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THE ONE BIG BEAUTIFUL BILL ACT (OBBBA) SHIFTS TAX BENEFITS FOR CHILDREN TOWARD MIDDLE- AND HIGH-INCOME FAMILIES

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The One Big Beautiful Bill Act (OBBBA) increased tax benefits for families with children by expanding the child tax credit (CTC) and making other changes to smaller programs, such as tax benefits for child care and the adoption tax credit. It also created tax-advantaged savings accounts for children called "Trump accounts."

These new benefits will flow primarily toward children in middle- and high-income families. This is despite research that shows investing in children with low incomes is more effective way to reduce child poverty, improve children's health, and allow families to invest in their children's futures (Ananat and Garfinkel 2024; Maag et al. 2023; NASEM 2019).

Policymakers could increase investments for low-income families with children through the tax system by expanding the earned income tax credit (EITC)—a credit targeted to low-income working families with children (Hoynes and Patel 2018). They could also increase the CTC by phasing it in faster, lifting limitations on how much can be received as a tax refund, or reducing the earnings needed to access the credit.[1]

TAX BENEFITS ARE THE LARGEST CATEGORY OF FEDERAL SPENDING ON CHILDREN

In fiscal year (FY) 2023, the federal government invested almost $700 billion in families with children. About 30 percent of its investment was delivered through the income tax system—the largest category of federal spending on children (Hahn et al. 2024).

Three provisions make up 95 percent of the government's tax benefits for families with children: the CTC (54 percent), the EITC (27 percent), and the employer-sponsored health insurance (ESI) tax exclusion (14 percent). Other tax provisions, such as those for child care and the share of the Affordable Care Act's premium tax credits that go to children, make up a small share of the tax benefits for children.

The federal tax system's investments in children benefit families at almost all income levels. Still, the Tax Policy Center estimates families with incomes in the middle of the income distribution receive the highest average benefits from the CTC (Tax Policy Center 2025). By contrast, other federal spending on children through the Supplemental Nutrition Assistance Program (SNAP) and Medicaid primarily benefit families with low incomes (Hahn et al. 2024)

MIDDLE- AND HIGH-INCOME FAMILIES WILL BENEFIT THE MOST FROM OBBBA'S EXPANSION OF THE CTC AND OTHER TAX BENEFITS

OBBBA's largest change to tax benefits for families with children—in terms of federal spending and number of children affected—was to the CTC. OBBBA increases the maximum CTC to $2,200 per child under age 17 in 2025. Prior to OBBBA, families could receive up to $2,000 per child under age 17 in 2025, and the credit was scheduled to drop to $1,000 in 2026. The new, higher maximum is permanent and is designed to grow with inflation beginning in 2026. As before, if the credit exceeds what a family owes in income taxes, they can receive up to $1,700 per child of the balance as a refund. This amount will continue to be indexed for inflation.

[1] Maag, Elaine. 2025. Congress Could Expand The Child Tax Credit For Low- And Middle-Income Families.

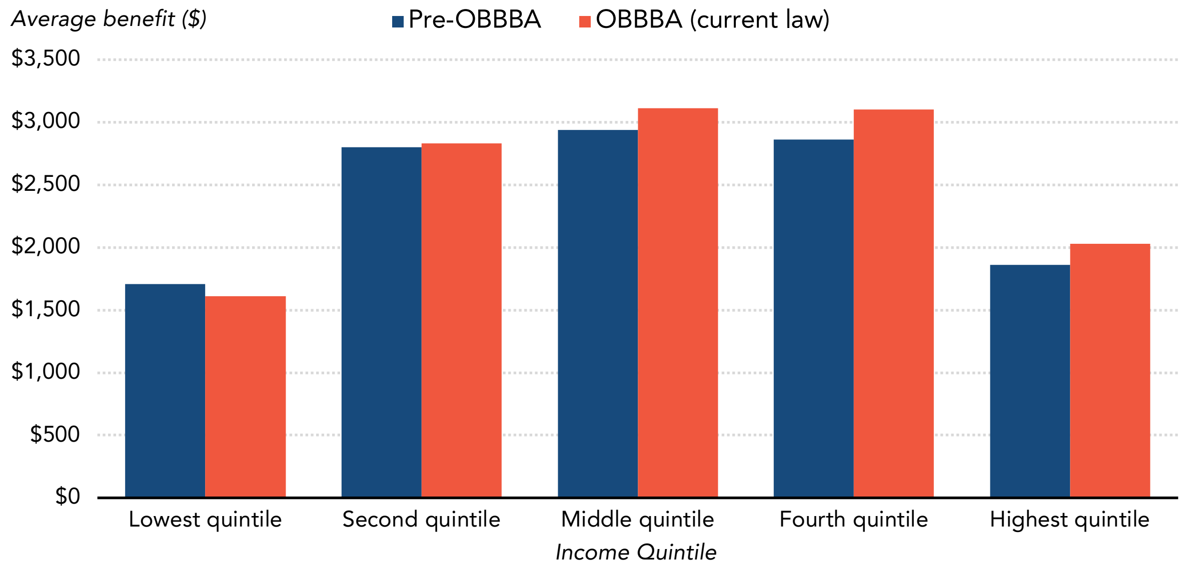
The OBBBA limited CTC eligibility for parents without a social security number (SSN). Starting in 2025, adults claiming the CTC must have an SSN. Among married couples filing joint returns, only one spouse must have an SSN. All children claimed must have an SSN (a temporary requirement that OBBBA made permanent). The new rules mean that up to 2 million children with SSNs will no longer benefit from the CTC because their parent lacks an SSN.[2]

