Reforming the Child Tax Credit

How Different Proposals Change Who Benefits

Elaine Maag

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The child tax credit (CTC) provides a credit of up to $1,000 per child under age 17. In 2016, the Urban-Brookings Tax Policy Center (TPC) estimates the credit—including the refundable portion[1]—will deliver $57 billion to 35 million families, nearly 70 percent of all families with children. Least likely to receive the credit are families in the highest 20 percent of the income distribution, because the credit phases out with income.[2]

The CTC has received broad, bipartisan support from its inception. It was part of Newt Gingrich's Contract with America and was enacted in 1997 under President Bill Clinton. Legislators and candidates from both major parties have recently proposed expanding the credit, albeit in very different ways. How the credit evolves in the coming years could dramatically affect who benefits—possibly turning the credit from a key source of support for low-income families to one that primarily aids higher-income families.

Key to today's benefits for low-income families is the refundable portion of the credit, limited to 15 percent of earnings above a defined threshold. That threshold was initially set at $10,000 (indexed for inflation after 2001). Temporary legislation has reduced it to $3,000 (unindexed) until 2018, when permanent law will boost the threshold to almost $15,000. Primarily as a result of that increase, the proportion of families in the lowest income quintile benefiting from the CTC will drop by more than half, from about 80 percent in 2016 to just 38 percent in 2018. Average benefits in 2018 for recipient families in the lowest income quintile will be almost $700 lower than they would be if Congress extended the $3,000 threshold. No other group will be affected as much by a failure to extend the $3,000 refundability threshold.

Members of Congress have offered various proposals to modify the CTC or otherwise expand tax benefits for families.

- In August 2015, Senator Tom Carper (D-Delaware) introduced legislation to make the $3,000 refundability threshold permanent instead of allowing it to expire after 2017.
- In 2014, Senators Mike Lee (R-Utah) and Marco Rubio (R-Florida) proposed broad tax reform, including a new $2,500-per-child credit (in addition to the existing CTC). This credit would be refundable to the extent that income and payroll taxes exceeded a family's earned income tax credit (EITC) and would not phase out at higher incomes. This change would benefit higher-income families with children that currently receive little or no CTC.
- Representative Lynn Jenkins (R-Kansas) proposed indexing most CTC parameters and reducing marriage penalties by setting the phaseout threshold for married couples at twice that for single parents. Indexing the credit would benefit families in the upper-middle income range, and increasing the phaseout for married couples would mostly boost benefits for families in the top two-fifths of the income distribution. Consequently, that group would get most of the additional benefits from Jenkins's plan.

This analysis compares a variety of potential reforms against what will happen under current law in 2018, when the CTC is scheduled to drop dramatically for low-income families. The focus is on identifying which income groups would benefit most from the various reforms.

Reducing or maintaining today's refundability threshold would allow the CTC to continue to benefit low-income families. Other CTC proposals would allow benefits to decline for low-income workers with children, relative to today's CTC levels. Proposals that would increase the maximum credit, index the credit, or expand the eligible population would benefit middle-income families the most. Providing additional CTC benefits that don't phase out would help high-income families most.

Subsidizing Children in the Tax Code

Three rationales have guided income tax subsidies for children:

- Income tax liabilities should be adjusted for ability to pay; thus, all else equal, a larger family should pay less tax than a smaller family.
- Subsidizing children is an investment in everyone's future.
- Encouraging parents to work will ultimately benefit their children.

The child tax credit is consistent with all three rationales and is the second-largest tax subsidy focused on children (behind the EITC). The CTC helps working families through a wide swath of the income distribution—only the poorest families and those with the highest incomes cannot benefit (Maag 2013).

