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AN ALTERNATIVE TO EXTENDING THE TCJA: A PROPOSAL THAT INVESTS IN WORKING FAMILIES

Margot Crandall-Hollick
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EXECUTIVE SUMMARY

As Congress considers extending expiring provisions of the 2017 Tax Cuts and Jobs Act (TCJA), this report proposes an alternative that focuses its benefits on the working class while addressing longstanding concerns about the complexity and administrative burdens of tax credits geared toward low- and moderate-income families. Building on some of the TCJA's core simplifications, such as the larger standard deduction and repeal of personal exemptions, and allowing the law's other temporary provisions to expire as scheduled, this proposal would fundamentally reform the earned income tax credit (EITC) and the child tax credit (CTC) into a distinct worker credit of up to \$2,500 per worker and a child benefit credit of up to \$4,000 per child. This proposal would provide the largest income increases to the bottom 40 percent of households, between \$1,270 and \$1,560 on average (6.5 to 3.8 percent of their after-tax income) compared with increases of \$160 to \$380 (0.8 and 0.9 percent of their after-tax income) from extending the TCJA. And it would cost less than half of TCJA extension over 10 years.

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OVERVIEW

In this year’s debate about extending expiring provisions of the TCJA, policymakers have raised concerns about its cost and beneficiaries. At an estimated cost of \$4.4 trillion over 10 years, excluding debt service (and over \$5 trillion including these costs), an extension of the law’s temporary provisions will worsen an already bleak fiscal outlook of rising deficits and debt (Berlin and Gale 2024).¹ The benefits provided to low- and moderate-income families would fall short—in dollar terms and as a share of after-tax income—as many struggle to afford the basics, including food, rent, and medical care.

In addition, simply extending the TCJA would miss an important opportunity to more fundamentally reform two refundable credits for working families—the earned income tax credit (EITC) and the child tax credit (CTC). As many authors have noted, these credits can be particularly complex because of varying and complex eligibility criteria, different benefit calculations, and conflicting incentives regarding work and family. This makes existing benefits difficult for recipients to claim and difficult for the IRS to administer (Goldin 2018; NTA 2019; Nunns, Maag, and Nguyen 2016).

Rather than simply extending the TCJA, policymakers could better target tax benefits to working families, address longstanding efficiency and fairness issues, and improve fiscal sustainability. This report outlines and analyzes such an alternative. Letting all but two provisions of the TCJA expire as scheduled, this proposal reforms and expands the EITC and the CTC—substantially increasing after-tax incomes working class families, especially for families with children.

This proposal focuses on reforming and expanding the EITC and the CTC because these two policies have proven to be the most effective tools in the tax policy toolkit to increase the incomes of low- and moderate-income families. About \$100 billion is delivered annually to low- and moderate-income families through these credits, reducing poverty and financial hardship, especially among children (Maag, Airi, and Hunter 2023).² A substantial literature documents the short- and long-term benefits of the EITC and CTC, which include improving health, education, employment, and criminal justice outcomes for children (Aizer, Hoynes, and Lleras-Muney 2022; Garfinkel et al. 2022; Maag et al. 2023).³

But there are still opportunities to improve these credits. For example, the existing credits tend to provide smaller benefits to children in the lowest-income households, even when their caregivers work (Maag 2019).⁴ In large part, this is because the full benefit of the CTC is inaccessible to children whose parents do not earn enough to qualify for the maximum benefit (Maag 2023; Sherman, Marr, and Hingsten 2021). This benefit design is at odds with research that demonstrates the value of investing in low-income children (Barr, Eggleston, and Smith 2022; Duncan and Le Menestrel 2019; Heckman and Masterov 2007; Maag and Isaacs 2017; Maag et al. 2023; Sandstrom and Huerta 2013). And evidence from the most recent CTC expansion in 2021 suggests

that concerns that expanding accessibility to the full credit for those with the lowest income will diminish labor force participation may be overstated.

Finally, the EITC provides almost no benefits for low- and moderate-income working families without children at home, even though many face economic hardships. The EITC available to these workers—often referred to as the *childless EITC*—provides less than \$3 billion annually in assistance to workers without children, which is less than 5 percent of all EITC benefits.⁵ Given the small benefit size of the childless EITC (e.g., the maximum benefit for childless workers is about one-tenth the size of the maximum credit for workers with two children), few researchers have conducted studies on the impacts of this credit; however, similar but more generous policies have been found to increase employment and reduce hardships.⁶

The TCJA took an important step toward simplifying child benefits in the tax system by consolidating personal exemptions for dependents with the CTC.⁷ The proposal outlined in this report takes another step toward simplifying the tax code by clearly delineating worker and child benefits. Such simplification can help to reduce marriage penalties for some dual-earning couples with low incomes. The proposal also is designed so that low-income families with more than one child receive some child benefit for each of their children, as higher-income families currently do. At the same time, the proposal increases credits for working families and clarifies and expands benefits for workers who are not raising children at home, thereby supporting a population Congress has historically excluded from the social safety net (Greenstein 2024). Specifically, this proposal would

- make permanent the larger standard deduction and repeal of personal exemptions enacted under the TCJA,
- replace the EITC with a worker credit of up to \$2,500 for workers earning at least \$10,000 annually, and
- replace the CTC with a child benefit credit of up to \$4,000 per child for households with at least \$10,000 of annual earnings.

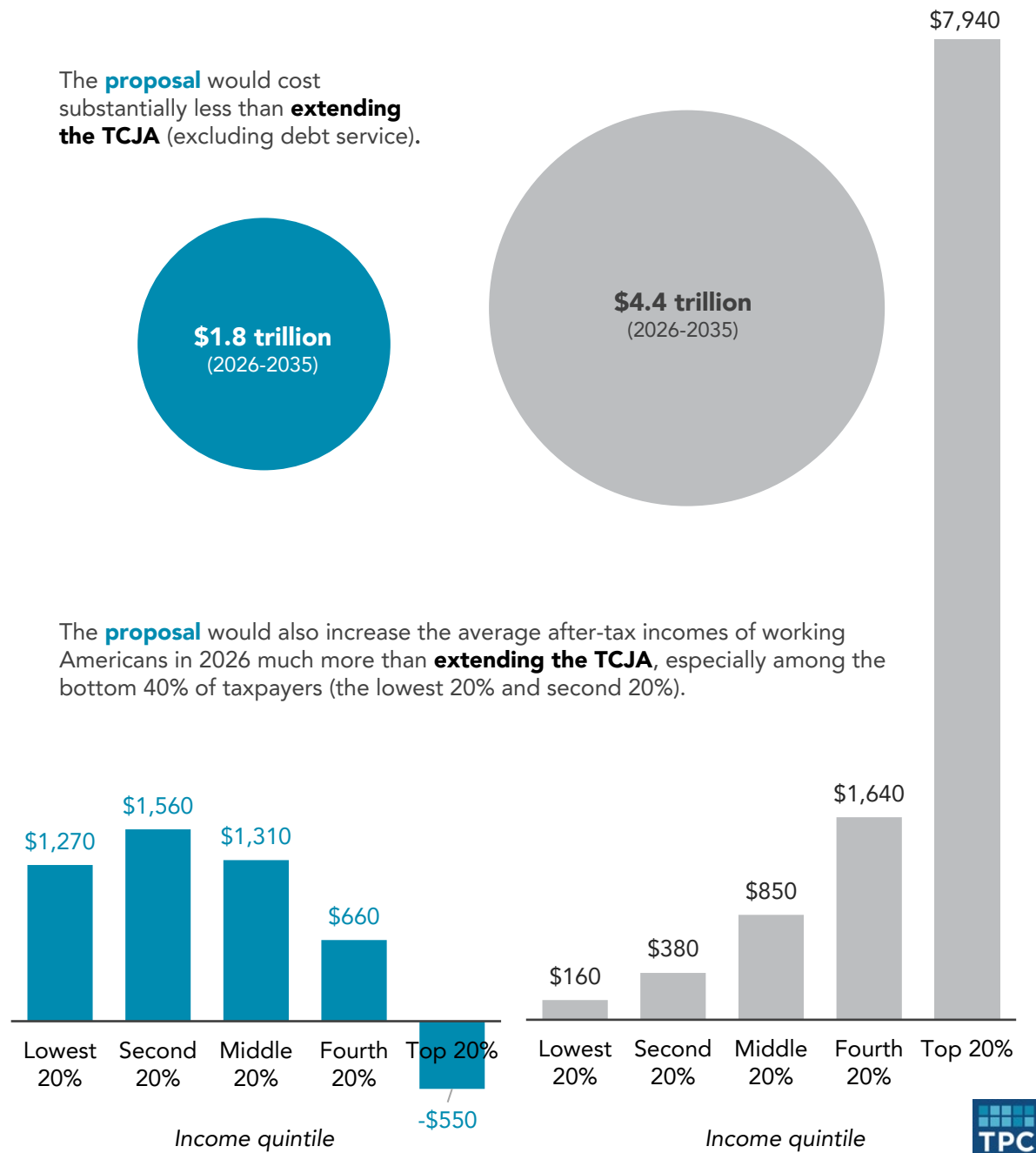
With the child benefit credit, low-income families who earn at least \$10,000 annually would be eligible for the maximum credit of \$4,000 per child, receiving half the credit—\$2,000 per child—irrespective of their earnings. The remaining half of the credit would be phased proportionally over \$10,000, providing more benefits at a given income level to lower-income families with more than one child. Under this type of phase in, sometimes called a *ratable* or *proportional phase in*, the income level at which the benefit reaches its maximum level—\$10,000—would be unchanged by the number of children, implicitly creating a per-child phase-in for low-income working families. This increase in the phase-in rate for families with more children is similar to a change proposed in bipartisan legislation in the 118th Congress.⁸

This proposal would provide large increases in working families' after-tax income, as illustrated in figure 1.

FIGURE 1

A Less Costly Alternative to Extending the TCJA That Increases the Incomes of Working Americans

10-Year Cost and 2026 Distributional Estimates of the Proposal Compared to Extending the TCJA



Source: Tax Policy Center Tables T24-0023, T25-0026, T25-0028, and Congressional Budget Office 2024b.

Notes: The areas of the circles are equal to the approximate budgetary costs for fiscal years, which excludes debt service. The \$4.4 trillion cost of extending the TCJA is estimated based on CBO data.

For the lowest-income working families (the bottom 20 percent), this option would increase after-tax income by \$1,270 on average in 2026, more than five times the benefit they would receive from simply extending the TCJA. For the lowest-income working families with children (the bottom 20 percent), this option would increase after-tax income by nearly \$2,810 on average, almost six times the benefit of simply extending the TCJA in 2026 (\$510).⁹

Like the current law credits, this proposal's credits, in particular the child benefit credit, would retain a work requirement to receive the maximum benefit. Under this proposal, the lowest-income families with children and no earnings would generally receive half the maximum benefit, whereas they would have received the full benefit if it had been structured as a more universal benefit like the benefit included in the first version of the Family Security Act or 2021's expanded child tax credit.¹⁰ Work requirements would thus lessen the proposal's effectiveness at reducing poverty and hardship for the most vulnerable, especially those in deep poverty, including their children. This may be one reason a variety of recent proposals either reinstate the 2021 expanded credit (like the American Family Act or a proposal from McCabe and Sargeant 2024).¹¹ However, the minimum benefit and per-child phase in would provide more resources to many low-income families with children than provided under current law, highlighting that even with work requirements, credits can still be designed to better support low-income families with children (Bastian 2023; Landry 2023). This underscores the fact that most low-income children, including those in poverty, live in households where at least one adult works (Falk 2021).

While many in Congress may want to simply extend the TCJA writ large, doing so would substantially increase deficits while missing an opportunity to simplify and improve the administrability of some of the most complex tax benefits for workers and children and invest more in low- and moderate- income families when many are struggling.¹² In contrast, the proposal evaluated in this report addresses those inefficiencies and directs almost all benefits to the bottom 60 percent of families, especially those with the lowest incomes, all while costing substantially less than full TCJA extension (an estimated \$1.8 trillion over 10 years versus the \$4.4 trillion cost of extending the TCJA over the same time period, excluding debt service).

MOTIVATION FOR REFORM

A significant share of working families, especially those with children, do not earn enough money to afford their basic needs. Research shows that refundable tax credits like the EITC and the CTC can reduce material hardship. However, their current structure and administration have historically neglected families and children most in need, as well as workers who are not raising children at home (including many young adults). Their current structure has also created complex policies that are difficult for people to comply with and for the IRS to administer. And while marriage penalties in the tax code have been reduced or eliminated for many dual-earning couples with moderate and higher incomes, they still exist for low-income working couples with similar incomes, largely because of the EITC's structure.

