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PERSPECTIVES ON OPPORTUNITY

An Early Look at the Child Tax Credit Changes in the Tax Relief for American Families and Workers Act of 2024

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The Tax Relief for American Families and Workers Act of 2024, which the US House of Representatives passed on January 31, 2024, and the Senate is now considering, would make important changes to the child tax credit (CTC) if enacted. The legislation would increase CTC payments for families with lower earnings, apply a one-year "lookback" provision to the refundable credit's earnings test, and begin increasing the maximum benefit with inflation. We first summarize how this legislation would affect benefits for families based on their marital status, number of children, and earnings. Then we discuss how it would affect work and marriage incentives. We conclude by arguing that more research is needed to inform how behavioral responses to these changed incentives would ultimately shape the legislation's effects on employment, marriage, and family well-being.

The child tax credit (CTC) was enacted in 1997 to provide tax relief for families with dependent children.[1] Originally a nonrefundable credit that offset federal income tax liability, the CTC has expanded over time to become partially refundable—that is, available to taxpayers without a federal income tax liability to offset. Under existing law, the CTC provides a maximum nonrefundable credit of $2,000 per child under age 17. For taxpayers without sufficient federal income tax liability to claim the full nonrefundable credit, the CTC provides a refundable credit worth up to $1,600. The CTC's refundable portion phases in at 15 percent for each dollar in earnings above $2,500.

On January 31, 2024, the US House of Representatives passed H.R. 7024, the Tax Relief for American Families and Workers Act of 2024.[2] In addition to providing corporate tax relief, the legislation would change the CTC in four ways.

First, the maximum CTC benefit would be indexed to inflation. Second, the maximum refundable credit would increase to $1,800 immediately and would by 2025 equal the maximum nonrefundable credit, so taxpayers without sufficient income tax liability could receive the maximum CTC as long as their earnings were high enough. Third, the CTC's refundable portion would phase in at 15 percent times the number of

1 For a detailed legislative history, see Crandall-Hollick (2021).

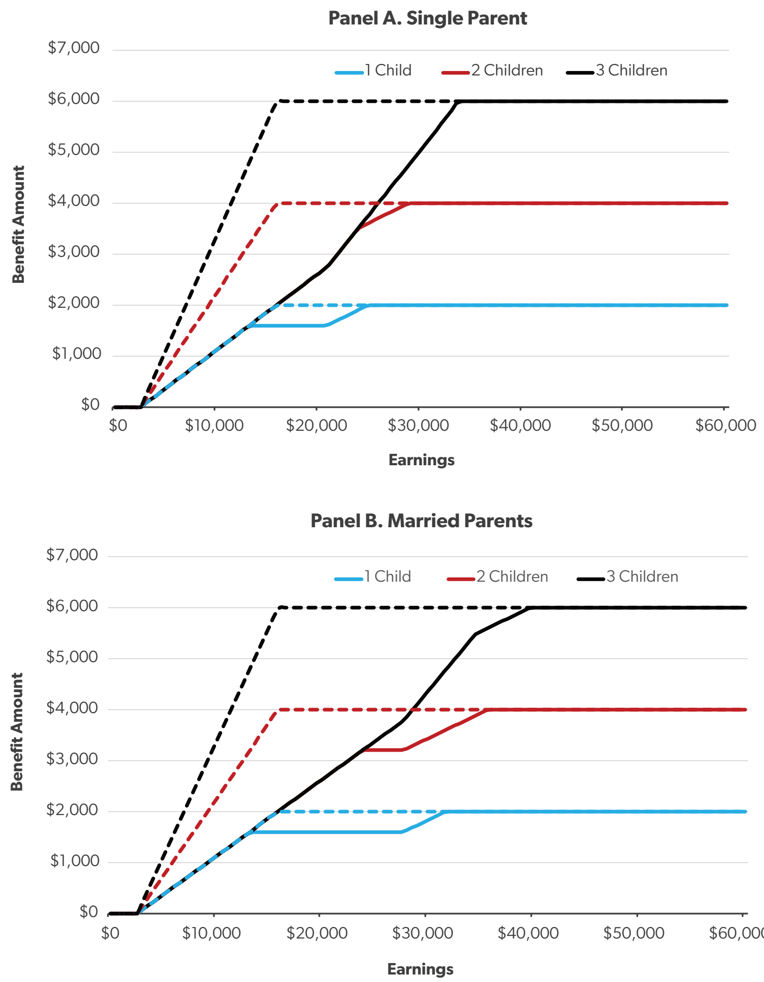
2 Tax Relief for American Families and Workers Act of 2024, H.R. 7024, 118th Cong., 2nd sess. (2023–24).

dependent children, so, for example, a family with three children would see its phase-in rate rise from 15 percent to 45 percent. Fourth, the refundable CTC would be calculated based on earnings in the previous tax year if doing so results in a higher credit.

