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IN FOCUS

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Selected Issues in Tax Policy: The Child Tax Credit

Tax reform proposals in the 119th Congress may include reforms to the child tax credit, which increases the after-tax incomes of some households with children. The child tax credit was substantively modified by P.L. 115-97 (often referred to as the Tax Cuts and Jobs Act, TCJA), and those changes are scheduled to expire after the 2025 tax year. This In Focus summarizes the child tax credit and briefly examines some key policy issues that may be relevant to proposals for its reform.

Summary and Legislative Background

2017 Parameters

Prior to enactment of the TCJA, the child tax credit let taxpayers reduce their tax liabilities by up to $1,000 per child. The credit was *refundable*, meaning those with no income tax liability could receive the credit as a refund. The credit phased in with earned income: it was worth 15% of a taxpayer's earned income above $3,000, up to the maximum credit amount. Taxpayers with no earned income could not claim the credit, and those with low earned income could claim a partial credit. The credit's value also phased out with a taxpayer's modified adjusted gross income (MAGI). Taxpayers had to reduce the value of their credit by 5% of their MAGI above certain thresholds: $110,000 if the taxpayer was married filing jointly and $75,000 otherwise. (For example, a single taxpayer earning $85,000 would have the credit reduced by 5% of $10,000, or $500.)

Filers had to include a taxpayer identification number (TIN) for themselves and the child for whom they claimed the credit. Qualifying TINs could include a work-authorized Social Security Number (SSN) or an Immigrant Taxpayer Identification Number (ITIN) issued by the IRS. Qualifying children generally must have been under 18 and have lived with the taxpayer for at least half the year.

Current Policy (TCJA) Parameters and Temporary 2021 Changes

The TCJA temporarily changed the credit's parameters through the end of 2025. The law raised the maximum value of the child tax credit to $2,000 per child. It also limited the amount that a taxpayer could receive as a tax refund if a taxpayer lacked income tax liability against which to apply the credit. That amount was initially set at $1,400 and indexed to inflation (and equal to $1,700 in 2024 and 2025). The refundable portion of the credit is known as the additional child tax credit, or ACTC. The TCJA also lowered the earned income threshold at which the credit began phasing in from $3,000 to $2,500. The threshold at which the credit began phasing out rose to $400,000 for those married filing jointly and $200,000 for others. The law also required that filers provide a work-authorized SSN (i.e., not an ITIN) for the child for whom the credit is claimed.

These changes may offset another provision of the TCJA, the temporary elimination of personal exemptions for dependents. Because not all dependents qualify for the child tax credit, the TCJA also created a $500 nonrefundable credit for other dependents.

Congress further expanded the child tax credit for tax year 2021. The credit was made fully refundable with no phase-in; families with no income could receive the full credit. The maximum credit was raised to $3,000 per child over the age of 5 and $3,600 for each child age 5 and younger. The additional credit, above TCJA levels, phased out for those with incomes above certain thresholds: $150,000 for married joint filers, $112,500 for head of household filers, and $75,000 for single filers. Additionally, policymakers made half the credit "advanceable," meaning taxpayers received it in monthly installments rather than solely upon filing their tax returns. The Joint Committee on Taxation (JCT) and the Congressional Budget Office (CBO) estimated that making these changes permanent would have raised deficits by roughly $1.6 trillion from FY2022 to FY2031, excluding the cost of debt financing.

Parameters Starting in 2026

Congress scheduled the TCJA's changes to the child tax credit to expire at the end of 2025. In 2026, the credit will revert to its 2017 parameters absent congressional action. The maximum credit will be $1,000 per child, the preexisting phase-in and phaseout thresholds will return, and taxpayers whose children lack work-authorized SSNs will once again qualify. Taxpayers will no longer have the option of claiming the nonrefundable credit for other dependents, but will be able to claim personal exemptions for their dependents, including children.

The JCT estimates that extending the TCJA's changes to the child tax credit and credit for other dependents would increase deficits by $748 billion through 2035, excluding the cost of debt financing. Extending the work-authorized SSN requirement would offset $12 billion (2%) of that cost.

Policy Considerations and Proposals for Reform

Policy Issues and Considerations

The child tax credit presents a number of issues lawmakers could consider when deciding whether to let the expiration occur in 2026, extend the TCJA's policies, or alter them.