Income from Paid Work Is Often Not Enough for Families to Meet Their Needs, Especially among Families with Children

Many Americans raising children do so on modest incomes. Just over one-third of children (35 percent) live in families with low incomes, often defined as income below 200 percent of the *federal poverty level*, a threshold associated with the official poverty measure.¹³ When using a different poverty measure, the *supplemental poverty measure*,¹⁴ which accounts for many government benefits and necessary expenses, the share of children living in families with low incomes rises to almost half (49 percent).¹⁵

In nearly all cases, people living on modest incomes and raising children in the United States are working, but for too many of them, their income from work is not enough to meet their basic needs, let alone thrive (Crandall-Hollick et al. 2024; Gonzalez, Maag, and Karpman 2024). According to analysis of Census data, in 2023, more than three-quarters of low-income families with children—families with incomes below 200 percent of the federal poverty level—included at least one adult who works.¹⁶ Many workers in these families earn low wages, which when adjusted for inflation, have declined over time (Mishel 2015). In addition to low pay, many low-income workers' jobs are precarious, volatile, and offer few benefits, such as paid time off (Boyens, Karpman, and Smalligan 2022; Guyot and Reeves 2020).¹⁷

Many adults with low incomes who are not raising children at home also struggle financially. Work for these low-income individuals is often unstable and irregular, resulting in less dependable incomes with few opportunities for long-term advancement (Bauer, Hardy, and Howard 2024; Hardy and Ziliak 2014; Hingtgen, Saenz, and Zippel 2021; Wimer et al. 2020). Low-income childless adults also tend to be younger compared with all adults without children (Hingtgen, Saenz, and Zippel 2021). And younger adults today are often subject to greater financial hardship and economic instability than in previous decades (Lee et al. 2024).¹⁸

While earnings for lower-income workers have barely kept up with inflation, the costs of many basic goods—such as housing, medical care, and child care—have increased significantly faster, making it difficult for many families to afford the foundational components of the American dream (Claxton et al. 2018; Cox et al.

2024; Feiveson, Levinson, and Wertz 2024; Rakshit et al. 2024; Schaeffer 2022).¹⁹ During the COVID-19 pandemic, food prices also increased rapidly, and while the pace of these increases has slowed, price levels remain high, making it difficult for many families, especially low-income families, to afford healthy meals.²⁰ In contrast, incomes for the highest-earning Americans have surged (CBO 2024a; Desilver 2018; Gould and deCourcy 2024; Horwich 2023; Shambaugh et al. 2017).

The Existing EITC and CTC Fail to Include the Lowest-Income Families with Children

In recent decades, the federal income tax system has become a powerful tool to boost the incomes of low-income working families with children via two refundable tax credits, the EITC and the CTC (Burman and Maag 2014; Chaudry et al. 2016; Falk et al. 2015; Hoynes and Schanzenbach 2018). These benefits, especially the EITC, were designed to “make work pay” and ensure that if low-income parents worked full time at a minimum wage job they would not be in poverty.²¹ In 2022, these credits provided over \$100 billion in benefits to taxpayers with incomes below \$50,000, and almost \$55 billion in benefits to taxpayers with incomes below \$25,000.²² According to the most recent Census Bureau data for 2023, these credits lifted 6.4 million people out of poverty, slightly more than half of whom (3.4 million) were children (Shrider 2024).

But both the EITC and the CTC are structured in such a way that the lowest-income families with children receive the smallest benefits. To be eligible for both credits, low-income families must have earned income; the EITC phases in with the first dollar of earned income at a rate of 34 to 45 percent, depending on the number of children, while the child tax credit currently phases in when earned income is above \$2,500 at a rate of 15 percent, regardless of the number of children in the household. Because of these requirements, about one in six children in poverty cannot benefit from these credits because they live in families without earnings (Falk 2021). Research indicates that households with incomes between 75 and 150 percent of the federal poverty level receive the largest EITCs (Hoynes and Patel 2018), while about one-quarter of all children in the United States live in families whose incomes are too low to receive the maximum child credit.²³ Those excluded from these benefits because of low incomes are disproportionately Black and Hispanic (Goldin and Micheltmore 2022; Hardy, Hokayem, and Ziliak 2022).

While the EITC and the CTC have historically been unavailable for the lowest-income families and children, research shows that these investments can have large societal benefits. Providing cash and near cash benefits to children, especially to the most disadvantaged, and especially when they are young, has both short- and long-term benefits, such as improving health and education outcomes and increasing future earnings as adults (Barr, Eggleston, and Smith 2022; Heckman and Masterov 2007; Maag and Isaacs 2017; Maag et al. 2023; NAS 2019; Sandstrom and Huerta 2013).

In 2021, the American Rescue Plan Act (ARPA) temporarily made the full amount of the child tax credit available to the lowest income families with children by eliminating the earnings requirement.²⁴ These changes reduced the number of children in poverty and contributed to reductions in food and housing insecurity and other material hardships (Bovell-Ammon et al. 2022; Burns and Fox 2022; Curran 2022; Karpman et al. 2022;

Pilkas, Michels, and Kovski 2024). The temporary ARPA changes expired at the end of 2021 amid concern among some policymakers that decoupling the credit from work for low-income families would discourage parents from working. While the majority of the literature suggests modest work disincentives from a change like the ARPA expansion to the child credit, these concerns have continued to limit the range of policy options Congress is willing to consider, often in ways that continue to exclude the most vulnerable children (Bastian 2024, Schanzenbach and Strain 2023, and Wielk, Lautz, and Snyderman 2023).

The Existing EITC for Workers without Children Fails to Adequately Support These Workers

Low-income workers who are not raising children in their homes receive paltry benefits from the tax code, even though many are struggling financially and generally are unsupported by the other safety net policies (Crandall-Hollick, Airi, and Auxier 2024; Greenstein 2024).

An estimated 6 million workers without children (or more precisely, without children that qualify them for tax benefits) are taxed into or deeper into poverty each year, often because they owe substantially more in Social Security and Medicare taxes than any credit they receive.²⁵ Many of these individuals are themselves young adults, just starting out in life or trying to finish their education (Hingtgen, Saenz, and Zippel 2021). Some of them also support and care for children, but they cannot claim those children for benefits because they do not live with them, the children are too old, or they are not related to the children (Bauer, Hardy, and Howard 2024). As many adults have fewer children and have them later in life, the reach and impact of a safety net (including a safety net embedded in the tax code) that is based primarily on children is diminished.

The Existing EITC and CTC Are overly Complex and Create Inequities in the Tax Code

The EITC and the CTC are overly complex, making them burdensome for taxpayers to claim and difficult for the IRS to effectively administer. A major source of their complexity relates to duplicative benefits available to the same population—low-income families with earnings and children—but with different eligibility rules, definitions, and formulas. Consequently, low-income working families must first check their eligibility for one benefit, calculate the benefit, and then do it all over again for a different benefit, adding unnecessary complexity and increasing families' filing burdens (Nunns, Maag, and Nguyen 2016).

One of the biggest differences in the eligibility rules between the EITC and the child tax credit is the age of the qualifying child. Children eligible to be claimed for EITC include those under 19 years old and from age 19 to 23 years old if they are full-time students, with no age limit for children who are totally and permanently disabled. Similar age limits apply to the personal exemption, which the TCJA suspended between 2018 and 2025. In contrast, the eligibility age for children claimed for the child tax credit is under 17 years old.

In addition to age requirements, other eligibility rules differ between these credits, so low-income taxpayers may find themselves eligible for one credit but not the other. For example, children do not need to meet a support test to qualify for the EITC,²⁶ but they do need to meet a support test to qualify for the CTC; taxpayers with individual taxpayer identification numbers (ITINs) cannot claim the EITC, but ITIN filers can claim the CTC,

as long as the children they claim for the credit have Social Security numbers (SSNs); taxpayers claiming the EITC must spend the majority of the year living with the child in the United States, while taxpayers claiming the CTC must live with the child for the majority of the year, but they do not need to be in the United States; the EITC phases down based on earned income or adjusted gross income (whichever is greater), the CTC phases down based on a modified adjusted gross income that includes exempt certain foreign and territorial income; finally, divorced parents can “trade” the benefits of the child credit in a divorce settlement, but they cannot do the same with the EITC, so one benefit offers flexibility but the other does not (Maag 2010; Maag, Rennane, and Steuerle 2011).

Complex eligibility rules not only unnecessarily burden taxpayers—and are a leading factor in their high level of improper payments (Crandall-Hollick 2018; NTA 2019; US Department of the Treasury 2024)—but also make it difficult for the IRS to administer these credits. As the IRS Taxpayer Advocate notes, “Confusion also increases the administrative burden on the IRS, as it must program its return processing systems using different definitions for different provisions, it must program its audit selection models to distinguish among conflicting definitions, and it must devote audit and collection resources to reporting inaccuracies that exist solely because taxpayers and even some tax preparers confuse the various definitions when filling out tax returns” (NTA 2023, 124).

Differences in the credit formulas also create confusion. The EITC amount is capped at families with three or more children, while the CTC is not; the EITC phases in at the first dollar of earned income while the CTC phases in after earned income is above \$2,500; all dollar parameters of the EITC are annually adjusted for inflation, while most parameters of the CTC are not adjusted for inflation (although the maximum amount that can be received as the refundable portion—i.e., the amount greater than income taxes owed—is temporarily indexed for inflation through the end of 2025). As Maag (2010) noted, these differing formulas create opaque and conflicting incentive structures. Much of this computational complexity may be hidden from taxpayers behind commercial software and paid preparers (Burman and Slemrod 2020; NTA 2019).

The Existing EITC Drives Marriage Penalties for Low-Income Dual-Earning Couples

The unfairness of these provisions is also evident in how they—especially the EITC—create unequal levels of support between married and unmarried couples in which partners earn similar incomes. In general, marriage penalties arise in the US federal income tax code when a couple owes more in taxes (or receives less in tax benefits) if they marry (marriage bonuses may also occur). For low-income couples, the EITC is the primary tax provision driving marriage penalties for low-income couples where spouses earn roughly similar amounts. In other words, the existing structure of the credit can result in a smaller total credit—hence smaller net benefit from the income tax—for low-income dual earnings couples when they marry (Crandall-Hollick and Hughes 2018; Crandall-Hollick and Landers 2022; JCT 2001).

Although analyzing the impact of tax provisions on decisions to marry is complicated, most research suggests that the EITC has little to no effect on decisions to marry (Micheltmore 2018; Nichols and Rothstein

2016). However, there is evidence that the EITC's marriage penalty does encourage claimants to misreport their marital status when claiming the credit, which, according to most recent estimates, resulted in between \$2.3 and \$3.3 billion of the EITC claimed in error (IRS 2014). And among secondary earners in married couples, the EITC's current structure is also associated with modest reductions in their labor force participation (Eissa and Hoynes 2004).

WHY REFORM THE EITC AND CTC NOW?

The debate around extending TCJA provides an opportunity for Congress to address the needs of working families and children, and to do so in a way that is less costly than simply extending the expiring provisions of the law.²⁷ As Senator Hawley noted at the beginning of the 119th Congress, "The test of this Congress will be whether we strengthen America's families and whether we deliver for America's working people."²⁸

Congress also has an opportunity to address the complexity and inequities of refundable tax credits. Recent expansions of these credits during the Great Recession and the COVID-19 pandemic modified the existing EITC and CTC, instead of fundamentally reforming them into distinct worker and child benefits. And changes to the EITC and the CTC implemented during the pandemic by the American Rescue Plan Act (ARPA) expired after one year, largely over concerns that the expanded CTC would discourage work and the expanded EITC for childless workers would exacerbate marriage penalties.²⁹

Building on the Simplification of the TCJA and Expanding Benefits for Workers and Their Children

The TCJA made progress on a longstanding goal: simplifying the tax code. Nearly doubling the standard deduction and limiting many itemized deductions made claiming the standard deduction more beneficial than itemizing simplified tax filing for millions of households. The share of taxpayers itemizing their deductions fell from 31 percent in 2017 to 9 percent in 2020.³⁰ The TCJA also dramatically reduced the number of taxpayers subject to a parallel system, the alternative minimum tax (AMT).³¹

For families with children, the law also simplified tax benefits for children by consolidating them. Instead of a personal exemption for dependent children and a child tax credit, with different eligibility rules for families to navigate, the bill suspended the personal exemption and expanded the child tax credit. In addition, the law created a \$500 nonrefundable credit for other dependents who were not eligible for the child credit, which was generally more equitable than the personal exemption that provided a larger benefit to higher-income taxpayers.

