A Reference Manual for Child Tax Benefits

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A Reference Manual for Child Tax Benefits

The individual income tax contains a number of provisions that adjust tax burdens or provide direct subsidies for the presence of children. Three types of arguments are made for these provisions. The oldest is that taxpayers should be taxed on ability to pay, and, therefore, it is appropriate to adjust for family size or for certain child care expenses. At any income level, for instance, a family of four has only half the per capita income of a family of two and, in a progressive tax system, at least some lower ability to pay. A second justification is simply to support children and their families, often in ways similar to welfare. Finally, some tax provisions attempt to encourage certain types of behavior; for instance, the earned income tax credit (EITC) was adopted partly as an incentive to work and an alternative to welfare.

When direct spending and tax provisions for children are counted together, the tax provisions account for a substantial share of the total and a very large portion of any new growth. Work by Isaacs and colleagues (2010) finds that in fiscal year 2009, tax credits and tax expenditures accounted for $132 billion of assistance to families with children. This number includes several significant recent changes in tax programs, such as the doubling of the child tax credit from $500 to $1,000 through legislation beginning in 2001. Along with other 2001 and 2003 tax cuts, this provision is not yet permanent.

Though sometimes considered universal, few child tax benefits truly extend to all children. What is more, confusion abounds. Low-, middle-, and high-income families qualify for different benefits. While some benefits are awarded equally per child, others decline in value for each successive child, and some are available only for a limited number of children in each family. In fact, although low-income families receive higher subsidies than higher-income families for their first and second children, the inverse is true for the third and fourth children (Mumford 2010). Some child-related activities (including child care and college attendance) receive specific subsidies, while others (such as after-school activities) do not.

To further complicate matters, the definition of a child is inconsistent among various tax subsidies. It varies by age, residency, citizenship status, and whether the taxpayer provides support for the child. Many of these provisions were enacted piecemeal, with different budget constraints contributing to the qualifications for eligibility.

Although the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and subsequent legislation greatly expanded some child-related benefits, they were set to revert to their pre-2001 levels at the close of 2010 until legislation would determine which of these provisions would be made permanent. A compromise at the end of 2010 between the president and Republicans in Congress extends these benefits through 2012.

This paper first describes the child-related tax provisions in 2011 law and some of the scheduled changes in those provisions. We group the provisions into two categories: those that are usually the same per child, and those that are designed to encourage a particular activity, such as work, in households with children. These categories are not mutually exclusive but simply provide a convenient classification system. We also describe some proposals put forth by legislators and academics for reforming various child-related provisions. Of course, in 2011 the federal government is spending more than 50 percent more than it is collecting in taxes, leading

to budget pressures on all areas of spending, taxes, and tax subsidies and making the future of the entire tax code fairly uncertain. Table 1 summarizes the child-related provisions in the tax code.

Table 1. Tax Credits for Families with Children under 2011 Tax Law

	Dependent exemption	Child tax credit (CTC)	Earned income tax credit (EITC)	Child and dependent care tax credit (CDCTC)	Lifetime learning credit (LLC)a	American opportunity tax credit (AOTC)[a]
Credit Information						
2011 value	$3,700 exemption times marginal tax rate (between 0 and 35 percent) per qualifying child	$1,000 per qualifying child	Maximum credit: • $3,094: 1 child • $5,112: 2 children • $5,751: 3 children (increase of $2,630 for families with one child from credit for childless families)	20–35% of up to $3,000 in child care expenses, (per child), depending on household AGI. Maximum credit: $2,100.	20% of tuition and fees for any postsecondary education; maximum of $2,000 for the household	Up to $2,500 spent on tuition, fees, and course materials per student in their first four years of postsecondary education
Is the credit refundable?	No	Additional refund available (up to 15% of earnings over $3,000)	Yes	No	No	Up to 40% ($1,000) refundable
Total tax expenditure in 2011[b]	$29,636 (0.19% GDP)c	$48,340 (0.31% GDP)	$57,650 (0.37% GDP)	$2,200 (0.01% GDP)	$3,360 (0.02% GDP)	$11,380 (0.07% GDP)
Total tax expenditure in 2015[b]	$20,688 (0.11% GDP)[c]	$11,370 (0.06% GDP)	$53,470 (0.28% GDP)	$1,650 (0.01% GDP)	$5,510 (0.03% GDP)	n/a
How is it indexed over time?	Indexed for inflation	Credit is not indexed; threshold for refundable credit is indexed	Qualifying income levels and credit amount are indexed for inflation	Allowable expenses are not indexed for inflation	Allowable expenses are not indexed for inflation	Allowable expenses are not indexed for inflation
Eligibility Information						
Child age limit	Under 19 at the end of the tax year (under 24 if full time student for part of at least 5 months)	Under 17 at the end of the tax year	Under 19 at the end of the tax year (under 24 if full-time student for part of at least 5 months)	Under 13 when care was provided	Must be taxpayer's dependent (under 24 at the end of the tax year)	Must be taxpayer's dependent (under 24 at the end of the tax year)
Relationship test	Taxpayer's child, stepchild, foster child, sibling or stepsibling, or a descendant of one of these	Taxpayer's child, stepchild, foster child, sibling or stepsibling, or a descendant of one of these	Taxpayer's child, stepchild, foster child, sibling or stepsibling, or a descendant of one of these	Taxpayer's child, stepchild, foster child, sibling or stepsibling, or a descendant of one of these	Taxpayer's child, stepchild, foster child, sibling or stepsibling, or a descendant of one of these	Taxpayer's child, stepchild, foster child, sibling or stepsibling, or a descendant of one of these
Residence test	Same principal residence as taxpayer for at least 6 months (except children of divorced parents and/or kidnapped children)	Same principal residence as taxpayer for at least 6 months (except children of divorced parents and/or kidnapped children)	Same principal residence as taxpayer in the United States for more than 6 months (unless parent is on active military duty)	Same principal residence as taxpayer for at least 6 months	Same principal residence as taxpayer for at least 6 months (except children of divorced parents and/or kidnapped children)	Same principal residence as taxpayer for at least 6 months (except children of divorced parents and/or kidnapped children)

Support test	Child must not provide more than half of his/her own support	Child must not provide more than half of his/her own support	None	Child must not provide more than half of his/her own support	Child must not provide more than half of his/her own support	Child must not provide more than half of his/her own support
Does the child have to be a U.S. citizen/ national/resident?	No; can also be a resident of Canada or Mexico	Yes	No, but parent and child must hold valid Social Security Number	No	No; can also be a resident of Canada or Mexico	No; can also be a resident of Canada or Mexico
Is the credit available to taxpayers who are dependents?	No	Yes	No	No	No	No
Income threshold	None; not available to AMT filers	• Joint return AGI up to $110,000 • Single/HoH return AGI up to $75,000 (5% phaseout for each $1,000 earned above the threshold)	AGI (or earned income) below • $36,052 with 1 child • $40,964 with 2 children • $43,998 with 3 children ($5,080 higher in each category for joint filers) Investment income less than $3,100	None, but credit level varies with income: • AGI < $15,000: 35% credit • Credit decreases 1% for every $2,000 additional AGI • AGI higher than $43,000: 20% credit	Households with eligible expenses up to AGI of $61,000 ($122,000 joint return); phased out for AGI between $51,000 and $61,000 ($102,000–$122,000 joint return)	Households with eligible expenses up to AGI of $90,000 ($180,000 joint return); phased out for AGI between $80,000 and $90,000 ($160,000–$180,000 joint return)
Gross income test	Qualifying relative's gross income cannot exceed $3,700	None – only qualifying children are eligible	None	None	Qualifying relative's gross income cannot exceed $3,700	Qualifying relative's gross income cannot exceed $3,700
Additional requirements	None	None	Must work and earn income	Must have qualifying child care expenses (up to $6,000)	Must have qualifying tuition and related expenses at an eligible educational institution	Must have qualifying tuition and related expenses at an eligible educational institution

Sources: Internal Revenue Service, "A 'Qualifying Child,'" FS-2005-7, http://www.irs.gov/newsroom/article/0,id=133298,00.html; "Publication 970 (2009), Tax Benefits for Education," http://www.irs.gov/publications/p970/index.html; and "Publication 501: Main Content," http://www.irs.gov/publications/p501/ar02.html.

a. Education credits may also be claimed by the student directly if he or she is not a dependent. In this table, we assume the student can be claimed as someone else's dependent. In 2011, the Hope credit was replaced with the American opportunity tax credit.

b. Taken from *Budget of the United States, FY 2011 Analytical Perspectives*. Numbers in millions of dollars.

c. For children age 0–18. Estimates were produced by the Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-7). Revenue estimates include a microdynamic behavioral response. Estimates assume an elasticity of taxable income with respect to (1 - marginal rate) of 0.25. Current policy makes the 2001 and 2003 individual income tax cuts permanent and extends the 2009 AMT patch. It also indexes the AMT exemption, rate bracket threshold, and phaseout exemption threshold for inflation. Fiscal-year revenue numbers assume a 75-25 split. The actual effect on receipts could differ. Baseline is current law; proposal is current law without dependent exemptions. In the proposal, only exemptions for dependents are eliminated; taxpayer exemptions and exemptions for spouse, wherever applicable, can be availed of.