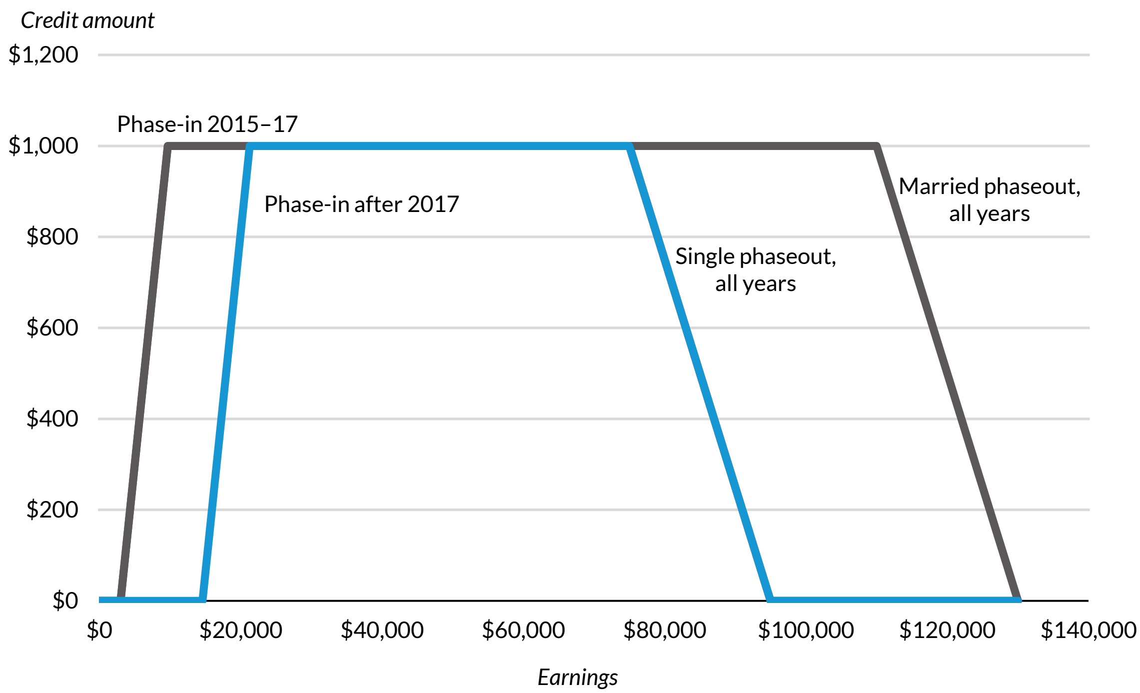
How the Current CTC Works

Taxpayers can claim a CTC of up to $1,000 for each child under age 17. The credit is reduced by 5 percent of adjusted gross income over $75,000 for single parents and over $110,000 for married couples. Neither the credit amount nor the phaseout point is indexed for inflation. If the credit exceeds taxes owed, taxpayers may receive some or all of the balance as a refund, known technically as the additional child tax credit (ACTC) or refundable CTC. The ACTC is limited to 15 percent of earnings above a threshold that is indexed for inflation. The threshold was temporarily reduced to $3,000 in 2009 but will revert up to the permanent level of almost $15,000 in 2018. The lower threshold allows even very low income families to benefit from the CTC and increases benefits for many low-income families who would have been unable to claim their full credit if the higher refundability threshold were in effect (figure 1).

FIGURE 1

Child Tax Credit for One Child

Family Earnings



Source: Urban-Brookings Tax Policy Center.
Note: Assumes all income comes from earnings and that the child is under 17 and meets all tests to be a child tax credit qualifying child.

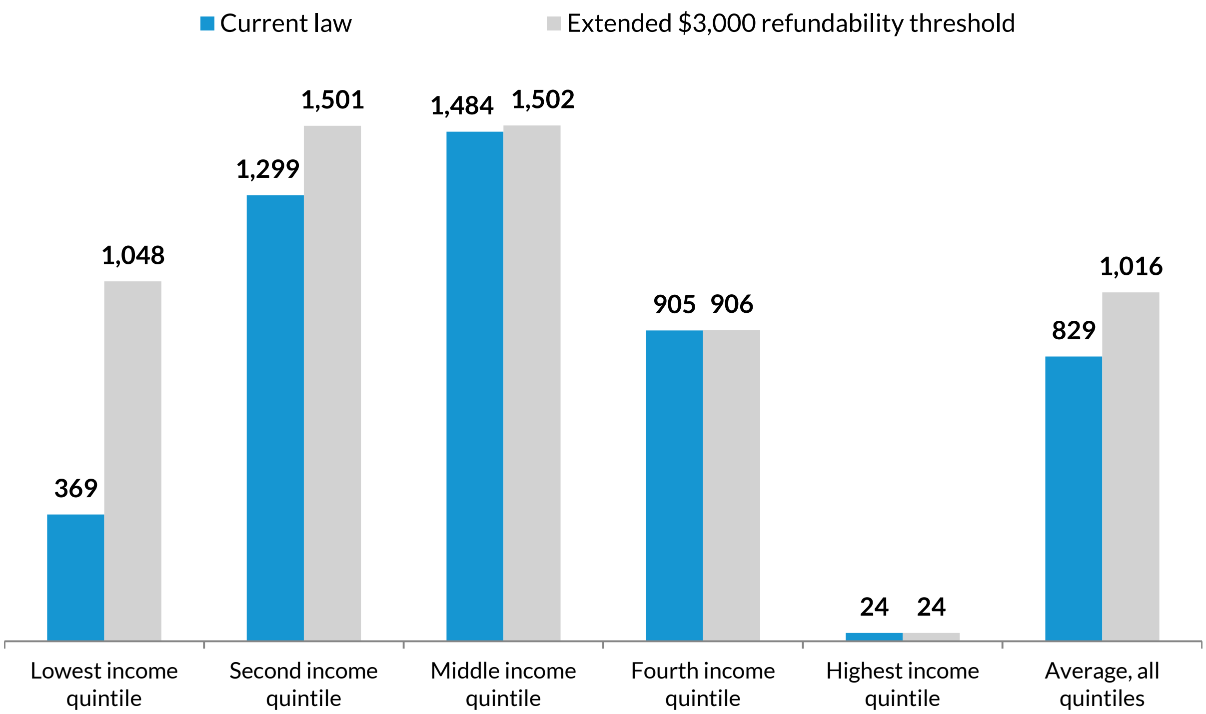
When the refundability threshold jumps to almost $15,000, total benefits from the credit will shrink by roughly $10 billion annually. The higher threshold will deny benefits entirely to families with the lowest incomes. Average credits for families in the bottom fifth of the income distribution will drop from $1,050 (if the $3,000 refundability threshold were still in place) to just $370 in 2018 (figure 2). Other income groups will be less affected by the threshold change.

If the temporary refundability threshold expires in 2018 as scheduled, fewer low-income families will get CTC benefits and a smaller share of total CTC benefits will go to families with children in the bottom income class. TPC estimates that roughly four-fifths of families with children in the lowest income quintile will benefit from the CTC in 2016, but that number will drop to just two-fifths in 2018. Other income groups will experience smaller declines (figure 3). The credit will remain near universal for families with children in the middle three income quintiles; less than 10 percent of families in the highest income quintile will receive the CTC in both 2016 and 2018. TPC estimates that 11.5 million children will live in families with income too low to receive the full credit in 2016. That number will jump to 20 million in 2018 if the refundability threshold increases as scheduled.

