RESEARCH REPORT

Shifting Child Tax Benefits in the TCJA Left Most Families About the Same

Analysis of the Tax Cuts and Jobs Act and Options to Benefit More Low- and Middle-Income Families with Children

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The Tax Cuts and Jobs Act (TCJA) significantly altered the taxation of families with children. Rather than building on the success of the child tax credit (CTC) and earned income tax credit (EITC) and providing substantial additional support to families with children who struggle, the legislation provided modest benefits to many. The widely touted doubling of the CTC was offset by reducing other tax benefits for families with children. In the end, benefits for families with children under the new law are roughly equivalent to benefits under the old law, and they are distributed across the income spectrum similarly. The changes for families with children were largely temporary, and they will either expire after 2025 or need to be extended; either option provides an opportunity to rethink these critical tax benefits.

Several modest reforms could better target benefits from the CTC to low- and moderate-income families. More sweeping reforms, such as those proposed in the American Family Act, could provide substantial benefits to many more families with children.

The TCJA doubled the CTC from $1,000 to $2,000 per child under age 17 and added a credit of $500 for children and other dependents age 17 and up, creating the perception that benefits for families with children would increase significantly, and this could have been the case. But most low- and middle-income families with children ultimately saw a much smaller benefit from the law for several potential reasons.

For very low-income families, benefits from the increased CTC were less than advertised because the full value of the CTC was left out of reach for many: only $1,400 of the $2,000 CTC was made available as a refundable credit; the rest could only be used to offset federal income taxes. This leaves roughly 27 million children under age 17 living in families that do not have enough earnings to qualify for the full $2,000 CTC. For middle- and high-income families, the new CTC benefits were largely offset by a reduction in other child benefits, namely the elimination of the personal exemption for dependents. On net, many families gained benefits from a higher CTC and lost similarly sized benefits from the personal exemption for dependents.

In this report, I analyze the main provisions of the federal income tax code that provide benefits to families with children, comparing current law with what would be happening had the TCJA not been enacted, and I discuss the TCJA’s implications for families of different income levels. On net, almost all families owe less tax now than they would have absent the TCJA. But for low- and middle-income families, the net benefit from the TCJA is often far lower than might be expected given a touted $1,000
per child increase in the CTC. For very low-income families, the benefit of the new tax law is as little as $75.

Policymakers could increase benefits for low-income families by (1) allowing the full $2,000 credit to be received as a refund; (2) phasing the credit in as soon as a person has earnings, rather than requiring that a parent has earned at least $2,500 as is the case under current law; (3) phasing in the credit more quickly than under current law; or (4) providing the full credit without any phase in. The recently proposed American Family Act, for example, would provide substantial benefits to very low-income families with children. The American Family Act would provide the full CTC to all low-income families with children regardless of earnings, and it would increase the CTC for children under age 6 to $3,600 and for children ages 6 to 16 to $3,000.
Shifting Child Tax Benefits in the TCJA Left Most Families about the Same

The federal income tax system provides substantial benefits to low- and middle-income families with children, lifting more children out of poverty than any other program (Fox 2018). But families with children still struggle. A recent analysis found that 43.3 percent of adults in families with children reported trouble securing housing, utilities, food, and health care in 2017 (Karpman, Zuckerman, and Gonzalez 2018). This is particularly true among families with infants and toddlers (children under age 3). In recent analysis, nearly one-quarter of all families with young children reported problems paying household and other regular bills (such as rent, mortgage, or utilities) or missing a credit card or nonmortgage loan payment (Ratcliffe and Pyati 2019). Just over one-quarter of families with infants and toddlers reported food insecurity, which is associated with a greater risk of being in fair or poor health, being hospitalized, and experiencing developmental delays (Waxman, Joo, and Pyati 2019).

Subsidizing Families with Children in the Tax System

Families with children benefit from tax provisions in several ways. Tax provisions targeted at families (1) adjust taxes to account for a family’s ability to pay tax (all else equal, larger families will owe less in taxes than a smaller family), (2) provide direct support for families with children, (3) encourage work, and (4) offset expenses associated with raising a family. Together, tax subsidies provide a substantial amount of support to families with children and account for about 37 percent of all federal expenditures on children (Isaacs et. al 2018).