The speed at which H.R. 7024 has progressed through Congress has spurred intense debate over its provisions, especially those regarding the CTC.[3] H.R. 7024 was first introduced in the House on January 17, 2024, and five days later, it passed out of the Ways and Means Committee. Just eight days later, on January 31, the House passed it in a 357–70 vote.

The legislation has since moved to the Senate for consideration, where its prospects are uncertain. Empirical analysis of the CTC changes has been sparse because of how quickly the legislation has progressed.[4] In this report, we analyze how the CTC changes would affect benefits for different types of families, employment incentives, and marriage incentives. We argue that the complicated effects on employment and marriage incentives warrant further research to estimate how the legislation as a whole would affect family well-being after considering behavioral responses. In the meantime, our early look at H.R. 7024's changes to the CTC provides some initial evidence to policymakers as they consider the legislation's merits.

Figure 1. The CTC by Marital Status and Number of Dependent Children Under Age 17, Under Existing and Proposed Law



Note: The solid lines represent benefits under existing law, and the dashed lines represent benefits under the proposed law (H.R. 7024). The proposed law assumes a maximum nonrefundable and refundable credit of $2,000 and a refundable credit equal to 15 percent of earned income times the number of dependent children, for earned income above $2,500. This figure does not model H.R. 7024's provision that calculates the refundable CTC based on prior-year earnings if doing so results in a higher CTC. For existing and proposed law, all other tax law parameters are based on those for tax year 2023.

Source: IRS (2023); Tax Relief for American Families and Workers Act of 2024, H.R. 7024, 118th Cong., 2nd sess. (2023–24); and authors' calculations.

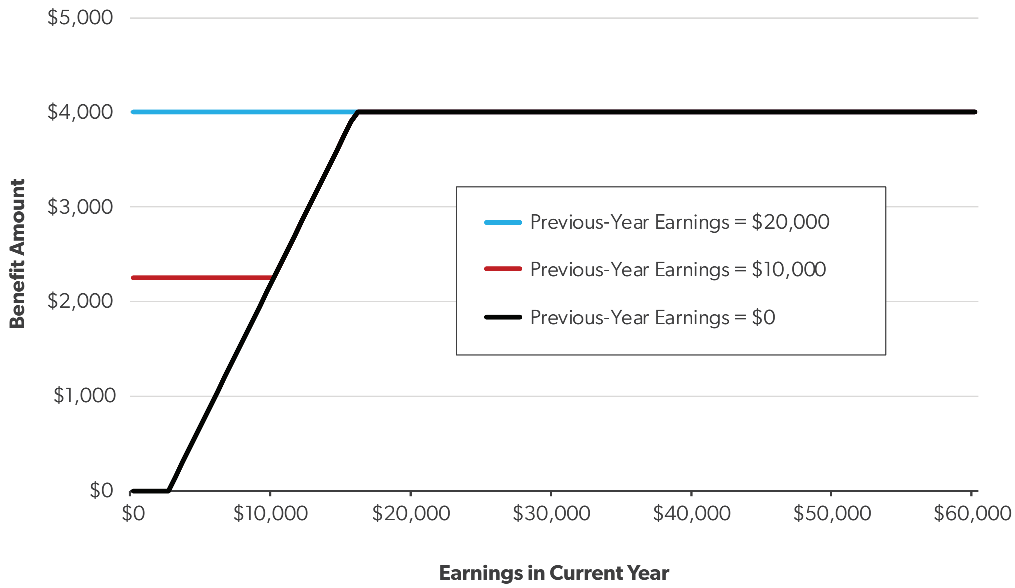
The Effect on Benefits for Families

We begin by illustrating how CTC benefits would change for families. We consider families with single or married parents and families with one, two, or three children. Figure 1 reports the CTC under existing law and the proposed law (H.R. 7024), considering the increase in the maximum refundable credit to $2,000 and the refundable credit's new phase-in rate equal to 15 percent times the number of dependent children.

