

## Implications for Changing the Child Tax Credit Refundability Threshold

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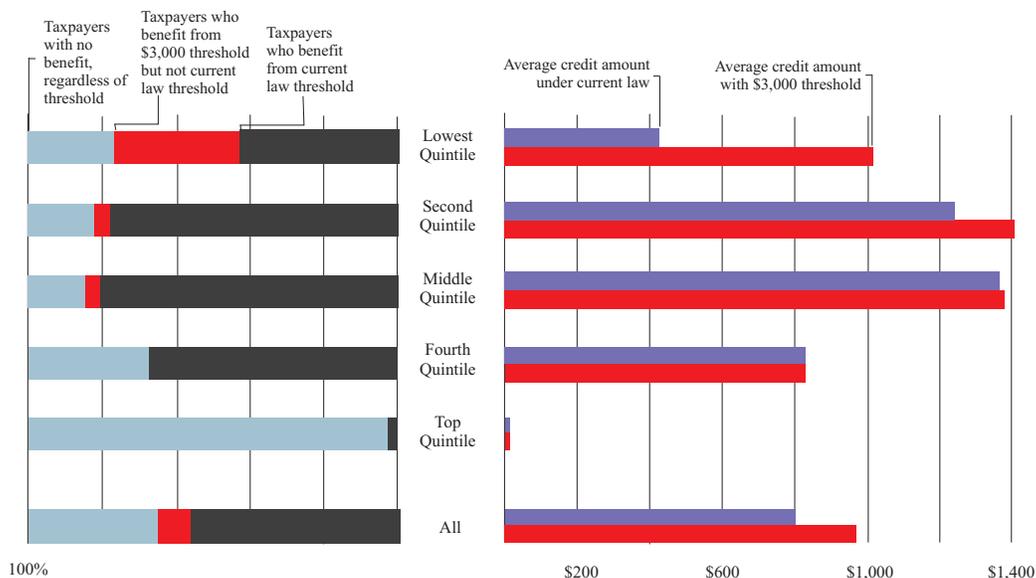
The child tax credit (CTC) began in 1997 as a \$400-per-child (\$500 in 1999), largely non-refundable tax credit. Families with one or two children could use the CTC to offset taxes owed. Families with more than two children could receive a refundable credit (technically the “additional child tax credit”) to the extent that their payroll taxes exceeded their earned income tax credit. The credit mainly benefited middle- and higher-income families.

The Economic Growth and Tax Relief Reconciliation Act of 2001 increased the maximum credit to \$1,000 per child and made it refundable up to 10 percent of earnings exceeding \$10,000 (15 percent in 2004). The \$10,000 refundability threshold was de-

signed so that families with one child, whose EITC was finished phasing in at about that earnings level, would continue to receive additional tax credits for additional earnings.

The American Recovery and Reinvestment Act of 2009 lowered the CTC refundability threshold to \$3,000. In 2018 that threshold will jump to about \$15,000 and rise with inflation after that. The refundability threshold matters little to high-income families, but it affects both the number of low-income families getting the credit and how much they get. Families with children in the lowest income quintile will receive an average benefit of just over \$400 in 2018 if the refundability threshold rises as scheduled. In contrast, if the \$3,000 threshold is retained, the average benefit for families with children in the lowest income quintile would be about \$1,000 — and 34 percent more families in the lowest income quintile would receive at least some benefit than under current law.

**Percentage of Families With Children, With Benefit and Average Tax Benefit, Under Current Law and With \$3,000 Refundability Threshold, by Expanded Cash Income Quintile, 2018**



Source: Tax Policy Center Microsimulation Model (version 0613-4), tables T14-0060 and T14-0062.