Significant Provisions Affecting Families with Children: Per Child Benefits

Some child tax benefits base eligibility purely on the number of qualifying children in a family. In most cases, each additional child accrues the same benefit. The largest of these benefits are the dependent exemption and the child tax credit (CTC). In the case of the dependent exemption, a set amount of income per child is exempted from taxation; in the case of the CTC, families receive a $1,000 credit for each child. As will be explained in more detail, some families may not receive the full exemption or credit to which they are entitled because they either do not have enough income to take full advantage of the exemption or credit or have too much income and are subject to benefit phaseouts.

Dependent Exemption

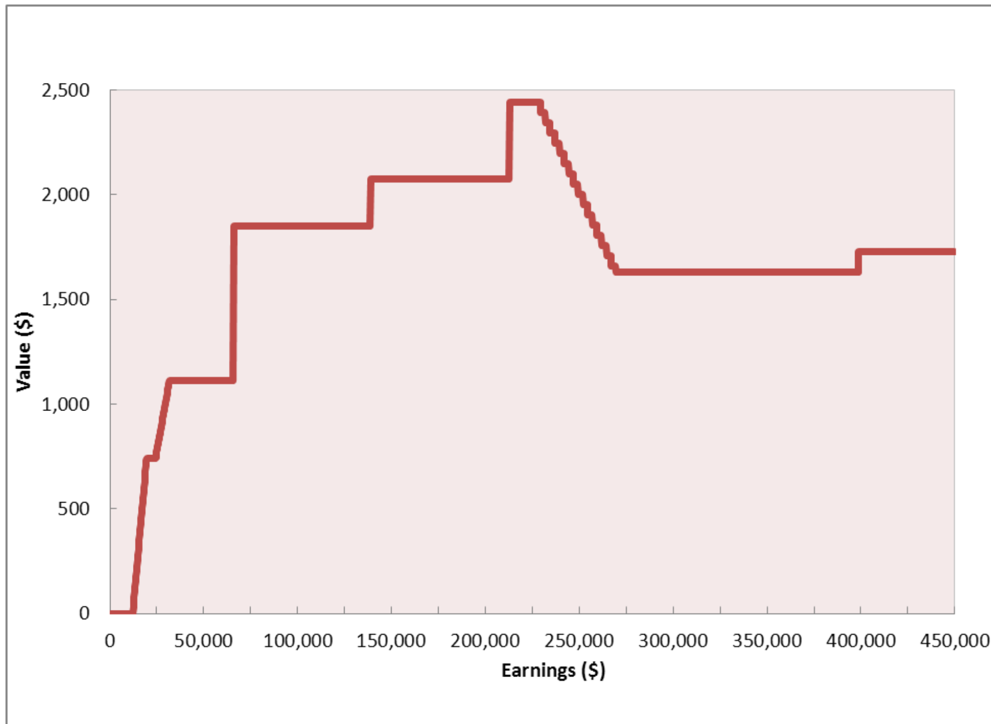
In 2011, families could exempt $3,700 of income from taxation for each child under age 19 or under age 24 and a full-time student for part of at least five months of the year. Beyond passing the age test, children must also pass relationship, residency, and support tests (table 1). Families may claim qualifying children or relatives as dependents. If a child is older than 18 and is not a student, he or she may qualify as a relative instead of a child if he or she meets age residency and support tests that are the same as those for a qualifying child, along with a gross income test.[1] In 2011, a person must have gross income below $3,700 to be a qualifying relative. Qualifying children are not subject to the gross income test.

The dependent exemption amount grows annually with inflation. The value of the tax savings from this exemption depends on the taxpayer's marginal tax rate, which in recent years has ranged from 0 to 35 percent. Higher-income families facing higher marginal rates benefit more from excluding income from taxation than lower-income families. In other words, a family facing a 10 percent marginal rate saves only 10 cents for each dollar exempted from taxation; families facing a 35 percent marginal rate save 35 cents for each untaxed dollar.

Before 2009, the dependent exemption phased out completely for higher-income families, which reduced the amount of income they could exempt from taxation. Under this phaseout rule, married couples saw their exemption phased out by 2 percent for each additional dollar in their adjusted gross income (AGI) over $250,200; the exemption for single parents phased out once their AGI equaled $208,500. Beginning in 2009, the phaseout cannot reduce the total exemption by more than a third. If the 2001 tax cuts had expired as planned, the full phaseout of the dependent exemption would have returned in 2011. As it stands, the compromise between the president and Republicans in Congress pushes this decision down the road two more years.[2]

[1] See Internal Revenue Service, "A 'Qualifying Child,'" FS-2005-7, http://www.irs.gov/newsroom/article/0,,id=133298,00.html.
[2] See Internal Revenue Service, "Publication 501: Main Content," http://www.irs.gov/publications/p501/ar02.html.

Figure 1. Dependent Exemption for a Single Parent with Two Kids, 2011 Tax Law



Source: Based on author calculations.

Notes: Personal exemptions based on a single parent with two children who qualify as dependents. All income comes from cash wages. Figure does not account for interactions with other credits.

Because parents are also allowed to exempt income based solely on their filing status (either married or head of household) and for themselves and a spouse (if applicable), they must have income in excess of the sum of these amounts to also benefit from the dependent exemption. In 2011, married couples could exempt $19,000 from taxation as a result of their own personal exemption (2 x $3,700) and the standard deduction ($11,600); single parents could exempt $12,200 before accounting for the dependent exemption ($3,700 + $8,500). Families with incomes below these thresholds receive no benefit from the dependent exemption because their total taxable income can be reduced to zero without applying the dependent exemption for any children in the household. In all cases, the benefit from the dependent exemption cannot exceed tax liability.

The dependent exemption, like an additional personal exemption for a second adult in the family and a higher standard deduction for joint versus single returns, was designed for the most part on an ability-to-pay argument. At times, the personal and dependent exemptions were set at levels designed to try to exempt income up to poverty level from taxation; since the poverty level rises with family size, so also would the amount of exempt income (Steuerle 1983).

A couple with two children that makes $100,000 a year would exempt $7,400 from their taxable income as a result of the dependent exemption. The regular income tax treats them similarly to a couple with no children that earns $92,600 in income, all other things being equal. Few would argue that the dependent exemption completely compensates for the reduced ability to pay taxes resulting from raising the two children and that, even with the exemption, the family

of four could attain the same living standard. Yet, if the couple's dependent exemption were capped like a credit and reduced to that of taxpayers in a 10 percent bracket (rather than a 25 percent bracket), then they would be taxed closer to a household with no children that earns about $97,000 in income. Thus, whether the tax preference for a child is a credit or a deduction can make a big difference.

In designing a tax system as a whole, choosing a deduction or credit is not an issue of progressivity. We can assess a tax of $20,000 each on our two families above with $100,000 of income, or we can tax the one with two children $19,075 and the one with no children $20,925—assuming a dependent exemption of $3,700 per child and a tax bracket (on last dollars earned) of 25 percent. Progressivity can be maintained whether one uses deductions or credits to adjust taxes for the presence of children.

In sum, under an ability-to-pay theory, the dependent exemption is first used to determine who should be treated as equals when dealing with families of different size. Then, a progressive rate structure can be applied to yield whatever revenue and degree of progressivity is sought.

Another twist in the tax code, however, reduces the value of the dependent exemption for many higher-income individuals: the alternative minimum tax (AMT). The dependent exemption is essentially treated as a tax shelter that is allowed for regular income tax purposes but not for purposes of the AMT. As a result, approximately 800,000 filers are subject to the AMT as a result of having children. These taxpayers basically receive no benefit or only a partial benefit from the dependent exemption, even though few people argue that the personal exemption is really a tax shelter, or that one purpose of the AMT is to extract higher taxes on larger families. In an extreme case, a family can be subject to the AMT simply because it is raising too many kids even though it claims the standard deduction, takes no other deductions, credits, or exclusions, and engages in no real tax shelters. In effect, the AMT indirectly rejects the notion that taking care of dependents has any effect on one's ability to pay tax.

The Tax Policy Center (TPC) projects the dependent exemption will provide $38 billion in benefits to 48 million families in 2010. Benefits are concentrated among higher-income families (table 2).

Table 2. Distribution of Dependent Exemption Benefits for Tax Units with Children, by Cash Income Percentile, 2010

Cash income percentile[a]	Share of total tax benefits
Lowest quintile	1.5
Second quintile	16.4
Middle quintile	25.0
Fourth quintile	29.8
Top quintile	27.3
Addendum	
80–90th percent	17.9
90–95th percent	6.7
95–99th percent	1.4
Top 1 percent	1.3
Top 0.1 percent	0.2

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-6).