This report focuses on the four provisions most related to families with children, which I refer to as the “family provisions”: the standard deduction and personal exemption, which play a key role in determining how much income will be taxed; the CTC, which provides a per child credit to taxpayers with children and other dependents; and the child and dependent care tax credit (CDCTC), which offsets some child care expenses for working families. Although the earned income tax credit (EITC) also provides substantial benefits to families with children, the TCJA left it largely unchanged. Along with other parts of the income tax system, the EITC will grow a bit more slowly over time than it would have absent the TCJA.
The TCJA altered these four key provisions affecting families with children, though these changes are set to expire in 2025. The TCJA made the CTC and standard deduction more generous and eliminated the personal exemption. It made no changes to the CDCTC. Over time, the EITC is scheduled to grow more slowly than it would have (this change is permanent). Overall, the Tax Policy Center estimates that had the law not changed, the CTC, personal exemption, standard deduction, and CDCTC would have delivered $337 billion in benefits during fiscal year (FY) 2019. After the law’s changes, the Tax Policy Center estimates the provisions would deliver a similar amount, $333 billion, in the same year. 2 (Table 1 provides a summary of benefits for all taxpayers from the provisions under current law and absent the TCJA through FY 2025, when several TCJA provisions are set to expire.) The difference in benefits from these four provisions under current law and under prior law will grow over time.

Almost all families with children received a benefit from the family provisions under prior law (94 percent) just as under current law (96 percent). Together, the family provisions delivered similar benefits under prior law and under current law (figure 1). 3 Despite doubling the CTC, the TCJA did not substantially increase tax benefits for families with children.

Despite the doubling of the CTC, the benefits from the family tax provisions remained stable for two primary reasons. First, for many families with children, the benefit of the larger CTC was offset with reductions in child benefits elsewhere in the TCJA. Second, families who itemized deduction before 2018 (rather than using the standard deduction) had their relative benefits from itemizing scaled back.

### TABLE 1

| Benefit of the CTC, standard deduction, personal exemption, and CDCTC under TCJA a | 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 |


Notes: CDCTC = 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 responses. Estimates assume a 65:35 fiscal split (fiscal year revenue is 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.
by the increase of the standard deduction and new limitations on itemized deductions. Because low- 
and middle-income families tend to use the standard deduction, this report focuses on the first of these 
two reasons.

**FIGURE 1**

**Average Tax Benefits and Family Provisions for Families with Children, by Income Quintile**

*Pre-TCJA compared with current law*


Note: TCJA = the Tax Cuts and Jobs Act of 2017. Includes only families with children. The tax benefit is the difference in tax owed under the law if the child tax credit, personal exemption, standard deduction, and child and dependent care tax credit are set to $0.

**How the Child Tax Credit Works**

Under current law, the CTC provides a credit of up to $2,000 for each citizen child under age 17. The 
credit reduces by 5 percent of adjusted gross income over $200,000 for single parents and $400,000 
for married couples. 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 or refundable CTC. The refundable CTC is 
limited to 15 percent of earnings above $2,500 (figure 2).
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). The rest of the credit is scheduled to remain constant, which means its value will be eroded by inflation over time.

Starting in 2018, a $500 credit is available for dependents who are not eligible for the $2,000 CTC for children under 17 (figure 2). Other dependents qualifying for the new $500 credit include children ages 17 to 18 or those ages 19 to 24 and in school full time at least five months of the year. The new provision also includes older dependents, who constitute about 6 percent of dependents eligible for some form of the CTC. Before 2018, only families with children under age 17 could benefit from the CTC. Dependents age 17 and up would have qualified for a personal exemption but not a CTC. In
contrast, families with children under age 17 would have qualified for both a $1,000 CTC and a personal exemption before 2018. The TCJA temporarily eliminated the personal exemption.\textsuperscript{4}

The loss of the personal exemption for dependents and the limitation on how much of the CTC can be refunded severely limited the benefits of the expanded CTC for low- and middle-income families. The Tax Policy Center estimates that 27 million children under age 17 live in families that are unable to claim the full $2,000 CTC. An additional 3 million children under age 17 live in families with at least one dependent who qualifies for the $500 credit but does not receive the full credit (Greenstein et al. 2018). Looking at only the CTC, the touted benefits from the TCJA were much larger than low- and middle-income families ultimately ended up receiving, because the increased CTC benefits were offset by losses of other tax benefits.

The TCJA is a missed opportunity for policymakers interested in providing additional support for low- and middle-income families with children. In the next section, I describe the calculations hypothetical taxpayers would perform under prior law and under current law to illustrate how the CTC doubled but many families with children ended up with minimal benefits.

