]			
Parameter	**2021 Expanded Credit (ARPA)**	**2022-2025 Expanded Credit (TCJA)**	**After 2025 (Permanent Law)**	**PROPOSED UNDER Family Security Act 2.0**
Maximum Annual Amount per Child	$3,600 per child 0-5 years old	$2,000 per child 0-16 years old	$1,000 per child 0-16 years old	$4,200 per child 0-5 years old[b]
	$3,000 per child 6-17 years old			$3,000 per child 6-17 years old
Maximum Monthly Amount per Child	$300 per young child $250 per older child	N/A. No monthly payment of credit, only annual payment.		$350 per young child $250 per older child
Maximum Number of Children for Whom the Benefit Can Be Claimed	unlimited			6 children

	CURRENT LAW[a]			
Parameter	**2021 Expanded Credit (ARPA)**	**2022-2025 Expanded Credit (TCJA)**	**After 2025 (Permanent Law)**	**PROPOSED UNDER Family Security Act 2.0**
Annual Benefit Amount Low-Income Families Can Receive per Child	$3,600 per child 0-5 years old[c] $3,000 per child 6-17 years old[c]	Phased-in amount calculated based on earned income: 15% of earned income above $2,500 not to exceed $1,400 per child 0-16 years old	Phased-in amount calculated based on earned income: 15% of earned income above $3,000 not to exceed $1,000 per child 0-16 years old	Phased-in amount calculated based on earned income:[d] The benefit phases in proportionally (ratably) to the maximum amount when earned income is between $0 and $10,000. In other words, the rate, unlike current law, is not fixed in statute. Instead, under a ratable structure, the benefit phases in faster for families with more children, up to the maximum of six children. For example, if a family had: one young child: phase-in rate = 42%; one older child: the phase-in rate = 30%; two young children: phase-in rate = 84%; two older children: phase-in rate = 60%. The $10,000 threshold would be adjusted for inflation.
Phaseout Threshold(s) *MFJ: married filing jointly* *HOH: head of household* *S: single*	**Initial Threshold** *(Phaseout of Increased Credit)* $150,000 MFJ $112,500 HOH $75,000 S **Second Threshold** (*Phaseout of Pre-ARPA Credit*) $400,000 MFJ $200,000 HOH $200,000 S	$400,000 MFJ $200,000 HOH $200,000 S	$110,000 MFJ $75,000 HOH $75,000 S	Same as current law for 2022-2025
ID Requirement of Qualifying Child	Work-authorized SSN		Any taxpayer ID (SSN/ITIN/ ATIN)	SSN[e]
ID Requirement of Taxpayer	Any taxpayer ID (SSN/ITIN)			SSN[e]

Parameter	CURRENT LAW[a] 2021 Expanded Credit (ARPA)	2022-2025 Expanded Credit (TCJA)	After 2025 (Permanent Law)	PROPOSED UNDER Family Security Act 2.0
Maximum Qualifying Child Age	17 years old	16 years old		17 years old
Other Qualifying Child Rules	**Residency:** Child must live with the taxpayer for more than 6 months of the year.			Benefit recipient must be legal and physical custodial parent of the child.
	Relationship: The child must be the taxpayer's child, grandchild (or great-grandchild), sibling, niece/nephew, or foster child placed with the taxpayer either by an authorized placement agency or court order.			
Method of Receipt	Up to 50% advanced (IRS advanced as 6 monthly payments in 2021); remainder claimed on tax return	No advance. Credit claimed on tax return.		Monthly payments, although recipients may elect to receive as an annual payment.
Primary Administering Agency	IRS			SSA

Source: CRS analysis of Internal Revenue Code Section 24 and the Family Security Act 2.0 summary as released on June 15, 2022.

Notes:

a. The permanent law child tax credit was temporarily modified for 2018 through the end of 2025 by P.L. 115-97, commonly referred to as the Tax Cuts and Jobs Act (TCJA). The tax credit was further temporarily modified for 2021 only by the American Rescue Plan Act (P.L. 117-2). See CRS Report R45124, *The Child Tax Credit: Legislative History*.

b. An additional $2,800 may be received for the last four months of a pregnancy (i.e., $700 per month for four months).

c. This credit was fully refundable, meaning eligible low- and moderate-income taxpayers could receive the "full" or maximum credit amount, irrespective of their income.

d. Under the proposal, the income used to phase in the benefit would be prior-year income. The summary does not address how the provision would be administered or any process for verifying earned income.

e. The proposal summary does not specify if the SSN must be a work-authorized SSN.

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