



What is the Child Tax Credit?

In the realm of financial policy, the Child Tax Credit stands as a cornerstone, playing a pivotal role in providing essential economic relief to American families with dependent children. In 1997, the Child Tax Credit was initiated during the Clinton administration as a partially refundable credit. It is a nonrefundable tax credit offered to taxpayers with dependent children aged under 17, capable of diminishing tax liability on a dollar-for-dollar basis, potentially erasing the tax debt entirely.

To be eligible, specific criteria regarding the age of the child and the relationship to the claiming individual must be met by both taxpayers and their children. Additionally, taxpayers need to satisfy income thresholds to fully utilize this benefit, as the credit diminishes for those with higher incomes. If the household's modified adjusted gross income surpasses the limit, the credit received could decrease or result in the household being ineligible.

The credit was most recently boosted temporarily in 2021 under President Biden's American Rescue Plan Act, and just a few years prior, Republicans gave it their own temporary boost under their 2017 tax reform package, the Tax Cuts and Jobs Act. As it relates to the 2023 version, the Child Tax Credit is not in danger of being eliminated, but it will be returning to its previous levels, with the addition of some new requirements needed to qualify. The Child Tax Credit is one of several that will be reverted to its pre-COVID standards.

How does the Child Tax Credit work and who qualifies?

To qualify for the Child Tax Credit, certain requirements must be met. Taxpayers will receive the full amount for each qualifying child if they meet all the eligibility requirements below, and if the household annual income does not exceed \$200,000 (\$400,000 if filing a joint return). Parents and guardians with higher incomes may be eligible to claim a partial credit.

- **AGE:** Child must be under the age of 17 at the end of the year.
- **CITIZENSHIP:** Each qualifying child must be a United States citizen or resident alien and have a valid Social Security number.
- **DEPENDENT STATUS:** The filer must claim the child as a dependent on their own tax return.
- **FINANCIAL SUPPORT:** The filer provided at least half of the child's financial support in the last year.
- **RELATIONSHIP:** The child is a legally recognized child, stepchild, foster child, sibling, half-brother or half-sister or a descendant of one of these categories (such as a grandchild, niece, or nephew).
- **RESIDENCY:** The qualifying child lived with the filer for over half the year.

Center Forward Basics

Center Forward brings together members of Congress, not-for profits, academic experts, trade associations, corporations and unions to find common ground. Our mission: to give centrist allies the information they need to craft common sense solutions, and provide those allies the support they need to turn those ideas into results.

In order to meet our challenges we need to put aside the partisan bickering that has gridlocked Washington and come together to find common sense solutions.

For more information, please visit www.center-forward.org

A New Approach

The pandemic-related expansion of the federal Child Tax Credit successfully lifted millions of children out of poverty in the latter half of 2021. However, Congress permitted its expiration at the year's end, and recent U.S. census data indicates the child poverty rate more than doubled in 2022, reversing the unprecedented strides that were made. The expiration of the credit took away a vital resource for parents and caregivers needed in order to continue to work while providing the best possible care for their children. Following the conclusion of the federal enhancement, multiple states have initiated or broadened their own Child Tax Credit programs.

Six states—New Jersey, New Mexico, Minnesota, Oregon, and Utah—have established new Child Tax Credits, while five others have broadened their existing programs, as per the Institute on Taxation and Economic Policy. Currently, 14 out of the 50 states provide their own Child Tax Credits, and several others are intending to propose bills in the coming year. Several of these states creating or extending Child Tax Credits have specifically aimed to support low-income families excluded by federal eligibility criteria. With the federal credit reverting to pre-pandemic regulations, low-income families no longer receive the same comprehensive tax credit as middle-income families. Combining the current federal tax credit with a state credit of up to \$2,000 in nearly every state would substantially reduce child poverty rates by at least twenty-five percent.

Planning for the Future

As the eligibility requirements for the Child Tax Credit change, it is important for taxpayers to ensure they still qualify. Along with the requirements reverting to those pre-COVID, the deduction amount will also be reverting to YEAR levels. Therefore, it is likely most families will receive less in tax credits and will need to plan for a smaller refund amount than compared to those in previous years. Considering these changes, many states have started to offer their own Child Tax Credit and have implemented versions that have eligibility requirements different from those of the federal government's Child Tax Credit. Experts emphasize beginning tax preparation early to gather necessary documents and address queries.

Conclusion

The Biden Administration and congressional Democrats have emphasized the importance of expanding the federal Child Tax Credit, with growing interest expressed by Republicans. The Child Tax Credit, in addition to its poverty reducing effects, increased workforce participation 1.7 percent overall in 2021 with the expansion of the credit, with a 1.1 percent increase in workforce participation for single mothers. A refundable credit would put more cash in the hands of families looking to provide the best possible future for their children while being active contributors to a thriving economy.

Various strategies for expanding the Child Tax Credit are being considered. While some proposals might not ensure all children from low-income families receive the full credit, they can still substantially benefit. As policymakers deliberate on ways to broaden the Child Tax Credit, the focus will likely be on maximizing the number of low-income children lifted out of poverty and increasing the coverage of those who receive the full credit.

Links to Other Resources

- BankRate - <https://www.bankrate.com/taxes/child-tax-credit-what-to-know/>
- CBPP - <https://www.cbpp.org/research/federal-tax/any-year-end-tax-legislation-should-expand-child-tax-credit-to-cut-child>
- Child Tax Credit 2023-2024 - <https://www.nerdwallet.com/article/taxes/qualify-child-child-care-tax-credit#:~:text=For%202023%2C%20the%20child%20tax,is%20worth%20up%20to%20%241%2C600.>

- IRS - <https://www.irs.gov/credits-deductions/individuals/child-tax-credit>
- Policy Engine - <https://policyengine.org/us/research/the-child-tax-credit-in-2023>
- States Step In - <https://www.governing.com/finance/as-federal-child-tax-credit-ends-states-step-in-with-their-own>
- Tax Foundation - <https://taxfoundation.org/blog/child-tax-credit-reform-debate/>
- The White House - <https://www.whitehouse.gov/child-tax-credit/>
- US Department of Treasury - <https://home.treasury.gov/policy-issues/coronavirus/assistance-for-american-families-and-workers/child-tax-credit>