3 See, for example, Wyden (2024) and Rubio (2024).

4 Exceptions include Corinth et al. (2024), Cox et al. (2024), and JCT (2024).

Figure 2. The CTC by Current-Year and Previous-Year Earnings for a Family with Two Dependent Children Under Age 17, Under the Proposed Law



Note: The proposed law assumes a maximum nonrefundable and refundable credit of $2,000 and a refundable credit equal to 15 percent of earned income times the number of dependent children, for earned income of above $2,500. All other tax law parameters are based on those for tax year 2023.
Source: IRS (2023); Tax Relief for American Families and Workers Act of 2024, H.R. 7024, 118th Cong., 2nd sess. (2023–24); and authors' calculations.

Families with one child would experience the smallest benefit increase, which would occur solely due to the increase in the maximum refundable credit. Families with three children would receive the greatest benefit increase, due mostly to the tripling of the refundable credit's phase-in rate. Married-parent families would benefit more than would single-parent families, because their higher standard deduction under existing law requires them to have a higher income before the nonrefundable CTC would be fully phased in. The proposed law would allow married-parent families to receive the full credit at the same income level as single-parent families, because the refundable credit would no longer be capped below the nonrefundable credit.

In Figure 2, we show how benefits would further change because of the one-year "lookback" provision, which would allow families to use their prior-year earnings to calculate the refundable portion of the CTC if doing so results in a higher benefit. Here we focus on families with two children and various earnings in the prior year. Under the proposed law, married- and single-parent families with two children would receive the same CTC benefit at any income level, so we do not present their benefits separately. As seen in Figure 2, a family with two children and $20,000 in earnings in the prior year (or, in fact, any earnings of $16,000 or more) will receive the full CTC in the current year regardless of their earnings this year. This is because their earnings in the previous year were sufficient to guarantee the full CTC this year.

Overall, H.R. 7024 would increase benefits the most for families with earnings of around $10,000–$25,000, especially those with multiple children, and for families that occasionally do not work in a given year. Because these families would probably be close to the poverty line when considering taxes and transfers, the policy would likely meaningfully reduce child poverty, before accounting for behavioral changes. For example, Cox et al. (2024) estimate that the policy would remove around half a million children from poverty once it fully took effect. However, existing analyses of poverty effects do not consider behavioral responses to the policy such as employment or marriage decisions. In the following sections, we explore how H.R. 7024's changes to the CTC could affect employment and marriage incentives, potentially altering the policy's effects on poverty and family well-being.

The Effect on Employment Incentives

H.R. 7024's changes to the CTC would have mixed effects on work incentives on the extensive margin (the decision to participate in work) and the intensive margin (the decision to work more hours).

From Figure 1 it is clear that, ignoring the one-year lookback provision, H.R. 7024 would strengthen extensive-margin work incentives, especially for families with multiple children. For example, for a single parent with three children who earns $20,000 annually, the legislation would increase the return to work by $3,375, equivalent to a 17 percentage point reduction in their average tax rate.[5] This strengthened work incentive is due to the faster phase-in and higher cap on the CTC's refundable portion.

Effects on extensive-margin work incentives would be smaller for families with the same earnings but fewer children, a $1,375 increase in the return to work for a single parent with two children and a $400 increase for a single parent with one child. Families with higher earnings of around $35,000 (more or less depending on marital status and the number of children) would experience no change in the extensive-margin incentive to work, at least not until the maximum nonrefundable CTC is increased with inflation above its current $2,000 level.

H.R. 7024 would also affect intensive-margin incentives, again ignoring the one-year lookback provision for now. Families with multiple children whose earnings place them on the phase-in portion of the CTC benefit schedule under the proposed law would experience a strengthened intensive-margin work incentive. For example, a single parent with two or three children and earnings of $10,000 would see their implicit marginal tax rate fall by 15 or 30 percentage points.

However, upon attaining the maximum CTC under the proposed law, families would face a weakened intensive-margin work incentive. Rather than benefiting families by continuing to phase in, the CTC would no longer reward families for additional work. The weakening of intensive-margin work incentives would amount to a 10–25 percentage point increase in the implicit marginal tax rate (depending on whether the refundable CTC, nonrefundable CTC, or both were phasing in under existing law at a given level of earnings).

The weakening of intensive-margin work incentives for families with modest income would be layered on existing disincentives to additional work. Figure 3 shows posttax, post-transfer income for a single parent with three children under existing law, after including H.R. 7024's increased CTC benefits.

