

Who Benefits from the Child Tax Credit Now?

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The Tax Cuts and Jobs Act of 2018 doubled the maximum child tax credit from \$1,000 to \$2,000. But about 29 million children under age 17 with at least one working parent will miss out on the full increase because their families earn too little in income or owe too little in taxes.

A single mother with one child working half time at minimum wage would qualify for a \$712 credit; if she worked full time, her credit would increase to \$1,400. To be eligible for the full credit, she would need to earn at least \$24,000 a year, about one and two-thirds times the minimum wage at full time.

Major Changes to the Child Tax Credit

The new legislation made three changes to the child tax credit, or CTC:

1. The maximum credit for children under age 17 doubled to \$2,000. Up to \$1,400 (which will be indexed to inflation until it reaches \$2,000) can be received as a refund. This refund is limited to 15 percent of earnings above \$2,500.
2. The income at which the credit begins to phase out substantially increased from \$75,000 (\$110,000 if married) to \$200,000 (\$400,000 if married).
3. Dependents who do not qualify for the \$2,000 credit can now qualify for a CTC of up to \$500. This includes 17- and 18-year-old children living at home, 19- to 24-year-old children attending school full time, and elderly parents who are considered dependents. This portion of the credit cannot be received as a refund. In most cases, it offsets or partially offsets the repeal of personal exemptions in the new tax law.

These changes are in place through 2025. After that, the CTC and most other individual income tax changes revert to pre-2018 law. Legislators intend to extend these changes beyond 2025.

Focus on Children under Age 3

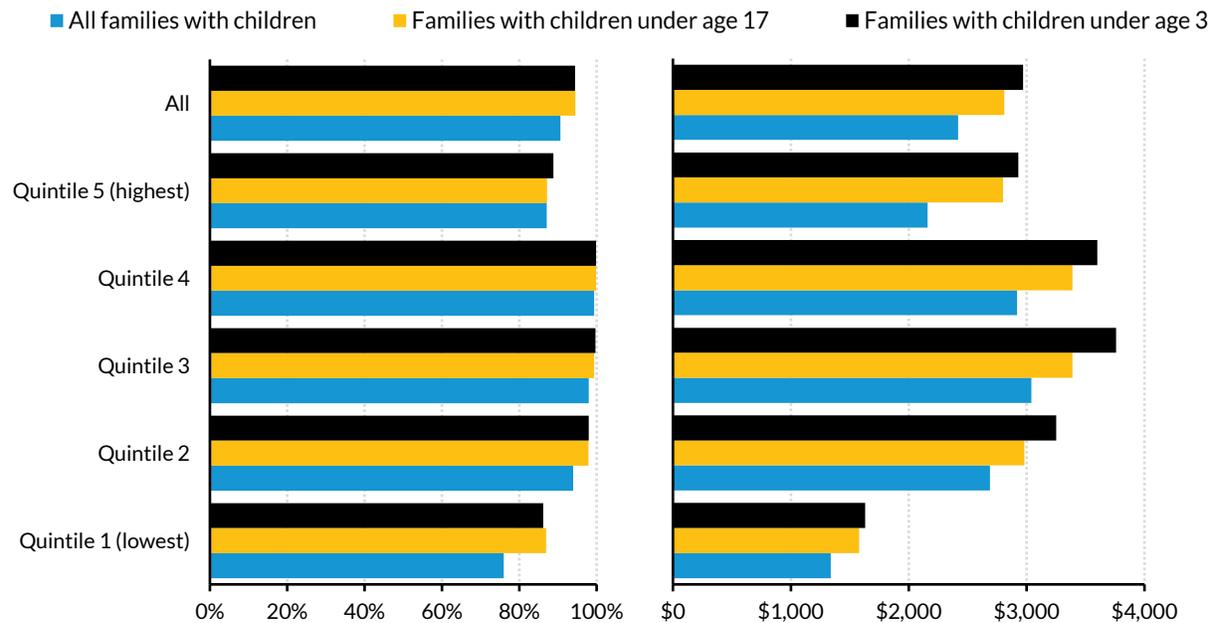
In the new legislation, policymakers opted not to provide an additional boost to families with infants and toddlers, though such families are more likely to be living in poverty than families with older children. Evidence is growing that increases in family income can help young children in myriad ways over their lifetimes.

Almost 91 percent of all families with children will benefit from the CTC in 2018 (figure 1). The shares of children under age 17 and under age 3 receiving the CTC are similar (roughly 94 percent). A smaller share of families with children age 17 and older benefit from the CTC because the credit cannot exceed taxes owed (data not shown).

Average benefits are smaller for families with children in the lowest fifth of the income distribution than for higher-income families. That's because many low-income families do not owe enough tax to be eligible for the full \$2,000-per-child credit. Instead, these families largely benefit from the refundable portion of the credit, which cannot exceed \$1,400.

FIGURE 1

Share of Families with Children Who Benefit from the Child Tax Credit and Their Average Benefit, 2018



Source: Tax Policy Center Microsimulation Model (version 0217-1).

Notes: Incorporates the Tax Cuts and Jobs Act. Includes families who receive any nonzero dollar amount of benefit.

Average credits tend to be slightly higher for families with children under age 3 than for families with children under age 17. That’s likely because most children in families with infants and toddlers are eligible for the larger credit; few or none are limited to the \$500 nonrefundable credit available to the oldest children.

Options to Help Young Children

Policymakers could target benefits to families with children under age 3 by allowing them to include all their earnings when calculating the refundable credit (rather than only including earnings above \$2,500) or by allowing the full \$2,000 of the credit to be refunded rather than limiting the refundable portion to \$1,400. These options would increase the credit for low- and moderate-income families whose babies and toddlers are at a critical stage of child development.

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