Q. What is the child tax credit?

A. For 2021, the Child Tax Credit provides a credit of up to $3,600 per child under age 6 and $3,000 per child from ages 6 to 17. If the credit exceeds taxes owed, families may receive the excess amount as a refund. The credit will also be available periodically throughout the year starting as early as July, rather than as a lump sum at tax time.

Prior law provided a Child Tax Credit of up to $2,000 per child age 16 and younger, with refunds limited to $1,400 per child. These parameters will be in effect again for 2022-2025.

Other dependents—including children aged 18 and full-time college students ages 19–24—can receive a nonrefundable credit of up to $500 each.

HOW THE CHILD TAX CREDIT WORKS TODAY

The American Rescue Plan increased the Child Tax Credit (CTC) for 2021. Tax filers can claim a CTC of up to $3,600 per child under age 6 and up to $3,000 per child ages 6 to 17. There is no cap on the total credit amount that a filer with multiple children can claim. The credit is fully refundable – low-income families qualify for the maximum credit regardless of how much they earn. If the credit exceeds taxes owed, families can receive the excess amount as a tax refund.

Only children who are US citizens are eligible for these benefits. The credit phases out in two steps. First, the credit begins to decrease at $112,500 of income for single parents ($150,000 for married couples), declining in value at a rate of 5 percent of adjusted gross income over that amount until it reaches pre-2021 levels. Second, the credit’s value is further reduced by 5 per-cent of adjusted gross income over $200,000 for single parents ($400,000 for married couples) (figure 1, blue lines).

In 2022, the credit is set to revert to its prior-law levels. Under those rules, which were established by 2017’s Tax Cuts and Jobs Act (TCJA), taxpayers could claim a CTC of up to $2,000 for each child under age 17. The credit would decrease by 5 percent of adjusted gross income over $200,000 for single parents ($400,000 for married couples). If the credit exceeded taxes owed, taxpayers could receive up to $1,400 as a tax refund.
known as the additional child tax credit (ACTC) or refundable CTC. However, under the TCJA rules, the ACTC would be limited to 15 percent of earnings above $2,500, which means filers with very low income could not claim the credit or they could claim a reduced credit (figure 1, grey line).

The TCJA also created a $500 credit available to any dependent who is not eligible for either the $3,600 or $3,000 credits for children under age 18 (or under prior law, the $2,000 CTC for children under 17). Before 2018, these individuals would not have qualified for a CTC but would have qualified for a dependent exemption, which was eliminated by the 2017 Tax Cuts and Jobs Act (TCJA). Dependents eligible for this credit include children age 18 (and age 17 under the TCJA rules) and children ages 19–24 who were in school full time in at least five months of the year. Older dependents (which make up about 6 percent of dependents eligible for the CTC) as well as some children who are not US citizens qualify for the $500 credit, referred to as the other dependent credit on tax forms (figure 1, yellow line).

The TCJA is set to expire after 2025, meaning the CTC is scheduled to revert to its pre-TCJA form.

**FIGURE 1**
Child Tax Credit, Single Parent
For one child, tax year 2021

**Source:** Urban-Brookings Tax Policy Center calculations

**Notes:** Assumes all income comes from earnings, and child meets all tests to be a CTC-qualifying dependent. $3,000 and $3,600 credits are fully refundable; prior law limited refunds to $1,400 out of the maximum $2,000 credit. Credit for married parents first phases out at $150,000 of income until credit reaches pre-2021 level; begins second phase out at $400,000 of income. Only citizen children qualify for the $3,000 and $3,600 credits for children under 18. Noncitizens under age 18 who meet the dependency tests of eligibility can qualify other dependent credit.

**IMPACT OF THE CTC**

The Tax Policy Center estimates that 92 percent of families with children will receive an average CTC of $4,380 in 2021 (the average credit can exceed the maximum per child credit because families can have more than one child). Under prior law, 89 percent of families with children received an average CTC of $2,310. Average credits were lower for all income groups, but particularly so for the lowest income families (figure 2).
What is the child tax credit?

The American Rescue Plan directed the Internal Revenue Service to provide half of the refundable credit to families as periodic advance payments—starting as early as July 2021—instead of one lump sum when taxpayers file their returns. Delivering a portion of the expanded CTC periodically in 2021 (as opposed to during the tax season in 2022) is projected to reduce child poverty from 13.7% to 11.3% (Wheaton, Minton, Giannarelli, and Dwyer 2021.)