Notes: Calendar year 2010. Tax units with children are those claiming an exemption for children at home or away from home. Baseline is current policy with no dependent exemptions allowed. Proposal is current policy with dependent exemptions. Current policy makes the 2001 and 2003 individual income tax cuts permanent, extends the 2009 alternative minimum tax (AMT) patch, and indexes the AMT exemption, rate bracket threshold, and phaseout exemption threshold for inflation. Under the baseline, only exemptions for dependents are disallowed: taxpayer exemptions and exemptions for spouse can be availed of when applicable.

a. Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm. The cash income percentile classes are based on the income distribution for the entire population and contain an equal number of people, not tax units. The incomes used are adjusted for family size by dividing by the square root of the number of people in the tax unit. The resulting percentile breaks are (in 2009 dollars) 20%, $12,047; 40%, $22,949; 60%, $39,314; 80%, $65,826; 90%, $95,193; 95%, $132,881; 99%, $336,285; and 99.9%, $1,353,961.

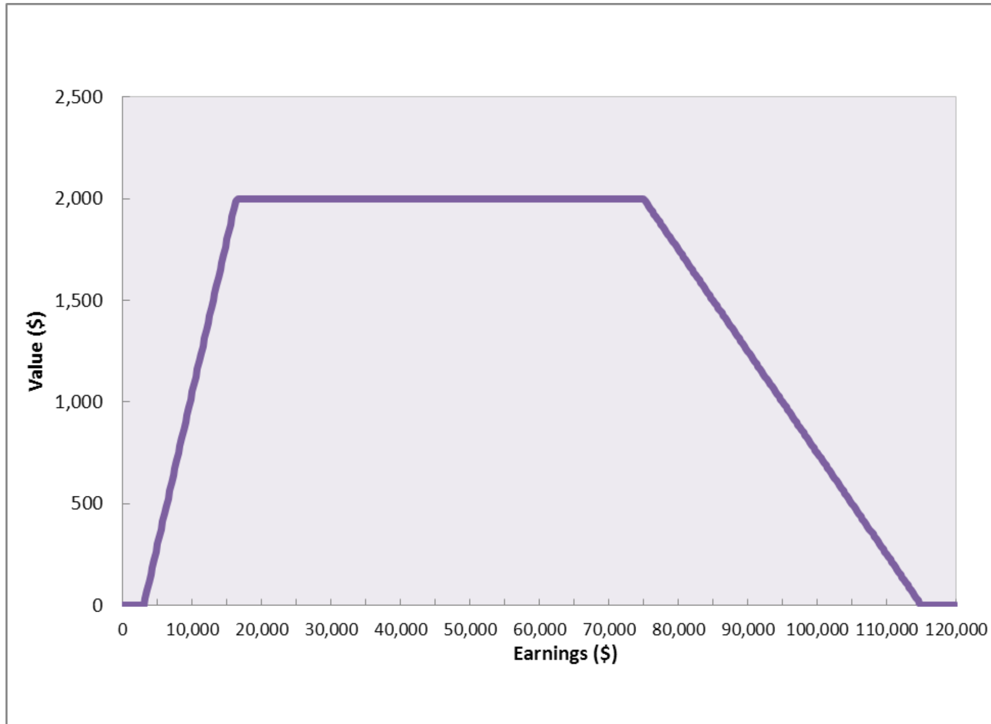
Child Tax Credit

To qualify for the child tax credit, a child must be under the age of 17 and pass relationship, residency, and support tests (table 1). The CTC was first enacted as a $500 credit in the Taxpayer Relief Act of 1997. It was nonrefundable so only families owing income tax could benefit from it.[3] The Economic Growth and Taxpayer Relief Reconciliation Act of 2001 amended the CTC by making it refundable on a broader scale and doubling its value from $500 to $1,000. The American Recovery and Reinvestment Act of 2009 (ARRA) extended refundability to even lower levels so that in 2009 and 2010, families with earnings above $3,000 could receive a refundable credit up to a maximum of 15 percent of earnings. This has now been extended through 2012. Absent that legislation, families only received the refundable credit for earnings above $12,000. The provision that allows the CTC to be refundable is technically known as the additional child tax credit (ACTC) but is often referred to as the refundable CTC. Absent the extension of ARRA and EGTRRA, the CTC will revert to its pre-EGTRRA level of $500 per child with limited refundability. The baseline of the president's budget calls for maintaining the

[3] Before EGTRRA, only families with at least three children could claim a refundable credit, to the extent that payroll taxes exceeded their EITC.

value of the credit at $1,000 per child and continuing to allow refunds on the CTC up to 15 percent of earnings over $3,000.

Figure 2. Child Tax Credit for a Single Parent with Two Kids, 2011 Tax Law



Source: Based on author calculations.

Notes: Personal exemptions based on a single parent with two children under age 17. Children and parents meet all other requirements to qualify for the credit. All income comes from cash wages. Figure does not account for interactions with other credits.

The original phase-in range for the CTC was pegged to coincide with the end of the phase-in range for the EITC for families with at least two children to address concerns over high marginal tax rates for families receiving the EITC. As a result of rules enacted under ARRA, however, the credit begins to phase in much sooner. Still, the income range over which the ACTC phases in overlaps at least part of the range over which the EITC phases out; as a result, the CTC partly offsets the high marginal tax rates associated with the phaseout of the EITC. The CTC is available to most taxpayers with children, although it phases out at a rate of 5 percent of adjusted gross income above $110,000 for married couples ($75,000 for single parents). Further, dependents may claim a separate child credit from their parents if they themselves have a qualifying child.

The CTC has displaced the dependent exemption's role as the largest tax code provision benefiting families with children; it is projected to distribute almost $52 billion to 34.9 million families with children in 2010 through the nonrefundable and refundable credits (table 3). On average, TPC projects that the CTC reduces tax liability for families with children by $1,025 in 2010. In total, about 10 percent of benefits will go to families in the lowest income quintile (who generally owe little or no income tax). Roughly 80 percent of benefits accrue to families with

incomes in the next three quintiles. The remaining 10 percent of benefits go to families with incomes in the top quintile.

Table 3. Distribution of Child Tax Credit Benefits for Tax Units with Children, by Cash Income Percentile, 2010

Cash income percentile[a]	Share of total federal tax benefits
Lowest quintile	10.2
Second quintile	25.0
Middle quintile	26.6
Fourth quintile	27.7
Top quintile	10.3
Addendum	
80–90th percent	9.5
90–95th percent	0.6
95–99th percent	0.2
Top 1 percent	0.0
Top 0.1 percent	0.0

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-4), table T10-0128.

Note: Calendar year. Benefits of the credit are calculated under current law.

a. Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm. The cash income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The incomes used are adjusted for family size by dividing by the square root of the number of people in the tax unit. The resulting percentile breaks are (in 2009 dollars) 20%, $12,047; 40%, $22,949; 60%, $39,314; 80%, $65,826; 90%, $95,193; 95%, $132,881; 99%, $336,285; and 99.9%, $1,353,961.

The child credit represents a hybrid of a per-child credit and a credit encouraging behavior in that it is justified both as a subsidy for raising children and as an adjustment for ability to pay. The dependent exemption also has eroded enormously in value over the years, and the child credit might be viewed as an alternative way of making adjustments—albeit without regard to the tax bracket of the taxpayer. Yet, the extension of the child credit even to taxpayers owing no liability makes clear that many view the credit as a subsidy for raising children (Steuerle 2008).

Significant Provisions Affecting Families with Children: Benefits Aimed at Encouraging an Activity

A second set of tax benefits related to children are aimed at encouraging a particular behavior. Two specific behaviors get special attention by Congress: work by parents and college attendance by children. In some ways, tax policies substitute for traditional expenditure programs, which typically are means tested (that is, reduced in value for households with higher incomes). In this section, we describe the earned income tax credit, the child and dependent care tax credit (CDCTC), and higher education credits.