How the Tax Cuts and Jobs Act Changed Taxation of Families: Detailed Tax Calculations

Families follow three basic steps to calculate their federal taxes: (1) add up income and subtract deductions to determine how much of that income will be subject to tax; (2) apply the appropriate tax rate; and (3) subtract tax credits from income tax liability. The TCJA altered all three steps, making some more generous and others less generous. In the end, although federal tax revenues are expected to decline by $1.5 trillion over the next decade (Joint Committee on Taxation 2017), families with children are taxed roughly the same. The doubling of the CTC ultimately provides very little benefit for low- and middle-income families because of offsetting changes to other tax provisions.

Step 1: Calculate Income and Subtract Deductions to Determine How Much Will Be Taxed

The first step in calculating federal income taxes is adding up gross income (table 2). For most low- and middle-income families, this means totaling earnings from all jobs held in the year as well as any interest or dividends they have received.
Only part of this income will be taxed. Before 2018, families determined how much income would be taxed by subtracting both a fixed amount of income for each person in the tax unit (the personal exemption) and an additional amount based on either the filing status of the tax unit (the standard deduction) or specific expenses incurred throughout the year (itemized deductions). In 2018, the TCJA reduced the personal exemption from $4,150 per person to $0, so families can no longer reduce their gross income through a personal exemption.

Both before and after the TCJA, families can subtract a fixed amount of income based on whether the taxpayer was single, single with children, or married (known as the standard deduction), or families can choose to itemize their deductions. Families who choose to itemize their deductions add up certain allowable items, including state and local taxes, home mortgage interest, charitable contributions, and some medical expenses, and subtract that amount instead of the standard deduction amount. In general, families will opt to itemize their deductions if their allowable expenses exceed the standard deduction. The TCJA increased the standard deduction and placed new limits on some itemized deductions, limiting their value.

In 2018, if the law had not changed, single parents using the standard deduction could have deducted $9,550 from their taxable income, and married parents could have deducted $13,000. The TCJA increased these amounts to $18,000 for single parents and $24,000 for married parents.

**TABLE 2**

Sample Family Tax Calculations Step 1: Calculating Income

*Married couple with two children* (2018)

<table>
<thead>
<tr>
<th></th>
<th>Low Income</th>
<th>Moderate Income</th>
<th>Middle Income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Prior Law</td>
<td>TCJA</td>
<td>Prior Law</td>
</tr>
<tr>
<td>Calculate gross income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earnings</td>
<td>15,000</td>
<td>15,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Subtract</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal exemptions</td>
<td>16,600</td>
<td>0</td>
<td>16,600</td>
</tr>
<tr>
<td>Standard deduction</td>
<td>13,000</td>
<td>24,000</td>
<td>13,000</td>
</tr>
<tr>
<td>Or</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Itemized deduction</td>
<td>0</td>
<td>0</td>
<td>400</td>
</tr>
</tbody>
</table>

*Source:* Author’s calculations.

The lowest-income family in our example, earning $15,000 a year, had no taxable income before or after the law change. Many families with moderate earnings will have more taxable income in 2018 than they would have had absent the TCJA (including the hypothetical married couples earning $30,000 or $50,000 we show here).
Step 2: Apply the Appropriate Tax Rates

Taxpayers next apply the designated tax rates to their taxable income to calculate their tax liability before applying credits (table 3). Under prior law, the first $19,050 of taxable income for a married couple was taxed at 10 percent, and the remaining taxable income (up to $77,400) was taxed at 15 percent. The TCJA reduced that second rate from 15 percent to 12 percent. Still, because people have more taxable income now than they would have had under prior law, the sample families below owe more in tax under current law than under prior law (before subtracting tax credits, which we address in the next step).

TABLE 3
Sample Family Tax Calculations Step 2: Apply the Appropriate Tax Rates
Married couple with two children (2018)

<table>
<thead>
<tr>
<th>Earnings</th>
<th>Low Income</th>
<th>Moderate Income</th>
<th>Middle Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior Law</td>
<td>TCJA</td>
<td>Prior Law</td>
<td>TCJA</td>
</tr>
<tr>
<td>Earnings</td>
<td>15,000</td>
<td>30,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Taxable income (from table 2)</td>
<td>0</td>
<td>400</td>
<td>600</td>
</tr>
<tr>
<td>Apply tax rates to calculate taxes owed before credits</td>
<td>0</td>
<td>40</td>
<td>2,108</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>600</td>
<td>2,739</td>
</tr>
</tbody>
</table>

Source: Author’s calculations.

