

NEVADA KIDS COUNT

Child Tax Credit

Child Tax Credit (CTC)

The Child Tax Credit (CTC) was introduced in 1997 to support families with children under 17 years of age in providing education, nutrition, and overall well-being. It was first enacted with a credit of \$400 per child (Charney, 2017). The policy has undergone numerous changes over the last two decades. The CTC has gained attention from the 2017 tax reform, also known as the Tax Cuts and Jobs Act (TCJA). The TCJA makes the most significant changes to the CTC since its inception.

Recent Changes to the Child Tax Credit

	Previous law (2016)	TCJA (2018)
Maximum credit per qualifying child	\$1000	\$2000
Refundable portion of the credit ¹	15 percent of the income earned above \$3000 up to a maximum of \$1000 ²	15 percent of the income earned above \$2500 to a maximum of \$1400
Higher margin	Credit is reduced by \$50 per \$1000 of additional income, if AGI ³ is above \$110,000 for a married couple filed jointly, if AGI is above \$75,000 for a single head of the household or qualifying widower	Credit is reduced by \$50 per \$1000 of additional income, if AGI is above \$400,000 for a married couple filed jointly, if AGI is above \$200,000 for a single head of the household or qualifying widower
Requirement of SSN ⁴ to claim the credit	Not required	Required for both non-refundable and refundable tax credit

¹Credit is refundable, if the tax liabilities are lower than the tax credit, in order to claim the refundable portion, however, a taxpayer's income should exceed the amount specified by the law.

²Previously CTC was non-refundable, but taxpayers could claim it through the "Additional Child Tax Credit."

³AGI - Adjusted Gross Income.

⁴SSN - Social Security Number.

Source: Charney, G. (2017, December 28). *The New Child Tax Credit*. Retrieved January 19, 2018, from Tax Information Center Website: <https://www.hrblock.com/tax-center/irs/tax-reform/new-child-tax-credit/>.

According to recent changes, families with children can claim \$2000 per child, if their tax liability exceeds the tax credit. For instance, a family with two kids can claim \$4000 (2000*2) if its tax liability is greater than \$4000. If its tax liability is less than \$4000, however, the family can still claim a portion of the credit, which is known as "the refundable portion." The refundable portion equals 15 percent of the income earned above \$2500 to a maximum of \$1400. For example, a family with children earns \$6000, and it does not have tax liabilities, this family can claim \$525 (6000-2500*15%). If this family earned less than \$2500, however, it cannot claim the CTC. Therefore, families with children who earn below \$2500 and do not have tax liabilities will not be able to get benefits from the CTC.

Additional changes

- "Family Credit" - Maximum credit of \$500 is given for each dependent of a taxpayer who is not a qualifying child. This is a non-refundable credit, and SSN is not required (Erb, 2018).
- Personal exemption for dependents is eliminated (Erb, 2018).

NEVADA KIDS COUNT

Child Tax Credit

Societal Impacts of the Child Tax Credit



Reduce Poverty

Reduce Poverty

- In 2015, CTC lifted 2.8 million people out of poverty, including 1.6 million children. Moreover, it reduced the depth of poverty for 13.3 million people, including 6.6 million kids (Welton, 2017).
- In 2016, CTC lifted 2.7 million people out of poverty including 1.5 million children. It lessened poverty for an additional 12.3 million people, 6.1 million of whom were children (CBPP, 2017).



Improve Education

Improve Education

- A \$1000 increase in family income improves students' test scores by 2 percent in math and more than 3.5 percent in reading (Marr, 2015).
- The CTC raises both college enrollment and college attendance among low-income families (Marr, 2017).



Enhance Achievement

Enhance Achievement

- For every \$3000 poor families receive before their child's sixth birthday, that child, when he/she is between ages 25 and 37, works 135 extra hours annually. This corresponds to a 17 percent increase in earnings (Marr, 2017).



Encourage Work

Encourage work

- The earned income tax credit (EITC) increases labor force participation, especially among single mothers, working for low wages. Researchers expect the CTC to deliver a similar effect (Sherman & Mitchell, 2017).

Images from Creative Commons

NEVADA KIDS COUNT

Child Tax Credit

Distributional Effects of the Child Tax Credit

In 2005, 14 percent of the CTC went to families with income less than \$10,000 (Figure 1). Families who earned less than \$50,000 received 65 percent of the total CTC. High-income families who earned above \$200,000 received only 3 percent of the credit. However, around 52 percent of low-income families with children did not receive the CTC (Burman and Wheaton, 2005).