FIGURE 2

Average Child Tax Credit for Families with Children in 2018: Current Law versus Extended $3,000 Refundability Threshold

Dollars



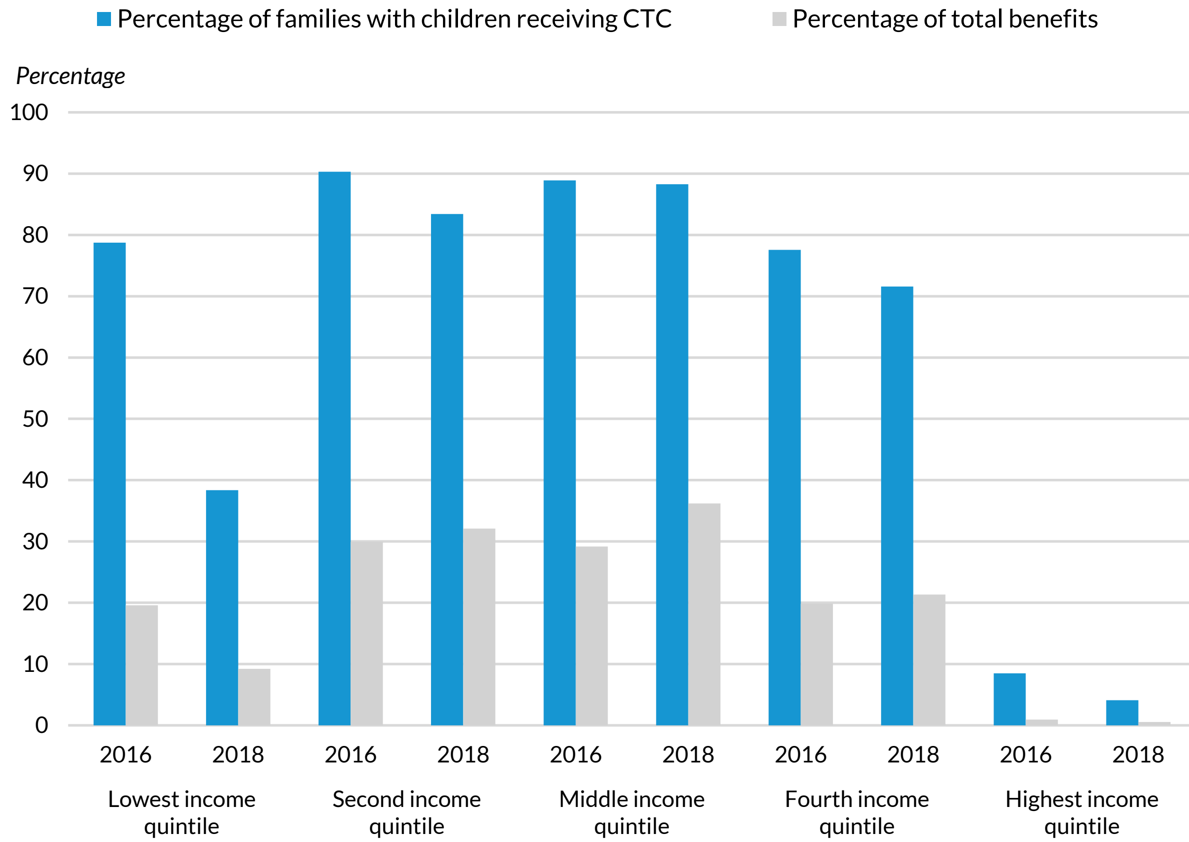
Source: Urban-Brookings Tax Policy Center, "Microsimulation Model, version 0515-1," http://taxpolicycenter.org/numbers/displayatab.cfm?template=simulation&SimID=509.

Notes: Until 2018, the child tax credit becomes refundable at $3,000. It will increase to $14,600 (estimated) as the American Taxpayer Relief Act expires. This figure compares average benefits for qualifying families under the $3,000 threshold and 2018 law.

FIGURE 3

Share of Families with CTC and Distribution of CTC Benefits, 2016 and 2018

Current Law, by Income Quintile



Source: Urban-Brookings Tax Policy Center, "Microsimulation Model, version 0515-1."
Notes: CTC = child tax credit. Under 2016 law, the point at which the child tax credit becomes refundable is $3,000. In 2018 law, that threshold increases to $14,600 (estimated) as the American Taxpayer Relief Act expires.

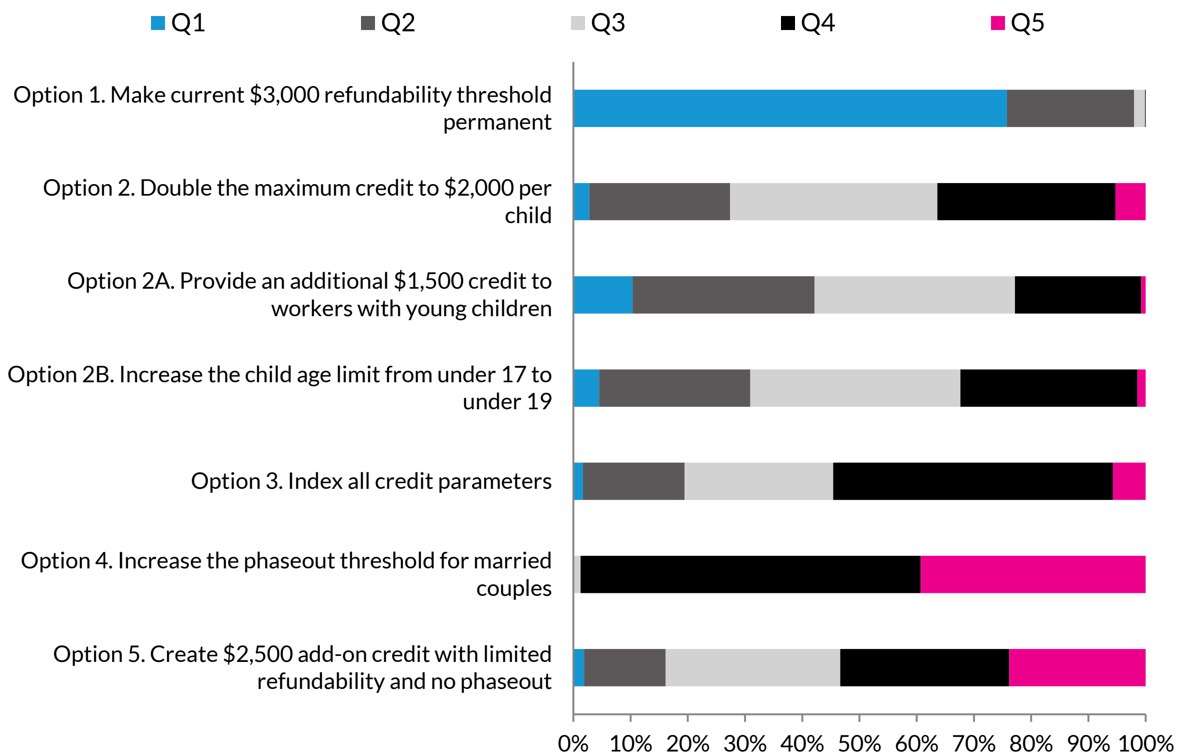
About 20 percent of all CTC benefits will go to the lowest income group in 2016, but that share will plummet to just 9 percent in 2018. Less than 1 percent of all CTC benefits will go to families with children with incomes in the highest income quintile in both years, because their incomes are typically beyond the point at which the CTC phases out. TPC estimates that 15.3 million children will receive no CTC or a reduced credit in 2016 because their family earnings exceed the CTC phaseout threshold. That number will increase to 17.0 million in 2018 because the threshold is not indexed for inflation.