Because the lowest-earning family (earning $15,000) had no taxable income, they owe no income tax before credits are calculated both before or after the law change. The two examples of higher-earning families owe more tax before credits are calculated under current law than they would have absent the TCJA. This increase will be offset by the effects of tax credits in the final step of the tax calculation.

Step 3: Subtract Credits

The final step in calculating income taxes is subtracting tax credits from tax liability (tables 4 and 5). The maximum value of a nonrefundable tax credit is limited to a taxpayer’s tax liability. In contrast, all taxpayers receive the full value of their refundable tax credits.

The two most important tax credits for many low- and middle-income families are the EITC and CTC. The TCJA indirectly altered the EITC so that over time, the credit will grow with a more conservative measure of inflation. Each year, the EITC will be a bit smaller than it would have been absent the TCJA.6
The TCJA made two important changes to the CTC:

- It increased the maximum credit for children under age 17 from $1,000 per child to $2,000 per child. Before the legislation, the full $1,000 credit was refundable. Under current law, up to $1,400 is available as a tax refund. This refund is limited to 15 percent of earnings above $2,500.
- It substantially increased the income at which the credit begins to phase out, from $75,000 ($110,000 if married) to $200,000 ($400,000 if married).

To illustrate how this works, consider three families that each have two children under age 17.

### TABLE 4

**Sample Family Tax Calculations Step 3: Subtract Credits**

*Married couple with two children under age 17 (2018)*

<table>
<thead>
<tr>
<th></th>
<th>Low Income</th>
<th>Moderate Income</th>
<th>Middle Income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Prior Law</td>
<td>Prior Law</td>
<td>Prior Law</td>
</tr>
<tr>
<td></td>
<td>TCJA</td>
<td>TCJA</td>
<td>TCJA</td>
</tr>
<tr>
<td>Earnings</td>
<td>15,000</td>
<td>30,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Taxable income</td>
<td>0</td>
<td>400</td>
<td>600</td>
</tr>
<tr>
<td>(from table 2)</td>
<td>0</td>
<td>600</td>
<td>2,108</td>
</tr>
<tr>
<td>Taxes owed before credits</td>
<td>0</td>
<td>40</td>
<td>2,108</td>
</tr>
<tr>
<td>(from table 3)</td>
<td>1,800</td>
<td>2,000</td>
<td>4,000</td>
</tr>
<tr>
<td>Subtract Child tax credit</td>
<td>5,728</td>
<td>4,549</td>
<td>337</td>
</tr>
<tr>
<td>Earned income tax credit</td>
<td>-7,528</td>
<td>-6,509</td>
<td>-7,326</td>
</tr>
<tr>
<td>Taxes owed after credits</td>
<td>-7,591</td>
<td>-6,509</td>
<td>-7,326</td>
</tr>
<tr>
<td>Tax cut from changes to family provisions</td>
<td>63</td>
<td>817</td>
<td>1,346</td>
</tr>
</tbody>
</table>

Source: Author’s calculations.

The lowest-earning family, with just $15,000 in earnings (roughly equivalent to a couple in which one earner works full time at the minimum wage) will see their taxes drop by $63. This is the result of receiving $75 more in CTC (because earnings over $2,500 count toward the credit under the TCJA, rather than earnings over $3,000 under prior law) and a slightly smaller EITC. (In October 2017, before passage of the TCJA, the Internal Revenue Service issued inflation adjustments for tax year 2018. At that time, the maximum EITC for a worker with two children was scheduled to become $5,728. After passage of the TCJA, the Internal Revenue Service revised this amount to $5,716.)

Married couples with two children earning $30,000 or $50,000 would also see their taxes drop. If their children were under age 17, the parents earning $30,000 would owe about $800 less in taxes under current law than if the law had not changed. The parents earning $50,000 would have seen their
taxes drop by $1,350. Neither family would see benefits approaching $2,000 (the amount the CTC was increased for a family with two children under 17).

If the example families instead had two children age 17 or older, they would not qualify for the $2,000 credit but would qualify for a CTC of up to $500 (sometimes called a dependent credit). This credit applies if a family has 17- or 18-year-old children living at home, 19- to 24-year-old children attending school full time, or 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 TCJA.