Earned Income Tax Credit

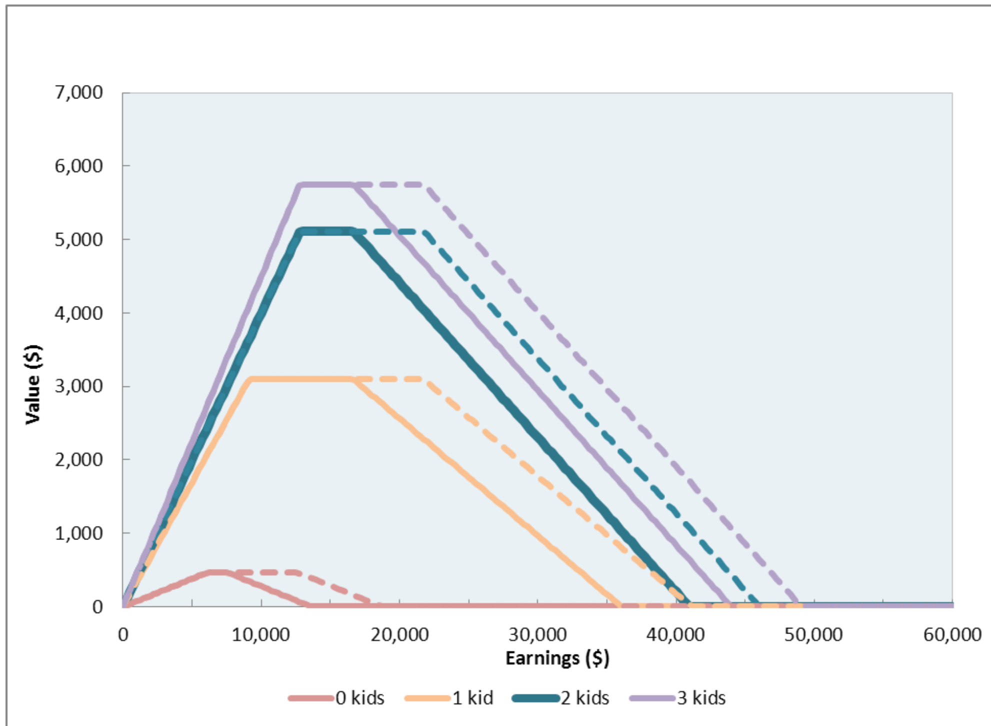
The earned income tax credit subsidizes work for low-income families. Children must pass relationship and residency tests and be either under age 19 or under age 24 and a full-time student for part of at least five months of the year (table 1). Beneficiaries receive a credit worth a fixed percentage of earnings until they qualify for the maximum credit (figure 3). Both the percentage and the maximum credit depend on the number of children in the family. After the maximum credit is reached, recipients receive that credit until their earnings reach a designated phaseout point. From that point forward, the credit falls with each additional dollar of income until it disappears entirely. The phaseout begins at a higher income level for married couples than for single parents. The credit is fully refundable; any excess credit beyond a family's income tax liability is paid as a tax refund. The maximum credit amounts, as well as the income phase-in and phaseout ranges, are indexed annually for inflation.

In 2011, families with three or more qualifying children may receive a credit up to $5,751. The maximum credit is $5,112 for families with two qualifying children, $3,094 for families with one qualifying child, and just $464 for those without qualifying children (figure 3). In other words, a household with one child could earn an EITC benefit up to $2,630 larger than a household with no children. Unlike the child credit, where dependents with a child may claim the credit separately from their parents, dependents cannot claim the EITC.

The EITC is the largest cash assistance program targeted at low-income families and comparable in size to the Supplemental Nutrition Assistance Program (SNAP, formerly Food Stamps). In 2010, the TPC projects 20.1 million households with children will receive an average credit of $2,661. This amounts to $53.4 billion in reduced taxes and refunds. The credit lifts roughly 4 million people out of poverty each year.[4] Traditionally, more eligible people benefit from the EITC than similarly targeted means-tested transfer programs. More than 80 percent of individuals eligible for the EITC in 1999 claimed the credit, a much higher take-up rate than for Temporary Assistance to Needy Families (52 percent) or SNAP (67 percent) that year (Burman and Kobes 2003).

[4] See Adam Carasso and Elaine Maag, "Taxation and the Family: What Is the Earned Income Tax Credit?" in the Tax Policy Center Briefing Book, http://taxpolicycenter.org/briefing-book/.

Figure 3. Earned Income Credit, 2011 Tax Law



Source: Based on author calculations.

Notes: Personal exemptions based on a single parent with two children who qualify as dependents. All income comes from cash wages. Figure does not account for interactions with other credits. Dashed lines show extended phaseouts for married couples.

One criticism of various income-tested programs is that they contain significant marriage penalties for some couples. In the case of the EITC, the story is mixed, as it provides marriage subsidies to some, penalties to others. In the extreme, when two modest-income parents marry, they could both lose the EITC that each qualified for as single parents. That is, their combined income exceeds the point at which the EITC phases out (Acs and Maag 2005). For example, in 2011, if two single parents with one child earning $16,400 each decided to marry, they would go from each receiving the maximum one-child EITC of $3,094 (a combined $6,188) to receiving one EITC for the two children worth $2,800—less than half their pre-marriage credit. Conversely, a single parent with no earnings can move from receiving no EITC to receiving a substantial EITC should she marry a partner with earnings in the EITC range.

As a result of ARRA, the EITC begins to phase out at incomes $5,080 higher for couples than for singles in 2011. EGTRRA had already been increasing the phaseout income level for married couples in $1,000 increments since 2001, up to $3,000 by 2008. Several other options to reduce these marriage penalties have been proposed, including creating an individual worker credit and discounting the wages of secondary earners (summarized in Holt and Maag 2009 and Carasso et al. 2008).

Over half of all benefits from the EITC accrue to families in the lowest income quintile, and another 42 percent accrue to families in the second income quintile (table 4). Almost no families in the upper two income quintiles benefit from the EITC.

Table 4. Distribution of Federal Tax Changes due to the Earned Income Tax Credit for Tax Units with Children by Cash Income Percentile Adjusted for Family Size, 2010

Cash income percentile[a]	Share of total federal tax change
Lowest quintile	54.2
Second quintile	41.7
Middle quintile	3.7
Fourth quintile	0.1
Top quintile	0.0
Addendum	
80–90th percent	0.0
90–95th percent	0.0
95–99th percent	0.0
Top 1 percent	0.0
Top 0.1 percent	0.0

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-5), table T10-0126.

Notes: Calendar year. Tax units with children are those claiming an exemption for children at home or away from home. Baseline is current law, proposal is to remove the earned income tax credit (EITC).

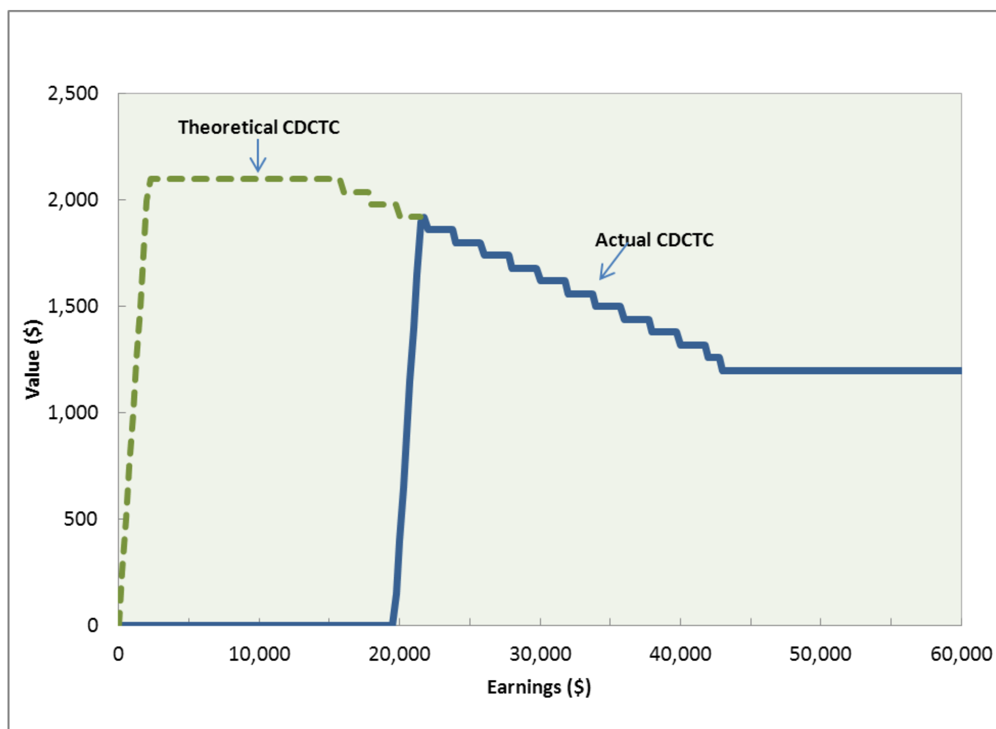
a. Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm. The cash income percentile classes are based on the income distribution for the entire population and contain an equal number of people, not tax units. The incomes used are adjusted for family size by dividing by the square root of the number of people in the tax unit. The resulting percentile breaks are (in 2009 dollars) 20%, $12,047; 40%, $22,949; 60%, $39,314; 80%, $65,826; 90%, $95,193; 95%, $132,881; 99%, $336,285; and 99.9%, $1,353,961.

Child and Dependent Care Tax Credit/Flexible Spending Accounts

Child care can present both a barrier to entering the workforce and an additional expense that makes work less rewarding (Burman, Maag, and Rohaly 2005). In addition, on an ability-to-pay basis, a household with $50,000 of income and $3,000 of child care expenses has no more ability to pay tax than a household with $47,000 of income and $3,000 worth of child care provided in the home. Thus, some allowance for child care expenses can be considered as one way of providing neutrality between care in the home and care outside the home.