While the TCJA simplified tax benefits for children and increased the *maximum amount* of the child tax credit, the law left room for improvement for many families with children, especially lower-income families (Yera et al. 2025). First, the larger maximum credit amount is unavailable to many of the lowest-income families owing to both the credit's phase in, which requires families to earn more to get a larger maximum credit, and the cap

on the amount of the credit that can be received as a refundable credit. The TCJA did not modify the phase-in rate of 15 percent and limited the amount that could be claimed as refundable credit (\$1,400 per child, adjusted for inflation, which for 2024 and 2025, equaled \$1,700 per child).³² Second, for many moderate-income families with children, the expansions to the child tax credit that they did benefit from were offset by other tax law changes, such as the elimination of the personal exemption. Indeed, analysis of the law's impact on the value of child benefits found that most families with children were about the same after the law (Maag 2019). Third, because the TCJA permanently changed the measure of inflation used to annually adjust many tax provisions, such as the EITC, to the chained consumer price index, tax benefits for the lowest-income households will tend to increase more slowly over time compared to under prior law (Marples 2014; Sherlock et al. 2018).

REFORM PROPOSAL & ANALYSIS

The reform proposal evaluated in this report assumes that all expiring provisions—except changes to the standard deduction and personal exemption—expire as scheduled at the end of 2025. It also replaces the existing EITC and CTC with a new worker benefit and child benefit credit, as outlined below. These changes would be effective beginning in 2026.

TABLE 1
Overview of Reform Proposal

| | |
|---|---|
| Standard deduction | Permanently extend the larger standard deduction under the TCJA |
| Personal exemption | Permanently repeal the personal exemption for taxpayers, their spouses (if applicable), and dependents |
| EITC | Permanently repeal the EITC |
| New worker credit | <p>\$2,500* per worker credit calculated as 25% of the first \$10,000 of earned income</p> <p>For unmarried workers, credit begins to phase down when a worker's earned income or adjusted gross income, whichever is greater, exceeds \$25,000* at a rate of 15%.</p> <p>For married couples, the credit is first calculated at the individual level (including phased down by an individual worker's earned income, if applicable), then each spouse's credit is added together, and the combined credit is phased down at a rate of 15% when combined earned income or adjusted gross income (whichever is greater) exceeds \$50,000.*</p> <p>Workers must be 18 years or older, not be claimable as a dependent by another taxpayer, and have an SSN.</p> |
| Child tax credit | Permanently repeal the child credit |
| New child benefit credit | Up to \$4,000* per child, phasing in for low-income taxpayers and phasing out for higher-income taxpayers |
| <i>Credit available to low-income taxpayers</i> | Low-income taxpayers are eligible for a refundable credit equal to a minimum refundable credit of \$2,000* per child with the remaining \$2,000* per child refundable credit phased in over \$10,000 of earned income irrespective of the number of children (i.e., 20% phase-in rate for one child, 40% phase-in rate for two children, 60% phase-in rate for three children, etc.). Hence, a low-income taxpayer with \$10,000 of earnings will be eligible for the maximum child benefit of \$4,000 per child. |
| <i>Phase-out</i> | <p>Two-part phase-out</p> <p>First phase-out: Phase down credit from \$4,000* per child to \$2,000* per child when AGI exceeds \$75,000 single filers/\$112,500* head of household filers/\$150,000* married joint filers at 10% rate.</p> <p>Second phase-out: Phase down the remaining \$2,000* per child credit to zero when AGI exceeds \$200,000 head of household filers/\$400,000 married filing jointly filers at 5% rate.</p> |

Age eligibility of child 0-18 years old; 19 to 23 years old if full-time student; no age limit if child is disabled

Child ID number ITINs or SSNs (under current law, taxpayers with SSNs or ITINs can claim this benefit)

Credit for other dependents \$500* nonrefundable credit for dependents not eligible for the child benefit credit

Note: All parameters reflect 2026 levels. Parameters with an “*” would be Inflation indexed beginning in 2027.

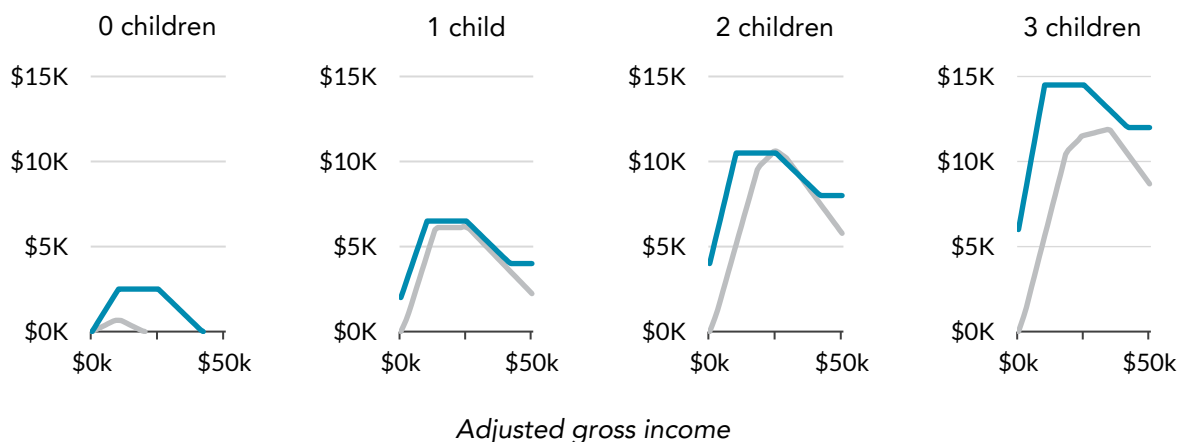
For a more detailed summary of this proposal, including illustrative examples, see the appendix.

Low-income workers will generally be eligible for a larger combined credit (worker credit plus child benefit credit) than they would receive if the TCJA were extended and they received the EITC and the CTC. Figure 2 illustrates the combined worker credit and child benefit credit amounts for hypothetical working families with \$50,000 or less of earned income compared with their combined EITC and CTC in 2026 if the TCJA changes to the CTC were extended.

FIGURE 2

The Combined Worker Credit and Child Benefit Credit Would Be the Same Size or Larger than the Combined EITC and CTC for Many Working Families

Proposed Worker Credit + Child Benefit Credit
Combined EITC + CTC if TCJA is extended



Source: Author's calculations.

Notes: Adjusted gross income is assumed to equal earned income.

These workers tend to owe little to nothing in income taxes before tax credits, and their pre-credit liability will, in many cases, be unchanged under this proposal, since the proposal retains the larger standard deduction enacted under the TCJA, and the lowest marginal rate and bracket these workers generally face—the 10

percent bracket—was unchanged by the TCJA. For most of these workers, the policies that will change their after-tax income will be the changes to the EITC and the CTC in this proposal.

ANALYSIS OF THE REFORM PROPOSAL

This proposal provides the largest increases in after-tax income in dollar terms (and as a share of after-tax income) to low- and moderate-income families in the bottom three quintiles, while further simplifying the existing tax system. It also addresses longstanding inequities in the treatment of certain low-income married couples in which the spouses earn similar amounts, as well as inequities faced by larger families with modest earnings. This proposal also provides substantial assistance to workers without children who receive little to no benefits from refundable tax credits under current law.

Large Increase in After-Tax Income for Low-Income Working Families, Especially Those with Children Compared with Benefits from Simply Extending the TCJA

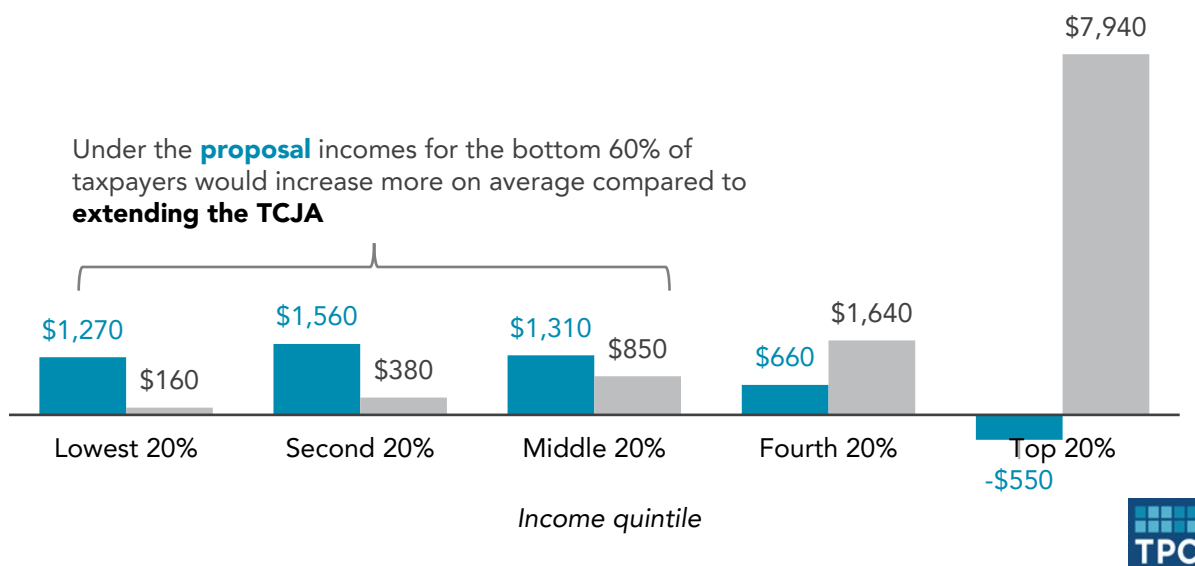
In 2026, low- and moderate-income households would receive a substantial increase in after-tax income under this proposal, significantly more than they would receive from simply extending the TCJA,³³ underscoring the impact that expanded refundable tax credits have on boosting the income of low-income families. For the lowest-income families (bottom 20 percent), this option would increase after-tax income by \$1,270 on average in 2026, more than five times the impact of an extension of the TCJA. The proposal would increase after-tax income for all except higher income taxpayers, who would see a moderate tax increase.

Among all taxpayers, the largest gains in after-tax income would be among the bottom three income quintiles (figure 3). For the lowest-income families with children, the proposal would increase after-tax income by \$2,810, almost six times the benefit of extending the TCJA in 2026, as illustrated in figure 4.

FIGURE 3

The Proposal Would Increase Average After-Tax Incomes of Working Americans Substantially More than Extending the TCJA in 2026

Average Change in After-Tax Income for All Tax Units Adjusted by Family Size by Income Quintile

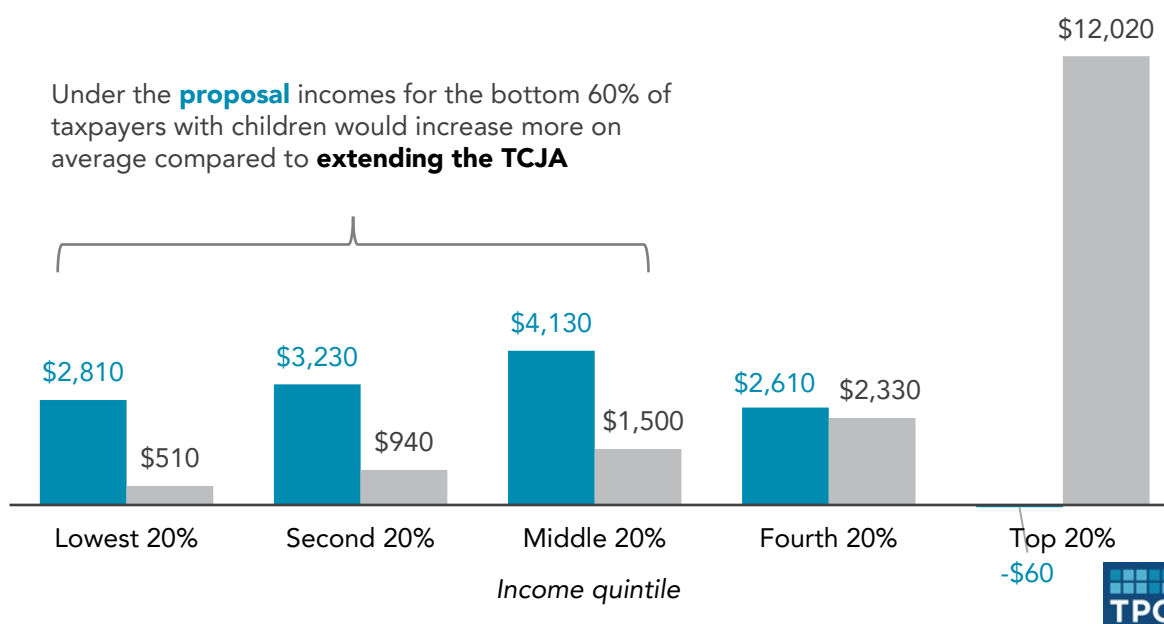


Source: Tax Policy Center Tables T24-0023 and T25-0028.

