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Child Tax Credit

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1   Current Policy

Under current law, taxpayers can claim a Child Tax Credit (CTC) of up to $1,000 for each child under 17 years of age. The credit amount is dependent on the tax unit's modified adjusted gross income. If the CTC is greater than the amount of taxes owed, taxpayers may be eligible for the partially refundable Additional Child Tax Credit (ACTC).

2   Reform Options

Here we use the open source Tax-Calculator to simulate increasing the CTC by $500, decreasing it by $500, and eliminating it entirely. The simulations used are a partial equilibrium analysis with uses an elasticity of taxable income of 0.4.

Elasticity of Charitable Giving	Taxpayers Receiving Tax Hike (millions)	Itemizers (millions)	Wght. Ave. MTR on Charitable Contributions	Total Charitable Contributions (billions)	10-Year Revenue Change (billions)
Current Law	0.0	44.8	-23.84	$210.3	$0.0
Increase CTC by $500	0.1	44.8	-23.84	$210.3	($242.2)
Decrease CTC by $500	31.9	44.8	-23.84	$210.3	$260.3
Eliminate CTC	33.8	44.8	-23.84	$210.3	$519.6

3   Comments

- Under current law, we expect 44.8 million taxpayers to claim the CTC in 2017.

- The number of tax units claiming the CTC declines by 0 percent when it is increased by $500. When the CTC is reduced by $500, the number of tax units claiming it decreases by 0 percent. Eliminating the CTC causes 44.8 million tax units to lose the benefit.

- Increasing the CTC by $500 is base-narrowing, increases the number of tax units paying no income tax by 2 percent. When the CTC is decreased by $500, the number of tax units paying no income tax decreases by -2 percent. When the CTC is eliminated, the number of tax units paying no income tax decreases by -5 percent

- When the CTC is increased by $500, 30.3 million people receive tax cuts. When the CTC is decreased by $500, 31.9 million people receive a tax increase.

- 4.6 million people face lower marginal tax rates when the CTC is increased by $500, while 2.3 million people will face higher marginal tax rates.

- Increasing the CTC by $500 costs ($257.5) billion over ten years, while decreasing the CTC by $500 will save $283.6 billion.

4 Modeling Notes

4.1 Tax-Calculator

Tax-Calculator is an open source microsimulation tax model that computes federal individual income taxes and Federal Insurance Contribution Act (FICA) taxes for a sample of tax filing units for years beginning with 2013. The model can be used to simulate changes to federal tax policy to conduct revenue scoring, distributional impacts, and reform analysis. As an open source model, Tax-Calculator is under constant development and improvement. Therefore, the results reported in this paper will change as imporvements are made. The model relies on data from the 2009 IRS Public Use File (PUF). These results were generated using of Tax-Calculator Version 0.8.3.

4.2 Modeling Assumptions

The simulation is a partial equalibrium analysis that uses an elasticity of taxable income of 0.4. The baseline is adjusted by changing the CTC cap.

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