HISTORY OF THE CTC

The CTC was created in 1997 as part of the Taxpayer Relief Act. The original credit was $400 per child under age 17 and was nonrefundable for most families. In 1998, the credit increased to $500 per child under age 17.

The CTC was increased and made refundable in 2001 to coordinate with the earned income tax credit (EITC). Once earnings reached $10,020 for families with two children in 2001, there was no further increase in the EITC. The earnings threshold for the refundable CTC was set at $10,000 so families could now receive a subsidy for earnings in excess of that amount. Like the earned income amount for the EITC, the $10,000 earnings threshold was indexed for inflation. When the earnings threshold for the refundable CTC was reduced—first to $8,500 in 2008 and then to $3,000 in 2009—that link between the phase-in of the refundable CTC and the EITC was broken.

The American Taxpayer Relief Act of 2012 increased the CTC from $500 per child 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.

As noted earlier, The Tax Cuts and Jobs Act of 2017 doubled the CTC for children under 17 from $1,000 per child to $2,000 per child, effective in 2018. The refundable portion of the credit was limited to $1,400 per child. The refundable amount was indexed to inflation, but as of 2020, inflation had not increased enough to trigger the minimum increase. The legislation also allowed dependents who did not qualify for the $2,000 credit to qualify for a nonrefundable credit worth up to $500. The legislation is temporary and expires after 2025. At that point, the credit for children under 17 will revert to $1,000 per child, and other dependents will no longer be eligible for a CTC.

Updated May 2021

Data Sources

Further Reading


What is the child tax credit?


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Q. What is the adoption tax credit?

A. The tax code provides an adoption credit of up to $14,300 for qualified adoption expenses in 2020. The credit is available for each child adopted, whether via public foster care, domestic private adoption, or international adoption. The total amount of adoption credits for 2018 is estimated to reach approximately $400 million.

CREDIT AMOUNT

Taxpayers can receive a tax credit for all qualifying adoption expenses up to $14,300 in 2020. The maximum credit is indexed for inflation. Taxpayers may also exclude from income qualified adoption expenses paid or reimbursed by an employer, up to the same limit as the credit. Taxpayers can use the tax credit and the income exclusion but cannot claim the same expenses for both.

“Special needs” adoptions automatically qualify for the maximum credit regardless of actual out-of-pocket expenses. For purposes of the credit, a child has special needs if a state’s welfare agency determines that the child cannot or should not be returned to his or her parents’ home and that the child probably will not be adoptable without assistance provided to the adoptive family. This provision is designed to encourage parents to adopt children who would otherwise be hard to place, even if most of the adoption expenses are covered by someone else (such as a public foster care program).

ELIGIBILITY

The adoption credit is available to most adoptive parents, with some exceptions. The credit is not available to taxpayers whose income exceeds certain thresholds. The thresholds are indexed for inflation. In 2020 the credit begins to phase out at $214,520 of modified adjusted gross income and phases out entirely at income of $254,520. The credit also is not available for adoptions of stepchildren.

REFUNDABILITY

The adoption tax credit is nonrefundable but can be carried forward for up to five years. The credit is thus of little or no value to low-income families who pay little or no income tax over a period of years. The Patient Protection and Affordable Care Act of 2010 made the adoption tax credit refundable for 2010 and 2011. Concerned about the potential for fraud, the Internal Revenue Service (IRS) stepped up compliance efforts. The result, according to the National Taxpayer Advocate Service, was substantial delays for taxpayers, with 69 percent of all adoption credit claims filed in 2012 selected for audit. The IRS ultimately disallowed only 1.5 percent of claims, and 20 percent of the savings from the disallowed credits was spent on interest owed to
What is the adoption tax credit?

taxpayers with delayed refunds. The credit reverted to nonrefundability in 2012.

COST OF THE CREDIT

The credit has been repeatedly expanded, from an initial maximum value of $5,000 in 1997 to $14,300 in 2020. In 2016, taxpayers claimed total adoption credit of $290 million (figure 1). The temporary availability of a refundable credit pushed the cost of the credit up to the dramatically higher figures of $1.2 billion in 2010 and $610 million in 2011 (including the refundable portion).