Distribution of Benefits for Selected CTC Reform Proposals

Policymakers interested in reforming the CTC can adjust various CTC program rules to affect different groups of people. Alternative policies can concentrate benefits on different income quintiles (figure 4) and the share of people in different income categories who would benefit (figure 5). The following analysis separates possible reforms into three categories: (1) those that would deliver almost all additional benefits to families with children in the bottom two income quintiles (which would prevent the scheduled cuts to their benefits); (2) those that would focus additional benefits on middle-income families; and (3) those for which almost all added benefits would go to the top two income quintiles.

FIGURE 4

Proportion of Child Tax Credit Increase Delivered to Each Quintile under Various Reform Proposals, 2018

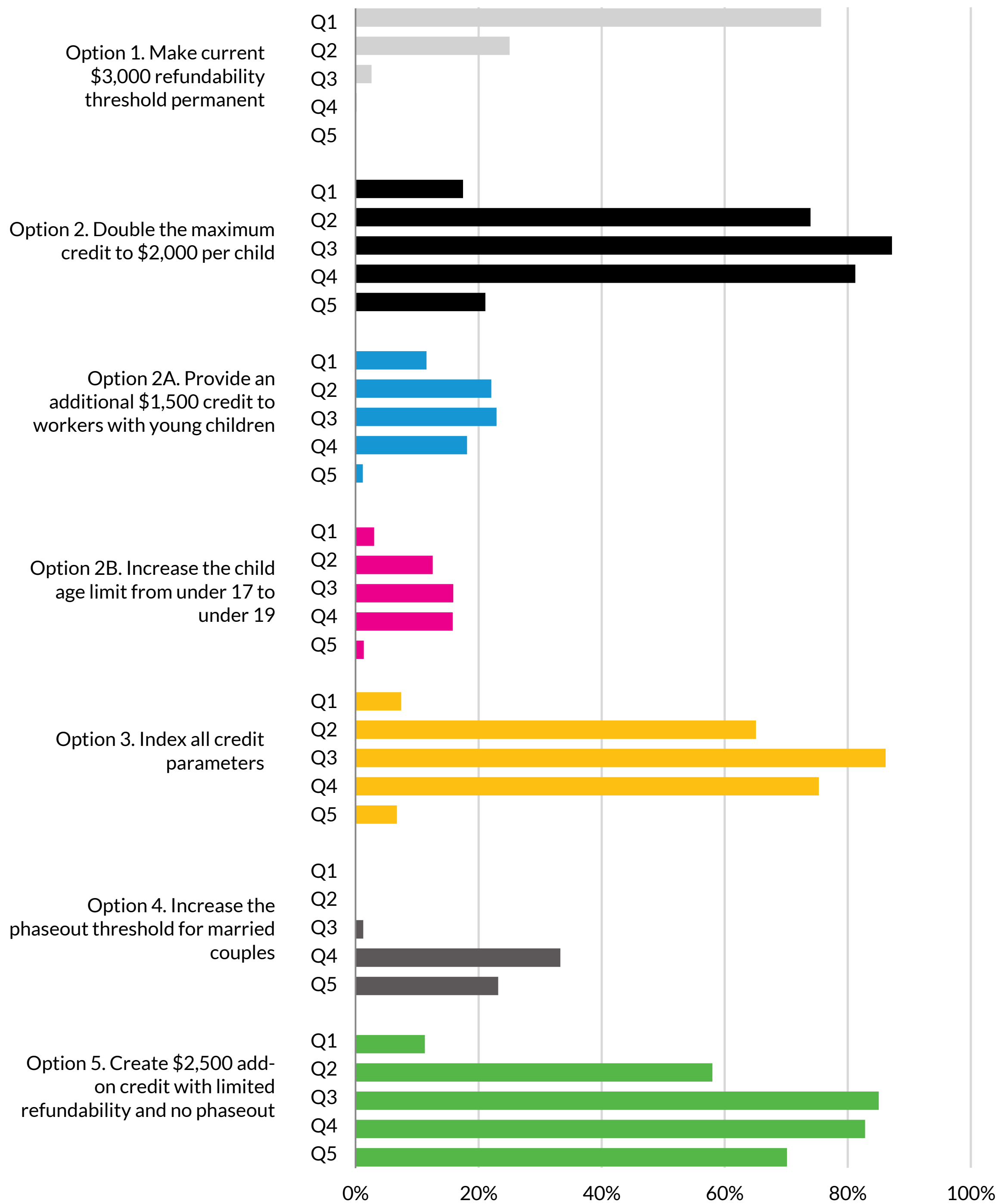


Source: Urban-Brookings Tax Policy Center, "Microsimulation Model, version 0515-1," http://taxpolicycenter.org/numbers/displayatab.cfm?template=simulation&SimID=509.
Note: Q = quintile. Quintile 1 is the lowest income quintile, quintile 5 the highest.