Under current law, working parents can offset child care costs through the child and dependent care tax credit (CDCTC). To receive the CDCTC, parents report up to $3,000 of child care–related expenses per qualifying child (to a maximum of $6,000 per family) and receive a credit of between 20 and 35 percent of that amount, depending on their adjusted gross income. Higher credit rates are available to families with lower AGIs. To benefit from the CDCTC, both parents must be working or in school. The expenses claimed may not exceed the lower-earning parent's earnings. Qualifying children must be under age 13 at the time care is provided and must pass residency, relationship, and support tests.

Figure 4. Child and Dependent Care Credit for a Single Parent with Two Kids, 2011 Tax Law



Source: Based on author calculations.

Notes: Personal exemptions based on a single parent with two children under age 13. Maximum amount of child care expenses ($6,000) is claimed. All income comes from cash wages. Figure does not account for interactions with other credits.

The highest credit rate for the CDCTC (35 percent) applies to families with AGI below $15,000 and decreases by 1 percentage point for each additional $2,000 of AGI. The lowest credit rate (20 percent) applies to families with AGI greater than $43,000 (figure 4). Because the credit is nonrefundable, under current law the high credit rates remain elusive.[5] Those for whom the highest credit rates apply rarely owe taxes, and as a result they rarely receive any benefit from the provision.

People in the highest two income quintiles receive the greatest share of benefits, both because their average expenses are higher than other income groups and because more people in this quintile have child care expenses (table 4).

[5] See Elaine Maag, "Taxation and the Family: How Does the Tax System Subsidize Child Care Expenses?" in the Tax Policy Center Briefing Book, http://taxpolicycenter.org/briefing-book/.

Table 4. Distribution of Child and Dependent Care Tax Benefits for Tax Units with Children, by Cash Income Percentile, 2010

Cash income percentile[a]	Share of total federal tax benefits
Lowest quintile	0.1
Second quintile	17.2
Middle quintile	28.7
Fourth quintile	31.5
Top quintile	22.6
Addendum	
80–90th percent	13.6
90–95th percent	5.9
95–99th percent	2.7
Top 1 percent	0.5
Top 0.1 percent	0.0

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-6).

Notes: Calendar year. Tax units with children are those claiming an exemption for children at home or away from home. Baseline is current policy with no child and dependent care credit. Proposal is current policy with the child and dependent care credit. Current policy makes the 2001 and 2003 individual income tax cuts permanent, and it extends the 2009 AMT patch and indexes the AMT exemption, rate bracket threshold, and phaseout exemption threshold for inflation. Under the baseline, only exemptions for dependents are disallowed: taxpayer exemptions and exemptions for spouse can be availed of when applicable.

a. Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm. The cash income percentile classes are based on the income distribution for the entire population and contain an equal number of people, not tax units. The incomes used are adjusted for family size by dividing by the square root of the number of people in the tax unit. The resulting percentile breaks are (in 2009 dollars) 20%, $12,047; 40%, $22,949; 60%, $39,314; 80%, $65,826; 90%, $95,193; 95%, $132,881; 99%, $336,285; and 99.9% $1,353,961.

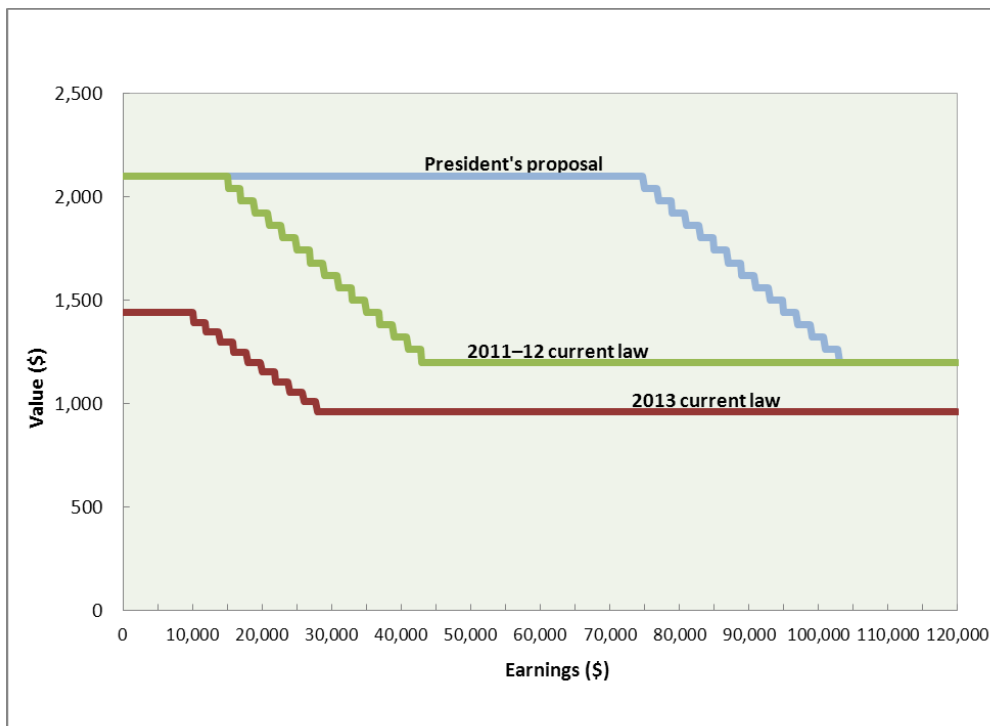
Maximum eligible expenses for the CDCTC were scheduled to revert back to their pre-2001 levels in 2011 ($2,400 per child, $4,800 maximum per family), but that decision has been pushed off for two years. Absent additional legislation, the maximum credit rate will be reduced from 35 percent to 30 percent when the legislation expires. As part of his proposal to support middle-class families in America, President Obama has proposed extending the CDCTC. Under the extension, the maximum credit would be available to families earning up to $75,000, and all families earning over $103,000 would receive the minimum benefit (figure 5). Tax expenditures as a result of this extension would cost approximately $1.5 billion in 2015 (OMB 2011).

Because of the particular design of the credit—both the low amount of qualifying income and a rate of credit below the taxpayer's marginal tax rate—it is often cheaper for higher-income parents to provide child care in the home and cheaper for lower-income parents to provide child care outside the home. One way to see this result is to assume two households with equal incomes that live side by side and consider exchanging kids for child care and paying each other. Assuming they pay each other an equal amount eligible for the credit, the lower-income household will be better off exchanging child care when its marginal tax rate is lower than the credit rate; the upper-income household will be better off doing its own child care when its tax rate is above the credit rate. In other words, the credit makes families better off when they are

able to replace the dollars spent on child care at a higher rate than the rate they are taxed on the dollars earned from additional work.

At the same time, the child and dependent care tax credit has eroded in value substantially relative to income per household and the cost of child care. Thus, it makes only a modest difference in well-being in any case. Contrast, if you will, the revenue cost of the CDCTC with the EITC. The former entails revenue losses of only a tiny fraction of the latter.

Figure 5. Maximum Child and Dependent Care Credit for a Single Parent with Two Kids under Various Budget Proposals



Source: Based on author calculations.

Notes: Personal exemptions based on a single parent with two children under age 13. Maximum amount of child care expenses ($6,000 under 2011–12 law, $4,800 under 2013 law) is claimed. All income comes from cash wages. Figure does not account for interactions with other credits.

