



Insight

Proposed Changes to the Child Tax Credit

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Today, members of the House of Representatives released the [text](#) of a proposed bill to reform the nation's tax code, Tax Cuts and Jobs Act. Included in the bill are a series of reforms intended to support families. In particular, the bill would increase the value of the child tax credit (CTC), tie the refundable portion of the credit to inflation, introduce a new credit that would be allowed for non-child dependents, and introduce a new family flexibility tax credit that could be claimed by each tax filer.

HOW THE CTC WORKS NOW

Currently, parents are able to [claim](#) a tax credit of up to \$1,000 for each child under the age of 17, reducing the tax bill of a family with children by \$1,000 per child. If the credit is larger than the family's tax bill, part or all of the \$1,000 per child credit can still be received as a tax refund. The refundable CTC equals 15 percent of earned income over \$3,000 and is capped at \$1,000 per child. Consequently, a family that has one child and earns between \$3,000 and \$9,660 can only receive part of the credit. If the family earns over that threshold, it would receive the full \$1,000. For high income taxpayers, the credit phases out at a 5 percent rate starting at adjusted gross incomes of \$75,000 for single parents and \$110,000 for married couples. So, for a married couple with one child, the value of the credit decreases by \$50 for every \$1,000 they earn over \$110,000.

PROPOSED CHANGES

The Tax Cuts and Jobs Act would increase the maximum CTC by \$600 to \$1,600 per child. Although the maximum credit would increase to \$1,600, the maximum refundable portion of the credit would remain at the current \$1,000 level. The \$1,000 refundable amount would be tied to the chained consumer price index (CPI), causing it to rise with prices overtime. Once reaching \$1,600, however, the refundable CTC would stop increasing so that it does not surpass the value of the maximum CTC.

In addition to expanding the CTC, the Tax Cuts and Jobs Act would introduce two new tax credits to assist other family members who may not be children or even dependents. In particular, the tax bill proposes a new \$300 tax credit that families could claim for non-child dependents. This could presumably apply in instances when families care for disabled adult children or elderly parents. It also introduces a separate \$300 family flexibility credit, which could be claimed by each tax filer. So in a married family, the spouses could each claim the \$300 credit separately, meaning the family would receive a total of \$600. Neither the \$300 credit for non-child dependents nor the \$300 family flexibility credit would be refundable, meaning families with tax bills lower than these credits—typically low-income families—would be unable to claim them.

Under the proposal, these separate credits could be claimed simultaneously. A married couple with one child could receive the new \$1,600 CTC plus \$600 from the family flexibility credit (\$300 for each spouse), totaling \$2,200 in family-related tax credits. If the same family also has an elderly parent, it could claim the \$300 non-

child dependent tax credit, bringing the total tax benefits up to \$2,500.

The tax bill would also increase the income levels at which the expanded CTC would begin to phase out. In particular, the start of the phase out would increase from adjusted gross incomes of \$110,000 to \$230,000 for joint filers and from \$75,000 to \$115,000 for single filers. As a result, higher income workers would be able to benefit from the larger tax credits. The two new \$300 tax credits would also begin to phase out at the new income thresholds.

CONCLUSION

The new tax bill would make several changes to tax credits that aim to assist families and children. In particular, it would increase the maximum value of the CTC, gradually raise the amount of the CTC that is refundable, raise the income levels at which the CTC begins to phase out, and introduce two new non-refundable tax credits to assist non-child dependents and other family members.