FIGURE 1

Cost of the Adoption Credit
Tax years 1998–2017

Millions of dollars

WHO GETS IT

The distribution of the credit across income groups ranges from small amounts for low- and moderate-income households (because of their minimal tax liability and the credit’s nonrefundability) and the highest-income households (because of the income cap) to substantial amounts to those with upper-middle incomes. For example, in tax year 2017, the credit for those with incomes between $50,000 and $75,000 (one quarter of claimants) averaged $3,087 per adoption, while the average credit for households with incomes between $100,000 and $200,000 (about 30 percent of claimants) was $9,099 per adoption (table 1).
What is the adoption tax credit?

The most recent year with data available by adoption type (2004) indicates that nearly half of adoptions for which the credit was claimed were for domestic children without special needs, with only 18 percent classified as special needs, and the remainder reflecting international adoptions.

Updated May 2020

Data Sources


Further Reading


What is the adoption tax credit?


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Q. What is the earned income tax credit?

A. The earned income tax credit subsidizes low-income working families. The credit equals a fixed percentage of earnings from the first dollar of earnings until the credit reaches its maximum. The maximum credit is paid until earnings reach a specified level, after which it declines with each additional dollar of income until no credit is available.

HOW THE EARNED INCOME TAX CREDIT WORKS

The earned income tax credit (EITC) provides substantial support to low- and moderate-income working parents who claim a qualifying child based on relationship, age, residency, and tax filing status requirements. It previously provided very little support to workers without qualifying children (often called childless workers), but the American Rescue Plan (ARP) significantly expanded the credit for these workers through 2021.

By design, the EITC only benefits people who work. Workers receive a credit equal to a percentage of their earnings up to a maximum credit. Both the credit rate and the maximum credit vary by family size, with larger credits available to families with more children. In 2021, the maximum credit for families with one child is $3,618, while the maximum credit for families with three or more children is $6,728. The maximum credit for childless workers is $1,502, roughly triple what it was prior to the ARP.

After the credit reaches its maximum, it remains flat until earnings reach the phaseout point. Thereafter, it declines with each additional dollar of income until no credit is available (figure 1).
Prior to the ARP, childless workers could receive a maximum credit of only $543 in 2021 and the credit phased out at lower income levels. The credit was limited to workers between the ages of 25 and 64. The ARP’s expanded childless EITC is only in effect in 2021.

Despite expansions under the ARP, the EITC for childless workers remains limited compared to the credit for families with children. The credit phases out at lower incomes and age restrictions apply. Childless workers must be at least age 19 (18 if formerly a foster child or homeless) to qualify for the credit, or at least age 24 if the filer is a half-time or more student in at least five months of the year. As a result of these tighter eligibility rules and a smaller maximum benefit, 83 percent of benefits from the EITC go to families with children.

For all workers, regardless of family size, the tax filer’s investment income must be below $10,000 to be eligible for the EITC. The ARP increased that limit from $3,650 under prior law. That change does not expire
What is the earned income tax credit?

after one year.

IMPACT OF THE EITC

In general, research shows that the EITC encourages single people and primary earners in married couples to work (Dickert, Houser, and Scholz 1995; Eissa and Liebman 1996; Meyer and Rosenbaum 2000, 2001). The credit, however, appears to have little effect on the number of hours worked once people are employed. Although the EITC phaseout could cause people to reduce their hours (because credits are lost for each additional dollar of earnings, which is effectively a surtax on earnings in the phaseout range), there is little empirical evidence of this happening (Meyer 2002).

The one group of people that may reduce hours worked in response to EITC incentives is lower-earning spouses in married couples (Eissa and Hoynes 2006). On balance, though, the increase in work resulting from the EITC far outweighs the decline in labor participation among secondary earners in married couples.

Some recent analysis sheds some doubt on the magnitude of EITC work incentives (Kleven 2020). Possibly, a strong economy and welfare reform played a larger role in increasing work for single mothers during the 1990s, when most EITC studies found the credit increased work. However, subsequent analysis found robust evidence that the EITC encouraged people to work (Schanzenbach and Strain 2020).

When calculating the official poverty measure, tax credits are typically not included. However, if the EITC were treated like earnings, it would have been the single most effective antipoverty program for working-age people, lifting about 5.6 million people out of poverty in 2018, including 3 million children (CBPP 2019).

