

What is the child tax credit?

The child tax credit (CTC) provides a credit of up to \$1,000 per child under age 17. If the CTC exceeds taxes owed, families may receive some or all of the credit as a refund, known as the additional child tax credit (ACTC) or refundable CTC.

HOW THE CTC WORKS TODAY

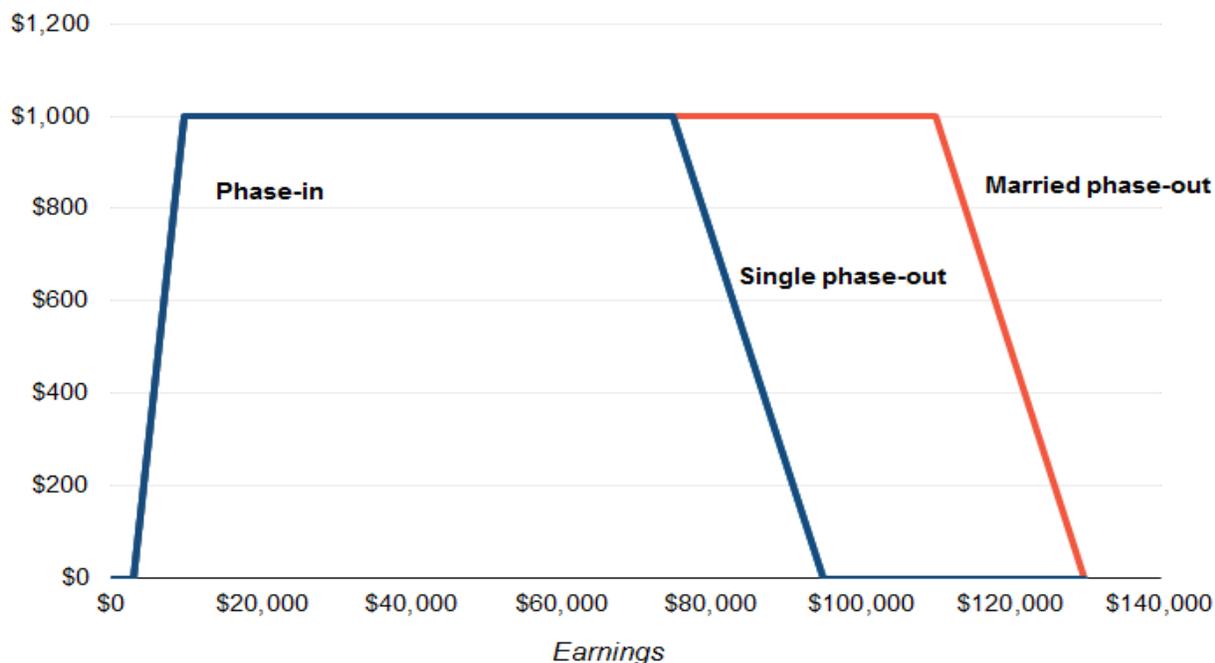
Taxpayers can claim a tax credit of up to \$1,000 for each child under age 17. The cred-

FIGURE 1

Child Tax Credit for One Child



Credit amount



Source: Tax Policy Center.

Note: Assumes all income comes from earning and child is under 17 and meets all tests to be a CTC qualifying child.

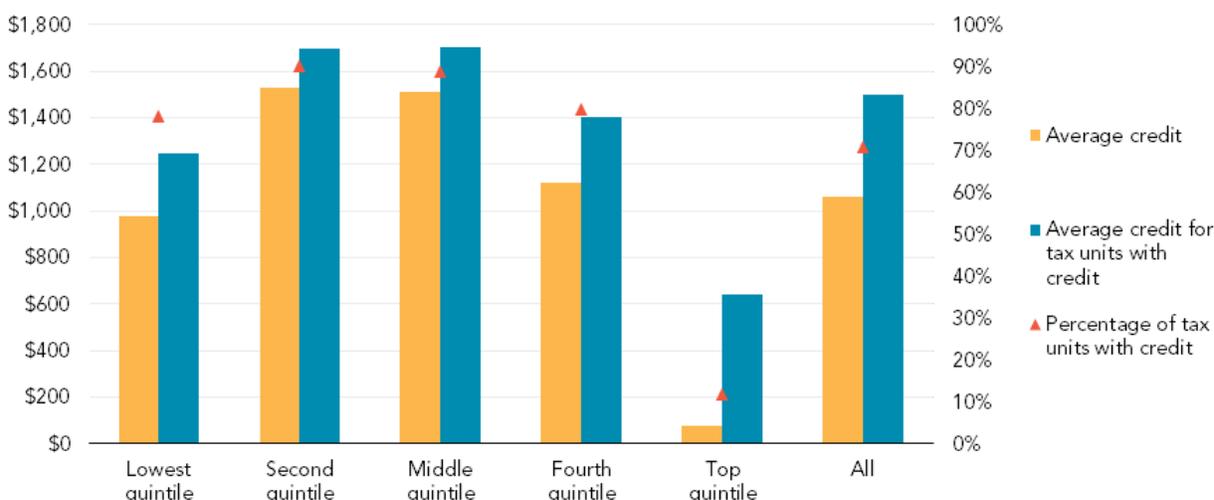
Impact of the CTC

Families in all income groups benefit from the CTC. However, the percentage of families receiving the credit and the average credit received is higher among moderate- and middle-income families. In 2015, 70 percent of families with children will receive an average CTC of \$1,058. About 90 percent of families with children in the second and third quintiles receive CTC benefits (each quintile contains 20 percent

of the population ranked by household income). The proportion of families with children getting a credit drops to 80 percent in the fourth quintile, while only 12 percent of families with children in the highest income quintile receive the credit (figure 2).

FIGURE 2

Distribution of and Percentage of Tax Units with Children and Child Tax Credit
2015



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

If the CTC (including the refundable portion) were counted in the official estimate of poverty, 3.1 million fewer people would fall below the poverty threshold in 2013, including about 1.7 million children. Counting the credit would have also reduced the severity of poverty for an additional 13.7 million people, including 6.8 million children (Center on Budget and Policy Priorities 2014).

The original justification for making the CTC partially refundable in 2001 was to offset the high effective marginal tax rate associated with the earned income tax credit (EITC) phaseout. The marginal tax rate measures the additional taxes owed or the reduction in refundable tax credits from an additional dollar of earnings.

For families with at least three children, the income range where the ACTC phases in overlaps at least part of the range where the EITC phases out. For these families, the CTC partly offsets the loss of income from the EITC phaseout. For smaller families, the CTC phases in alongside the EITC, boosting their income even more.

HISTORY OF CREDIT

The ATRA permanently increased the CTC from \$500 per child, its pre-2001 level, to \$1,000 per child. It also temporarily extended the provisions of the American Recovery and Reinvestment Act of 2009 (the anti-recession stimulus package) that reduced the earnings threshold for the refundable CTC from \$10,000 (adjusted for inflation starting after 2002) to \$3,000 (not adjusted for inflation). The Bipartisan Budget Act of 2015 made the \$3,000 refundability threshold permanent.

DATA SOURCES

Urban-Brookings Tax Policy Center. *Microsimulation Model*, version 0515-1.

WORKS CITED AND FURTHER READING

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