FIGURE 5

Share of Families Whose Child Tax Credit Would Increase under Various Reform Proposals

Income Quintile



Source: Urban-Brookings Tax Policy Center, "Microsimulation Model, version 0515-1," http://taxpolicycenter.org/numbers/displayatab.cfm?template=simulation&SimID=509.
Note: Q = quintile. Quintile 1 is the lowest income quintile, quintile 5 is the highest.

Reforms Focused on Low-Income Families

Many low-income families can only claim the refundable part of the CTC because they owe no tax. Expanding the CTC for poor families thus requires expanding the refundable (or additional) CTC. With the CTC's current *refundability threshold* of $3,000, families who owe too little tax can receive a credit of 15 cents for every dollar earned above $3,000, up to $1,000 per qualifying child.

OPTION 1. MAKE CURRENT $3,000 REFUNDABILITY THRESHOLD PERMANENT

Making the $3,000 refundability threshold permanent in 2018 would increase the CTC for almost 70 percent of families with children in the lowest income quintile and one-quarter of families with children in the second income quintile, compared with current law (figure 4). Nearly three-quarters of the total increased credit would go to families with children in the lowest income quintile, and almost all of the remaining increase would go to those in the second quintile (figure 5). This proposal would make the CTC more progressive in 2018 than it would be under current law, but consistent with benefits in 2016.

OPTION 1A. REDUCE REFUNDABILITY THRESHOLD TO $0

Reducing the refundability threshold for the CTC so that the credit phases in from the first dollar of earnings would make credit calculation more consistent with the EITC and most other tax credits (not shown in figures). The change would target additional CTC benefits on very low income families: Just over three-quarters of families with children in the lowest income quintile and about a quarter of those in the second quintile would receive larger credits in 2018 than under current law. Nearly all benefits from this change would again flow to families with children in the lowest income quintile, and almost all remaining benefits would go to families with children in the second income quintile.[3] This proposal is slightly more generous than the treatment of low-income families in 2016.

Reforms Focused on Middle-Income Families

Increasing the maximum amount of the credit, either directly or by indexing it for inflation, would increase its value for people who already receive the full CTC under current law. Low-income families who earn too little to claim the maximum credit would not benefit from such a change. Their credit would still be constrained by the amount available as a refund. Some high-income families would see only limited benefit from a larger credit because the phaseout would take away some or all of the increase.

Variations on this reform that would cost less than a broad-based expansion include providing a larger CTC to families with young children (as discussed recently in West, Boteach, and Vallas 2015) and providing the CTC for currently ineligible children—such those between ages 17 and 19.[4] Providing the CTC to currently ineligible families would likely provide a distribution of benefits similar to the current one, so long as their incomes were distributed similarly.

OPTION 2. DOUBLE THE MAXIMUM CREDIT TO $2,000 PER CHILD

TPC estimates that doubling the maximum credit would increase CTCs for 56 percent of all families with children in 2018 (only slightly less than the 58 percent of families that will receive the CTC in 2018 under current law). Large majorities of families with children in the second, third, and fourth quintiles would see their credits rise. Just over one-fifth of families with children in the highest income quintile would receive a larger credit (under current law, only 4 percent of families with children in the highest income quintile will receive the CTC in 2018). Of families in the lowest income quintile, 17 percent would qualify for a larger credit. That said, only about 3 percent of all the new benefits would go to families in the lowest income quintile.

OPTION 2A. PROVIDE AN ADDITIONAL $1,500 CREDIT TO WORKERS WITH YOUNG CHILDREN

A steady stream of research shows that the early years are critical in determining later life outcomes. Even relatively small boosts in income can lead to better later-life outcomes.[5] Bolstered by this research, advocates have proposed providing an additional $1,500 credit to families with children under age 3. TPC estimates that almost 90 percent of added benefits would go to families in the middle three income quintiles in 2018. The higher earnings threshold for the refundable credit in that year would keep low-income families from getting much benefit from the additional credit—TPC estimates that only 11 percent of families with children in the lowest income quintile would gain. About 20 percent of families with children in the second, third, and fourth quintiles and less than 2 percent of those in the highest income quintile would get larger credits under the proposal.

To provide more benefits to low-income families, West, Boteach, and Vallas (2015) proposed making the new young child tax credit fully refundable. A more modest adjustment would extend the temporary $3,000 refundability threshold. TPC estimates that with that modification, about 45 percent of new benefits from the new young child tax credit would go to families in the lowest income quintile. Another quarter would go to families in the second income quintile. Credits would increase for three-quarters of families with children in the lowest income quintile and for about 40 percent of those in the second income quintile (revenue estimate shown as option 2A alternative in table 1).

OPTION 2B. INCREASE THE CHILD ELIGIBILITY AGE LIMIT FROM UNDER 17 TO UNDER 19

Children must be under age 17 to qualify for the CTC, a lower age limit than for the EITC and the dependent exemption, the two other most broadly available child-related tax benefits. Raising the CTC age limit to 19 would increase the credit for families with older children who generally still live at home; it could also be a step toward a uniform definition of *child* in the federal tax code (Maag 2011).