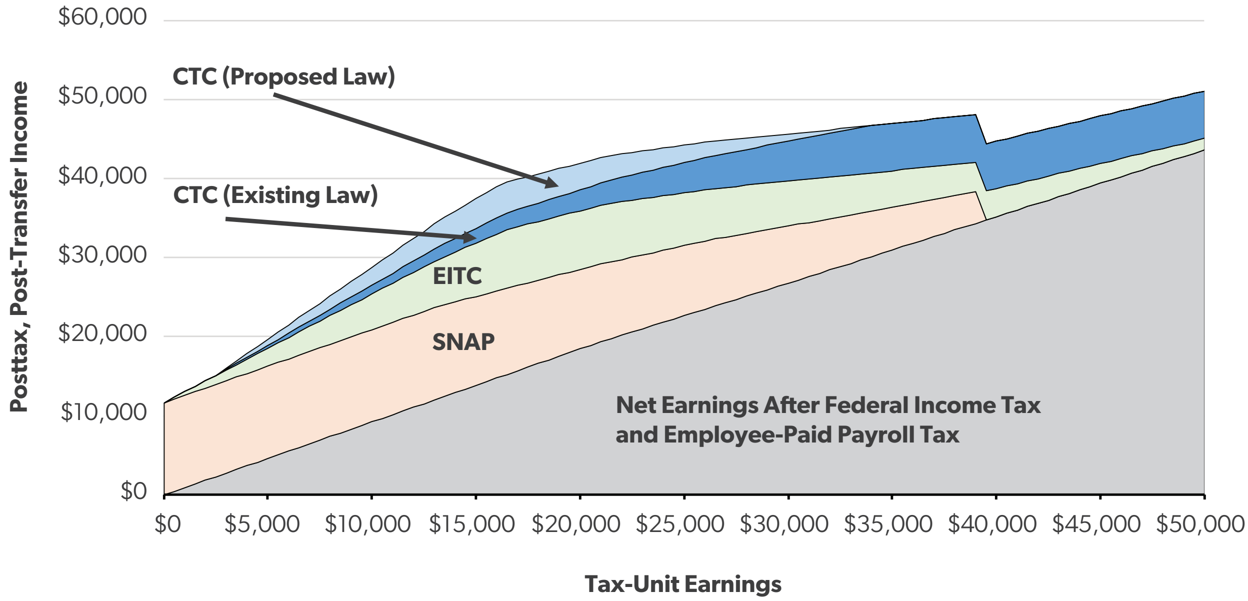
To understand how the legislation would weaken intensive-margin work incentives, consider a single parent earning $20 per hour and working 20 hours per week, making their annual earnings $20,000. Under existing law, if that single parent shifts to full-time work and earns an additional $20,000 per year, their posttax, post-transfer income rises by only about $6,200 due to federal taxes and the phaseout of the earned-income tax credit (EITC) and Supplemental Nutrition Assistance Program (SNAP). Under H.R. 7024, the single parent's posttax, post-transfer income would rise by even less, approximately $2,800. The effective implicit tax on shifting from part-time to full-time work would increase by 17 percentage points, from 69 percent to 86 percent. Considering other benefit programs such as rental housing assistance would result in an even higher implicit tax on increasing earnings.[6]

H.R. 7024's final provision would apply a one-year lookback for calculating the CTC's refundable portion. This provision would affect extensive- and intensive-margin work incentives differently for different workers. Conditional on working in the previous year, this provision reduces the incentive to work in the current year, because the CTC is already locked in. Assuming that a parent worked enough to receive the full CTC in

5 "Return to work" equals the change in income, accounting for taxes and transfers, due to working.

6 The Supplemental Nutrition Assistance Program (SNAP) benefit cliff affects the baseline effective implicit tax rate. SNAP rules dictate that a family loses eligibility for SNAP when its gross income exceeds 130 percent of the federal poverty line. For states with broad-based categorical eligibility, families could receive SNAP beyond this eligibility limit if they receive benefits from other specific programs. However, whether SNAP eligibility is maintained beyond the federal eligibility threshold does not affect how the effective implicit tax on working more would *change*; for the single parent with three children, it would still rise by 17 percentage points.