FIGURE 4

Working Americans with Children Would See Their After-Tax Incomes Increase Substantially More Under the Proposal Compared to Extending the TCJA in 2026

Average Change in After-Tax Income for Tax Units with Children by Income Quintile



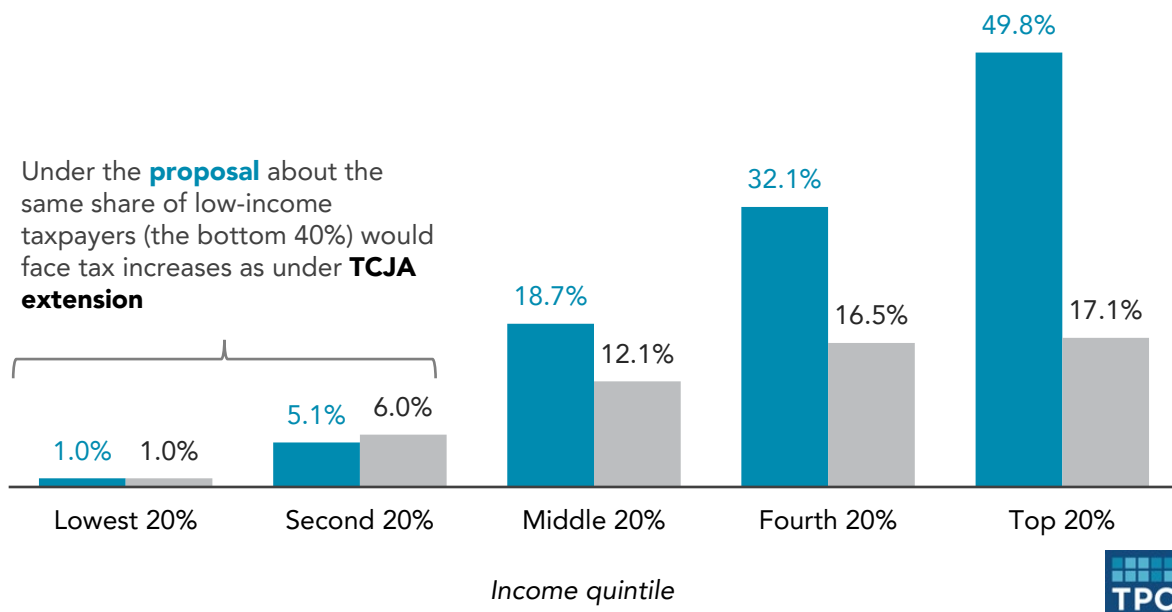
Source: Tax Policy Center Tables T24-0023 and T25-0028.

The reform proposal also minimizes the proportion of low- and moderate-income households in the bottom 40 percent of taxpayers that would face tax increases, as illustrated in figure 5.³⁴ In contrast, some middle-income and about half of high-income taxpayers would face tax increases under this proposal as a result of letting most of the temporary provisions of the TCJA expire as scheduled.

FIGURE 5

A Similar Share of Lower-Income Taxpayers Would Face Tax Increases from the Proposal and Extending the TCJA in 2026

Share of All Tax Units with a Tax Increase of \$10 or More



Source: Tax Policy Center Tables T24-0029 and T25-0028.

Simplified and Improved Administration of Tax Credits for Families

The reform option results in a fairer and simpler tax system by creating a distinct worker credit and a child benefit credit. Consolidating the largest and most wide-reaching tax benefits for low-income families with children—the EITC and CTC—into one child benefit would reduce the number of eligibility rules and credit calculations many families must navigate to determine whether their child is eligible for the EITC, the CTC, or both, thereby decreasing the complexity of the tax system for millions of families (Holtzblatt and McCubbin 2004). Under all these options, working parents would only need to determine their child’s eligibility for one credit—the child benefit credit.

Simplification would not only reduce administrative burdens for taxpayers, but research suggests it would also help reduce erroneous claims for the credit. Under current law, the EITC is subject to a significantly larger

share of credit dollars claimed incorrectly compared with CTC dollars claimed incorrectly (US Department of the Treasury 2024).³⁵ The most recent studies of EITC noncompliance estimate that 42 to 54 percent of EITC dollars claimed in error result from incorrect claims regarding children (IRS 2014).³⁶ Because the worker credit is not tied to the taxpayer having children, the dollar amount of improper claims for this benefit would likely be significantly lower than the current EITC. Improper claims of the child benefit credit would likely, at most, equal those of the current CTC, and might decrease over time, since improper claims resulting from confusion over whether an EITC child also qualifies for the CTC would no longer exist. Simplification would also make these benefits simpler for the IRS to administer, reducing the number of definitions that must be programmed in both return processing systems and audit selection models, and reducing the time and resources needed to identify and correct errors driven by taxpayer confusion (NTA 2023).

The structure of the child benefit also allows it to be administered in such a way that it can better help low- and moderate-income families meet their ongoing needs, without having to wait for their annual tax refund (Parolin et al. 2023). Much like the ARPA, which advanced half of the expanded CTC in 2021, the \$2,000 minimum portion of the child benefit—which represents half of the total benefit amount—could be issued to families based on prior year tax data before taxpayers file their applicable tax return. This process is often referred to as “advancing” a tax credit (Crandall-Hollick and Cooper 2023). Like the advance payments of the child credit in 2021, these advances could be based on an estimate of what a taxpayer should be eligible for based on prior year tax data or information provided by taxpayers on a portal. And just like the ARPA CTC advance payments, these advance payments would be reconciled with what the taxpayer can claim on their tax return based on their most recent tax information.

This process—advancing an estimated amount before a tax return is filed based on prior year information and then reconciling the amount they can actually claim based on current year data—can result in some families receiving too much in advance payments. This is especially true when the factors that determine the estimated advanced amount—such as taxpayer’s income—vary a lot from year to year, a situation that is common for lower-income workers (Maag, Airi, and Hunter 2023). Imagine a single mom making very little the year her child is born, around \$5,000, while the following year she earns \$20,000. While the total amount of the child benefit will vary from year to year (\$3,000 vs. \$4,000) owing to differences in the phased-in portion of the child benefit based on earnings, the minimum of \$2,000 per child will remain unchanged between both years. Hence, policymakers could advance only the minimum credit based on prior year tax data to minimize low-income households’ risk of having to repay overpaid credits. The remainder of the credit that is phased in with income could continue to be claimed with the annual tax return. In families where children move around from year to year, advancing the minimum credit amount could still result in some households being obligated to repay the advanced minimum benefit. As with ARPA, a targeted safe harbor could be designed to lessen this hardship for low-income families, although some taxpayers might take advantage of this provision, so a safe harbor could increase the budgetary cost of the provision (Crandall-Hollick 2022a; Splinter, Elwell, and Xu 2024).

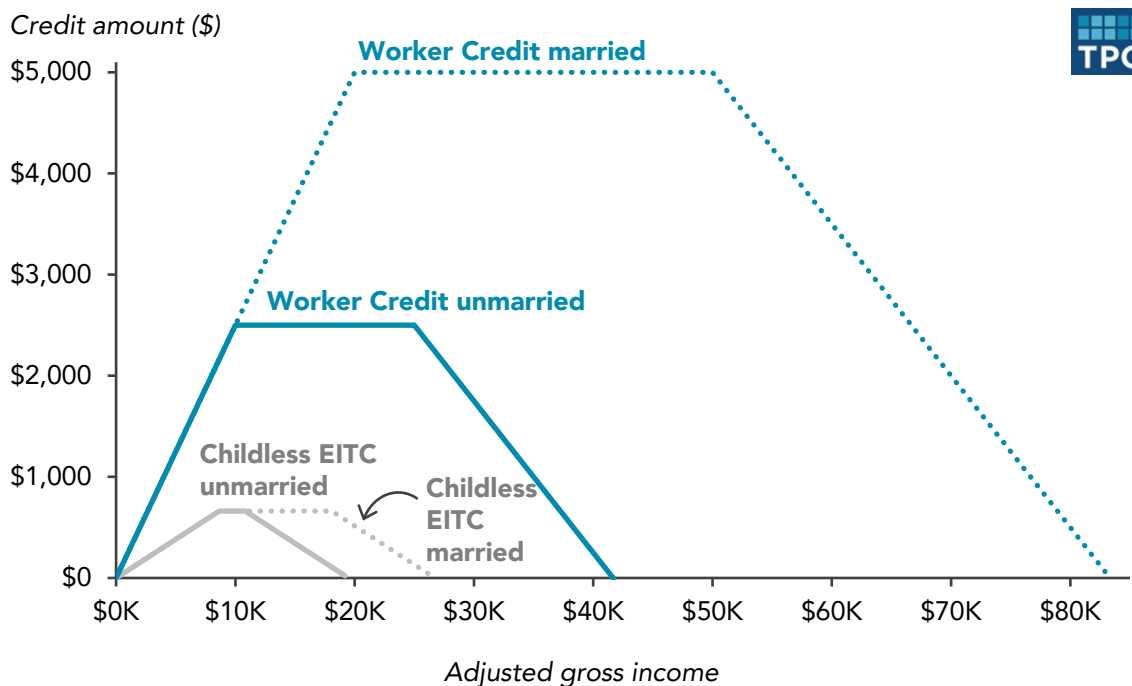
Large Increase in After-Tax Income for Low-Income Workers Not Raising Children at Home Compared with Extending the TCJA

These reform proposals would also provide substantial benefits to workers who are not raising their own children at home, as illustrated in figure 6, helping to reduce hardship among a population who often are eligible for only limited, if any, benefits for many programs in the social safety net, including tax benefits such as the EITC.

FIGURE 6

The Worker Credit Would Be Substantially Larger than the EITC for Childless Workers

Childless EITC and Worker Credit Amounts by Income in 2026



Source: Author's calculations.

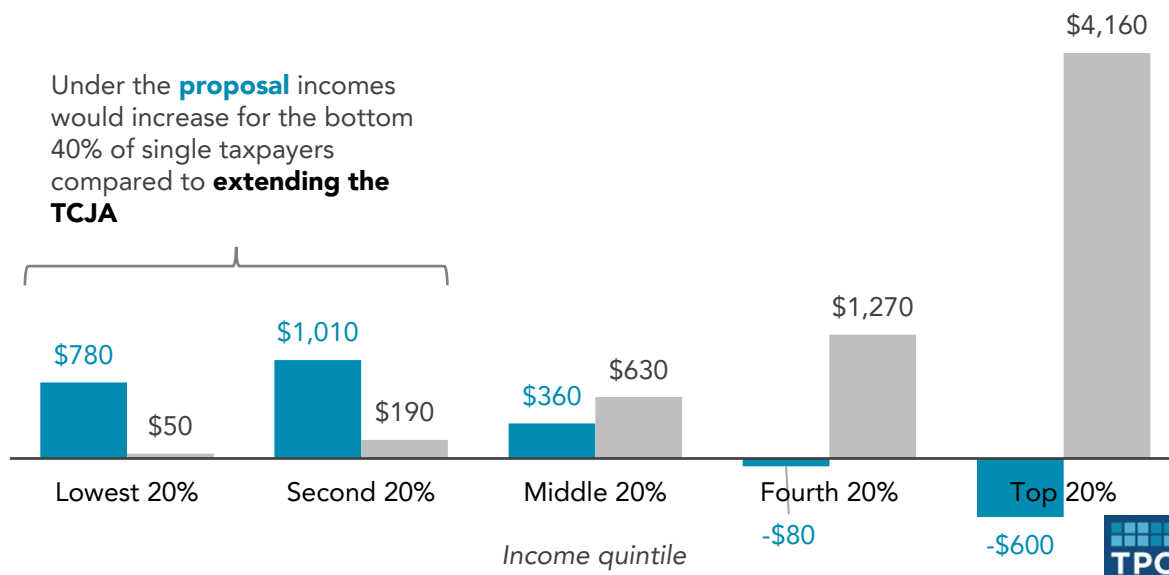
Notes: These reflect the worker credit and childless EITC amounts for 2026. Assumes adjusted gross income equals earned income. Income reflects the total earned income of the tax unit. For married couples, the worker credit amounts assume the income of the tax unit is split equally (50/50) between the two spouses.