**TABLE 5**

Sample Family Tax Calculations Step 3: Subtract Credits

Married couple with two children above age 17 (2018)

<table>
<thead>
<tr>
<th>Low Income</th>
<th>Moderate Income</th>
<th>Middle Income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Prior Law</td>
<td>TCJA</td>
</tr>
<tr>
<td>Earnings</td>
<td>15,000</td>
<td>15,000</td>
</tr>
<tr>
<td>Taxable income (from table 2)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Taxes owned before credits (from table 3)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Subtract</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Child tax credit</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Earned income tax credit</td>
<td>5,728</td>
<td>5,716</td>
</tr>
<tr>
<td>Taxes owed after credits</td>
<td>-5,728</td>
<td>-5,716</td>
</tr>
<tr>
<td>Tax cut from changes to family provisions</td>
<td>-12</td>
<td>17</td>
</tr>
</tbody>
</table>

Source: Author’s calculations.

Families with older children would see much smaller tax cuts from the family provisions than families with younger children. The sample couples with older children earning $15,000 or $30,000 saw their taxes remain essentially unchanged from the family tax provisions in the TCJA. The lower-earning couple owes $12 more in tax, while the couple earning $30,000 sees a tax cut of $17. The couple with $50,000 in earnings will owe $350 less in taxes now than if the TCJA had not been passed.

Despite reports of the CTC doubling, changes to other tax provisions ultimately led to minimal benefits for many families with children. Although overall, many families received at least a small tax cut from the TCJA, families with children did not receive significant benefits intended to support children. Indeed, higher-income families tended to see their taxes drop more than lower-income families. But strong evidence shows that investments in low-income children produce a lifetime of benefits, including better education outcomes and better health outcomes (Marr et. al 2015).
Next Steps: Amending the Child Tax Credit to Benefit Families with Children

Lawmakers have already begun to think about how next to adjust the CTC. The temporary nature of the family provisions in the TCJA provide some urgency to legislate a more permanent version of the CTC. Policymakers could implement modest changes (which I describe below), or they could enact more sweeping legislation that has already been introduced into Congress, the American Family Act (AFA).

Congress could take several modest steps to increase the CTC for very low-income families with children, such as (1) computing the credit on all of a person’s earnings rather than just earnings over $2,500, (2) allowing the full $2,000 credit to be received as a refundable tax credit, and (3) phasing the credit in more rapidly (e.g., at a 45 percent rate) so a person can qualify for the full $2,000 credit with less earnings. Together, these steps would cost about $20 billion in FY 2020. Proposals with these features are highly targeted toward the lowest-income families, allowing access to the full $2,000 credit, just as higher-income families already receive the full $2,000 CTC. Almost three-quarters of benefits from this proposal would go to families with children in the lowest one-fifth of the income distribution, and almost all remaining benefits would go to families with incomes in the second fifth of the income distribution (figure 3). Because the credit phases in with income, there will still be a small number of families who do not receive the full $2,000 per child credit because their earnings are too low. Allowing all low-income families to receive the full $2,000 credit regardless of earnings would increase the cost by about $1 billion a year.

On average, families with children in the lowest one-fifth of the income distribution would see their taxes drop by $1,190 under this proposal (figure 4). Families with children in the second fifth of the income distribution would see an average tax benefit of $360. Higher-income families with children would receive almost no benefits from this proposal.

Senators Bennet (D-CO) and Brown (D-OH) and Representatives DeLauro (D-CT) and DelBene (D-WA) have introduced more comprehensive legislation: the AFA. The AFA would both increase the base value of the CTC and provide full benefits to many more low-income families. The AFA would allow all families, regardless of earnings, to claim the full CTC. The legislation would also bump up the base CTC to $3,000 per child ages 6 to 16 and to $3,600 per child under age 6. These additional benefits reflect a growing body of research that shows families with young children tend to have lower incomes than other families, and an income boost in these early years has been shown to have lifelong benefits (Maag and Isaacs 2017).
The AFA would address an additional issue with the current CTC. Rather than allowing the CTC to decline in value over time with inflation, the maximum credit would increase with inflation. This would keep the CTC from losing buying power as prices rise. To offset some costs associated with this increase, the legislation would begin to phase the CTC out once income reaches $130,000 for single parents or $180,000 for married parents. This legislation would provide substantially more benefits to families with children, though at a higher cost to the government: almost $100 billion in FY 2020.