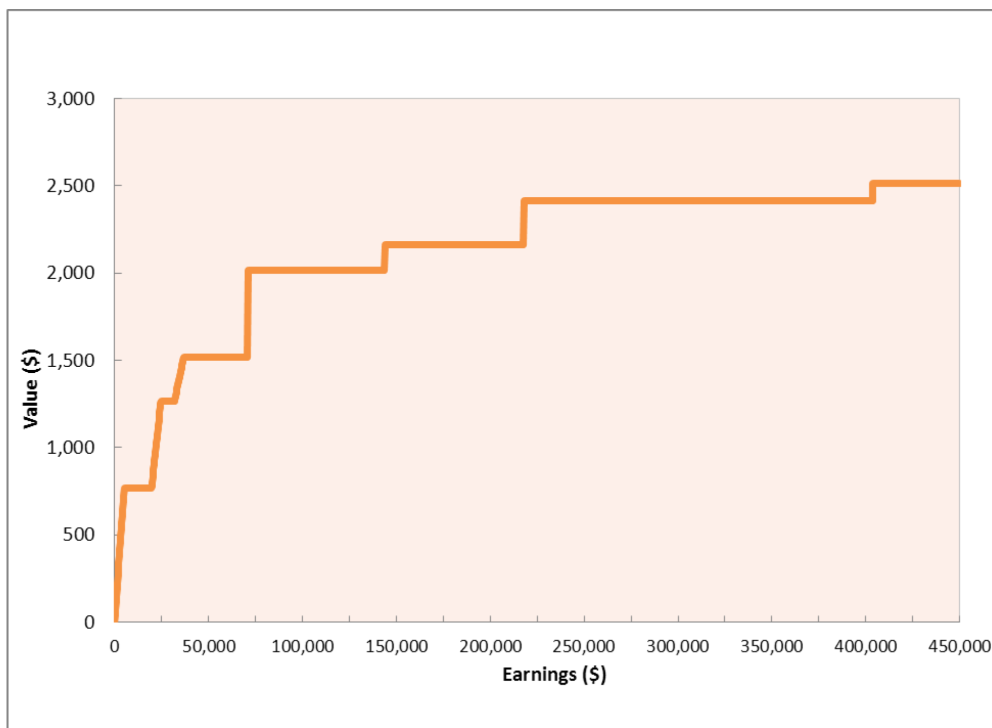
Parents can also benefit from flexible spending accounts (FSAs). FSAs allow parents with a qualifying child under age 13, or any age if the dependent is disabled, to reduce their taxable earnings by up to $5,000. Qualifying child requirements are identical between the FSA and CDCTC. Earnings in an FSA are exempt from both payroll and income taxes, although the exemption from Social Security tax in some cases can reduce later Social Security benefits. Because tax rates rise with income, higher benefits are available to higher-income families than lower-income families.

Families may use both the CDCTC and an FSA to offset child care expenses on the condition that the same expenses are not applied to both programs and that the total expenses for which tax benefits are received do not exceed the maximum expenses a household is allowed to benefit from in either of the two programs. In the case of a family with one child, the family may

claim up to $3,000 in expenses for the CDCTC and apply an additional $2,000 of expenses in an FSA. In the case of families with more than one child, a typical situation might be exempting $5,000 in income via an FSA and then applying $1,000 of expenses to the CDCTC. Total expenses being claimed cannot exceed $6,000 in the two programs for families with more than one child.

The benefit structure of the FSA and CDCTC means that high-income families tend to benefit more from an FSA than the CDCTC. In isolation (not considering other tax provisions), the nonrefundable nature of the CDCTC means that if a family does not have tax liability to offset with the CDCTC, it might be better off using an FSA for child care expenses to at least benefit from exempting payroll taxes from up to $5,000 in earnings (figure 6). However, many low-income families will qualify for the EITC and refundable CTC, so on net, will be better off not benefiting from the CDCTC but retaining the income as taxable income in order to benefit from these provisions. Higher-income families benefit more from an FSA since their marginal tax rate (federal income and payroll taxes) will exceed the credit rate. Unfortunately, we know neither who actually uses an FSA nor how much families benefit from using an FSA.

Figure 6. Child Care FSA Exemption for a Single Parent with Two Kids, 2011 Tax Law



Source: Based on author calculations.

Notes: Exemption applied to both income tax and payroll taxes. Personal exemptions based on a single parent with two children who qualify as dependents. All income comes from cash wages. Figure does not account for interactions with other credits.

Higher Education Credits

The year 1997 saw enactment of several new tax incentives for higher education: the Hope credit, the lifetime learning credit, and a deduction for tuition and fees. As a result, federal higher

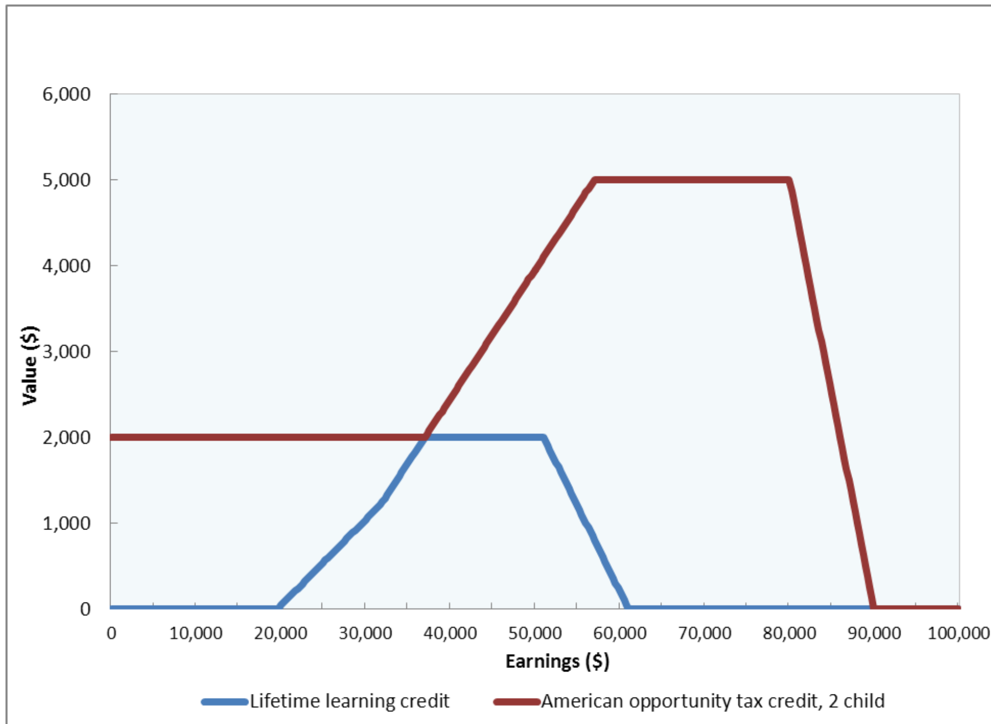
education in-school tax benefits rose from zero before 1997 to roughly $6 billion in 2005–06 (Maag et al. 2007). College savings incentives in the tax code also exist, though they are not discussed here.

The Hope credit applies to tuition and fees for students enrolled at least half time in their first two years of college. The credit equals 100 percent of the first $1,200 of eligible expenses plus 50 percent of the next $1,200, yielding an annual maximum credit of $1,800 when qualifying expenses are at least $2,400. Each qualifying student in the household can receive a Hope credit.

The lifetime learning credit (LLC) provides a credit of 20 percent of tuition and fees for any postsecondary education, up to a maximum of $10,000 in expenses. Qualifying expenses are counted per tax return, not per student. While one student cannot benefit from both the Hope and the lifetime learning credit, different household members can benefit from different provisions. Like the Hope credit, the LLC phases out between adjusted gross incomes of $51,000 and $61,000 for single taxpayers and between $102,000 and $122,000 for married couples. There is no limit on the number of years of postsecondary education for which this credit is available. For both credits, the student must be either the taxpayer or someone taxpayer claims as a dependent.

For 2009 and 2010 (then extended temporarily to 2011 and 2012), the Hope credit was modified by ARRA and was renamed the American Opportunity Tax Credit (AOTC). The AOTC provides a credit worth 100 percent of the first $2,000 of qualified expenses (tuition, fees, and some course materials) plus 25 percent of the next $2,000 of qualified expenses, yielding a maximum credit of $2,500 a year (figure 7). In addition to increasing the maximum credit, AOTC is available for the first four years of postsecondary education, rather than the first two, and expenses for course materials are now considered eligible costs, in addition to tuition and fees. Unlike the Hope credit, 40 percent of the AOTC is refundable and thus available to households with little or no tax liability.

Figure 7. American Opportunity and Lifetime Learning Credits, 2010 Tax Law



Source: Based on author calculations.

Notes: Personal exemptions based on a single parent with two children with qualifying education expenses. Maximum amount of expenses ($10,000) is claimed. All income comes from cash wages. Figure does not account for interactions with other credits.

Previously, the nonrefundable credits acted mainly as subsidies to middle- and higher-income households (table 6). Many students in these households would likely attend college even without the tax benefits. However, now that the AOTC has a refundable portion, the benefits extend to lower-income households who have generally lower college attendance rates. Additionally, the AOTC increases the income threshold before the phaseout range by $40,000 for married couples and $20,000 for individuals. The president has proposed making the changes under the AOTC permanent.

Table 6. Distribution of American Opportunity Credit and the Lifetime Learning Credit for Tax Units with Children, by Cash Income Percentile, 2010

Cash income percentile[a]	Share of total federal tax benefits
Lowest quintile	7.6
Second quintile	10.8
Middle quintile	26.9
Fourth quintile	37.4
Top quintile	17.1
Addendum	
80–90th percent	13.5
90–95th percent	3.2
95–99th percent	0.4
Top 1 percent	0.1
Top 0.1 percent	0.0

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-6).

