How did the TCJA change taxes of families with children?

Q. How did the TCJA change taxes of families with children?

A. The 2017 Tax Cuts and Jobs Act increased the standard deduction, eliminated personal exemptions, doubled the maximum child tax credit (CTC) from $1,000 to $2,000 per child under age 17, and added a $500 nonrefundable credit for children ineligible for the $2,000 credit. The legislation also changed how the earned income tax credit (EITC) is indexed, causing the credit to grow more slowly over time. Despite these changes, overall tax benefits for families with children remained roughly the same as under prior law. The changes not related to the EITC expire after 2025.

STANDARD DEDUCTION/PERSONAL EXEMPTION

Both personal exemptions (which were eliminated by the TCJA) and the standard deduction serve a similar purpose: they exempt a certain portion of income from taxation. As a result, very low-income tax filers pay little to no federal income tax, while others' taxable income and taxes are reduced.

The TCJA approximately doubled the standard deduction from $9,350 for heads of household and $12,700 for married couples to $18,000 and $24,000, respectively, in 2018. As under prior law, the deduction amounts are indexed for inflation. At the same time, it eliminated personal exemptions—in 2017, prior to the TCJA, filers could claim an exemption of $4,050 for themselves and each of their dependents.

Thus, more income will be considered taxable under the TCJA than under prior law for almost all families with children. Doubling the standard deduction also decreased the benefit from claiming itemized deductions, which high-income families are more likely to do. Both provisions will revert to prior law in 2025.

INCREASING THE CHILD TAX CREDIT

The TCJA temporarily doubled the maximum child tax credit (CTC) from $1,000 to $2,000 per child under 17 and added a $500 nonrefundable credit for children ineligible for the $2,000 credit. The credit decreases by 5 percent of adjusted gross income over $200,000 for single parents and $400,000 for married parents. Under prior law, the credit began to phase out (at the same 5 percent rate) at income over $75,000 for single parents and $110,000 for married parents.

If the credit exceeds taxes owed, taxpayers can receive up to $1,400 of the balance as a refund: this is known as the additional child tax credit (ACTC) or refundable CTC. The refundable CTC is limited to 15 percent of

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earnings above $2,500. Under prior law, filers could receive the full amount of the credit (then $1,000) in excess of taxes owed, but limited to 15 percent of earnings over $3,000.

The TCJA made no changes to the child and dependent care credit (CDCTC.) It changed how the earned income tax credit (EITC) was indexed so that it now increases more slowly over time. This change does not expire.