**FIGURE 3**

Share of Benefits from Child Tax Credit Reform for Families with Children

*By income quintile*

By raising the maximum credit, the AFA would also deliver benefits to higher-income families. Families with children in the lowest income quintile would see average tax cuts of almost $3,000, families with children in the second income quintile would see their taxes drop by an average of $2,000, and even higher-income families would see average benefits of over $1,500. Families in the highest income quintile would see a slight increase in average taxes because many would see their CTC completely phased out by the lower income limits.
Conclusion

The TCJA changed the taxation of families with children. But rather than providing substantial additional support to families with children (as the widely touted doubling of the CTC might have suggested) policymakers used the law to roughly replicate prior-law family benefits. Benefits for families with children under the new law are roughly equivalent to benefits under the old law, and they are distributed across the income spectrum similarly.

The CTC remains a viable option for expanding support for families with children, and with only modest changes to the law, children in very low-income families could share in the benefits. Three
important steps could deliver meaningful support to low-income families. First, rather than requiring that a family earns at least $2,500 to qualify for benefits, families could qualify for benefits with any amount of earnings. Second, the $1,400 cap on the refundable portion could be lifted so that low-income families can receive the same $2,000 per child benefit higher-income families can receive. Third, phasing the credit in faster (e.g., at a 45 percent rate) would deliver larger benefits to very low-income families who currently do not earn enough to qualify for the full credit. Almost all of the benefits from this type of proposal would go to families in the bottom 40 percent of the income distribution and would be heavily tilted toward the bottom 20 percent of the income distribution. The cost of this would be about $20 billion in FY 2020. Providing the full $2,000 per child credit to all low-income families, without phasing the credit in would add about $1 billion a year to the cost.

The AFA has been proposed in various forms for several years; it seeks to deliver substantial benefits to very low-income families, larger benefits to many families with children, and an extra boost to families with young children. Most recently, the AFA would increase the CTC to $3,600 for families with children under age 6 and to $3,000 for families with children under age 17. Families would qualify for the full credit regardless of earnings. To offset some of the costs of this expansion, the credit would phase out for families with incomes above $130,000 (single) or $180,000 (married). This type of reform would cost substantially more than the targeted reform, but it would also deliver higher benefits to many more families. Benefits would be distributed in a less concentrated manner than the targeted reform.

Several rationales guide benefits in the tax system for children. All else equal, larger families have less ability to pay tax than smaller families with similar incomes; the tax system can provide direct benefits to families with children; the tax system can be used to encourage activities such as work; and the tax system can be used to offset costs associated with raising children. Although the CTC was doubled in the TCJA, most families with children received only modest benefits because of concurrent changes to other provisions in the tax code, meaning the actual benefits delivered fall short of the supportive rhetoric surrounding the law.
Notes

1 Although taxes are not a part of the official poverty measure, the Census Bureau has developed a Supplemental Poverty Measure that accounts for the effect of tax credits. This statement refers to the Supplemental Poverty Measure.

2 FY 2019 is the first fiscal year in which the TCJA provisions directed at families with children were in effect the entire fiscal year. It extends from October 1, 2018, through September 30, 2019.

3 The costs shown in table 1 include families with children and tax units without children. The numbers in figure 1 are restricted to families with children.

4 After 2025, the CTC is scheduled to revert to its pre-TCJA structure. At that point, the maximum credit for children under age 17 will drop to $1,000. It 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. At the same time, the personal exemption for dependents and most other individual income tax changes made in the TCJA will also be restored to their pre-2018 rules.


6 The provision of the new law that causes the EITC to grow more slowly over time applies to all the indexed items in the federal income tax code included the standard deduction and tax brackets.

References


About the Author

Elaine Maag is a principal research associate in the Urban-Brookings Tax Policy Center at the Urban Institute, where she studies income support programs for low-income families and children. Before joining Urban, Maag worked at the Internal Revenue Service and Government Accountability Office as a Presidential Management Fellow. She has advised congressional staff on the taxation of families with children, higher education incentives in the tax code, and work incentives in the tax code. Maag codirected the creation of the Net Income Change Calculator, a tool that allows users to understand the trade-offs between tax and transfer benefits, and changes in earnings or marital status. Maag holds an MS in public policy analysis from the University of Rochester.
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