

## The Federal Child Tax Credit

### *What is the federal child tax credit?*

Parents may claim a credit against federal income tax for each qualifying child under age 17. The maximum per-child credit amount was \$1,000 for tax year 2017.

The 2017 Tax Cuts and Jobs Act (TCJA) increased the credit to \$2,000 and provided a nonrefundable credit of \$500 for other qualifying dependents (i.e., other than children under 17). The TCJA repealed the dependent exemption allowance, so the changes to the child credit partially compensate for that change. The TCJA also modified the refundability of the credit (as described below). The changes are effective for tax year 2018, and expire for tax years 2026 and later.

### *Are there income limitations?*

In tax year 2017, the credit is reduced by \$50 for every \$1,000 of income over \$110,000 of adjusted gross income for married joint filers and \$75,000 for head of household filers. A married couple filing jointly with two children under age 17 will become ineligible for the credit when their income exceeds \$149,000; a single parent claiming the credit for one child will become ineligible when income exceeds \$94,000. Beginning in tax year 2018, the credit will phase out for married joint taxpayers with adjusted gross income in excess of \$400,000 and other taxpayers with adjusted gross income in excess of \$200,000. This change was part of the TCJA.

### *Is the credit refundable?*

The child credit is partly refundable; the refundable portion is referred to as the “additional child tax credit.” In tax year 2017, the additional child tax credit equals the greater of:

- 15 percent of earned income over \$3,000, or,
- for families with three or more children, payroll taxes in excess of the federal earned income tax credit.

For example, a married couple with two children under age 17 and \$40,000 of income is eligible for \$2,000 in child tax credits, \$1,000 for each child. If the couple claims the standard deduction, their federal income tax will equal \$1,110 in 2017. They use \$1,110 of their \$2,000 credit to reduce their liability to \$0. They may claim up to 15 percent of their earnings in excess of \$3,000 as a refund. Assuming all \$40,000 of their income is from wages, that means they would be eligible to claim up to \$5,550 of the remaining credit as a refund (15 percent of \$40,000, minus \$3,000, equals \$5,550). The result is that they claim \$1,110 as an offset to their tax liability and are paid the remaining \$890 as a refund.

Beginning in tax year 2018, the TCJA decreased the earned income threshold in the refundability calculation from \$3,000 to \$2,500. The TCJA also limited the portion of the per-child credit that is refundable to \$1,400 (rather than the full \$2,000 amount).

***How much do Minnesotans claim?***

In tax year 2015, 412,780 federal income tax returns filed by Minnesotans claimed \$551 million in the nonrefundable portion of the federal child credit. The average amount claimed was \$1,336. For the same year, 230,100 returns filed by Minnesotans claimed \$316 million under the refundable additional child credit. Some of these returns also claimed the nonrefundable portion of the credit. The average additional child tax credit (the refundable portion) was \$1,375.

***How does Minnesota compare with other states?***

Nationwide, 14.9 percent of all income tax returns claimed the child credit, compared with 15.1 percent in Minnesota. The average amount of the nonrefundable portion claimed nationwide was \$1,209, compared with \$1,336 in Minnesota. Since the credit is only partly refundable, the larger average amount claimed on Minnesota returns may result from Minnesotans having above-average incomes, and consequently more federal liability available to be offset by the child credit. Utah had the highest average nonrefundable portion, at \$1,543, and the District of Columbia had the lowest, at \$964.

The average amount of the refundable portion claimed nationwide was \$1,344, compared with \$1,375 in Minnesota. Utah had the highest average refundable portion, at \$1,598, and Massachusetts had the lowest, at \$1,190.

***How has the credit amount changed over time?***

The credit was enacted in 1997 and equaled \$400 per child in tax year 1998, increased to \$500 in 1999, \$600 in 2001 and 2002, and \$1,000 beginning in 2003. The \$1,000 credit amount was made permanent in 2012. The 2017 TCJA increased the credit to \$2,000 and made several additional changes discussed above; these changes are effective for tax year 2018 and expire in tax year 2026. The TCJA also required taxpayers to include a Social Security number for each child claimed on the tax return.

***What is the history of the credit's refundability?***

When first enacted, the child credit was only refundable for taxpayers with three or more children, and only to the extent that their payroll taxes exceeded the federal earned income tax credit. The implicit rationale was that the refundable portion of the federal earned income tax credit was first used to offset payroll taxes for Social Security and Medicare, and then any payroll taxes left over after the federal earned income tax credit could be offset by the federal child credit.

In 2001 the refundable portion was changed to be the greater of:

- 15 percent of earned income over a minimum amount for all families regardless of the number of children, or,
- for families with three or more children, payroll taxes in excess of the federal earned income tax credit (the provision that was already in law).

The minimum amount is set at \$3,000 through tax year 2017, and the TCJA of 2017 reduced the minimum amount to \$2,500.

**For more information:** Contact legislative analyst Sean Williams at [sean.williams@house.mn](mailto:sean.williams@house.mn).

The Research Department of the Minnesota House of Representatives is a nonpartisan office providing legislative, legal, and information services to the entire House.