Figure 3. Posttax, Post-Transfer Income by Source and Tax-Unit Earnings for a Single Parent with Three Dependent Children Under Age 17, Under Existing and Proposed Law



Note: Earnings are net of federal income tax and the employee-paid portion of the federal payroll tax. We apply 2023 tax law, except for the CTC under the proposed law, H.R. 7024. For the proposed law, we assume that the refundable CTC phases in at 15 percent times the number of children for earned income above $2,500, and we assume that both the nonrefundable and refundable credits are capped at $2,000. This figure does not model H.R. 7024's provision that calculates the refundable CTC based on prior-year earnings if doing so results in a higher CTC. We apply SNAP benefit parameters that took effect starting October 1, 2023; assume monthly shelter costs of $1,500; and apply only the earned income deduction, standard deduction, and excess shelter cost deduction.
Source: IRS (2023); Tax Relief for American Families and Workers Act of 2024, H.R. 7024, 118th Cong., 2nd sess. (2023–24); FNS (2023); US Census Bureau (n.d.); and authors' calculations.

the previous year and is certain they will work the following year, the CTC's work incentive is fully eliminated in the current year. On the flip side, assuming a parent did not work in the previous year and is certain they will not work the following year, the CTC's work incentive is doubled in the current year, because they receive the CTC for the current year and the following year for working this year only.

The net effect on employment depends on how many parents currently work year in and year out—whose incentive to work every other year would fall—and how many parents are completely disconnected from the workforce—whose incentive to join the workforce every other year would rise. We estimate that about 9.3 million single parents and 7.7 million married parents who were the sole earner in their tax unit worked two years in a row in 2018–19 (Corinth et al. 2024). Over the same period, about 1.2 million single parents and 0.3 million married parents worked neither year in 2018–19. Applying elasticities from the academic literature that measure the responsiveness of work-participation decisions to extensive-margin work incentives, we estimate that in an average year, about 150,000 parents would exit employment on net. (Just over 350,000 would exit, while just under 200,000 would enter.)[7]

The one-year lookback provision would also affect intensive-margin incentives. Workers could increase their work hours one year and reduce them the following year, thereby increasing their total CTC across both years while holding total work hours constant. Of course, reallocating work hours across years may not be possible or desirable for many workers, but the incentives are meaningful for those whose hours are flexible.

7 For reviews of elasticity estimates for workers overall and single mothers in particular, see, for example, McClelland and Mok (2012), Chetty et al. (2013), and Nichols and Rothstein (2016).

For a worker with one child whose earnings place them on the phase-in portion of the CTC benefit schedule and who currently earns the same amount every year, increasing their earnings by $100 in the current year and reducing their earnings by $100 the following year would result in an extra $15 of CTC benefits across the two years. If the parent has three children, they could increase their CTC benefits by $45 by shifting $100 of their earnings to the first year from the second year. Thus, we may expect some shifting of hours even for parents who continue to work every year.

Overall, H.R. 7024 would have counteracting effects on work incentives. On the extensive margin, the faster phase-in rate for parents with multiple children and the increased maximum refundable and nonrefundable credits would strengthen the incentive to participate in work, while the one-year lookback on net would likely weaken the incentive to participate in work. Whether the net effect of all provisions on employment participation is positive or negative is unclear.

On the intensive margin, there would be an increased incentive to earn about $15,000–$20,000, equivalent to working 20 hours per week at an hourly wage of $15–$20. However, the incentive to increase earnings further would be substantially weakened, because once the CTC has reached its maximum, it can no longer offset other taxes or the phaseout of the EITC and SNAP. In addition, the incentive to work lumpy hours from year to year would increase.

The Effect on Marriage Incentives

As with employment, H.R. 7024's changes to the CTC would have mixed effects on marriage incentives, encouraging marriage for some parents and discouraging it for others. Unlike with employment, we do not consider the effect of the one-year lookback provision, since temporarily changing one's marital status is less likely than temporarily changing one's employment status.

Table 1 reports how H.R. 7024 would change the financial return to marriage for parents with different earnings and numbers of children. These values do not represent the baseline financial return to marriage, which can be positive or negative depending on changed tax and transfer benefits resulting from marriage. Rather, the values represent how that baseline financial return to marriage would change.