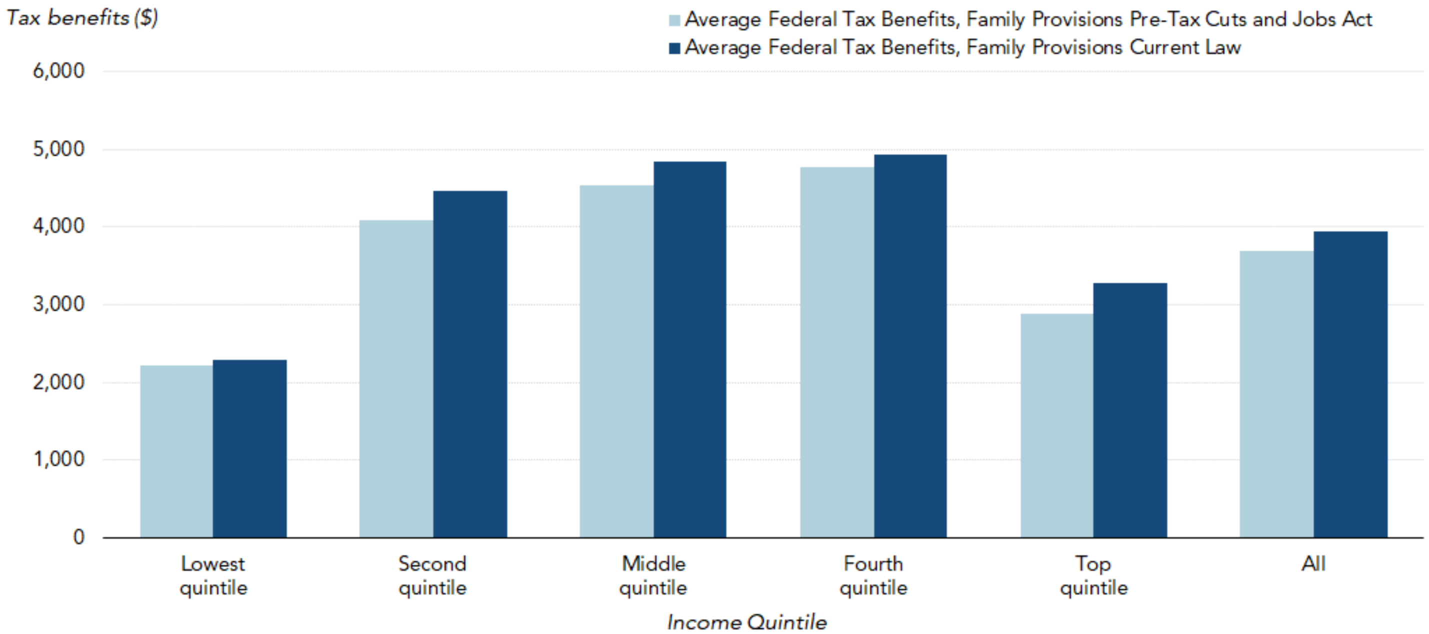
OVERALL EFFECTS OF TCJA FOR FAMILIES

Overall, most families' tax benefits increased modestly as a result of the TCJA (figure 1.) Any decreases in benefits from the elimination of personal exemptions were roughly offset by the combination of increases in the standard deduction and child tax credit.

FIGURE 1

Average Tax Benefits, Family Provisions

Pre-Tax Cuts and Jobs Act compared to current law, 2018, by income quintile



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0718-1).
Note: Includes only tax units with children, defined as those claiming an exemption for children at home or away from home or with children qualifying for the Child Tax Credit or EITC. Tax benefit is the difference in tax owed under the law and if the child tax credit, personal exemption, standard deduction, and child and dependent care tax credit are set to $0.

TPC estimates that TCJA will provide similar levels of total benefits from 2018 to 2025 (table 1)

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TABLE 1

Tax Benefits from the Major Family Tax Provisions (Billions $)

	Fiscal Years							
	2018	2019	2020	2021	2022	2023	2024	2025
Benefit of the CTC, standard deduction, personal exemption, and CDCTC under TCJA[a]	213.0	332.9	338.8	343.8	351.3	359.2	367.4	376.8
Benefit of the CTC, standard deduction, personal exemption, and CDCTC before TCJA[b]	215.6	337.1	344.8	352.8	361.4	370.9	382.5	393.4

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0718-1).

Notes: CDC = child and dependent care tax credit; CTC = child tax credit. Current-law analysis is as of September 6, 2018. Proposal is assumed effective January 1, 2018. Estimates include the effects of microdynamic repsonses. Estimates assume a 65:35 fiscal split (fiscal year revenue ie estimated to be 35 percent of revenue from the previous calendar year and 65 percent of revenue from the current calendar year).

[a] Benefits calculated are the difference between taxes owed under current law and taxes owed if the CTC, standard deduction, personal exemption, and CDCTC are set to $0.

[b] Benefits calculated are the difference between taxes owed under 2018 law (assuming pre-TCJA values for the CTC, standard deduction, personal exemption, and CDCTC) and taxes owed if the CTC, standard deduction, personal exemption, and CDCTC are set to $0 under pre-TCJA rates.

WHAT COMES NEXT?

With most of these changes expiring in 2025, lawmakers have introduced various proposals to maintain benefits over the longer term, expand the reach of these tax provisions, or both. The federal income tax system already provides substantial benefits to low- and middle-income families with children, lifting more children out of poverty than any other program. However, the American Family Act and Working Families Tax Relief Act both propose lifting limitations on the refundable portion of the CTC.

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Data Sources

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Further Reading

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