Press Release

# Reassessing the Budgetary Treatment of Refundable Tax Credits

PAULINA ENCK | MARCH 9, 2023

The president's budget will be the topic du jour, but beneath the headlines about program spending increases and cuts lies a weedier conversation about the budgetary treatment of tax credits. In new research, Director of Fiscal Policy Gordon Gray walks through the evolution of refundable tax credits' budgetary treatment, recent policy changes, and the tradeoffs that must be considered in the design of these tax credits.

Key points:

- Among the rationales for refundable tax credits, which provide income support for low-income workers in excess of income tax liability, is to provide relief against the payroll tax, which is regressive in structure.
- The budgetary treatment of refundable tax credits has been generally settled since the late 1970s: The portion of a refundable tax credit in excess of individual tax liability is recorded as spending for federal budgetary purposes.
- More recent approaches to providing payroll tax relief reveal the budgetary tradeoffs that can attend to such policies, and can illuminate future approaches to income support programs, such as the child tax credit.

*Read the analysis*