The EITC is concentrated among the lowest earners, with almost all of the credit going to households in the bottom three quintiles of the income distribution (figure 2). (Each quintile contains 20 percent of the population, ranked by household income.) Very few households in the fourth quintile receive an EITC (fewer than 2 percent), and none in the top quintile.
RECENT CHANGES

The American Rescue Plan, enacted in March 2021, expanded the childless EITC for 2021 in several ways. The maximum credit for childless workers increased from $543 to $1,502. Single filers with incomes up to about $21,000 and joint filers with income up to about $27,000 were made eligible for the EITC, up from $16,000 for single people and $22,000 for married couples under previous law. The minimum eligibility age for the credit was lowered from age 25 to 19 for most workers, to 24 for students attending school at least half-time, and to 18 for former foster children and homeless youth. The restriction on filers ages 65 and older claiming the credit was removed. All of these changes are set to expire at the end of the year.

As a result of legislation enacted in 2001, the EITC phases out at higher income levels for married couples than for single individuals. That threshold was increased as part of the American Recovery and Reinvestment Act of 2009 (ARRA). The same act increased the maximum EITC for workers with at least three children. The American Taxpayer Relief Act of 2012 made the 2001 EITC changes permanent (a $3,000 higher (indexed) phaseout threshold for married couple than for singles) but extended the ARRA changes (a $5,000 higher (indexed) phaseout threshold for married couple than for singles, and higher credit maximum for workers with at least three children) through the end of 2017. The Protecting Americans from Tax Hikes Act of 2015 made these changes permanent. The Tax Cuts and Jobs Act, enacted in 2017, adopted a more conservative measure of inflation to be used in the federal income tax system beginning in 2018. As a result, the EITC will
What is the earned income tax credit?

grow more slowly over time.

PROPOSALS FOR REFORM

The changes in the American Rescue Plan for childless workers are similar to reforms previously proposed by both congressional Democrats and Republicans (Marr 2015; Maag and Airi 2020). Democratic policy makers have already begun calling for making the expansions to the credit for childless workers permanent.

A more far-reaching approach to reform that would still expand benefits to childless workers would be to separate the credit into two pieces—one focused on work and one focused on children. There are many examples of this type of reform proposal, including the President’s Advisory Panel on Federal Tax Reform (2005), the Bipartisan Policy Center (2013), and Maag (2015b).

ERROR RATES AND THE EITC

The EITC likely delivers more than a quarter (28.5 percent) of all payments in error, according to a recent Internal Revenue Service (IRS) compliance study. The largest source of error was determining whether a child claimed for the EITC actually qualified (IRS 2014). The child must live with the parent (or other relative) claiming the EITC for more than half of the year to qualify. The IRS receives no administrative data that can verify where a child resided the majority of the year, making it difficult for the agency to monitor compliance. Attempts to use administrative data from other programs to verify child residence have not proven successful (Pergamit et al. 2014).

To reduce fraud, the Protecting Americans from Tax Hikes Act of 2015 requires the IRS to delay tax refunds for taxpayers who claim an EITC or additional child tax credit on their returns until at least February 15. Delaying refunds was paired with a requirement that third-party income documents related to wages and income be provided to the IRS by January 31 (in prior years, this information was due the last day of February for paper filing and March 31 for electronic filing, and employers were automatically granted a 30-day extension, if requested). As a result, information needed to verify wages often got to the IRS well after the first returns had been processed. Together, these measures allowed earlier systemic verification of EITC claims, which protected more revenue than in prior years (Treasury Inspector General for Tax Administration 2018).

Updated May 2021

Data Sources


Further Reading

The earned income tax credit (EITC) is a payment by the government to working low-income families. The EITC is a targeted tax relief program that helps to reduce poverty by providing a cash payment to employed individuals and families. The EITC is designed to encourage low-income individuals and families to enter the labor force and to work, by reducing the tax burden on earnings up to a certain level of income.

The EITC is calculated as a percentage of earned income, with the percentage varying depending on family size and composition. The EITC is refundable, meaning the government pays the difference between what is owed in taxes and the EITC amount if the EITC amount is greater than the tax owed.

The EITC has been shown to have a significant impact on reducing poverty and increasing work effort. Studies have found that the EITC can increase labor supply and reduce poverty among low-income families.

References:


What is the earned income tax credit?


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Q. Do all people eligible for the EITC participate?

A. The IRS and Census Bureau estimate that almost 80 percent of workers eligible for the earned income tax credit (EITC) claim it. Because people eligible for higher credits are more likely to claim the credit than those eligible for lower credits, about 85 percent of potential benefits are claimed each year.