For example, for single filers in the lowest-income quintiles (the bottom 40 percent)—unmarried filers who are unlikely to have children—their after-tax income would increase from \$780 to \$1,010 in 2026 under these options, compared with an increase of about \$50 to \$190 in after-tax income from extending the TCJA, as illustrated in figure 7. The top 40 percent of single filers, in contrast, would see their taxes on average increase under this proposal. For low-income working single filers, these changes would likely reduce poverty and economic hardship. For comparison, when the small EITC for workers without children was modestly expanded by the ARPA in 2021, these changes enhanced the antipoverty effectiveness of the credit for young adult workers by more than 7 percent and reduced housing hardships by 28 percent (Lee et al. 2024; Wimer and Curran 2023).

FIGURE 7

Low-Income Single Filers Would Receive a Large Increase in After-Tax Income from the Proposal Compared to Extending the TCJA in 2026

Average Change in After-Tax Income for Single Filers by Income Quintile



Source: Tax Policy Center Tables T24-0023 and T25-0028.

Reduction of Marriage Penalties for Low-Income Dual-Earning Couples

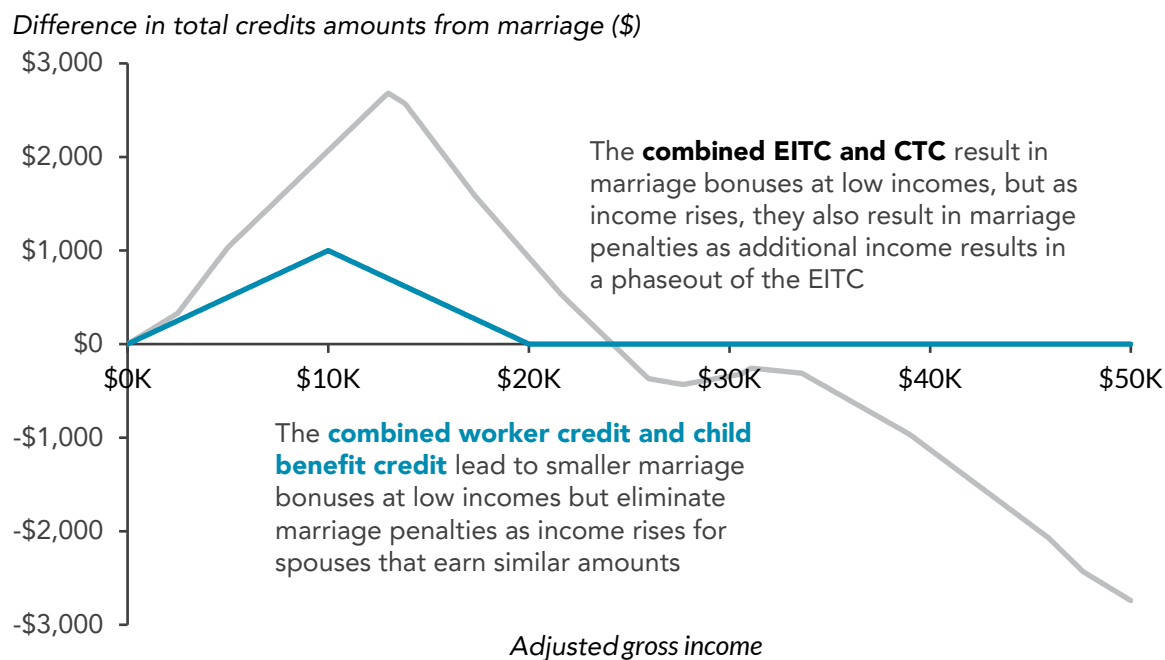
The proposal will reduce marriage penalties for many low-income dual-earning couples where each spouse earns roughly the same amount, because it will reduce the existing marriage penalties these couples face from the EITC. In addition, because the child benefit credit phases in on a per-child basis, low-income parents who are each raising children and who marry will generally receive the same child benefit amount as when they were unmarried. (And for the lowest-income dual-earning couples where one spouse has a child, the additional income from marriage will increase the child benefit credit as it moves them up the credit phase in.)

The proposal, which focuses on reforming the EITC and the CTC, does not address all aspects of the income tax system that may cause marriage penalties for low-income dual-earning couples, such as the head of household filing status. But by reducing the marriage penalty resulting from the existing structure of the EITC, the proposal leads to a fairer system for these couples. For example, as illustrated in figure 8, a low-income worker with a child who married another low-income worker who earns the same amount will tend to receive a similar amount in combined worker credits and child benefit credits, whether married or not married.

FIGURE 8

Working Married Couples Who Earned Similar Amounts Would Be Subject to Reduced Marriage Penalties and Bonuses Under the Proposal

Difference in Credit Amounts from Marriage for Couple with One Child



Source: Author's calculations.

Notes: Assumes adjusted gross income equals earned income. Income reflects the total earned income of the tax unit. For married couples, the worker credit amounts assume the income of the tax unit is split equally (50/50) between the two spouses. Child is assumed to be eligible for the EITC, CTC under current law and the child benefit under the proposal.

Retention of Work Incentives for the Lowest-Income Families

These options also retain work incentives similar to those in the current EITC and CTC. For some of the lowest-income populations, the work incentives in this proposal are significantly more generous than those under current law. For example, among the lowest-income individuals without children, this benefit provides a significantly more generous subsidy if they work—25 cents for every dollar earned versus 7.65 cents from the EITC—which would likely encourage those not working to enter the labor force.³⁷ For those with children and very low incomes, the combined subsidy from the worker credit and the child benefit credit is similar to or larger than the current CTC and EITC subsidies.³⁸ However, similar to current law, the structure of these benefits could discourage some recipients from working, especially among secondary earners whose income pushes them into the phase-out region of either credit.³⁹

Policymakers may be concerned that the \$2,000 per child credit available to the lowest-income families with no earnings could provide some families with enough income that they would choose not to work if they are already out of the labor force or choose to reduce how much they work if they are working. But while this aspect of the child benefit credit may discourage work among some recipients, research by Bastian (2023) and

Edelberg and Kearney (2023) suggests that the phased-in portion of the credit in this proposal could more than counterbalance any disincentive effect and thereby lead to modest increases in employment.⁴⁰

Budgetary Cost

This proposal costs significantly less in budgetary terms—\$1.8 trillion over 10 years—than simply extending the TCJA (see table 2). Based on estimates from the Congressional Budget Office, extending the TCJA would cost about \$4.4 trillion over the same period, excluding debt service costs (CBO 2024b).

TABLE 2

Budgetary Cost of Proposal by Provision FY2026–35

| | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 | 2026– 2035 |
|---|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|
| Repeal personal exemptions | 170.1 | 250.3 | 258.6 | 266.3 | 274.5 | 284.7 | 294.1 | 302.8 | 312.9 | 321.7 | 2,735.7 |
| Extend expanded standard deduction | -112.8 | -164.9 | -170.0 | -176.2 | -182.6 | -189.2 | -195.7 | -202.0 | -208.1 | -214.1 | -1,815.7 |
| Repeal earned income tax credit | 8.0 | 80.2 | 81.7 | 82.7 | 83.5 | 84.3 | 85.6 | 86.5 | 87.2 | 88.2 | 767.9 |
| Repeal child tax credit | 20.0 | 44.1 | 43.4 | 42.5 | 41.6 | 40.5 | 39.7 | 38.7 | 37.7 | 36.8 | 385.1 |
| Enact \$2,500 worker credit | -8.3 | -83.3 | -84.8 | -86.1 | -87.4 | -88.3 | -89.5 | -90.5 | -91.3 | -91.9 | -801.5 |
| Enact \$4,00 child benefit credit | -136.5 | -306.1 | -311.8 | -316.7 | -320.9 | -325.1 | -329.6 | -333.9 | -338.3 | -342.4 | -3,061.2 |
| Enact \$500 credit for other dependents | -0.9 | -2.1 | -2.2 | -2.2 | -2.2 | -2.3 | -2.3 | -2.3 | -2.4 | -2.4 | -21.3 |
| Total | -60.5 | -181.9 | -185.1 | -189.7 | -193.6 | -195.4 | -197.8 | -200.7 | -202.2 | -204.1 | -1,811.0 |

Source: Tax Policy Center Table T25-0026.

Note: These revenue loss estimates are against a current law baseline.

To reinforce the impact of this proposal on enhancing the progressivity of the tax code, Congress could consider several policy options whose incidence would fall on those most able to pay. In some cases, these would also provide enough revenues to fund additional investments outside of the tax code for working families and children (CBO 2024c; Tax Law Center 2024).

CONCLUSION

With many of the temporary provisions enacted by the TCJA expiring in 2025, Congress has an opportunity to reform the income tax code in a way that addresses longstanding issues in the taxation of workers and their families in a fiscally responsible manner. The proposal outlined in this report provides a way to do this. While other proposals may more comprehensively modify and simplify the income tax system (Gale 2024) or do so in a way that focuses on families with children by modifying existing tax credits (McCabe and Sargeant 2024), the reform proposal analyzed in this report focuses on reforming and improving the EITC and the CTC to help them better meet the needs of working families in the 21st century. In so doing, the proposal builds on the historical popularity of and support for tax benefits for working families by reforming these two credits into benefits that are simpler, fairer, and easier to administer. In addition, the proposed credit reforms provide valuable investments in children, which research indicates will provide long-term benefits to society by fostering healthier, better educated citizens who are more likely to be employed. This proposal would also provide greater financial stability for low- and moderate-income workers without children, a population whose needs are largely overlooked in today's tax code.

DESCRIPTION OF CURRENT LAW AND PROPOSAL

Standard Deduction

Under current law, taxpayers can subtract the standard deduction from their adjusted gross income to calculate their taxable income—the amount of income subject to marginal tax rates. The standard deduction varies by filing status and is annually adjusted for inflation. From 2018 through 2025, the Tax Cuts and Jobs Act (TCJA) effectively doubled the standard deduction. Beginning in 2026, the standard deduction is scheduled to revert to pre-TCJA levels. On its own, a reversion of the standard deduction would result in more of a household's income being subject to taxation.

Under all options, the larger standard deduction as enacted by the Tax Cuts and Jobs Act would be made permanent beginning in 2026. The Tax Policy Center estimates these larger standard deduction amounts in 2026 would equal \$15,300 for single filers, \$22,950 for head of household filers, and \$30,600 for married joint filers. Conversely, if the TCJA standard deduction changes expire as scheduled, the Tax Policy Center estimates that standard deduction amounts in 2026 would be \$8,300 for single filers, \$12,150 for head of household filers, and \$16,600 for married joint filers.

Personal Exemption

Personal exemptions, like the standard deduction, reduce the amount of income that is subject to taxation. They allow taxpayers to subtract a fixed dollar amount for themselves, a spouse if married, and dependents, including children and certain relatives. This amount is annually adjusted for inflation. Historically the personal exemption and standard deduction together have defined a minimum amount of income that was not subject to taxation and roughly paralleled the federal poverty level. From 2018 through 2025, the TCJA reduced the personal exemption amount to zero, effectively repealing the provision. Reinstatement of the personal exemption in 2026 may offset some or all the smaller standard deduction's impact. The last year it was in effect, 2017, the personal exemption was \$4,050 per person.⁴¹

The Tax Policy Center estimates that if the personal exemption is reinstated to pre-TCJA levels, it will equal \$4,300 per person in 2026. Under all options put forth by the proposal discussed here, the personal exemption amount would remain zero permanently, beginning in 2026.

Earned Income Tax Credit

Under current law, some low-income workers are eligible to claim the earned income tax credit (EITC). Workers receive a credit equal to a percentage of their earned income up to a maximum credit. Earned income includes wage, salary, and tip income plus net self-employment income after subtracting self-employment taxes. The

earned income credit amount varies by family size, with larger credits available to families with more children.⁴² Workers without credit-qualifying children receive a substantially smaller credit than those with children. These individuals are often referred to as “childless” for simplicity, although some may support and live with children.⁴³ After the credit reaches its maximum amount, it remains constant until earned income reaches the phase-out point. Thereafter, it declines with each additional dollar of earned income or adjusted gross income (whichever is greater) above a threshold until no credit is available. That phase-out threshold is higher for married couples than for unmarried couples. In addition, the EITC cannot be claimed by taxpayers with investment income above certain levels. Because the EITC is a refundable credit, a worker can receive the full amount of the credit, even if it exceeds what they owe in income taxes.

EITC parameters, including the minimum income level to receive the maximum credit, maximum credit amount, and the phase-out threshold, are adjusted annually for inflation. To be eligible for the EITC, workers, their spouses (if married), and any children they are claiming for the credit must all have SSNs. Hence, married couples where one spouse has an ITIN are ineligible for the credit. For EITC recipients with credit-qualifying children, there is no age requirement to claim the credit. EITC recipients without credit-qualifying children must be between 25 and 64 years old (for married recipients, at least one spouse must be between 25 and 64 years old). Under all proposal options the EITC would be repealed and replaced with a new worker credit beginning in 2026.

