Q. What is the child tax credit?

A. The child tax credit provides a credit of up to $2,000 per child under age 17. If the credit exceeds taxes owed, families may receive up to $1,400 per child as a refund. Other dependents—including children ages 17–18 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

Taxpayers can claim a child tax credit (CTC) of up to $2,000 for each child under age 17 who is a citizen. The credit is reduced by 5 percent of adjusted gross income over $200,000 for single parents ($400,000 for married couples). If the credit exceeds taxes owed, taxpayers can receive up to $1,400 of the balance as a refund, known as the additional child tax credit (ACTC) or refundable CTC. The ACTC is limited to 15 percent of earnings above $2,500 (figure 1).

For the most part, the CTC is not indexed for inflation. The exception to this is the amount of the credit families with children under 17 can receive as a refund. This amount (currently $1,400) will increase with inflation after 2018 until it becomes equal to the full value of the credit ($2,000).

Starting in 2018, a $500 credit is available to dependents who are not eligible for the $2,000 CTC for children under 17 (figure 1). Before 2018, these individuals would not have qualified for a tax credit but would have qualified for a dependent exemption, which was eliminated by the 2017 Tax Cuts and Jobs Act (TCJA). These include children ages 17–18 or those 19–24 and in school full time in at least five months of the year. Also included are older dependents—representing about 6 percent of dependents eligible for the CTC.

After 2025, the CTC is scheduled to revert to its pre-TCJA form. At that point, taxpayers will be able to claim a credit of up to $1,000 for each child under age 17 and the credit will be reduced by 5 percent of adjusted gross income over $75,000 ($110,000 for married couples). If the credit exceeds taxes owed, taxpayers will be able to receive the balance as a refund. The refundable portion of the credit will be limited to 15 percent of earnings above $3,000.

IMPACT OF THE CTC

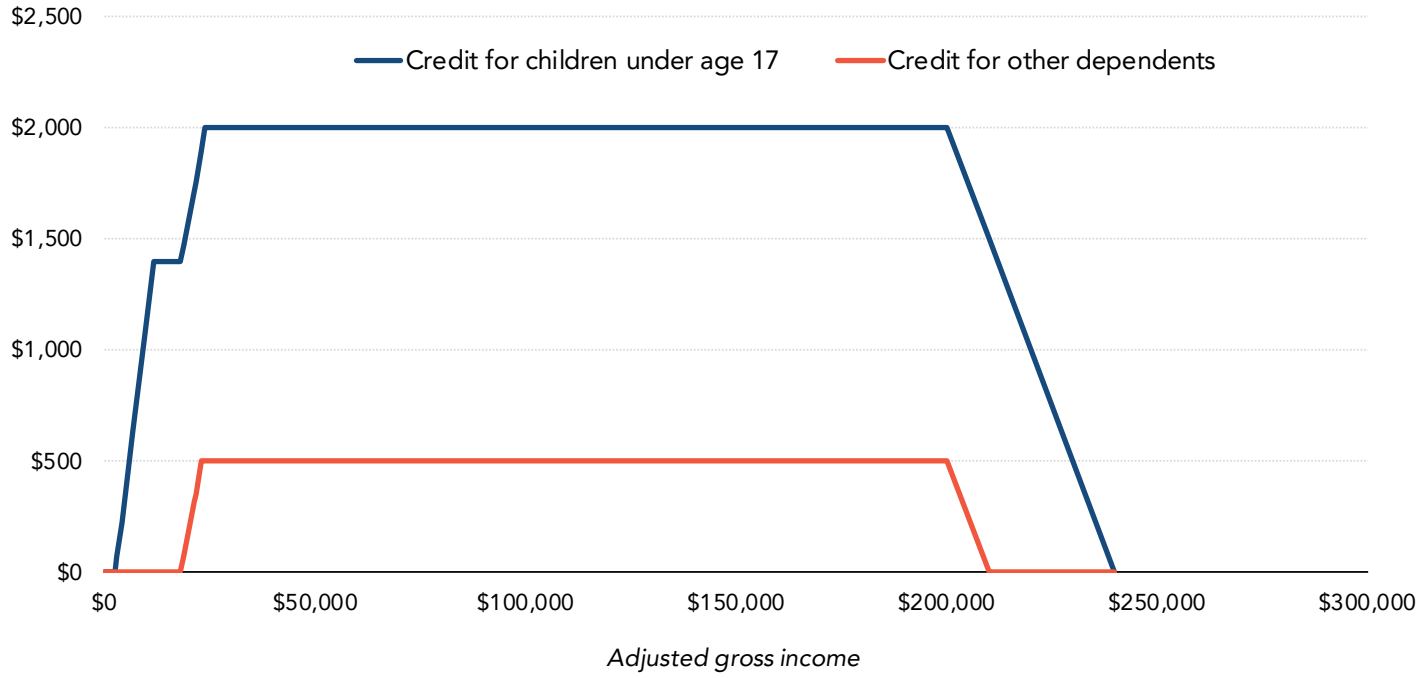
The Tax Policy Center estimates that 91 percent of families with children will receive an average CTC of $2,420 in 2018 (the average credit can exceed the maximum per child credit because families can have more than one child). Families with children in all income groups will benefit from the CTC, but families in the lowest income quintile are least likely to benefit from the credit because more of them will not have sufficient earnings to qualify for the credit. Just over three-quarters of families in the lowest income quintile

Key Elements of the U.S. Tax System

What is the child tax credit?

