

Tax Savings From an Additional Child

By Eric Toder

Provisions in the tax law that benefit taxpayers with children include: (1) the child tax credit (CTC), (2) personal exemptions for dependent children, (3) the earned income tax credit, (4) availability of head of household filing status, (5) the child and dependent care tax credit (CDCTC), and (6) tuition tax credits and deductions for college education. The value of these benefits depends on the taxpayer's income, earnings, and marital status; the child's age; the number of other children in the family; and taxpayer spending on specific activities (college tuition and child-care services).

If Congress extends the 2001 and 2003 Bush tax cuts for all but high-income taxpayers, families with children would have paid on average \$1,656 in additional taxes if they had one fewer child in 2012 (Table 1). The tax savings they would receive from their last child varies across income quintiles. It is highest for the second quintile (\$2,306) and lowest for the top and bottom quintiles (\$1,140 and \$1,310, respectively). Those in the top quintile receive no benefit from the EITC and a reduced (or zero) benefit from the CTC, which phases out at incomes

above \$110,000 for married couples and \$75,000 for single parents. Many of those in the bottom quintile with children get little or no benefit from dependent exemptions, the CDCTC, or the CTC because they have little or no income tax liability and their earnings are too low to qualify for the refundable portion of the CTC. Taxpayers in the top 1 percent of the distribution would receive an average of \$238 per child, less than the full value of the personal exemption because of the personal exemption phase out.

Table 1. Individual Income Tax Savings From an Additional Child, Tax Units With Children, 2012

Income Quintile	Average Tax Savings
Lowest	\$1,310
Second	\$2,306
Middle	\$1,706
Fourth	\$1,791
Top	\$1,140
Top 1 percent	\$238
All	\$1,656

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-4). In calculating the marginal tax benefit of a child, we assume that the marginal child for taxpayers with two or more children is the youngest one.



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