In 2020, the earned income tax credit will provide a federal tax credit of up to $538 for workers with no custodial children and $6,660 for workers with at least three children. Most, but not all tax units eligible for the credit claim it. The IRS and Census Bureau estimated that almost 80 percent of tax units eligible for the federal credit in tax year 2016 claimed it on their federal income tax form. Because tax units eligible for larger credits are more likely to claim the credit than people eligible for smaller credits, an estimated 85 percent of all potential benefits from the EITC were claimed.

About 5 million potentially eligible taxpayers do not claim the credit each year, resulting in about $7 billion in unclaimed benefits annually, according to a report by the Treasury Inspector General for Tax Administration. Among eligible nonclaimants, 1.7 million filed taxes but did not claim the credit, while the other 3.3 million individuals did not file a federal tax return.

WHY DON’T ELIGIBLE TAX UNITS CLAIM THE CREDIT?

Many low-income individuals are not required to file a federal tax return because their income is below the filing threshold. Others may be unaware they qualify for refundable tax credits or for free tax preparation services, particularly if their household’s financial situation has recently changed.

The credit’s complexity may discourage some eligible people from claiming the EITC. Credit eligibility depends on marital status at the end of the year, earnings, income, and citizenship status. There are additional tests of relationship and residency for people with children. Eligibility can vary from year to year.

WHO FAILS TO CLAIM THE CREDIT?

IRS researchers found that EITC non-participants are more likely to be people who are:

- “Living in rural areas
- Self-employed
Do all people eligible for the EITC participate?

- Receiving disability income or have children with disabilities
- Without a qualifying child
- Not proficient in English
- Grandparents raising grandchildren
- Recently divorced, unemployed, or experienced other changes to their marital, financial, or parental status.

WHAT OUTREACH EFFORTS HAVE SUCCEEDED?

Research has shown that the existence of a state EITC may encourage participation in the federal EITC (Neumark and Williams 2016). Other studies have shown that reminders have some positive short-term effects (Guyton et al. 2017).

A recent experiment in California, which attempted to inform people of their potential eligibility for the EITC, demonstrated limited effectiveness of outreach efforts. Though a few more people viewed online resources related to California’s EITC, the letters and texts did not result in more people filing a tax return, using a free tax preparation service, or claiming a federal or state EITC.

Updated May 2020

Data Sources


Further Reading


Do all people eligible for the EITC participate?


How does the tax system subsidize child care expenses?

A. Working parents are eligible for two tax benefits to offset child care costs: the child and dependent care tax credit and the exclusion for employer-provided child care.

Though the child and dependent care tax credit was temporarily expanded and made refundable for 2021, it benefits only a small share of parents because relatively few have formal child care expenses that qualify for the credit.

THE CHILD AND DEPENDENT CARE TAX CREDIT

The child and dependent care tax credit (CDCTC) provides a refundable credit of up to 50 percent of child care costs for a child under age 13 or any dependent physically or mentally incapable of self-care. Eligible child care expenses are limited to $8,000 per dependent (up to $16,000 for two or more dependents). After 2021, the credit will be nonrefundable and the maximum credit rate will return to 35 percent. Eligible child care expenses will be limited to $3,000 per dependent (up to $6,000 for two or more dependents).

Higher credit rates apply to families with lower adjusted gross income. For 2021, there is a two-part phase-out for the 50 percent credit rate. Families with adjusted gross income below $125,000 qualify for the full 50 percent credit. That CDCTC rate then falls by 1 percentage point for each additional $2,000 of adjusted gross income (or part thereof) until the rate reaches 20 percent (at $183,000 of income). Under the second part, the credit rate is reduced from 20 percent to 0 percent by one percentage point for each additional $2,000 of adjusted gross income (or part thereof) above $400,000 of adjusted gross income. The credit is fully phased out at $438,000 of adjusted gross income. After 2021, only the first part of the phase-out applies, the credit rate is not reduced below 20 percent (figure 1).

Prior to the ARP, the CDCTC was nonrefundable. That is, it could only be used to offset taxes owed. Under the ARP, if a family qualifies for a CDCTC that exceeds taxes owed, they can receive the difference as a tax refund. In 2022, the CDCTC will revert to its pre-ARP rules.
How does the tax system subsidize child care expenses?

To qualify for the CDCTC, a single parent must be working or in school. For married couples, both adults must be working or attending school. In general, allowable expenses are capped at the earnings of the lower-earning spouse. Special rules allow individuals who are students or disabled to have their earned income assumed to be $667 per month ($1,334 if there is more than one qualifying child).