FIGURE 1

Child Tax Credit, Single Parent
For one child, tax year 2018



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. Credit for married parents begins to phase out at $400,000 of income. Only citizen children qualify for the $2,000 CTC for children under 17. Noncitizens under age 17 who meet the dependency tests of eligibility can qualify for the credit for dependents over age 17.

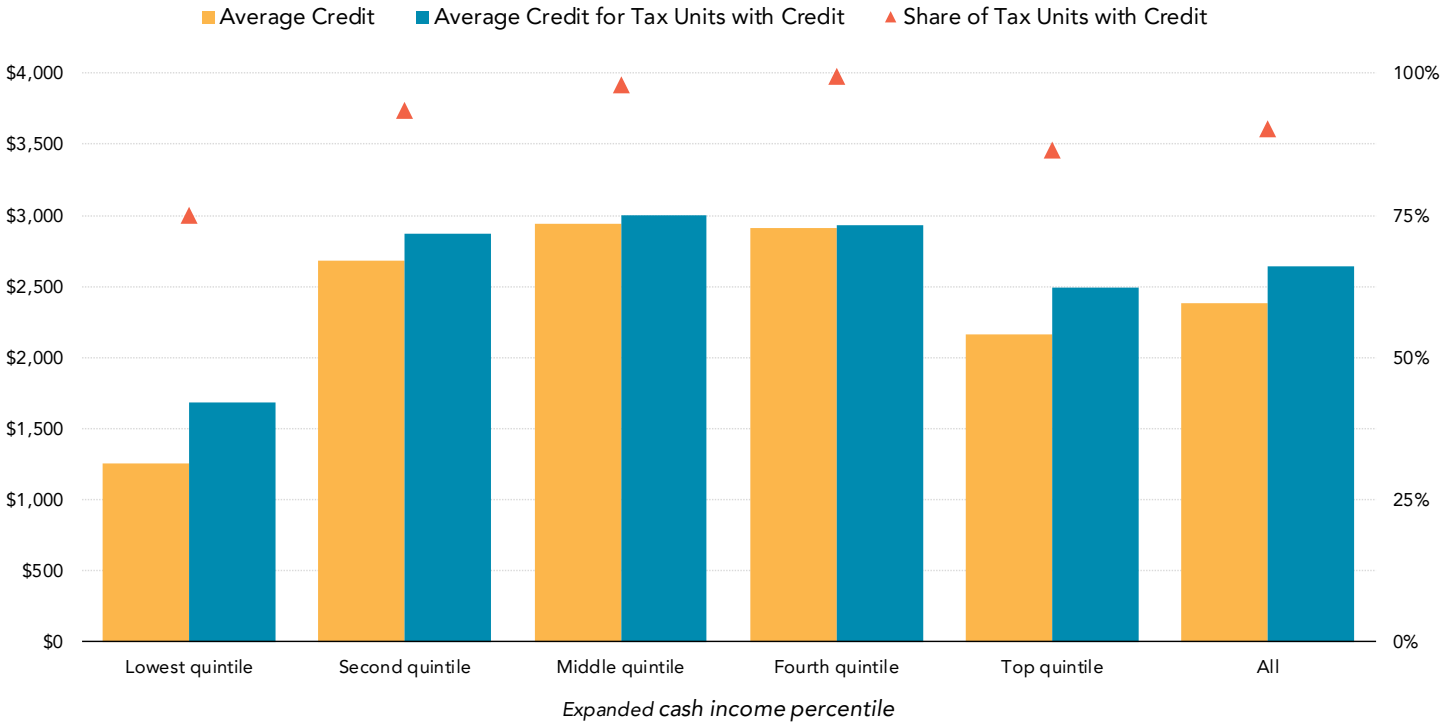
(the bottom one-fifth of the income distribution, ranked by household income) will be eligible for a CTC, receiving an average benefit of $1,340. The average credit is the smallest for this group because low-income families are most likely to be limited to the refundable portion of the credit, which is capped at $1,400 rather than the full $2,000 limit for the nonrefundable credit (figure 2).

The percentage of families with children receiving the credit and the average credit received are higher among moderate- and middle-income families. Almost 94 percent of families with children in the second income quintile will receive a CTC as will almost all families in the third and fourth income quintiles (98 and 99 percent, respectively). The proportion of families with children receiving a credit drops to 87 percent in the highest income group because of the income limits (figure 2).

The CTC has a significant impact on the economic well-being of low-income families with children. If the official estimate of poverty counted the CTC as income (including the refundable portion), 2.7 million fewer people would have fallen below the federal poverty line in 2016, including about 1.5 million children. Counting the credit would have also reduced the severity of poverty for an additional 12.3 million people, including 6.1 million children (Center on Budget and Policy Priorities 2018).

FIGURE 2

Distribution and Share of Child Tax Credit for Tax Units with Children
2018



Source: Urban-Brookings Tax Policy Center. "TPC Microsimulation Model, version 0718-1."
Note: Includes the $500 nonrefundable portion of the child tax credit, also referred to as the credit for other dependents.

RECENT HISTORY OF THE CTC

In 2018, the Tax Cuts and Jobs Act doubled the CTC for children under 17 from $1,000 per child to $2,000 per child, up to $1,400 of which families can receive as a refundable credit. Only children who are US citizens may receive this credit. The legislation also allows dependents who do 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.

Before these changes, the American Taxpayer Relief Act of 2012 had 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. The TCJA further reduced the refundability threshold to $2,500 starting in 2018, but that lower threshold will expire after 2025 when the $3,000 refundability threshold will return.

Key Elements of the U.S. Tax System

What is the child tax credit?

The refundable CTC was originally designed 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.

Data Sources

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Further Reading

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