Table 1. Change in the Financial Return to Marriage due to H.R. 7024 for Parents with Various Earnings and Numbers of Children

		Change in the Financial Return to Marriage		
Mother's Earnings	Father's Earnings	One Child	Two Children	Three Children
$0	$0	$0	$0	$0
	$15,000	$275	$1,875	$3,750
	$30,000	$170	$570	$1,645
	$45,000	$0	$0	$0
$15,000	$0	$0	$0	$0
	$15,000	–$105	–$1,305	–$2,105
	$30,000	–$275	–$1,875	–$3,750
	$45,000	–$275	–$1,875	–$3,750
$30,000	$0	$170	$570	$690
	$15,000	$0	$0	–$955
	$30,000	$0	$0	–$955
	$45,000	$0	$0	–$955
$45,000	$0	$0	$0	$0
	$15,000	$0	$0	$0
	$30,000	$0	$0	$0
	$45,000	$0	$0	$0

Note: All children are assumed to live with and be claimed by the mother if the parents are unmarried. The father is assumed to have no additional children he can claim. The change in the financial return to marriage equals the financial return to marriage under H.R. 7024 minus the financial return to marriage under existing law. The financial return to marriage is equal to posttax, post-transfer income when married minus posttax, post-transfer income when unmarried. Because H.R. 7024 does not affect other parts of the tax code or transfer benefits, the change in the financial return depends only on the changes to the CTC. We consider 2023 tax law existing law. For H.R. 7024, we assume that the refundable CTC phases in at 15 percent times the number of children for earned income above $2,500, and we assume that both the nonrefundable and refundable credits are capped at $2,000. This table does not model H.R. 7024's provision that calculates the refundable CTC based on prior-year earnings if doing so results in a higher CTC.

Source: IRS (2023); Tax Relief for American Families and Workers Act of 2024, H.R. 7024, 118th Cong., 2nd sess. (2023–24); and authors' calculations.

For example, H.R. 7024 would raise the financial return to marriage for a nonworking single mother with three children by up to $3,750 if the father earned $15,000 (and had no additional children of his own). Meanwhile, the financial return to marriage would fall for working mothers with modest earnings. The financial return to marriage for a single mother earning $15,000 per year would fall by $3,750 if the father earned, for example, $30,000 or $45,000.

In general, nonworking mothers would see their financial return to marriage rise, and working mothers with moderate earnings would see their financial return to marriage fall, with no effect for mothers with higher earnings. These effects are largest for parents with more children because of the faster phase-in of CTC benefits, which makes earnings of about $15,000–$20,000 more valuable. H.R. 7024 would increase the reward for marriage when marrying causes earnings to reach this range. When marrying causes earnings to rise substantially higher, H.R. 7024 would lower the reward for marriage. This would occur because little of the CTC would be left to phase in to offset the additional taxes and phaseout of the EITC and SNAP that result from adding the spouse's earnings to the tax unit's income.

On net, we may expect H.R. 7024 to discourage marriage, because most single and married mothers work. Based on our calculations from the 2023 Current Population Survey Annual Social and Economic Supplement, 76 percent of single mothers and 74 percent of married mothers worked in 2022 (Flood et al. 2022; authors' calculations). However, the ultimate effect on marriage will depend on parents' earnings, their actual or potential spouses' earnings, and how responsive parents are to these changes in marriage incentives.[8]

Conclusion

Policymakers require accurate evidence to inform their decisions. That is especially the case with H.R. 7024, because the policy would significantly affect families, particularly those with lower incomes. The legislation would substantially increase CTC benefits for families with modest incomes and multiple children and for families whose parents work intermittently. While the increased resources for families and cost to the federal government that these changes entail are relatively clear, the policy's effects on employment and marriage incentives are much more complicated. Because behavioral responses to policy changes can mute or amplify those changes' effects on poverty and other aspects of well-being, it is important to incorporate behavioral responses when modeling a policy's effects.[9] We have taken a first step in that direction by showing how H.R. 7024 would affect incentives to work and marry.

Ultimately, however, policymakers require a full assessment of the CTC changes' likely effects on employment, marriage, and family well-being. Further research is needed to estimate how the change in incentives that we document would affect these outcomes. Given how quickly Congress has proceeded with H.R. 7024, time is of the essence.

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8 For a review of the literature on marriage incentives and their effects, see Wilcox, Gersten, and Regier (2019).

9 For example, Hoynes and Patel (2018) find that incorporating behavioral effects amplifies the poverty-reduction effects of the earned income tax credit, and Corinth et al. (2022) find that incorporating behavioral effects mutes the poverty-reduction effects of replacing the child tax credit with a child allowance.

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