Notes: Calendar year. Tax units with children are those claiming an exemption for children at home or away from home. Baseline is current policy with no American Opportunity Tax Credit and lifetime learning credit. Proposal is current policy including both tax credits. Current policy makes the 2001 and 2003 individual income tax cuts permanent, extends the 2009 AMT patch, and indexes the AMT exemption, rate bracket threshold, and phaseout exemption threshold for inflation.

a. Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm. The cash income percentile classes are based on the income distribution for the entire population and contain an equal number of people, not tax units. The incomes used are adjusted for family size by dividing by the square root of the number of people in the tax unit. The resulting percentile breaks are (in 2009 dollars) 20%, $12,047; 40%, $22,949; 60%, $39,314; 80%, $65,826; 90%, $95,193; 95%, $132,881; 99%, $336,285; and 99.9%, $1,353,961.

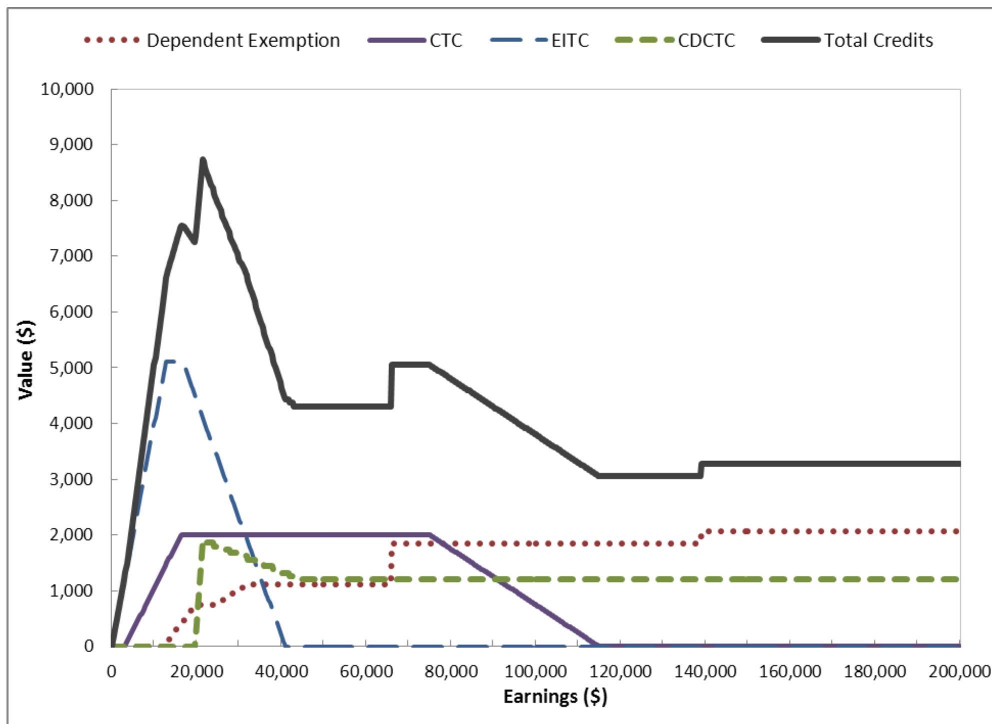
Benefits under these credits averaged $771 per household before the ARRA changes. Average benefits are highest for those receiving a Hope credit ($1,069), followed by the LLC ($978). For each student, families may claim only one of the two main tax benefits, but they need not claim the same benefit for all students. Before the ARRA changes to the Hope credit, it was often difficult to determine which credit would yield the maximum benefit; as a result, households risked receiving a benefit smaller than the maximum available to them (GAO 2005). The changes introduced as part of the AOTC alleviate this complexity, clearly making the AOTC the best choice in credit for most students. No cost estimates of the AOTC are available.

Complexity of Child Benefits

As alluded to already, the child benefits are far from straightforward. Families must first understand which child qualifies for which benefits, and then must decipher the level of subsidy for which they qualify. In addition, each benefit comes with its own design issues, often a relic of limited resources and the desire of politicians to create new programs with new labels. Taken separately, each benefit may make some sense, but in tandem, the benefits add up bizarrely. And, of course, the sum of the parts does not equal the whole (Maag 2010). Figure 8 shows the potential combination of four benefits for a single parent with two children: the dependent

exemption, the child credit, the EITC, and the CDCTC, assuming maximum use of the CDCTC. Both children in the sample family are under age 13.

Figure 8. Value of Child Benefits for a Single Parent with Two Kids, 2011 Tax Law



Source: Based on author calculations.

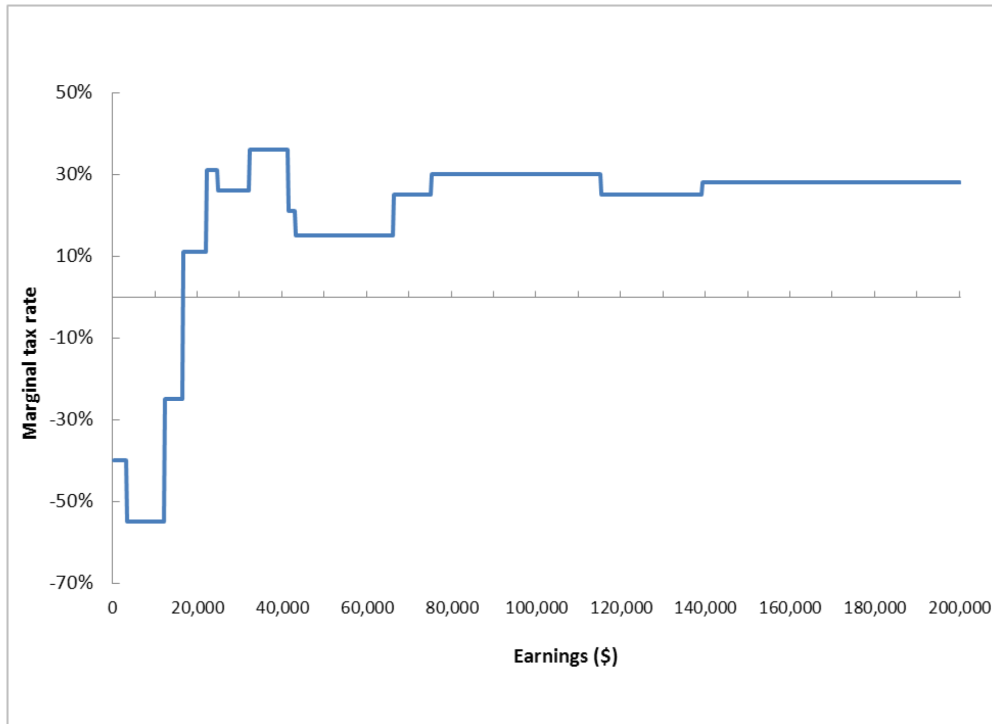
Notes: Personal exemptions based on a single parent with two children under age 13 who qualify as dependents. All income comes from cash wages. Figure does not account for interactions with other credits.

This type of complexity confuses taxpayers and makes IRS enforcement more difficult. Should the incentives or adjustments for ability to pay apply to every child, as child benefits like the CTC might suggest, or should there be limits on the number of children subsidized through the tax code, as suggested by programs like the EITC that cap benefits? Are families with three or fewer children preferred, as the EITC rules might imply? In the case of married couples, should both partners work, or should only one parent work? How much should a person work? If the goal is to affect behavior, then as the contradictions in the message increase, analysts and policymakers must figure out what messages people are receiving and responding to, if they are responding at all.

The Working Families Tax Relief Act of 2004 simplified the rules for qualifying children. Relationship and residency tests were made uniform, but some differences remained. For example, to qualify for the CTC, a child must be under 17. Only child care expenses associated with children under age 13 qualify for the CDCTC. On the other hand, parents and guardians can qualify for the EITC and dependent exemption if they have children under 24 who are full-time students for part of at least five months of the year. The support test applies to all but the EITC.

A second troubling issue with the child provisions is that their income phaseouts operate almost randomly. While the target income groups for each credit overlap at times, the various phaseouts can result in high marginal tax rates for families with particular incomes. It is easy to reach a 30 percent marginal tax rate simply from provisions in the tax code (figure 9). When combined with phaseouts from direct expenditure programs not examined here (SNAP, Medicaid or the new health subsidy, housing, and so forth), these tax rates can become very high.

Figure 9. Marginal Tax Rates for a Single Parent with Two Kids, 2011 Tax Law



Source: Based on author calculations.

Notes: Personal exemptions based on a single parent with two children under age 13. All income comes from cash wages. Credits include the dependent exemption, child credit, earned income credit, and child and dependent care credit. Children and parents meet all other requirements to qualify for the credits. Figure does not account for interactions with other credits.

Child Tax Benefits and Complexity

Despite the complexity of the system, child-related provisions substantially assist low- and middle-income families. In an extreme case, under 2011 law, a family of three with income of approximately $21,500 can receive a maximum benefit of $8,740 from the dependent exemption, child credit, earned income tax credit, and child and dependent care credit. Even families with moderate and relatively high incomes benefit from some child-related provisions. For example, a single parent with two children with an income at the federal poverty level could receive approximately $7,400 in benefits, while a similar family earning twice the poverty level would receive approximately $5,500 in benefits.