TABLE 1

Total Estimated Costs of Options for Reforming the Child Tax Credit, 2016–2025

Billions ($)

	Calendar Year[a]										
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–2025
Baseline benefits	56.7	56.2	49.8	49.9	49.8	49.7	49.4	49.3	49.0	48.6	508.4
Option 1. Permanent $3,000 refundability threshold	0.0	0.0	-10.2	-10.2	-10.2	-10.2	-10.0	-10.0	-9.9	-9.8	-80.5
Option 1 (alternative). Reduce refundability threshold to $0	-2.1	-2.0	-12.1	-12.0	-11.9	-11.8	-11.5	-11.4	-11.2	-11.0	-97.0
Option 2. Double the maximum credit from $1,000 to $2,000 per child	-48.7	-49.1	-43.8	-44.5	-44.8	-45.2	-45.6	-45.9	-46.1	-46.1	-459.7
Option 2A. Extra $1,500 credit for children <3, current law other rules[b]	-15.8	-15.7	-12.3	-12.3	-12.3	-12.2	-12.1	-12.0	-11.7	-11.5	-127.7
Option 2A (alternative). Extra $1,500 credit for children <3, plus option 1	-15.8	-15.7	-25.9	-25.9	-25.8	-25.7	-25.4	-25.2	-24.8	-24.5	-234.7
Option 2B. Increase eligibility age from under 17 to under 19	-7.3	-7.3	-5.6	-5.6	-5.5	-5.5	-5.5	-5.4	-5.3	-5.2	-58.2
Option 3. Index all CTC parameters[c]	0.0	-1.5	-2.6	-4.5	-5.9	-7.9	-9.9	-11.4	-13.5	-15.5	-72.7
Option 4. Increase married phaseout threshold to twice single threshold[d]	-4.6	-4.9	-5.0	-5.2	-5.3	-5.3	-5.4	-5.4	-5.4	-5.5	-52.1
Options 3 and 4 combined	-4.6	-6.3	-7.6	-9.6	-11.1	-13.1	-15.3	-16.8	-19.0	-21.3	-124.8
Option 5. Additional $2,500 CTC, limited refundability[e]	-108.9	-111.1	-115.1	-117.0	-118.7	-120.4	-122.7	-124.6	-126.1	-128.1	-1,192.7

Source: Urban-Brookings Tax Policy Center, "Microsimulation Model, version 0515-1."

[a] Calendar years. Baseline is current law. Effective January 1, 2016.

[b] Create new $1,500 young child tax credit for children under three years old. The young child tax credit is calculated separately from the child tax credit, using the same rules as specified for the child tax credit under the proposal.

[c] Index credit amount and earnings thresholds for inflation.

[d] Child tax credit phaseout for married couples at $150,000 instead of $110,000 and for married couples filing separately at $75,000 instead of $55,000.

[e] Additional $2,500 child tax credit with refundability limited to the sum of total income and payroll tax liabilities, including employer-side payroll tax liability. The credit does not phase out.

Increasing the CTC age limit to 19 would raise credits mostly for families with children in the middle of the income distribution. Less than 5 percent of new benefits would go to a few families in the lowest income quintile, and almost none would go to families in the highest income quintile. Nearly 13 percent of families in the second quintile would see their CTC rise in 2018 (relative to current law); these families would get just over one-quarter of additional benefits. About 16 percent of families in the third and fourth quintiles would see benefits rise. More low-income families would benefit from increasing the age limits than from providing extra credits to very young children because families with only older children could then claim the CTC, while the many families whose CTC is already capped would gain nothing. More very low-income families would benefit before 2018, when the CTC will no longer be available to very low-income families.

OPTION 3. INDEX ALL CREDIT PARAMETERS

Unlike many parts of the tax code the maximum value of the child credit is not indexed for inflation, so rising prices erode its real value over time. Indexing the maximum credit would allow the maximum benefit to keep up with inflation and would benefit anyone with enough income to qualify for the full credit. Indexing the income levels at which the credit phases in and phases out would mean that relatively the same group of people would receive the credit year over year. Without indexation, some higher-income families become ineligible for the credit because their earnings rise with inflation; some low-income families could claim larger credits as inflation raises their earnings above the unindexed phase-in threshold. If the credit phase-in were indexed, a family whose wages failed to keep pace with inflation would qualify for a smaller credit every year.

Almost half of all benefits from indexing the credit would go to families with children in the fourth income quintile, and another quarter would go to those in the middle quintile. Few benefits would go to lower-income or high-income families. Almost two-thirds of families with children in the second income quintile and even larger majorities in the third and fourth income quintiles would see their credit rise.

Reforms Focused on High-Income Families

To provide additional benefits to high-income families with children, policymakers could increase the point at which the credit begins to phase out or even remove the phaseout entirely. This approach would benefit only families with children in the third income quintile and higher. As an alternative, Senators Lee and Rubio proposed an additional $2,500 child credit with limited refundability, with most of the benefits going to higher-income families.[6]

OPTION 4. INCREASE THE PHASEOUT THRESHOLD FOR MARRIED COUPLES

Under current law, the credit is reduced by 5 cents for every dollar of adjusted gross income over $75,000 ($110,000 if married). TPC estimates that the phaseout will reduce or eliminate the credit for 15.3 million children in 2016. Lowering the phaseout threshold would reduce benefits for higher-income families with children. Conversely, raising the threshold would allow more families to get the credit and increase benefits going to families whose credits are limited under current law.

If the phaseout threshold for married couples were raised to twice that for single parents, almost 60 percent of increased benefits would go to families with children in the fourth income quintile and almost all of the rest would go to families in the top quintile. About a third of families with children in the fourth income quintile and about a quarter of those in the top quintile would receive larger credits under a plan to index the phaseout threshold for married couples. Single parents would see no change from this proposal.

If this change were coupled with indexing the credit, about half of all benefits from the reform would go to families with children in the fourth income quintile and over a third would go to those in the top quintile.

OPTION 5. CREATE A $2,500 ADD-ON CREDIT WITH LIMITED REFUNDABILITY AND NO PHASEOUT

Providing an additional CTC of up to $2,500 for children under 17 with no phaseout for high-income families and only partial refundability would expand benefits much more than the options discussed above. Because of its limited refundability, most low-income families could not get the new credit. About 30 percent of the proposal's benefits would go to families with children in the middle income quintile, about 30 percent to those in the fourth quintile, and almost one quarter to those in the top quintile. Large majorities of families with children in the highest three income quintiles would benefit from this proposal.

Average Benefits and Total Costs of Sample CTC Reform Proposals

Both the cost of benefits and the average amount going to families in different parts of the income distribution vary widely across options to expand the child credit (figure 6, table 1, table 2). Ten-year revenue costs range from about $52 billion (for setting the phaseout threshold for married couples to double that for single parents) to nearly $1.2 trillion (for providing a new $2,500 credit with limited refundability and no phaseout; table 2). The characteristics of each proposal determine which families would benefit most from a given change.