The Urban-Brookings Tax Policy Center estimates that, in 2021, 14 percent of families with children will benefit from the CDCTC. Under the pre-ARP rules, 12 percent of families benefited from the credit. Some families with children will not benefit from the CDCTC because they do not have child care expenses or, in the case of married couples, only one partner works or goes to school.

Among families with children who benefit from the CDCTC, taxes will be reduced by an average of $2,174. Under the pre-ARP rules, the average credit among families who claimed it was $593.

Under the 2021 rules, average benefits for the lowest and highest income quintiles are lower than those for the middle three income quintiles. Under pre-ARP law, average benefits for families in the lowest income quintile were lower than for all other income quintiles. Families in the lowest income quintile are likely to have lower child care expenses than families in higher-income quintiles, while families in the highest income quintile may be subject to the credit phase-out in 2021 (figure 1).

**Source:** Urban-Brookings Tax Policy Center calculations.

**Note:** Assumes all income comes from earnings, and child or children meet all tests as a CDCTC-qualifying dependent. The credit is fully refundable.
How does the tax system subsidize child care expenses?

**EMPLOYER EXCLUSION: FLEXIBLE SPENDING ACCOUNTS**

Employer-provided child and dependent care benefits include amounts paid directly for care, the value of care in a day care facility provided or sponsored by an employer, and, more commonly, contributions made to a dependent care flexible spending account (FSA).

Employees can set aside up to $10,500 (half for a married individual filing separately) per year of their salary, regardless of the number of children, in an FSA to pay child care expenses. The money set aside in an FSA is not subject to income or payroll taxes. Unlike the CDCTC, though, which requires both partners in a married couple to work to claim benefits, only one parent must work to claim a benefit from an FSA. In 2014, 39 percent of civilian workers had access to a dependent care FSA (Bureau of Labor Statistics 2014). Lower earners are less likely to have access to an FSA than higher earners (Stoltzfus 2015).

**INTERACTION OF CDCTC AND FSAS**

If a family has child care expenses that exceed the amount set aside in a flexible spending account, the family may qualify for a CDCTC. Families first calculate their allowable CDCTC expenses ($8,000 per child under age 13, up to $16,000 per family). If this calculation exceeds the amount of salary set aside in an FSA, a parent may claim a CDCTC based on the difference. For example, a family with two or more children can...
How does the tax system subsidize child care expenses?

qualify for up to $16,000 of expenses to apply toward a CDCTC. If that family excluded $10,500 from salaries to pay for child care expenses in an FSA, it may claim the difference between the two ($5,500) as child care expenses for a CDCTC. The exclusion is only available to taxpayers whose employers offer FSAs.

Neither the CDCTC nor the FSA are indexed for inflation. Thus, each year, the real (inflation-adjusted) value of benefits from the two provisions erodes.

Updated May 2021

Data Sources


Further Reading


Q. What are marriage penalties and bonuses?

A. A couple incurs a marriage penalty if the two pay more income tax filing as a married couple than they would pay if they were single and filed as individuals. Conversely, a couple receives a marriage bonus if they pay less tax filing as a couple than they would if they were single.

CAUSES OF MARRIAGE BONUSES AND PENALTIES

Marriage penalties and bonuses occur because income taxes apply to a couple, not to individual spouses. Under a progressive income tax, a couple’s income can be taxed more or less than that of two single individuals. A couple is not obliged to file a joint tax return, but their alternative—filing separate returns as a married couple—almost always results in higher tax liability. Married couples with children are more likely to incur marriage penalties than couples without children because one or both spouses could use the head of household filing status if they were able to file as singles. And tax provisions that phase in or out with income also produce marriage penalties or bonuses.

Marriage penalties are more common when spouses have similar incomes. Marriage bonuses are more common when spouses have disparate incomes. Overall, couples receiving bonuses greatly outnumber those incurring penalties.

MARRIAGE PENALTIES

Couples in which spouses have similar incomes are more likely to incur marriage penalties than couples in which one spouse earns most of the income, because combining incomes in joint filing can push both spouses into higher tax brackets.

A couple with two incomes and no children, for example, could pay more taxes as a married couple if tax brackets for joint filers were less than twice as wide as for single filers. Today, that happens only for couples with income above $622,000, but it was more common before the 2017 Tax Cuts and Jobs Act.

