The Child Tax Credit: Recent Developments and Missed Opportunities

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Family Tax Credits Help Children Thrive

Refundable tax credits like the EITC and Child Tax Credit (CTC) are associated with:

• Improved infant and maternal health
• Better school performance
• Increased college enrollment
• Increased earnings in the next generation
Refundable Tax Credit Eligibility Rules

- Work Requirement/Earnings Threshold: CTC threshold is $2,500
- Residency Test: Must live with the child more than 6 months
- Relationship Test: Must be parent, grandparent, aunt/uncle, sibling
- Others (age, SSNs, etc.)
Problems Under Current Rules

• Many households are excluded from refundable tax credits due to eligibility rules:
  • Removing the earnings test would make 5.9 million additional children eligible for the CTC*
  • Removing the relationship test would make 2 million additional children eligible for the CTC*
• Complex rules lead to mistakes, penalties, and up to 10-year bans
• The relationship and residency requirements make the credits difficult for the IRS to administer

*Jacob Goldin & Katherine Michelmore, Who Benefits from the Child Tax Credit?, 75 Nat’l Tax J. 123 (2022)
CTC in the American Rescue Plan Act

For 2021, ARPA temporarily:

• Expanded the CTC to $3,000 per child ($3,600 for children under 6)
• Extended the CTC to nonworking families
• Allowed advance monthly payments during 2021
• Increased the age limit to include children up to age 17
CTC in Build Back Better Act

BBBA would have (among other things):

- Permanently extended the CTC to nonworking families
- Eliminated SSN requirement

Sept. 2021 draft proposed a “specified child” standard, which would have:

- Replaced the annual residency test with a monthly test
- Replaced the relationship test with a “care test”
Alternative Child Benefit Program Designs

- Romney’s Family Security Plan:
  - Larger benefit for children under 6
  - Would cut other benefits (TANF, children’s portion of EITC, CDCTC)
  - Would repeal the SALT deduction
  - Includes a work requirement

- European-style child allowance:
  - Available to all children
  - Often not administered as a tax credit
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The Challenge of Improving Child-Claiming Rules

• Family complexity: Family structures in the U.S. are diverse and growing more so over time.

• Goal complexity: Rules should be easy to understand, inclusive, channel benefits to the correct adult, protect the work requirement, protect the means-test...

• Design choices raise inevitable policy trade-offs.

Other Challenges and Considerations

• Bright-line rules (e.g. the relationship test) or holistic standards (e.g. care-based standard)?
• Tax administration (i.e. IRS) or non-tax administration (e.g. SSA, state agencies)?
• Expand (e.g. BBBA) or replace (e.g. Family Security Plan)?