Together, these changes to the CTC increased average benefits for families with middle- and high-incomes by about $200 and decreased average benefits for families in the bottom 20 percent of the income distribution by about $100 (figure 1).

FIGURE 1

OBBBA Decreased Average CTC Benefits for Families with the Lowest Incomes by $100

Average CTC benefit among families with children before and after OBBBA, by expanded cash income quintile, 2025



Source: Tax Policy Center Tables T25-0090 and T25-0253.
Note: CTC=child tax credit; OBBBA = One Big Beautiful Bill Act.

An estimated 19 million eligible children (30 percent of all eligible children) live in families that will continue to receive less than the maximum CTC because their parents do not earn enough.

Compared with OBBBA's changes to the CTC, changes to other tax benefits for families—including child care tax benefits, the adoption tax credit, and a temporary pilot program seeding tax-advantaged "Trump accounts" with $1,000 for children born from 2025 through 2028—will affect significantly fewer families. As with the CTC changes, these changes will mostly benefit families with middle and high incomes.

For example, OBBBA's expansion of child care tax benefits will primarily flow to middle- and upper-income earners.[3] Beginning in 2026, workers will be able to use a larger share of their child care expenses to offset taxes. OBBBA also increased how much workers can set aside on a pre-tax basis in dependent care assistance plans. Beginning in 2025, families can receive up to $5,000 per adoption of the adoption tax credit—slightly more than a quarter of the maximum credit amount—beyond income taxes owed.

Trump accounts—savings accounts for children that grow tax-free like individual retirement accounts—and a temporary program allowing the federal government to make deposits in these accounts for infants—represent a small increase in federal spending on children (JCT 2025). Under the temporary pilot program, the federal government can deposit

[2] Maag, Elaine. 2025. Child Tax Credit Changes Boost And Stabilize Benefits For Some; Still Exclude Lowest-Income Families.

[3] Crandall-Hollick, Margot. 2025. TPC Estimates Confirm The Expanded Child Care Credit Continues To Leave Out Low-Income Families.

$1,000 per infant born between 2025 through 2028 into these accounts. Children will generally not be able to access money saved in a Trump account until age 18 (Rosin and Wessel 2025).

In addition, OBBBA extended marginal tax rates originally enacted by the Tax Cuts and Jobs Act, which will have indirect effects on some tax benefits for children. For example, these reduced rates will lower the value of the benefit of excluding ESI from income. Every dollar of ESI excluded from income would reduce the income taxes of higher-income households by up to 37 cents (compared with 39.6 cents if the Tax Cuts and Jobs Act had expired as scheduled).

THOUGH OBBBA INCREASES TAX FOR CHILDREN, SPENDING ON CHILDREN THROUGH THE TAX CODE IS STILL PROJECTED TO DECLINE OVER TIME RELATIVE TO THE SIZE OF THE ECONOMY

We evaluate how OBBBA changes spending on the three major tax programs that benefit children: the CTC, the EITC, and the exclusion of ESI.[4] We estimate total tax spending on children from these programs will increase from $237 billion to $271 billion, or about $34 billion in FY2034. The CTC expansion drives this change.

