

The Child Tax Credit

Enacted in 1997 and expanded with bipartisan support since 2001, the Child Tax Credit (CTC) helps working families offset the cost of raising children. It is worth up to \$2,000 per eligible child (under age 17 at the end of the tax year). The CTC also includes a \$500 non-refundable credit for families with qualifying non-child dependents.

Taxpayers eligible for the credit subtract it from the total amount of federal income taxes they would otherwise owe. For example, if a couple with two qualifying children would owe \$4,600 in taxes without the credit, they would owe \$600 in taxes with it, because the credit would reduce their tax bill by \$2,000 for each child.

Helping Low-Income Working Families

The CTC includes a refundable component. This means that, if the value of the CTC exceeds the amount of federal income tax a family owes, the family may receive part or all of the difference in the form of a refund check. As a result, many working families can benefit from the credit even if their incomes are so low that they owe little or no federal income tax in a given year. These families still pay payroll taxes, however.

When filing taxes for 2019 (due in April 2020), under the 2017 tax law, working families can receive a refund equal to 15 percent of their earnings above \$2,500; this refund can be worth up to \$1,400 per child. For example, a single mother with two children who earns \$14,000 in 2019 could receive 15 percent of \$11,500, or \$1,725, as a refund.

This refundability feature is important for low-income working families, who otherwise wouldn't receive the tax benefits available to higher-income families to help offset the cost of raising children.

Reducing Poverty and Expanding Children’s Opportunities

The value of the CTC increases with a household’s earnings, up to \$2,000 per child (or \$1,400 per child for the refundable portion). A family that earns less than \$2,500 is ineligible for the credit, however, and a single parent with two children who earns between \$2,500 and \$30,000 receives only a partial credit.

Despite these shortcomings, [which policymakers should address](#), the CTC is a powerful weapon against poverty. It lifted approximately 2.8 million people out of poverty in 2017, including about 1.6 million children, and lessened poverty for another 13.1 million people, including 6.7 million children. It lifts even more families with children out of poverty when combined with the [Earned Income Tax Credit](#) (EITC). (See figure.) Many of these low-income families are ineligible for other tax-based assistance for children, like the Child and Dependent Care Tax Credit, which is not refundable.

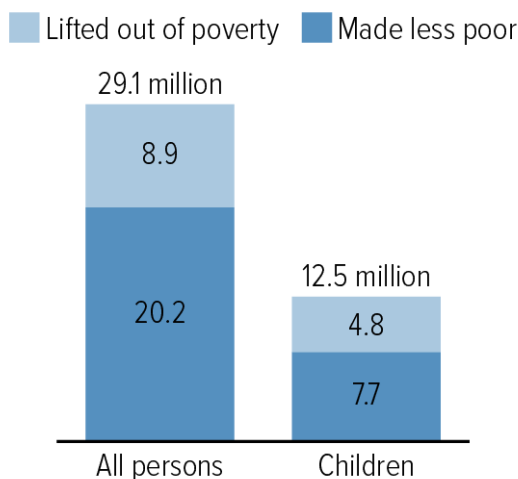
Also, research suggests that boosting working families’ incomes can [expand opportunities for children](#), such as by improving school performance. Lifting low-income families’ income when a child is young not only tends to improve a child’s immediate well-being, but is associated with better health, more schooling, more hours worked, and higher earnings in adulthood, research has found.

Because higher-income households need less help to pay the costs of raising children, couples with two children and incomes above \$400,000 (\$200,000 for single or head-of-household filers) receive a smaller CTC, and those with incomes above \$480,000 (\$280,000 for singles and household heads) receive no CTC.

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Earned Income Tax Credit and Child Tax Credit Have Powerful Antipoverty Impact

Millions of persons lifted out of poverty or made less poor (using Supplemental Poverty Measure) by EITC and CTC, 2017



Note: Unlike the Census Bureau’s official poverty measure, the SPM counts the effect of government benefit programs and tax credits.

Source: CBPP analysis of Census Bureau March 2018 Current Population Survey and 2017 SPM public use file.

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