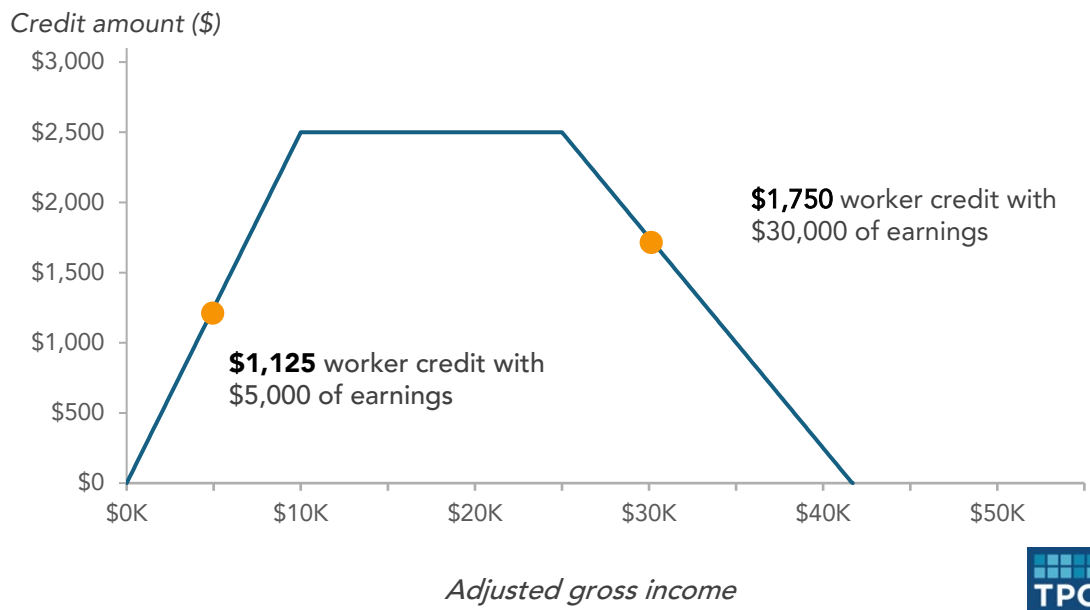
New Worker Credit

Under all options, beginning in 2026, low-income workers would be eligible for a new refundable per-worker credit of up to \$2,500 (up to \$5,000 for married workers filing a joint return). The credit would not vary based on the number of qualifying children. The credit would be calculated at 25 percent of the first \$10,000 of earned income per worker (the definition of earned income used to calculate the credit is unchanged from current law⁴⁴), resulting in a maximum credit of \$2,500 per worker.

When a worker’s earned income or AGI (whichever is greater) is more than \$25,000, the credit would begin to phase down by 15 cents for every dollar over this threshold (a 15 percent phase-out rate). Hence, for an unmarried worker, the credit would be zero when their earned income/AGI was \$41,667 or more (see figure A.1).

FIGURE A.1

Worker Credit Amount by Income for One Worker in 2026



Source: Author's calculations.

Notes: Assumes adjusted gross income equals earned income.

Married workers who file their returns jointly would calculate their credit like unmarried workers, but phase it out only on their own earned income. They would then combine each of their worker credits and phase the combined credit down again by their combined earned income or AGI (whichever is greater). For these couples, the combined credit would begin to phase down when income or AGI (whichever is greater) exceeded \$50,000, at a rate of 15 percent.⁴⁵

The maximum credit amount (\$2,500 per worker) and phase-out threshold (\$25,000 and \$50,000) would be annually adjusted for inflation beginning in 2027. Each worker would need to provide an SSN as they do under current law, but if a worker with an SSN was married to an individual without an SSN, the married couple would not become ineligible for any worker credit. Instead, only the worker with the SSN could calculate the credit based on their own earned income, subject to the two-part phase out for married couples. This would enable mixed-status couples to receive the worker benefit for the spouse who is authorized to work in the United States.

Workers would need to be 18 years old or older to be eligible for the credit and could not be claimed by another taxpayer as a dependent.⁴⁶ While workers younger than 18 will be left out of this benefit, many workers younger than 18 live with and are supported by higher-income parents. To alleviate the risk of these workers fraudulently claiming the credit, despite being claimed as dependent by their parents, the credit is limited to

those 18 years and older. This limitation lessens concerns about fraudulent claims while still making the credit widely available to low-income workers.

Stylized Example of New Worker Credit

Assume a married couple has \$40,000 of earned income. One spouse earns \$35,000 and the other earns \$5,000. They have no other sources of income, so their adjusted gross income equals their total earned income. Each spouse would first calculate their worker credit individually. The spouse who earned \$35,000 would be eligible for a worker credit of \$1,000 (their maximum \$2,500 credit would be reduced by \$1,500 or 15 percent of the difference between \$25,000 and \$35,000). The spouse who earned \$5,000 would be eligible for a credit of \$1,125.

Their combined credit would equal \$2,125 (\$1,125 plus \$1,000). Because their total earned income and AGI (\$40,000) is below the phase-out threshold for married couples (\$50,000) the credit would not be subject to the second phase-out.

Child Tax Credit

Under current law, taxpayers with eligible children who are younger than age 17 can reduce their tax liability using the child tax credit. Low-income taxpayers with little to no income tax liability may be eligible for a refundable credit based on their earned income.

For 2018 through 2025, the TCJA changed many of the parameters of the child credit, increasing the credit amount for many taxpayers. As a result of these changes, taxpayers are currently eligible for a credit that can reduce what they owe in income taxes by up to \$2,000 per child. For lower-income taxpayers with at least \$2,500 of earned income, their credit equals 15 percent of earned income above \$2,500 up to a maximum credit of \$1,700 per child in 2024.⁴⁷ For higher-income taxpayers, those with incomes over \$200,000 (\$400,000 if married filing jointly), the credit phases down at a rate of 5 percent. As a result of the TCJA changes, children claimed for the credit must have an SSN. In addition, taxpayers may claim a nonrefundable credit of up to \$500 for each dependent who does not qualify for the child tax credit, including those with ITINs, older children, and other non-child dependents (such as a disabled sibling). This \$500 credit is combined with any child tax credit the taxpayer may be eligible for and phased down with the child tax credit. The \$500 amount is not indexed for inflation.

Beginning in 2026, the child credit parameters are scheduled to revert to their pre-TCJA levels, with the maximum credit of \$1,000 per child, phasing in for low-income families with earned income over \$3,000 and phasing out for families with incomes over \$75,000 (\$110,000 if married filing jointly). The \$500 credit for other dependents is scheduled to expire at the end of 2025.

Under this proposal, the current child tax credit would be repealed and replaced with a child benefit beginning in 2026. Each option would also include a \$500 nonrefundable credit for dependents who are not eligible to be claimed for the new child benefit. Like current law, this credit for other dependents amount would

be added to the child benefit and phased out when a taxpayer's income exceeds \$200,000 (\$400,000 married filing jointly). Unlike current law, this \$500 amount would be annually adjusted for inflation beginning in 2027.

New Child Benefit Credit

Under this proposal, taxpayers with children would be eligible for a maximum child benefit credit that could reduce their owed income taxes by \$4,000 per child. Eligible children would include those younger than age 19, or younger than age 24 if enrolled in college full time. The age requirement would be waived if the child was disabled. These age limits reflect the current age limits for EITC qualifying children. The age eligibility rules for the child benefit were adopted from the existing rules for the EITC and personal exemption, helping to ensure that lower-income working families with older and disabled children receive comparable benefits under this proposal.

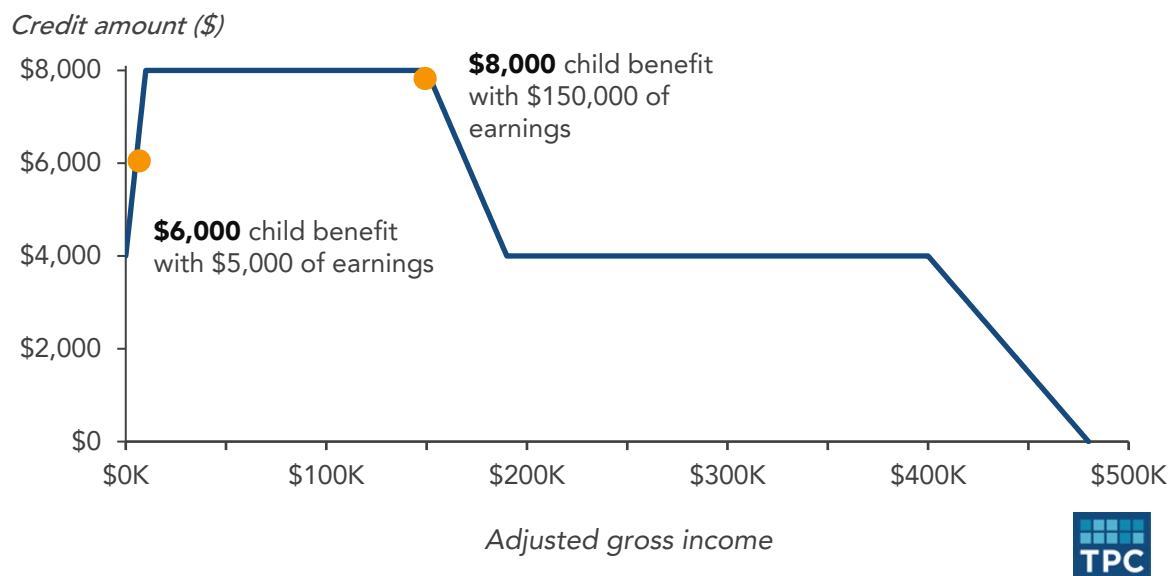
For higher-income families, the \$4,000 per child benefit would begin to phase down to \$2,000 per child at a 10 percent rate when the taxpayer's AGI was greater than \$75,000 for single filers, \$112,500 for head of household filers, and \$150,000 for married joint filers. The credit amount would then remain at \$2,000 per child until the taxpayers' AGI reached \$200,000 for single and head of household filers (\$400,000 for married joint filers). When their income exceeded these thresholds, their \$2,000 per child credit would phase down to zero at a rate of 5 percent.

Low- and moderate-income families who did not owe enough income taxes to receive the maximum credit would be eligible to receive part or all the benefit as a refundable credit. (Those with no income tax liability would thus receive all of the benefit in the form of this refundable credit.) The refundable credit would equal a minimum of \$2,000 per child, with the remainder of the benefit—\$2,000 per child—phased in with earned income. Specifically, the \$2,000 amount would phase in over the first \$10,000 of earned income, irrespective of the number of children the taxpayer claimed for the benefit.⁴⁸ (Earned income used for the credit phase in is defined the same as it is for the worker credit and the same as under current law—earned income plus net self-employment income.) Under this type of phase in, sometimes called a *ratable* or *proportional phase in*, the income level at which the benefit reaches its maximum level—\$10,000—would be unchanged by the number of children, implicitly increasing the phase-in rate per child as was recently proposed in bipartisan legislation in the 118th Congress.⁴⁹ The \$10,000 income range over which this credit would phase in would be unchanged with inflation, while the per-child credit amounts would increase annually, implicitly leading to faster phase in of the credit over time.

The maximum child benefit (\$4,000 per child), minimum benefit (\$2,000 per child), and phased-in benefit (\$2,000 per child) would be indexed for inflation beginning in 2027. In addition, the first threshold where the credit phases down (\$75,000 for single filers, \$112,500 for head of household filers, and \$150,000 for married joint filers) would be annually indexed for inflation beginning in 2027 (see figure A.2).

FIGURE A.2

Child Benefit Credit Amount by Income for a Married Couple with Two Children in 2026



Source: Author's calculations.

Notes: Assumes adjusted gross income equals earned income.

The eligibility rules for the new child benefit would be similar to the current child tax credit, with two main differences. First, children 17 and 18 years old who are still dependents, 19- to 23-year-olds who are full-time students, and those permanently disabled irrespective of their age, could be claimed for the benefit. Second, like permanent law (and unlike under the TCJA), children with individual taxpayer identification numbers could be claimed for the benefit. In addition, an 18-year-old who can be claimed by a taxpayer for the child benefit would be ineligible for the worker benefit.

Taxpayers could claim a \$500 nonrefundable credit for dependents ineligible for the child benefit. As under the TCJA, this benefit would be added to their child benefit credit and would phase down at a rate of 5 percent when their income exceeded \$200,000 (\$400,000 if married filing jointly). This \$500 credit amount would be adjusted for inflation beginning in 2027.

Stylized Example of New Child Benefit Credit

Assume a married couple has two credit-eligible children. The maximum credit they could receive would be \$8,000. The actual credit they receive would depend on their income.