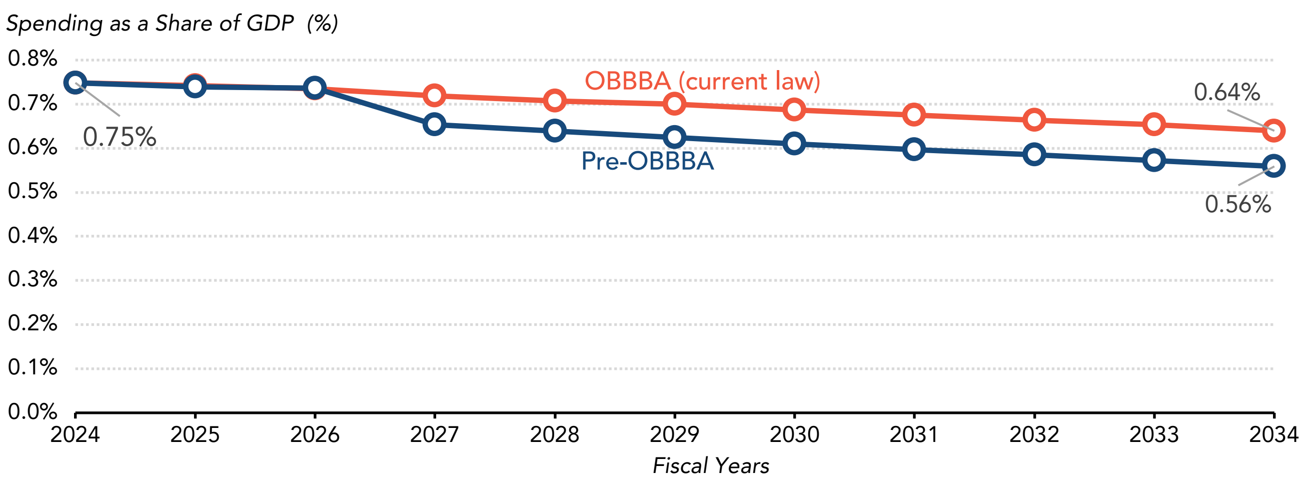
OBBBA changes to other child tax benefits—child care, adoption, and Trump accounts—are expected to increase spending on children by a relatively small amount. Spending will increase by about $8 billion in FY 2026 when the largest costs of the Trump account pilot program are realized, and by more than $2 billion in FY 2034, mostly from changes to child care tax benefits.

Looking at spending on children relative to the size of the economy adjusts nominal spending amounts both for rising prices and a growing economy, which provides a better understanding of what share of the economic pie is going to children. As a share of GDP, we estimate that spending on the three largest tax benefits for children will be about 0.64 percent of GDP in FY 2034. That's 14 percent higher than the level projected prior to the passage of OBBBA (0.56 percent) in FY2034 (figure 2).

FIGURE 2

Spending on the Largest Tax Benefits for **Children** Will Increase Under OBBBA, but Is Still Projected to Decline Relative to the Size of the Economy Over Time

CTC, EITC, and exclusion of ESI as a share of GDP, FY2024–34



Source: Author calculations based on unpublished estimates from the Tax Policy Center and Congressional Budget Office, "January 2025 Baseline Economic Projections that Supplement CBO's January 2025 report: The Budget and Economic Outlook: 2025 to 2035." (Washington DC: Congressional Budget Office, 2025).
Note: The OBBBA values include the value of the child tax credit, earned income tax credit, and exclusion for employer-sponsored insurance for children under 19 years old. The pre-OBBBA values include these benefits, plus the revenue loss associated with the personal exemption for dependents under 19 years old.

[4] The changes also include the impact of the permanent repeal of the personal exemption for dependents which has been in effect since 2018.

As a share of the economy, spending on children was set to decline before OBBBA became law (blue line in figure 2). Before OBBBA, spending on the CTC, the EITC, and the exclusion of ESI as share of GDP was expected to fall by 25 percent between FY 2024 and FY 2034. Now, under OBBBA, it is projected to fall by about 15 percent between FY 2024 and FY 2034 (orange line in figure 2).

In other words, OBBBA increases spending on children through the tax code, but not enough for it to keep up with the growing economy.

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