Regardless of who benefits from these credits, there is an increasing demand to simplify the system. Multiple plans have been proposed to address the complexity of the tax credits, although many are also designed to address other areas of concern in the Internal Revenue Code. We highlight three basic courses of simplification, of which several variations have been proposed.

In 1991, the National Commission on Children, chaired by Senator Jay Rockefeller, concluded its deliberations and proposed a number of reforms, including a $1,000 credit for children that was proposed by consultants Jason Juffras and Eugene Steuerle. Although not taken up by the Commission, the Steuerle and Juffras proposal, and several made by Steuerle since then, also suggested that increasing amounts of the child credit be tied to a requirement to purchase (or sign up, in the case of Medicaid) health insurance for the children—a forerunner of attempts to impose individual mandates for the purchase of health insurance (Juffras and Steuerle 1991).

Ten years later in 2001, Ellwood and Liebman analyzed child benefits in the tax system. They found that, like today, many provisions benefit families with children. However, they uncovered an odd pattern of benefits. Those with the lowest and highest incomes received relatively high benefits, while middle-income families received more modest benefits. This was driven by the credits that assisted low-income families and the relatively high value of the dependent exemption for higher-income families.

In much work that followed, scholars proposed two basic reform structures: (1) develop a child credit that provides benefits to all families with children while simultaneously separating some or all of the work incentive in the EITC, making wage subsidies available to low-income workers regardless of whether they supported children; and (2) simplify the definition of child and make that definition apply across programs. For both, how the definition is developed matters. For instance, attempts to limit losers or limit revenue loss often will restrict how universal a new law can be made. Finally, some plans propose to expand credits or make them more effective, which can entail either more simplification or complexity.

The Uniform Child Credit

In 2005, Carasso, Rohaly, and Steuerle identified two related issues in the tax system. First, as observed in this paper, child-related credits target highly overlapping, though not identical, groups. Second, families with children were becoming especially vulnerable to the alternative minimum tax, often as a result of the dependent exemption treating children as a tax shelter by the AMT. The dependent exemption was one of the largest provisions affecting the likelihood of paying the AMT (Carasso, Rohaly, and Steuerle 2005). Although the AMT continues to be patched, a more permanent solution could be implemented.

Carasso, Rohaly, and Steuerle, therefore, proposed the creation of a uniform child credit (UCC). The UCC was an extension of an earlier proposal by Carasso and Steuerle that simply would have combined the EITC and the CTC into an earned income child credit (EICC). The UCC would go much further and would use or tweak current law parameters for the EITC, child credit, and dependent exemption, employing a common definition of child and a common eligibility age (Carasso, Rohaly, and Steuerle 2003). Children would be under age 19. By combining these benefits into one credit, all families could receive the same benefit, rather than

higher-income families benefiting more as a result of facing higher marginal tax rates. To save on costs, the credit would phase out for higher-income families, although the authors recognized that it would be simpler, and, on an ability to pay basis, fairer to incorporate such rate hikes directly in the statutory rate schedule. In many ways, this proposal represents a fix for both the AMT and the child provisions.

Under the Carasso and colleagues plan, many families would no longer be at risk for the AMT, given that the UCC would be available to everyone and not interact with the AMT. This fix raises significantly the cost of such a program relative to a continually expanding AMT that wipes out the dependent exemption for many more taxpayers. However, Congress year after year prevents this expansion from taking place, so the net cost is unclear until Congress determines what will happen to the AMT or some ultimate replacement.

As proposed, the UCC would provide benefits equivalent to what most families receive from the child tax credit, EITC, and dependent exemption if they have a child under the age of 19. In 2005, when the analysis was performed, Carasso and colleagues projected a UCC would cost almost $40 billion in 2010, absent implementing some changes to the tax code to pay for all or part of the partial AMT and other reform. Costs of the proposal today would be on the same scale. In other words, change of this sort likely requires making other adjustments to an AMT or statutory tax rates or broader tax base issues.

Making the ages of eligibility uniform affects both revenues and winners and losers. While the cost of the dependent exemption and EITC decrease, as students age 19–23 are no longer eligible for the benefit, the cost of the CTC increases as children age 17 and 18 become eligible. In this particular proposal, as noted, substantial cost is entailed by removing tens of millions from potential AMT liability—a direction Congress seems to be heading in piecemeal fashion anyway. This proposal did not deal with the issue that many 19–23-year-old children with low earnings and currently qualifying for the dependent exemption as a student might continue to be eligible for the dependent exemption as a qualifying relative.

In recent work, Maag (2011) analyzes what would happen if only the initial step toward creating separate work and child credits happened—creating a uniform definition of child . She first notes that creating a uniform definition of child of under 19 (following the lead of the UCC) allows for the creation of child incentives that are both easier to understand and easier for the IRS to enforce. Doing this allows the opportunity to clarify incentives in the tax code and might pave the way for broader reform.

President Bush's Advisory Panel on Federal Tax Reform

President George W. Bush convened a tax panel in 2005 to focus on making the tax system simpler, fairer, and more focused on economic growth (President's Advisory Panel 2005). The president directed the panel to recommend changes to the tax system that would ultimately raise about the same amount of money as the current system raised. As part of that, the panel recommended simplifications to the many child-related provisions and work provisions. They recommended implementing one credit focused on children and one focused on work. Because the proposal was part of a larger reform package, the panel produced no estimates of the cost of this piece of the reform.

The first prong of the proposal combines the personal exemption, standard deduction, head-of-household filing status, and the CTC into a family credit. Each taxpayer would calculate the family credit by adding a base amount for his or her household type (married couple, unmarried taxpayer with dependent children, single taxpayers, dependent taxpayers) to an extra amount for each child and an additional amount for each dependent (who did not meet the definition of child). The credit is set so the amount of income not subject to federal income tax under the proposal would be similar to the level of income exempt from tax under current law for many families.

The second prong of the proposal, a refundable work credit for low-income families, consolidates the EITC and the refundable CTC into a single credit. This credit phases out for higher-income families, just as the EITC does under current law. The credit is set so roughly the same maximum credit would be available as under current law with the EITC and refundable CTC combined.

Several related work credit proposals have surfaced since 2005. In the proposal released by its Debt Reduction Task Force at the end of 2010, the Bipartisan Policy Center created reforms similar to the Bush Advisory Panel that called for a worker credit and a child credit. The center went a step further by not tangling the worker credit up with number of children, as the Bush Advisory Panel chose to do. Steuerle has also suggested a way to move in this direction incrementally. Depending upon how much change and how much cost Congress wants to incur, this proposal would partially separate existing credits for work from credits for children, minimize losers for those already receiving the credits, proceed stepwise to limit costs, yet extend work credits to low-income workers without children and those who now face large marriage penalties by marrying or staying married to other low-income workers (Carasso et al. 2008). Holt and Maag show that it is impossible to separate the credits without creating any losers or spending more money (2009).

Refundable Credits

Another proposal was put forth in a policy brief by Batchelder, Goldberg, and Orszag in 2006. This team proposed making all deductions into uniform, refundable credits. This would allow the same benefits to apply to lower-income and higher-income families. Families would receive a set credit amount, regardless of their tax bills, eliminating the need for complicated rules surrounding how much income a person needs to be eligible. A proposal of this sort could be very expensive, depending on how age thresholds and credit amounts are set. It would also require either the IRS to maintain contact with millions of taxpayers who do not currently file tax returns or welfare or other offices to maintain a backup filing capacity.

Conclusion

The various provisions described here show the breadth of benefits available to children and families with children over a wide age range. These benefits vary significantly, with some extending almost universally across all families on a per child basis and others designed to encourage work or education. They are typically justified on an ability-to-pay basis (at any income level, a family with children or with child care expenses is less able to pay tax than one

without children or without those expenses), as a subsidy for children, or as an incentive to work or seek more education. Regardless of the type of tax provision or its motivation, these credits and exemptions can add up to a sizeable amount for some families; the maximum credit a family of three earning $21,500 could receive is $8,740. Clearly, these tax benefits play an influential role in the lives of many families.

Despite the monetary value of these awards to some families, the overlap and phaseouts of these different tax incentives result in a very complex system that does not always achieve goals commonly associated with such awards. For example, a credit provides no benefit to lower-income families unless it is refundable. So, when the purpose is to provide incentives, those individuals most likely to react are unable to do so. As a result, many child credits have been temporarily made refundable.

Further, the qualifying provisions vary across benefits. While policymakers have made some attempts to simplify these requirements, some disparities persist. These tax provisions are continually changing eligibility requirements and sizes over time.

A host of reform proposals would simplify the tax code for children through such methods as establishing one uniform child credit; others would expand the refundability of certain credits. There are positive and negative aspects of all, but simplifying a complex system—regardless of its costs—remains an objective for many. Simplification can help families better understand the implications of the credits and plan for their financial future. It would also make the programs easier for the IRS to administer.

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