The range of options presented has a 10-year budget cost of between $52 billion (increasing the phaseout threshold for married couples, option 4) and $1,192 billion (adding an additional $2,500 credit with limited refundability, option 5). All five plans would expand the current CTC, although some would provide lower benefits in 2018 than would extending the $3,000 reduced refundability threshold (figure 6 and table 1). Any plan could be scaled up or down to meet a certain budget target, which would alter the average benefits to each income quintile, but not necessarily their distribution.

TABLE 2

Average Child Tax Credit Benefits by Income Quintile, 2018

Dollars

	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5	All
Current law ($14,600 refundability threshold)	369	1,299	1,484	905	24	829
Option 1. Make current $3,000 refundability threshold permanent	1,048	1,501	1,502	906	24	187
Option 2. Double the maximum credit to $2,000 per child	478	2,273	2,936	2,197	256	815
Option 2A. Provide an additional $1,500 credit to workers with young children[a]	1,149	1,835	1,887	1,249	75	432
Option 2B. Increase the child age limit from under 17 to under 19	391	1,433	1,672	1,069	32	104
Option 3. Index all credit parameters[b]	373	1,341	1,547	1,027	39	49
Option 4. Increase the phaseout threshold for married couples[c]	369	1,299	1,490	1,215	241	102
Option 5. Create $2,500 add-on credit with limited refundability and no phaseout[d]	572	2,852	4,851	4,277	2,903	2,241

Source: Urban-Brookings Tax Policy Center, "Microsimulation Model, version 0515-1."

[a] Create new $1,500 young child tax credit for children under three years old. The young child tax credit is calculated separately from the child tax credit, using the same rules as specified for the child tax credit under the proposal.

[b] Index credit amount and earnings thresholds for inflation.

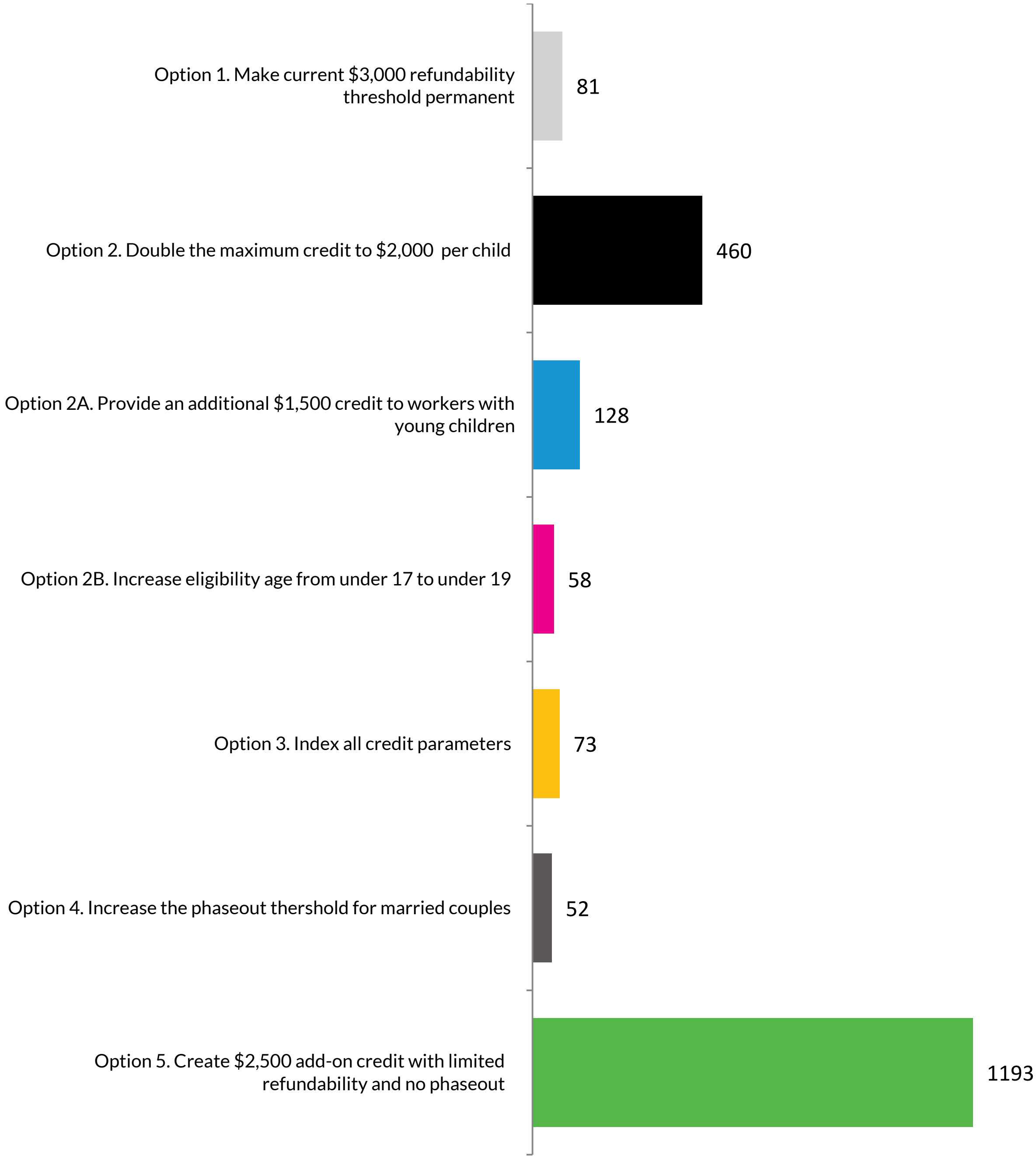
[c] Child tax credit phaseout for married couples at $150,000 instead of $110,000 and for married couples filing separately at $75,000 instead of $55,000.