Low-income families with \$5,000 of earned income (50 percent of the \$10,000 phase-in range), would receive a child benefit credit of \$6,000—the \$4,000 minimum amount available for taxpayers with two children plus \$2,000 of the phased-in benefit (50 percent of the phased-in maximum of \$4,000). Similarly, if they had

\$7,500 of earned income (75 percent of the phase-in range) they would receive the \$4,000 minimum plus \$3,000 (75 percent of the phased-in benefit) for a total credit of \$7,000. Once they reached \$10,000 of earned income, they would receive the maximum benefit of \$8,000. These families would receive a refundable credit; higher-income families who owe more than \$8,000 in income taxes would simply receive the new child benefit credit as a nonrefundable credit that reduces income tax liability, similar to how the current CTC is calculated under current law.

For higher-income married couples, the credit would phase down. When their adjusted gross income exceeded \$150,000, half of the total credit—the minimum benefit (\$4,000 in this example)—would begin to phase down to zero at a rate of 10 percent. Hence, with an income of \$190,000, the minimum benefit would be phased out completely and the household would be eligible for the remaining \$4,000 of the child benefit until their income reached \$400,000, at which point the remainder of the credit would phase down again. At \$480,000 of income, their child benefit would be zero.

All the 2026 tables and 2034 tables estimating the distributional and budgetary impact of extending the TCJA are available online; see [T24-0022](#) (2026 distribution by income level), [T24-0023](#) (2026 distribution income percentile), [T24-0026](#) (2034 distribution by income level), [T24-0027](#) (2034 distribution by income percentile), [T24-0028](#) (2026 win-lose by income level), [T24-0029](#) (2026 win-lose by income percentile), [T24-0032](#) (2034 win-lose by income level), and [T24-0033](#) (2034 win-lose by income percentile).

Tax Policy Center estimates of the revenue and distributional impact of the policy option analyzed in this report can be found in tables [T25-0026](#), [T25-0027](#), [T25-0028](#), [T25-0029](#), and [T25-0030](#).

NOTES

- ¹ The cost of extending TCJA provisions over the FY2026 to FY2035 budgetary window would equal an estimated \$4.4 trillion, excluding debt service costs. That amount is based on estimates published by the CBO in May 2024, see “Budgetary Outcomes Under Alternative Assumptions About Spending and Revenues.” Washington, DC. <https://www.cbo.gov/publication/60271>.
- ² According to data from [Table 3.3 of the IRS Statistics of Income](#), for the 2022 tax year, taxpayers claimed a total of \$60 billion in EITCs and \$35 billion in the refundable portions of the child tax credit.
- ³ The analysis by Garfinkel and colleagues (2022) was updated in 2024. See Irwin Garfinkel, Elizabeth Ananat, Sophie M. Collyer, Robert Paul Hartley, Buyi Wang, and Christopher Wimer, “[Update of the Benefits and Costs of a Child Allowance—April 2024](#),” New York: Center on Poverty and Social Policy, Columbia University.
- ⁴ For example, see Jason DeParle, “[The Tax Break for Children, Except the Ones Who Need It Most](#),” *The New York Times*, December 16, 2019.
- ⁵ For example, data provided by the IRS Statistics of Income (SOI) showed 128 million 2019 tax returns without dependent children, of which 7.6 million claimed the EITC for taxpayers with no credit-qualifying children, often referred to as the *childless EITC*. For 2019, the average childless EITC was just shy of \$300 per return (Crandall-Hollick, Airi, and Auxier 2024, table B3). For 2022, the IRS SOI data show that, of the \$60 billion in EITC received by low-income taxpayers, \$2.6 billion went to those without EITC-qualifying children. For more information, see [IRS SOI Tax Stats, Table 2.5](#).
- ⁶ Most research on the childless EITC has examined the impact of increasing the credit amount and expanding eligibility age, but there is little research on the impact of the current law credit. Analysis of a pilot program in New York City, *Paycheck Plus*, which is similar to the expanded childless EITC, showed that it modestly increased employment rates, with larger effects among women and more disadvantaged men. See Cynthia Miller, Lawrence Katz, Gilda Azurdia, Adam Isen, Caroline Schultz, and Kali Aloisi, “[Boosting the Earned Income Tax Credit for Singles](#),” New York: MDRC, 2018. More recently, Lee and colleagues (2024) found that the 2021 expanded childless EITC reduced housing hardship by 28 percent.
- ⁷ For example, see Margot Crandall-Hollick and Joseph Rosenberg, “[Unpacking the TCJA: Who Benefits and Who Loses from Extending Major Provisions](#),” Washington, DC: Urban-Brookings Tax Policy Center, December 19, 2024.
- ⁸ The Tax Relief for American Families and Workers Act of 2024 (H.R. 7024 in the 118th Congress), made four major temporary changes to the child tax credit, to remain in effect through the end of 2025. These include (1) phasing in the credit faster for low-income families, effectively multiplying the credit rate of 15 percent by the number of children; (2) increasing the maximum credit a low-income family could receive as a refund from \$1,600 to \$1,800 per child in 2023, from \$1,700 to \$1,900 per child in 2024, and to \$2,000 (adjusted for inflation) in 2025, essentially providing parity in the maximum amount that low- and higher-income families can receive; (3) for 2024 and 2025, allowing taxpayers to calculate the child tax credit using their prior-year earned income if it was more than their current-year earned income; and (4) increasing the \$2,000 per child amount available to moderate- and higher-income taxpayers to adjust for inflation in 2024 and 2025.
- ⁹ In general, unless specified otherwise, the Tax Policy Center modelled “extending the TCJA” based on the provisions that the Joint Committee on Taxation (JCT) included in its estimates for TCJA extension in the Congressional Budget Office’s May 2024 estimates. See Congressional Budget Office). 2024b. “Budgetary Outcomes Under Alternative Assumptions About Spending and Revenues.” Washington, DC. <https://www.cbo.gov/publication/60271>. These include (1) individual income tax rates of 10, 12, 22, 24, 32, 35, and 37 percent; (2) modifications to the child tax credit; (3) increase in the individual alternative minimum tax exemption and exemption phase-out thresholds; (4) increase in standard deduction; (5) modifications to itemized deductions; (6) repeal of deduction for personal exemptions; (7) 20 percent deduction for qualified business income; (8) repeal of deduction for moving expenses (other than members of the Armed Forces); (9) repeal of exclusion for employer-provided qualified moving expense reimbursements (other than members of the Armed Forces); (10) election to invest capital gains in an opportunity zone; (11) limitation on active business losses of noncorporate taxpayers; (12) doubling of estate tax exemption; (13) additional first-year depreciation with respect to qualified property; (14) rate on modified taxable income and treatment of credits in the calculation of base erosion minimum tax amount; (15) deduction percentages for foreign-derived intangible income and global intangible low-taxed income; and (16) deductibility of employer de minimis meals and related eating facility, and meals for the convenience of the employer. Also note that for 2026, some of the highest income taxpayers in the top quintile (the top 20 percent) are estimated to receive a one-time windfall from opportunity zone tax benefits. This is particularly

relevant for the top 0.1 percent of taxpayers, although the impact on the top 20 percent overall is comparatively small. In 2026, the top 20 percent are estimated to receive an average tax cut of \$7,940 while in 2027, they are estimated to receive an average tax cut of \$7,450, when adjusted for family size. For more information, see Howard Gleckman, [“Those Making \\$450,000 and Up Would Get Nearly Half the Benefit of Extending the TCJA,”](#) Washington, DC: Urban-Brookings Tax Policy Center, July 8, 2024 and Tax Policy Center Tables T24-0023 and T24-0025.

- ¹⁰ The 2021 expansion of the child tax credit enacted under the American Rescue Plan Act (ARPA) focused on increasing the credit amount for low- and moderate-income families and eliminated the work requirement—that is, the credit no longer phased in with earned income; instead, it was a fixed amount per child for all but the highest-income families, whose credit was subject to an income phase-out. This made the maximum credit accessible to families with the lowest incomes, who had previously been entirely ineligible for the credit or eligible for less than the maximum amount. In 2021, the expanded child tax credit was a major factor in cutting child poverty almost in half (Burns and Fox 2022). In early 2021, Senator Romney proposed the Family Security Act, which among other changes would have provided a fixed child benefit available to low and moderate income families (i.e., it would not have phased in with earnings). For more information on this proposal, see Erica York and Garrett Watson, [“Sen. Sen. Romney’s Child Tax Reform Proposal Aims to Expand the Social Safety Net and Simplify Tax Credits”](#) Tax Foundation, February 5, 2021.
- ¹¹ See the American Family Act in the 118th Congress, H.R. 3899.
- ¹² For example, see [“What Is the Future of the TCJA?”](#) Bloomberg Tax, December 9, 2024. The largest increases in after-tax income from the TCJA go to higher-income taxpayers. See Margot Crandall-Hollick and Joseph Rosenberg, [“Unpacking the TCJA: Who Benefits and Who Loses from Extending Major Provisions,”](#) Washington, DC: Urban-Brookings Tax Policy Center, December 19, 2024.
- ¹³ For reference, in 2023, a two-parent family with two children and income below \$30,900 was considered poor based on the federal poverty level, while a single parent with two children and income below \$24,549 was considered poor. Hence, a two-parent, two-child family with income below \$61,800 would be considered low income. See Shrider 2024, figure 9 and table B-1.
- ¹⁴ While both the official poverty measure and the supplemental poverty measure determine whether the members of a family are poor by assessing a family’s resources against a threshold, they use different measures of family, resources, and thresholds. Notably, when calculating a family’s resources, the supplemental poverty measure includes many government benefits (including refundable tax credits) and subtracts necessary work expenses, such as those for child care, transportation, and taxes. In comparison, the official poverty measure defines resources as income before taxes. For more information, see [“Measuring America: How the U.S. Census Bureau Measures Poverty,”](#) US Census Bureau, June 2022; and Joseph Dalaker, [“The Supplemental Poverty Measure: Its Core Concepts, Development, and Use,”](#) Washington, DC: Congressional Research Service, 2022.
- ¹⁵ See Shrider (2024, Figure 9).
- ¹⁶ In 2023, 31.3 percent of families with children had income under 200 percent of the federal poverty level, and 77.2 percent of families with children who were below 200 percent of the poverty level had at least one working adult. Using a different metric, the supplemental poverty measure, 45.8 percent of families with children had income below 200 percent of the poverty level and 86.0 percent of families with children who were below 200 percent of the poverty level had at least one working adult. Urban Institute analysis of the IPUMS 2024 Current Population Survey, IPUMS CPS: Version 12.0 [dataset], Minneapolis, MN: IPUMS, 2024, <https://doi.org/10.18128/D030.V12.0>.
- ¹⁷ See Martha Ross and Nicole Bateman, [“Low Unemployment Isn’t Worth Much If the Jobs Barely Pay,”](#) Washington, DC: Brookings Institution, January 8, 2020; and Kristin Butcher and Diane Whitmore Schazenbach, [“Most Workers in Low-Wage Labor Market Work Substantial Hours, in Volatile Jobs,”](#) Washington, DC: Center on Budget and Policy Priorities, 2018. See also [“Who Is the Low-Wage Workforce?”](#) WorkRise, October 2, 2023.
- ¹⁸ See also Emily Wiemers and Michael Carr, [“Earnings Instability and Mobility over Our Working Lives: Improving Short- and Long-Term Economic Well-Being for US Workers,”](#) Washington, DC: Washington Center for Equitable Growth, 2023.
- ¹⁹ In addition, child care costs have increased more rapidly than inflation. See [“Crisis in Childcare and the State of Work in America,”](#) KPGM, 2024; and Adam Grundy, [“Estimated Revenue for Child Day Care Services Climbed as Child Care Options Declined in 2021,”](#) US Census Bureau, January 9, 2024.
- ²⁰ For example, see the recent historical overview in [“Summary Findings Food Price Outlook, 2024 and 2025,”](#) US Department of Agriculture Economic Research Service, November 25, 2024.
- ²¹ President Bill Clinton stated that expanding the EITC would, “Reward the work of millions of working poor Americans by realizing the principle that if you work 40 hours a week and you’ve got a child in the house, you will no longer be in poverty.” [President Bill Clinton’s State of the Union Address](#), February 17, 1993. The EITC was expanded later that year

as part of the Omnibus Reconciliation Act of 1993 (OBRA; 93), the largest legislative expansion of the credit for most families with children in its history. For more information on the legislative history of the EITC, see Crandall-Hollick (2022b).

