

MEMORANDUM February 25, 2015

**To:** Senate Judiciary Committee

Attention: Legislative Counsel

From:

**Subject:** Amount of the Child Tax Credit and Earned Income Tax Credit for a Hypothetical

Family, 2011-2014

This memorandum responds to your request for the amount of the earned income tax credit (EITC) and the child tax credit (CTC) that a hypothetical family could receive in 2011, 2012, 2013, and 2014. Specifically, you were interested in the value of these credits for a married couple with three and four children. In addition, you requested that for every year, the family's income be equal to the maximum amount of earnings a taxpayer could have and still receive the maximum amount of the EITC. This income level is often referred to as the "phase-out threshold amount" and is adjusted annually for inflation. (By definition, once a taxpayer's income is greater than the phase-out threshold amount, the value of the EITC begins to fall, until it reaches zero).

In order to calculate the value of these credits, several assumptions were made. First, the family was assumed to be eligible for both the EITC and the CTC for every year specified. Second, every child was assumed to be a qualifying child for both credits. Third, all of the taxpayer's earnings were eligible for determining the credit. Finally, this married couple filed their taxes jointly.

<sup>&</sup>lt;sup>1</sup> For a detailed overview of the eligibility requirements for each credit see CRS Report R43805, *The Earned Income Tax Credit (EITC): An Overview*, by Gene Falk and Margot L. Crandall-Hollick and CRS Report R41873, *The Child Tax Credit: Current Law and Legislative History*, by Margot L. Crandall-Hollick.

<sup>&</sup>lt;sup>2</sup> The definition of qualifying child for the EITC and the child tax credit do differ. For example, an eligible child for the child tax credit must be under 17 years of age, while a qualifying child for the EITC must be under 19 years of age, or under 24 if a full-time student. In addition, taxpayers must provide the social security numbers (SSNs) of children in order to claim the EITC, while they can provide either an individual taxpayer identification number (ITIN) or SSN for the child to claim the child tax credit. For a more detailed overview of the definition of qualifying children for these credits see CRS Report R43805 and CRS Report R41873.

<sup>&</sup>lt;sup>3</sup> Certain forms of income are not considered earnings for the purpose of the EITC. These include pension and annuity income, income of nonresident aliens not from a U.S. business, income earned while incarcerated for work in a prison, and TANF benefits paid in exchange for participation in work experience or community service activities. In addition, tax filers who claim the foreign earned income exclusion (i.e., they file Form 2555 or Form 2555EZ with their federal income tax return) are ineligible to claim the EITC.

The value of the credits is provided in **Table 1**. Since it is assumed that the family's income equaled the "phase-out threshold amount," the family would by definition receive the maximum EITC for a family with three or more children. The maximum amount of the EITC, as well as other inflation adjusted parameters of the credit (and other provisions of the tax code), are published in Internal Revenue Service (IRS) revenue procedures.<sup>4</sup>

The child tax credit is effectively calculated as 15% of earnings above \$3,000, not to exceed the maximum amount of the credit.<sup>5</sup> (The *maximum* amount of the child tax credit is the number of qualifying children multiplied by \$1,000.) For example, in 2013, the value of the child tax credit would be calculated as 15% of \$19,870 (\$22,870 minus \$3,000), equaling \$2,981 as illustrated in **Table 1**. In 2014, the child tax credit is calculated using the same formula (15% of \$20,260 (\$23,260 minus \$3,000)). Using the formula, the credit would be equal \$3,039. However, if the family has three qualifying children, the credit cannot exceed \$3,000, and hence this family's child tax credit would be \$3,000. If the family had four qualifying children, in contrast, the child tax credit in 2014 would be \$3,039 as illustrated in **Table 1**.Unlike the EITC, the amount of the child tax credit is not indexed for inflation.

Table 1. Amount of the EITC and Child Tax Credit for a Stylized Taxpayer, 2011-2014
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	Earned	EITC		Child Tax Credit		Total of EITC & Child Tax Credit	
Year	Income	3 Children	4 Children	3 Children	4 Children	3 Children	4 Children
2011	\$21,770	\$5,751	\$5,751	\$2,816	\$2,816	\$8,567	\$8,567
2012	\$22,300	\$5,891	\$5,891	\$2,895	\$2,895	\$8,786	\$8,786
2013	\$22,870	\$6,044	\$6,044	\$2,981	\$2,981	\$9,025	\$9,025
2014	\$23,260	\$6,143	\$6,143	\$3,000	\$3,039	\$9,143	\$9,182

**Source:** CRS calculations based on Internal Revenue Code section 32 and 24 and Internal Revenue Procedures II-I2, II-52, I3-5 & I3-35

**Notes:** Earned income is equal to the maximum earned income a married taxpayer can have and still receive the maximum EITC amount.

**Figure 1** provides a graphical representation of the amount of the EITC and child tax credit by earnings for a married couple with three children in 2014. As this figure shows, the EITC gradually increases to its maximum value of \$6,143, remains constant at this maximum value, and then begins to fall in value when earnings exceed the phase-out threshold amount of \$23,260. In addition, the child tax credit reaches its

<sup>4</sup> The maximum EITC amount for 2011 through 2014 can be found in Revenue Procedure 11-2, 11-52,13-5 and 13-35 available at http://www.irs.gov/pub/irs-drop/rp-11-12.pdf, http://www.irs.gov/pub/irs-drop/rp-11-52.pdf, http://www.irs.gov/pub/irs-drop/rp-13-52.pdf, and http://www.irs.gov/pub/irs-drop/rp-13-35.pdf.

<sup>&</sup>lt;sup>5</sup> Currently, eligible families that claim the child tax credit can subtract up to \$1,000 per qualifying child from their federal income tax liability. If a family's tax liability is less than the value of their child tax credit, they may be eligible for a refundable credit calculated using the earned income formula, which is 15% of earnings above \$3,000. Given the low income of the family in this example, they will calculate the credit using the earned income formula.

maximum value of \$3,000 when earnings equal \$23,000. The child tax credit does not begin to fall in value until income is greater than \$110,000 for a married couple filing jointly. Hence, when this family's income is between \$23,000 and \$23,260 they will receive the maximum combined credit of \$9,143.

amount of credit \$10,000 \$9,000 EITC & child tax credit \$8,000 **EITC** \$7,000 \$6,000 \$5,000 \$4,000 \$3,000 child tax credit \$2,000 \$23,260 \$1,000 \$0 \$0 \$10,000 \$20,000 \$40,000 \$50,000 \$30,000 earnings

Figure 1. Amount of the EITC and Child Tax Credit for a Married Couple with Three Children in 2014, by Earnings

**Source:** CRS calculations based on Internal Revenue Code section 32 and 24 and Internal Revenue Procedures 11-12, 11-52, 13-5 & 13-35