[d] Additional $2,500 child tax credit with refundability limited to the sum of total income and payroll tax liabilities, including employer-side payroll tax liability. The credit does not phase out.

FIGURE 6

10-Year Budget Cost of Various Reform Proposals to Child Tax Credit (2016–2025)

Billions ($)



Source: Urban-Brookings Tax Policy Center, "Microsimulation Model, version 0515-1," http://taxpolicycenter.org/numbers/displayatab.cfm?template=simulation&SimID=509.

For families with children in the lowest income quintile, average CTC benefits under current law are projected to be about $370 in 2018. If the $3,000 refundability threshold were extended, the average credit for this group would be almost $1,050—a difference of nearly $700. The only reform explored here that would deliver a larger average benefit to the entire CTC recipient population would be a further reduction in the refundability threshold (which would have the added benefit of simplifying the credit's calculation). To extend the refundability threshold would cost about $80 billion over the current budget window; reducing it so that the CTC starts phasing in with the first dollar of earnings would cost about $97 billion.

Over the 10-year budget window, extending the reduced refundability threshold costs about the same as a plan to index all CTC credit parameters ($81 billion versus $73 billion). However, benefits would be distributed quite differently with the two plans. Families with children in the lowest income quintile would see an average credit increase of less than $5 if the credit were indexed—much smaller than the almost $700 boost they would receive under a proposal to extend the $3,000 refundability threshold, maintaining benefits akin to those received before 2018. In contrast, families in the fourth income quintile would see their average credit rise by over $100 if the CTC were indexed but see almost no change from a proposal to extend the $3,000 refundability threshold.

Coupling a $1,500 credit boost for families with children under age 3 (calculated separately from the CTC—a young child tax credit) with an extension of the reduced refundability threshold would deliver average benefits of $1,385 (an average increase of $1,016) to families in the lowest income quintile (table 2). The proposal would cost about $235 billion over the budget window from 2016 to 2025, about three times what it would cost to maintain the current $3,000 refundability threshold after 2017.

A more modest implementation of the young child tax credit, one that does not include extending the $3,000 refundability threshold, would cost about $128 billion over the budget window—quite similar to the $125 billion cost associated with combining options 3 and 4, as in Representative Jenkins's proposal. Though similar in total budget impact, the policies would have very different effects on average credits for families in various income groups. Even without extending the reduced refundability threshold, the young child tax credit would lift benefits to families in the second income quintile about $350; in the third income quintile, average credits would increase by about $400. The Jenkins proposal would have the largest impact on average credits for families with children in the top three income quintiles.

Conclusion

The CTC delivers substantial benefits to families with children. Analysts and policymakers have proposed a wide variety of reforms to either expand the number of families getting the credit or raise the amount of the credits they get. The design of specific reforms can radically affect who benefits and how much their credits would increase. Simple reforms involve changing one or more of the credit's parameters—the point at which the credit begins to phase in, the amount of the credit, or how the credit phases out. More complicated changes would alter more than one lever, and the interactions between the changes would dictate how benefits would be distributed. For example, coupling many of the discussed changes with an extension of the $3,000 refundability threshold would direct more benefits to lower-income families than could be done with the higher refundability threshold in place.

For reformers interested in increasing or even maintaining CTC benefits for families with children in the lowest income quintile, maintaining the temporarily reduced refundability threshold is essential. Lowering the threshold even more would also focus additional benefits on families with children in the lowest income quintile while giving little or no additional benefits to families in the highest quintile.

Middle-income families would benefit most from reforms that index the CTC, broaden the eligible population, or increase the credit maximum. Any of these reforms could be coupled with an extension of the $3,000 refundability threshold if the goal is to deliver larger benefits to low- and middle-income families with children.

Finally, eliminating the credit's phaseout or adding a new credit that doesn't phase out would deliver benefits to higher income families.

Notes

1. For ease of exposition, further reference to the child tax credit includes both the refundable and nonrefundable portions.
2. Income quintiles are based on the income distribution for the entire population and contain an equal number of people, not tax units. The incomes used are adjusted for family size by dividing by the square root of the number of people in the tax unit. The resulting percentile breaks are (in 2015 dollars)
   - 20 percent, $16,353;
   - 40 percent, $30,531;
   - 60 percent, $52,710;
   - 80 percent, $87,501;
   - 90 percent, $126,779;
   - 95 percent, $176,431;
   - 99 percent, $425,759; and
   - 99.9 percent, $2,261,596.
3. An even more generous option (not shown) would allow all children, regardless of whether their parents had earnings (so long as the earnings were not high enough to be in or beyond the credit's phaseout range), to receive the full CTC. This option would require even people who do not work to file income tax returns in order to benefit. It was discussed in the recent proposal by the Center for American Progress to provide higher CTC benefits to low-income families with young children (West, Boteach, and Vallas 2015), as well as in Goldberg, Batchelder, and Orszag (2006).
4. As discussed in Maag (2013) and Committee for a Responsible Federal Budget, "The Tax Break-Down: Child Tax Credit," Committee for a Responsible Federal Budget, August 29, 2013, http://crfb.org/blogs/tax-break-down-child-tax-credit.
5. Center on Budget and Policy Priorities, "Policy Basics: The Child Tax Credit," Center on Budget and Policy Priorities, updated December 4, 2014, http://www.cbpp.org/research/policy-basics-the-child-tax-credit.
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About the Author

Elaine Maag is a senior research associate in the Urban-Brookings Tax Policy Center at the Urban Institute, where she studies income support programs for low-income families and children. Before joining Urban, Maag worked at the Internal Revenue Service and Government Accountability Office as a Presidential Management Fellow. She has advised congressional staff on the taxation of families with children, higher education incentives in the tax code, and work incentives in the tax code. Maag codirected the creation of the Net Income Change Calculator, a tool that allows users to understand the trade-offs between tax and transfer benefits, and changes in earnings or marital status. Maag holds an MS in public policy analysis from the University of Rochester.

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