- ²² According to the IRS Statistics of Income (SOI) data for tax year 2022, taxpayers with AGI under \$50,000 received \$59.7 billion in EITC claims and \$42.7 billion from the child credit (both the nonrefundable portion that reduces any income taxes owed, and the refundable portion that the IRS refers to as the *additional child tax credit*). For taxpayers with AGI under \$25,000, these amounts were \$39.1 billion and \$14.3 billion, respectively. For more information, see [Table 3.3 of the IRS SOI](#).
- ²³ See Elaine Maag, “17 Million Children in Low-Income Families Will Not Receive the Full Child Tax Credit in 2025,” Washington, DC: Urban-Brookings Tax Policy Center, December 10, 2024.
- ²⁴ The ARPA made several additional changes to the child tax credit for 2021. These changes were layered on top of the changes made by the TCJA and included eliminating the phase-in of the credit for low-income taxpayers (i.e., making the credit “fully refundable”), so that eligible low-income families could receive the maximum amount of the credit; increasing the maximum credit amount to \$3,600 for children from birth to age 5 and to \$3,000 for children ages 6 to 17 (the increase in the credit over the \$2,000 per child amount—the additional \$1,600 and \$1,000 per child depending on age—was subject to a phase-out that began at \$112,500 for head of household filers and \$150,000 for married joint filers); expanding the eligibility age of children to include 17-year-olds; and delivering 50 percent of the credit in advance payments with the remaining 50 percent claimed on a 2021 tax return (filed in 2022).
- ²⁵ See Kiran Rachamallu, “[About 14 Million Low-Income Adults Not Raising Children at Home Would Benefit From Permanently Expanded EITC](#),” Center on Budget and Policy Priorities, September 19, 2024.
- ²⁶ The support test, found in the Internal Revenue Code Section 152(c), states that a qualifying child (for the dependent exemption and the child tax credit) must not have provided over half of their support for the year.
- ²⁷ For more information on the distributional effect of extending the expiring provisions of the TCJA, as estimated by the Tax Policy Center, see Tables T24-0022, T24-0023, T24-0024, T24-0025, T24-0026, and T24-0027.
- ²⁸ See Josh Hawley, “[‘Moral Imperative’: Hawley Makes His Case To Expand The Child Tax Credit & Support Working Families](#).”
- ²⁹ One reason the 2021 expanded child credit failed to be extended was that some policymakers were concerned it would discourage work. Put simply, these policymakers believed that providing families with a modest credit of \$3,000 to \$3,600 per child—less than \$10 per day per child—would cause many parents to choose to leave paid work. Almost all research conducted during the pandemic suggests that the credit had no impact on work during that period. However, the COVID-19 pandemic was a unique period, making it difficult to isolate the impact of one policy, such as the expanded child credit, on employment decisions, especially since many factors—including other policies like the availability of stimulus checks and the unwinding of expanded unemployment insurance—could have affected employment decisions (Ananat et al. 2024; Enriquez, Jones, and Tedeschi 2023; Pac and Berger 2024; Schanzenbach and Strain 2023). To understand the long-term impact of a permanent extension of the ARPA child credit, some researchers projected the impact into the future using microsimulation models. Nearly all these projections estimated a modest reduction in the number of parents in paid work, with around 300,000 to 400,000 people exiting the workforce (Wielk, Lautz, and Snyderman 2023). For context, there are about 168 million people in the US labor force. See the US Bureau of Labor Statistics, Employment Status of the Civilian Population by Sex and Age, Table A-1. When Congress was considering permanent reinstatement of the ARPA expanded childless EITC as part of reconciliation legislation originally referred to as Build Back Better, Senator Romney sent a letter to the Senate majority leader and Chairman of the Senate Finance committee stating, “Unfortunately, despite its original rollout as part of the ‘American Families Plan,’ the current draft of the reconciliation bill takes an existing marriage penalty in the Earned Income Tax Credit (EITC) and makes it significantly worse.” The letter was signed by 35 senators, including Senator Romney.
- ³⁰ See “[How Did the TCJA Change the Standard Deduction and Itemized Deductions](#),” TPC Briefing Book, Key Elements of the US Tax System, Individual Income Tax, Updated January 2024.
- ³¹ For more information see “[How Did the TCJA Change the AMT](#)” TPC Briefing Book, Key Elements of the US Tax System, AMT, Updated January 2024
- ³² Based on a simplified example where a single parent files as head of household with one dependent and \$15,000 in earned income, the parent would receive a \$1,000 child tax credit in 2017, all of which would have been received as the refundable additional child tax credit. In 2018, because of the changes made by the TCJA, that taxpayer would receive a child tax credit of \$1,400.
- ³³ This distributional estimates for extending the TCJA assume the following provisions of the law would be made permanent: individual income tax rates of 10, 12, 22, 24, 32, 35, and 37 percent; modifications to the child tax credit;

increase in the individual alternative minimum tax exemption and exemption phase-out thresholds; increase in standard deduction; modifications to itemized deductions; repeal of deduction for personal exemptions; 20 percent deduction for qualified business income; repeal of deduction for moving expenses (other than members of the Armed Forces); repeal of exclusion for employer-provided qualified moving expense reimbursements (other than members of the Armed Forces); election to invest capital gains in an opportunity zone; limitation on active business losses of noncorporate taxpayers; doubling of estate tax exemption; additional first-year depreciation with respect to qualified property; rate on modified taxable income and treatment of credits in the calculation of base erosion minimum tax amount; deduction percentages for foreign-derived intangible income and global intangible low-taxed income; and deductibility of employer de minimis meals and related eating facility, and meals for the convenience of the employer.

- ³⁴ Note that unlike the associated distribution tables, the win-lose analysis of extending the TCJA excludes certain provisions because of data limitations, including: repeal of exclusion for employer-provided qualified moving expense reimbursements (other than members of the Armed Forces); election to invest capital gains in an opportunity zone; and deductibility of employer de minimis meals and related eating facility, and meals for the convenience of the employer. It also excludes the pass-through portion of additional first-year depreciation with respect to qualified property.
- ³⁵ According to its FY2024 Annual Financial Report, “The IRS estimates that for FY 2024, 27.3 percent (\$15.9 billion) of the total EITC payments of \$58.4 billion were improper. For the [additional] CTC, the IRS estimates that for FY 2024, 10.7 percent (\$3.4 billion) of the total payments of \$32.1 billion were improper.” US Department of the Treasury, [Agency Financial Report](#), Washington, DC: Department of the Treasury, 2024 (47).
- ³⁶ See appendix Table A3 in IRS, “[Compliance Estimates for the Earned Income Tax Credit Claimed on 2006–2008 Returns](#),” Research, Analysis & Statistics Report Publication 5162, Washington, DC: IRS, 2014.
- ³⁷ For those individuals without children who are not working, the phase-in region of the EITC and the worker credit increases after-tax income from work, which encourages workers to work more (the “substitution effect”).
- ³⁸ Like the worker credit, the phased-in portion of the child benefit increases in value over \$10,000 of earnings, meaning a worker with one child will receive an additional 45 cents for every dollar of earned income in the phase-in range (compared with 49 cents under the combined CTC and EITC). A worker with two children will receive 65 cents on every dollar they earn in the phase-in range (compared with 55 cents under the combined EITC and CTC).
- ³⁹ Prior research on the EITC, for example, suggests that certain secondary earners in a married couple whose income pushes them into the phase-out region of the credit may modestly reduce hours worked (no similar effect was found for unmarried mothers with low incomes). Newer research also indicates that married women have become less responsive to these types of changes over time as more of them enter the labor force, which could lessen this effect.
- ⁴⁰ Indeed, Bastian (2023) estimated the employment impact of a benefit like option 1 (see Panel C with a \$2,000/\$2,000 split between a minimum and the phased-in portion) and found a net employment increase of 51,000 to start working. He wrote “Panel C, Column 3 shows that \$2,000 for everyone and another \$2,000 that phase in would have a net positive employment effect. This outcome follows from the fact that substitution effect elasticities are larger than income effect elasticities (i.e., guaranteeing benefits to families has a relatively small impact on employment, whereas the phase-in benefits have a relatively large impact)” (Bastian 2023, 27). Edelberg and Kearney (2023) found that when they split the ARPA credit equally between a minimum and phased-in credit, it also had a net positive effect on employment.
- ⁴¹ According to [IRS Revenue Procedure 16-55](#), the personal exemption equaled \$4,050 per person for 2017. In 2018, prior to the TCJA, this amount would have been \$4,150 per person. See [IRS Revenue Procedure 2017-58](#). In 2024, if the personal exemption had not been reduced to zero, it would have equaled \$5,000 per person, according to IRS Revenue Procedure 2023-34 (another provision in the tax code found in Internal Revenue Code section 6334(d) is linked to the pre-TCJA personal exemption amount and annually adjusted for inflation, providing an indication of what the personal exemption would have been, absent the changes in the TCJA).
- ⁴² A child must meet various requirements to qualify for the EITC credit: the child must be related to the taxpayer claiming them, must live with the taxpayer for more than half the year in the United States, and must be younger than age 19 (or age 24, if a full-time student) or be permanently and totally disabled. For more information, see Internal Revenue Code Section 32(c)(3). Because of these rules, workers who support a child who does not live with them for more than half the year, such as a noncustodial parent, cannot claim the child for the credit.
- ⁴³ One study found that, among nondisabled adults of working age who did not live with dependent children, about 40 percent are parents and 5 percent are noncustodial parents to children younger than age 21 (Bauer, Hardy, and Howard 2024).
- ⁴⁴ Hence, self-employed workers would be eligible for the credit, with their self-employment income (minus the Self-Employed Contributions Act tax deduction) considered earned income in the credit calculation.

- ⁴⁵ For example, if one spouse earned \$20,000 and the other earned \$25,000, each spouse would be eligible for a \$2,500 credit or a combined credit of \$5,000. Since their combined income was below the phase-out for married couples (\$50,000), they would receive a total credit of \$50,000. Conversely, if one spouse earned \$20,000 and the other earned \$100,000, they would not qualify for the credit.
- ⁴⁶ While the worker credit would not be available to workers who could be claimed as dependents by another taxpayer, it may be difficult for the IRS to determine whether a younger worker could be claimed by another taxpayer as a dependent; younger taxpayers do not need to prove that they are not supported by another individual when they file their taxes. Limiting eligibility to 18-year-olds helps reduce the chance of fraudulent worker credit claims by 16- and 17-year-old dependent children who earn a small amount of money at a job but otherwise live in and are supported by a higher income family.
- ⁴⁷ Internal Revenue Service, Revenue Procedure 2023-34, November 2023, https://www.irs.gov/irb/2023-48_IRB#REV-PROC-2023-34.
- ⁴⁸ In cases where a taxpayer did not owe enough to receive the maximum child benefit credit of \$4,000 per child and had less than \$10,000 in earned income, the credit would be calculated in a similar manner to that of the child tax credit under current law, by first calculating the nonrefundable portion, then adding in any refundable portion, with the total not to exceed \$4,000 per child multiplied by the number of eligible children. For example, if a taxpayer had one qualifying child, owed \$1,000 in income taxes, but had no earned income (and his or her income was below the level where the credit begins to phase out), the taxpayer would be eligible for a \$3,000 child benefit credit—\$1,000 as a nonrefundable credit plus the \$2,000 minimum benefit.
- ⁴⁹ The Tax Relief for American Families and Workers Act of 2024 (H.R. 7024 in the 118th Congress), made four major temporary changes to the child tax credit, to remain in effect through the end of 2025. These include (1) phasing in the credit faster for low-income families, effectively multiplying the credit rate of 15 percent by the number of children; (2) increasing the maximum credit a low-income family could receive as a refund from \$1,600 to \$1,800 per child in 2023, from \$1,700 to \$1,900 per child in 2024, and to \$2,000 (adjusted for inflation) in 2025, essentially providing parity in the maximum amount that low- and higher-income families can receive; (3) for 2024 and 2025, allowing taxpayers to calculate the child tax credit using their prior-year earned income if it was more than their current-year earned income; and (4) increasing the \$2,000 per child amount available to moderate- and higher-income taxpayers to adjust for inflation in 2024 and 2025.

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ABOUT THE AUTHORS

Margot Crandall-Hollick is a principal research associate in the Urban-Brookings Tax Policy Center. Her research focuses on tax policies that affect low-income individuals and families, including refundable tax credits such as the earned income tax credit and the child tax credit. It also examines the administration of these programs, both for taxpayers and for the Internal Revenue Service. Before joining the Tax Policy Center, she spent 16 years working on Capitol Hill advising policymakers, most recently at the Congressional Research Service and before that for Senator Christopher J. Dodd. Crandall-Hollick holds a BA in mathematics from Smith College and an MSc in international political economy from the London School of Economics.



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