Further, in 2015, 51.9 percent of children who lived in low-income families did not receive the CTC, because their income levels were below the minimum requirement to claim the CTC (Figure 2). This accounted for 54 percent of Hispanic families, 54.5 percent of White families, and 47.6 percent of Black families (Burman and Wheaton, 2005).

Figure 1: Credit Received by Income Group (thousands of dollars)

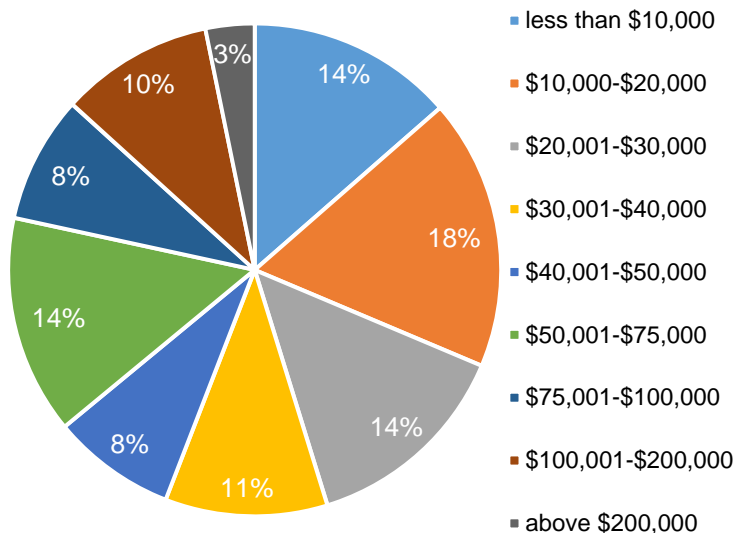
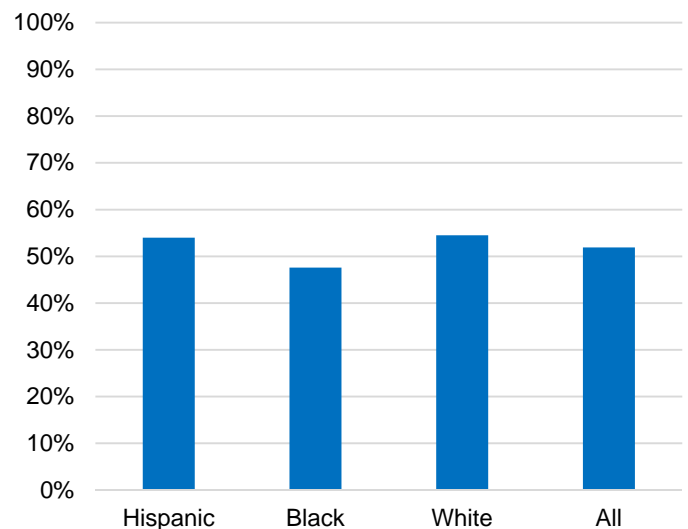


Figure 2: Percentage of Children Who Live in Low-income Families That Do Not Receive CTC



Source: Burman, L. E., & Wheaton, L. (2005, October 17). *Who Gets the Child Tax Credit?* Retrieved January 19, 2018, from Urban Institute Website: http://webarchive.urban.org/UploadedPDF/411232_child_tax_credit.pdf

Source: Burman, L. E., & Wheaton, L. (2005, October 17). *Who Gets the Child Tax Credit?* Retrieved January 19, 2018, from Urban Institute Website: http://webarchive.urban.org/UploadedPDF/411232_child_tax_credit.pdf

The Tax Policy Center estimates 10.4 million children who live in families with at least one worker will get less than full CTC in 2017. On the other hand, 16.1 million children in high-income families will get the maximum credit in 2017. Further, \$52 billion will be distributed to 35 million families with children. Out of that, around 20 percent will be distributed to families in the lowest quintile of income, around 30 percent to both second and third quintiles, 18 percent to the fourth quintile, and less than 1 percent to the top quintile. Only 53 percent (\$27.1 billion out of \$ 51.1 billion) of the combined CTC and Additional Child Tax Credit (ACTC) will be disbursed in 2017 (Maag, 2017).

New federal policy expanded the CTC by increasing the credit twofold, elevating the upper bound of income, and lowering the minimum income requirement. According to Center on Budget Policy Priorities estimations, however around 26.5 million children who live in working families will receive less than full credit (\$2000) with the new CTC since their income is less than the minimum requirement to claim the CTC. This includes 279,000 children who live in working families in Nevada (Marr et al., 2017).

