

The Child Tax Credit: Recent Developments and Missed Opportunities

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Family Tax Credits Help Children Thrive

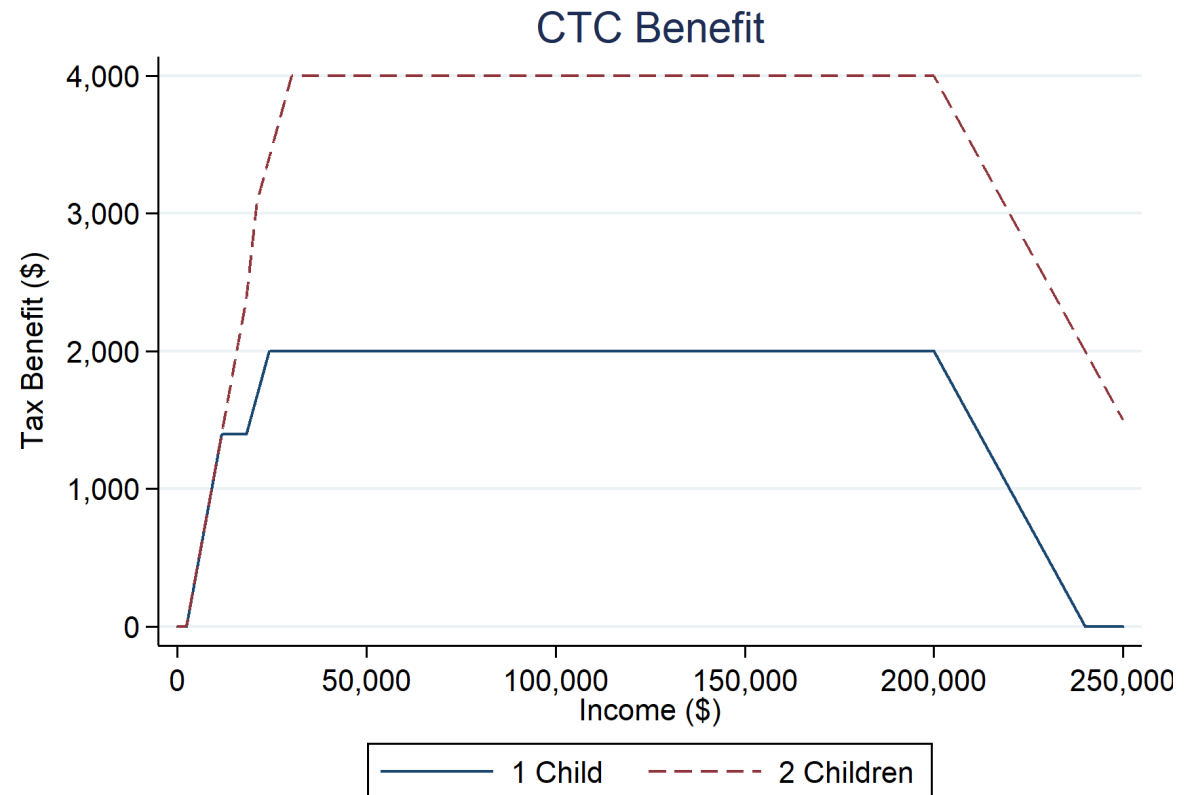
Refundable tax credits like the EITC and Child Tax Credit (CTC) are associated with:

- 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”



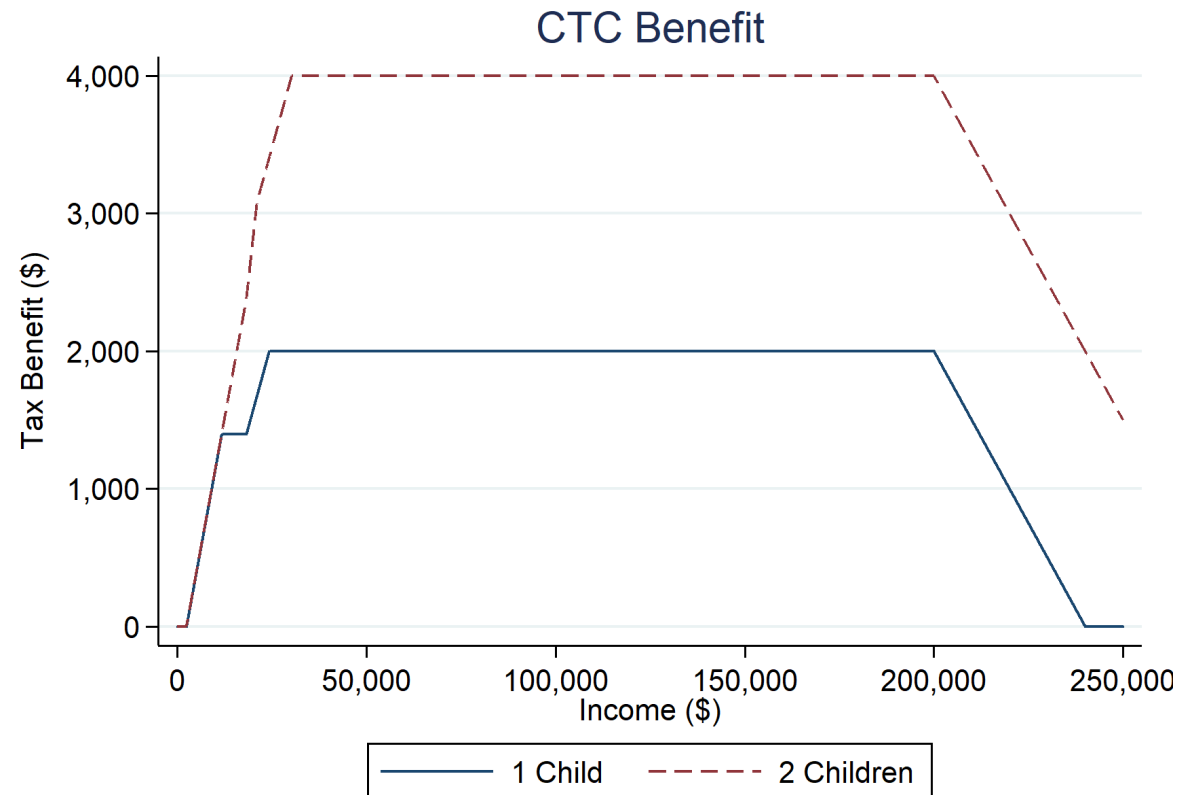
Alternative Child Benefit Program Designs

- 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.
- For more discussion and specific policies, see Jacob Goldin & Ariel Jurow Kleiman, [*Whose Child? Improving Child-Claiming Rules in Safety-Net Programs*](#), 131 YALE L.J. 1719 (2022).

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)?