Because the child tax credit phases in with earned income, it potentially affects whether filers earn income. The credit could encourage those in households with no earned income to begin working. However, it could also alleviate the need for households that already receive the credit to earn additional income. Research on the temporary suspension of the phase-in structure in 2021 suggests the change had little effect on most families' behavior, although it may have led parents of young children and single mothers with little education to work more. This finding could result in part from the policy's newness or temporary nature, or confounding issues brought about by the COVID-19 pandemic. Simulations of the effect of eliminating the phaseout generally showed a modest effect on employment, but estimates differ depending on certain modeling assumptions.

Another consideration is the degree to which the child tax credit raises after-tax incomes and therefore reduces poverty. The Census Bureau estimates that refundable tax credits (the ACTC and another refundable tax credit, the earned income tax credit) prevented 6.4 million individuals—of whom 3.4 million were children—from falling into poverty in 2023, using the Supplemental Poverty Measure. The lowest-income families typically cannot claim the full child tax credit due to its phase-in and partial refundability.

By reducing economic hardship, the child tax credit may also improve the health and education outcomes of children and their families. Multiple studies found that the temporary expansion of the child tax credit in 2021 reduced food insufficiency for children and families, though studies of the 2021 expansion may be confounded by the newness of the program and issues unique to the COVID-19 pandemic. Research also shows that reducing child poverty through refundable tax credits can improve the test scores, college attainment, and long-term earnings of poor children, as well as reduce low birth weights (a signifier of overall child health). These studies generally do not distinguish between outcomes resulting from the cash transfer itself and those caused by any additional work parents pursue to qualify for the credit.

Lawmakers may also consider whether to make the credit advanceable, as it was in 2021. Advancing a tax credit provides its benefits throughout the year, as families incur child-related expenses, rather than in one lump sum upon filing a tax return. Since households would receive payments before filing their tax returns and verifying their eligibility, lawmakers could consider whether to base advance payments on prior-year data and require households to reconcile (and repay any excess) advance payments upon filing their taxes. This process was simplified in 2021 because the credit had no phase-in and was fully refundable, which prevented low-income families from receiving advance payments that they would need to repay upon filing their taxes.

Additionally, policymakers may consider whether to let those without work-authorized SSNs claim the credit. The TCJA limited the credit to those whose children have work-authorized SSNs through 2025. It put no similar requirement on the filers themselves. (The EITC requires all individuals in a household to use work-authorized SSNs.) While many who file taxes using ITINs instead of SSNs are undocumented immigrants, not all are. Some undocumented immigrants may have SSNs, such as those who had work authorizations that expired. Conversely, some citizens may lack SSNs, such as those who claim religious exemptions to use of an SSN. Lawmakers could consider whether their target population for the child tax credit should include undocumented taxpayers, and if not, whether use of a work-authorized SSN is an acceptable proxy for immigration status.

Proposals for Reform

Lawmakers may consider any number of expansions or limitations to the child tax credit. The simplest options would be to either let the TCJA's changes expire or make them permanent. Below are examples of bills introduced by lawmakers in the 118th Congress.

Lawmakers could make the credit fully refundable or eliminate its phase-in, both of which they did for tax year 2021, which would increase the credit's value for low-income families. In H.R. 7024, the Tax Relief for American Families and Workers Act, Congress considered letting taxpayers calculate the credit through 2025 using either the current or prior year's income. This would let those who lost their jobs claim the credit as though they had earned income in the current year.

H.R. 7024 would also make the ACTC phase in on a per-child basis, meaning those with multiple children could receive a larger refundable credit through 2025. The bill would do so alongside the changes described above and increases in the ACTC. The JCT (published through CBO) estimated that this set of changes would increase the deficit by $30.6 billion from FY2024 to FY2026.

Lawmakers may also consider expanding the size of the credit for all children or for a targeted subset, such as those who are under the age of 6. Bills that would raise the size of the credit per child above TCJA levels and also make the credit larger for children under the age of 6 include H.R. 3899, the American Family Act, and S. 5256, the Family Security Act. H.R. 3899 would also expand the size of the credit for the year in which a child is born.

Another option would be to increase the credit for members of certain populations, or make more populations eligible for it. Lawmakers have proposed bills that would let pregnant taxpayers claim the credit (see S. 5256) or let taxpayers who experience a stillbirth claim it (see H.R. 3054). H.R. 4258, the Child Tax Credit for Pregnant Moms Act, and H.R. 3899 would extend the credit in full or part to both of these groups.

Lawmakers have also proposed requiring filers to have work-authorized SSNs, as the children for whom they claim the credit must under the TCJA. A bill that would do so is H.R. 7991, the Safeguarding American Workers' Benefits Act.

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