NEVADA KIDS COUNT

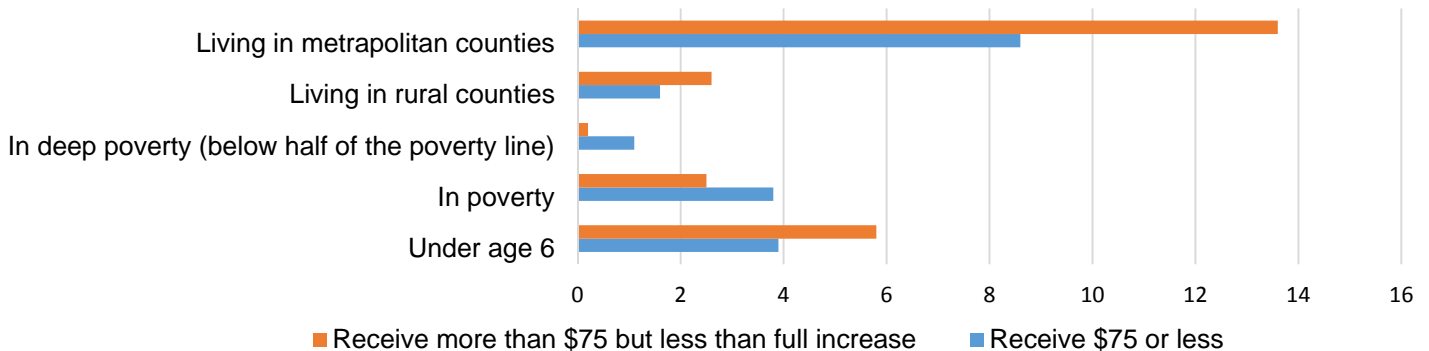
Child Tax Credit

Distributional Effects of the Child Tax Credit (Continued)

Nearly 1.1 million children who live in deep poverty, which is below half of the poverty line of \$24,858 for a family of four, two adults and two children, would receive less than \$75, and 0.2 million children in deep poverty would receive more than \$75 but less than the full CTC increment (Figure 3). Thus, around 1.2 million of children in deep poverty would receive less than full CTC due to low income.

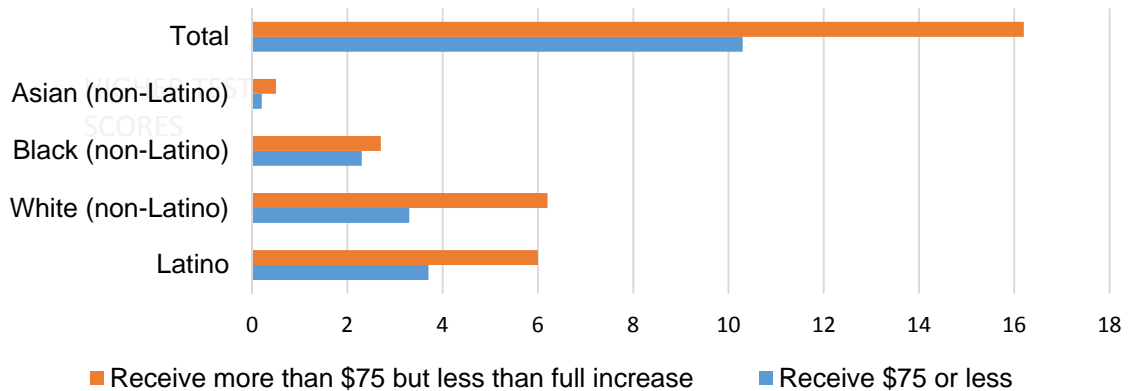
Additionally, 10.3 million children who live in working families would receive only \$75 or less, this accounts for 3.7 million Latino, 3.3 million White (non-Latino), 2.3 million Black (non-Latino), and 0.2 million Asian (non-Latino) children (Figure 4).

Figure 3: Estimated Number of Children Under Age 17 Left with Less Than Full CTC (Millions)



Source: Marr, C., Serman, A., Horton E., Parrott, S., Huang, C., Palacios, V. (2017, November 17). *Senate Tax Bill's Child Tax Credit Increase Provides Only Token Help to Millions of Children in Low-Income Working Families*. Retrieved January 18, 2018, from Center on Budget and Policy Priorities Website: <https://www.cbpp.org/sites/default/files/atoms/files/11-17-17tax.pdf>.