A couple with children can still face a marriage penalty because single parents can use the head of household filing status. Consider parents of two children, each parent earning $100,000 (table 1). Filing jointly and taking a $24,800 standard deduction, their taxable income is $175,200, for which their 2020 income tax liability is $26,207. If they could file separately, one as single and the other as the head of a household, the single filer would owe a tax of $15,104 and the head-of-household filer would owe $8,245, yielding a total tax of $23,349. Their joint tax bill is thus $2,858 higher than the sum of their hypothetical individual tax bills, imposing on them a marriage penalty equal to 1.4 percent of their adjusted gross income.
What are marriage penalties and bonuses?

Couples in which one spouse earns all or most of a couple’s income rarely incur a marriage penalty and almost always receive a marriage bonus because joint filing shifts the higher earner’s income into a lower tax bracket.

Consider a couple with two children and $200,000 in total earnings, all earned by spouse two (table 2). Under 2020 tax law, filing a joint return rather than having spouse two file as head of household, will yield the couple a marriage bonus of nearly $7,400 as a result of two factors. First, because tax brackets for joint returns (other than the 35 percent bracket) are wider than those for head-of-household returns, much of the couple’s income is taxed at lower rates under joint filing than the 32 percent marginal rate that spouse two would pay filing separately. Second, the couple would benefit from an increased standard deduction.

### TABLE 1
Calculation of the Marriage Penalty for a Hypothetical Couple with Two Children
Tax year 2020

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</tr>
<tr>
<td>Tax liability after credits</td>
<td>$15,104</td>
<td>$8,245</td>
</tr>
<tr>
<td><strong>Final tax liability</strong></td>
<td><strong>$23,349</strong></td>
<td><strong>$26,207</strong></td>
</tr>
<tr>
<td><strong>Marriage penalty (difference in tax liabilities)</strong></td>
<td><strong>$2,858</strong></td>
<td></td>
</tr>
<tr>
<td>As share of adjusted gross income</td>
<td><strong>1.4%</strong></td>
<td></td>
</tr>
</tbody>
</table>

<sup>a</sup> When the couple files separately, spouse one files as single and spouse two as head of household with two children.


Note: Detail may not sum to totals because of rounding.
What are marriage penalties and bonuses?

Couples filing jointly receive a $24,800 deduction in 2020, while heads of household receive $18,650. The combination of these two factors yields a marriage bonus of $7,399, or 3.7 percent of their adjusted gross income.

**TABLE 2**

<table>
<thead>
<tr>
<th>Item</th>
<th>Couple filing separately</th>
<th>Couple filing jointly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted gross income</td>
<td>$0</td>
<td>$200,000</td>
</tr>
<tr>
<td>Standard deduction</td>
<td>$0</td>
<td>$18,650</td>
</tr>
<tr>
<td>Equals taxable income</td>
<td>$0</td>
<td>$181,350</td>
</tr>
<tr>
<td>Of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxable at 10 percent</td>
<td>$0</td>
<td>$14,100</td>
</tr>
<tr>
<td>Taxable at 12 percent</td>
<td>$0</td>
<td>$39,600</td>
</tr>
<tr>
<td>Taxable at 22 percent</td>
<td>$0</td>
<td>$31,800</td>
</tr>
<tr>
<td>Taxable at 24 percent</td>
<td>$0</td>
<td>$77,800</td>
</tr>
<tr>
<td>Taxable at 32 percent</td>
<td>$0</td>
<td>$18,050</td>
</tr>
<tr>
<td>Regular tax liability</td>
<td>$0</td>
<td>$37,606</td>
</tr>
<tr>
<td>Alternative minimum tax</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Child tax credit</td>
<td>$0</td>
<td>$4,000</td>
</tr>
<tr>
<td>Tax liability after credits</td>
<td>$0</td>
<td>$33,606</td>
</tr>
<tr>
<td><strong>Final tax liability</strong></td>
<td><strong>$33,606</strong></td>
<td><strong>$26,207</strong></td>
</tr>
<tr>
<td><strong>Marriage bonus (difference in tax liabilities)</strong></td>
<td><strong>$7,399</strong></td>
<td></td>
</tr>
<tr>
<td><strong>As share of adjusted gross income</strong></td>
<td><strong>3.7%</strong></td>
<td></td>
</tr>
</tbody>
</table>


**Note:** Details may not sum to totals because of rounding.

(a) When the couple files separately, spouse one files as single and spouse two as head of household with two children.

**EFFECTS OF THE TCJA ON MARRIAGE PENALTIES AND BONUSES**

The 2017 Tax Cuts and Jobs Act (TCJA) limited many of the marriage penalties higher-income earners face, though penalties certainly still exist. Except for the 35 percent bracket, all tax brackets for married couples filing a joint return are now exactly double the single brackets. This limits a main cause of previous marriage penalties. It also expands the potential for marriage bonuses, as more couples find that filing together moves
some income into lower tax brackets.

Additionally, the child tax credit phaseout now begins at $400,000 for couples, again double the $200,000 starting point of the phaseout for singles. Prior law began phasing out the credit at $75,000 for singles and $110,000 for couples, which could have introduced another marriage penalty for couples with children.

The phaseout of the alternative minimum tax exemption is another source of marriage penalties for high-income taxpayers, because the income at which the exemption phaseout starts for couples is less than twice the starting point for singles. While this is still true under current law, the TCJA increased both the alternative minimum tax exemption and the income at which it phases out, so the alternative tax will affect many fewer high-income taxpayers, singles and couples alike.

### MARRIAGE PENALTIES AND THE EARNED INCOME TAX CREDIT

**TABLE 3**

<table>
<thead>
<tr>
<th>Item</th>
<th>Couple filing separately*</th>
<th>Couples filing jointly</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Spouse one</td>
<td>Spouse two</td>
</tr>
<tr>
<td>Adjusted gross income</td>
<td>$20,000</td>
<td>$20,000</td>
</tr>
<tr>
<td>Standard deduction</td>
<td>$12,400</td>
<td>$18,650</td>
</tr>
<tr>
<td>Equals taxable income</td>
<td>$7,600</td>
<td>$1,350</td>
</tr>
<tr>
<td>Of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxable at 10 percent</td>
<td>$7,600</td>
<td>$1,350</td>
</tr>
<tr>
<td>Regular tax liability</td>
<td>$760</td>
<td>$135</td>
</tr>
<tr>
<td>Alternative minimum tax</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Child tax credit</td>
<td>$0</td>
<td>$2,760</td>
</tr>
<tr>
<td>Earned income tax credit</td>
<td>$0</td>
<td>$5,779</td>
</tr>
<tr>
<td>Tax liability after credits</td>
<td>$760</td>
<td>-$8,404</td>
</tr>
<tr>
<td><strong>Couple's final tax liability</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-$7,644</td>
<td>-$5,287</td>
</tr>
<tr>
<td><strong>Marriage penalty (difference in tax liabilities)</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*As share of adjusted gross income 5.9%
What are marriage penalties and bonuses?

Taxpayers who might qualify for the earned income tax credit (EITC) can suffer particularly large marriage penalties if one spouse’s income disqualifies the couple. However, marriage can increase the EITC (a bonus) if a nonworking parent files jointly with a low-earning worker.

Consider a couple with two children and $40,000 in total earnings, split evenly between spouses (table 3). Two factors will cause them to incur a marriage penalty of $2,357 in 2020.

First, if the couple were not married, one spouse could file as head of household with two children and the other would file as single. Filing in that way, their combined standard deductions would be $31,050, $6,250 more than the $24,800 standard deduction available on a joint return.

Second—and more significant—filing separate returns, the head of household could claim an EITC of $5,779 and a $2,760 child tax credit; the other spouse would get neither tax credit. On net, the head of household would receive a payment of $8,404 and the other spouse would pay $760, yielding a joint tax refund of $7,644. Filing jointly, the couple would get a smaller EITC of $2,807, somewhat offset by a larger child tax credit of $4,000. Thus, filing jointly, the couple will receive a payment of $5,287, or $2,357 less than the $7,644 they would have if they could have filed separately; the difference equals 5.9 percent of their adjusted gross income in 2020.

Marriage penalties are not confined to the tax system. Married couples often receive lower benefits from government programs than they would if they had not married. Moreover, the interaction of a tax penalty and a program-eligibility penalty can create effective marginal tax rates that approach 100 percent.

Updated May 2020

Data Sources

Further Reading


**What are marriage penalties and bonuses?**


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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
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.

TPC estimates that TCJA will provide similar levels of total benefits from 2018 to 2025 (table 1)
How did the TCJA change taxes of families with children?

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.

Updated May 2020

Data Sources

Further Reading


How did the TCJA change taxes of families with children?


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