Figure 4: Estimated Number of Children Under Age 17 Left with Less Than Full CTC (Millions) by Race/Ethnicity



Source: Marr, C., Serman, A., Horton E., Parrott, S., Huang, C., Palacios, V. (2017, November 17). *Senate Tax Bill's Child Tax Credit Increase Provides Only Token Help to Millions of Children in Low-Income Working Families*. Retrieved January 18, 2018, from Center on Budget and Policy Priorities Website: <https://www.cbpp.org/sites/default/files/atoms/files/11-17-17tax.pdf>.

It is expected that families with undocumented immigrant children will be adversely affected by the new policy as it requires a tax claimer to produce the Social Security Number of the children. Individual Taxpayer Identification Numbers (ITINs) will no longer be valid with the new scheme (DePillis, 2017). Mostly taxpayers with ITINs are immigrants, foreign students, or taxpayers with a temporary U.S. visa. Altogether this accounts for around 5 million children (Welton, 2017).

NEVADA KIDS COUNT

Child Tax Credit

References

- Burman, L. E., & Wheaton, L. (2005, October 17). *Who Gets the Child Tax Credit?* Retrieved January 19, 2018, from Urban Institute Website: http://webarchive.urban.org/UploadedPDF/411232_child_tax_credit.pdf
- CBPP. (2017, October 25). *Policy Basics: The Child Tax Credit*. Retrieved January 19, 2018, from <https://www.cbpp.org/research/federal-tax/policy-basics-the-child-tax-credit>
- Charney, G. (2017, December 28). *The New Child Tax Credit*. Retrieved January 19, 2018, from Tax Information Center Website: <https://www.hrblock.com/tax-center/irs/tax-reform/new-child-tax-credit/>
- DePillis, L. (2017, December 16). Changes to the child tax credit: What it means for families. *CNN Money*. Retrieved January 19, 2018, from <http://money.cnn.com/2017/12/16/news/economy/child-tax-credit/index.html>
- Erb, K. P. (2018, January 09). What The Expanded Child Tax Credit Looks Like After Tax Reform. *Forbes*. Retrieved January 19, 2018, from <https://www.forbes.com/sites/kellyphillipserb/2017/12/21/how-will-the-expanded-child-tax-credit-look-after-tax-reform/#35a213214205>
- Maag, E. (2017, March 23). *Refundable Credits: The Earned Income Tax Credit and the Child Tax Credit*. Retrieved January 19, 2018, from Tax Policy Center Website: http://www.taxpolicycenter.org/sites/default/files/publication/139841/2001197-refundable-credits-the-earned-income-tax-credit-and-the-child-tax-credit_0.pdf
- Marr, C. (2017, December 06). Rubio-Lee Child Credit Proposal Should Be in Final Tax Bill [Web log post]. Retrieved January 19, 2018, from <https://www.cbpp.org/blog/rubio-lee-child-credit-proposal-should-be-in-final-tax-bill>
- Marr, C., Serman, A., Horton E., Parrott, S., Huang, C., Palacios, V. (2017, November 17). *Senate Tax Bill's Child Tax Credit Increase Provides Only Token Help to Millions of Children in Low-Income Working Families*. Retrieved January 18, 2018, from Center on Budget and Policy Priorities Website: <https://www.cbpp.org/sites/default/files/atoms/files/11-17-17tax.pdf>
- Sherman, A., & Mitchell, T. (2017, July 17). *Economic Security Programs Help Low-Income Children Succeed Over Long Term, Many Studies Find*. Retrieved January 19, 2018, from Center on Budget and Policy Priorities Website: <https://www.cbpp.org/sites/default/files/atoms/files/7-17-17pov.pdf>
- Welton, R. C. (2017, June 21). *The Child Tax Credit: A Critical Anti-Poverty Tool for Children in Immigrant Families*. Retrieved January 19, 2018, from CLASP Website: <https://www.clasp.org/sites/default/files/publications/2017/08/The-Child-Tax-Credit-A-Critical-Anti-Poverty-Tool-for-Children-in-Immigrant-Families.pdf>

Prepared by:
Hasara Rathnasekara, Graduate Assistant
Center for Business and Economic Research

Nevada KIDS COUNT
Center for Business and Economic Research
Lee Business School
University of Nevada, Las Vegas



Nevada KIDS COUNT is funded by the Annie E. Casey Foundation. We thank them for their support, and we acknowledge that the findings and conclusions presented in this report are those of the author alone and do not necessarily reflect the opinions of the Foundation.

The views expressed are those of the authors and do not necessarily express those of the University of Nevada, Las Vegas or the Nevada System of Higher Education