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Tax Support for Families with Children: Key Tax Benefits, Their Impact on Marginal and Average Tax Rates, And an Approach to Simplification 2017 Law

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TAX SUPPORT FOR FAMILIES WITH CHILDREN: KEY TAX BENEFITS, THEIR IMPACT ON MARGINAL AND AVERAGE TAX RATES, AND AN APPROACH TO SIMPLIFICATION 2017 LAW

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The tax code provides several different benefits to families with children. As a result of these benefits, taxpayers with dependent children pay lower federal income taxes than similar families without children, and many receive substantial refunds. This paper describes these benefits and their effect on the taxes of the families who receive them in a series of tables and figures. The tables and figures show how the provisions interact to affect the final tax liability of the families benefitting from them. After illustrating ways that the current law provisions are complicated, paper presents an alternative set of credits that could replace the main current law benefits with an aim toward simplifying the tax benefits for families. This exercise shows one way that consolidating and simplifying tax benefits could be achieved. However, the exercise also demonstrates that simplification is not possible without imposing a tax increase on some families or by reducing income tax revenue.

Keywords: Earned Income Tax Credit, Child Tax Credit Marginal Tax Rates, Simplification

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Introduction

The tax code provides several different benefits to families with children. As a result of these benefits, taxpayers with dependent children pay lower federal income taxes than similar families without children, and many receive substantial refunds. This paper describes these benefits and their effect on the taxes of the families who receive them.

The first section of the paper describes the main provisions that support families with children with a focus on the main personal credits[5] and presents tables showing the distribution of each benefit by adjusted gross income. The second section of the paper presents figures that show the marginal and average tax rates[6] faced by typical families with different incomes who claim child-related benefits. The amount of tax support provided to the family due to the presence of the dependent child is also shown. The third section presents a simplified set of credits that would replace the benefits described in the previous two sections. This exercise demonstrates how consolidating and simplifying the family related tax provisions cannot be achieved without imposing a tax increase on some families or reducing income tax revenue. The fourth section concludes.

Section 1: Description and Analysis of the Main Tax Provisions Supporting Families with Children.

The main provisions that provide support to families with children are the dependency exemption, the opportunity for unmarried individuals with children to file as a head of household, and a set of targeted personal credits. Except where noted, parameters are indexed for inflation, and the estimated values for tax year 2017 are provided. Estimated benefits and counts of families receiving benefit are for tax year 2017.[7]

The definition of a qualifying child varies across the different tax provisions. In particular, the support test, which requires that a child not provide more than half of his own support, is only required for a subset of tax provisions. In addition, the age restriction varies across the tax provisions and only the Earned Income Tax Credit (EITC) requires the child to

[5] Some analysis of the education credits is included in this paper because a large share of the benefits claimed is on behalf of dependent children. For a more detail about the tax benefits for education, see *Tax Expenditures for Education* in this series.

[6] The marginal tax rate is the change in tax caused by an additional unit of income. The average tax rate is total taxes as a proportion of income.

[7] Throughout this paper, taxpayers are considered to benefit from a provision (or set of provisions) if they pay at least five dollars less in taxes than they would have paid in absence of the provision (or set of provisions).

have a Social Security Number (SSN). For all the provisions discussed below, the child is required to satisfy a relationship and residency test. [8] These eligibility criteria are summarized in Appendix Table A1.

Personal exemptions. Taxpayers may claim an exemption of $4,100 for each taxpayer and for each dependent child or dependent relative supported by the taxpayer. The exemptions lower the amount of income subject to tax, and therefore the amount of tax owed. A dependent child is a child under age 19 or under 24 if attending school full-time for at least five months of the year; there is no age limit for a child who is permanently disabled. In general, the child must reside with the taxpayer, and must not be supporting herself.[9] Subject to additional credit-specific requirements, dependent children are qualifying children for all of the family benefits discussed in this paper.[10] The personal exemptions phase out at incomes in excess of $262,200 (single filers), $288,400 (head of household filers), and $314,650 (joint filers). Table 1 shows the distribution of the benefit to families from being able to claim an exemption for dependent children by adjusted gross income (AGI). An estimated 38.5 million families receive $43 billion in benefits with an average benefit of $1,116. Because the value of the personal exemption is increasing with the taxpayer's marginal tax rate, it is increasing with income. Families earning less than $50,000 receive an average benefit of $697 and families earning more than $100,000 receive an average benefit of $1,736.

Head of household filing status. Unmarried taxpayers who maintain a home for a dependent child may be eligible to file as a head of household, instead of as a single filer. [11] Head of household status has a higher standard deduction and income is taxed under a separate rate structure that is more generous than the rate structure available to single filers. Table 2 shows the

[8] The relationship test states that the child must be the taxpayers, son, daughter, stepchild, foster child, brother, sister, stepbrother, stepsister, or a descendant of any of these individuals to qualify the taxpayer for the dependent exemption, child tax credit, and EITC. The residency test requires the child to reside with the taxpayer for at least half the year to be claimed for the dependent exemption, the child and dependent care tax credit, the child tax credit, and the EITC.

[9] Temporary absences (e.g. to attend school) do not count as time away and there are special rules for parents who are separated or divorced.

[10] A dependent relative may be any age, but must have income less than the exemption amount and must be supported by the taxpayer. A dependent relative may qualify the taxpayer for a CDCTC and/or head of household status but otherwise will not affect the taxpayer's eligibility for the benefits discussed in this paper.

[11] In certain cases, a married taxpayer with children may be considered unmarried for tax purposes – the taxpayer must live apart from his or her spouse for the last six months of the year, be maintaining the household where the children reside for more than half the year, and be able to claim the children as dependents.

distribution of the benefit of head of household filing status by AGI.[12] An estimated 14.3 million families receive $9.6 billion in benefits with an average benefit of $669. As with the personal exemption, the value of head of household filing status rises with marginal tax rates. As a result, the average tax support from head of household filing status increases with income: heads of household with $50,000 in income or less receive an average benefit of $416 while returns with at least $100,000 of income receive an average benefit of $1,846. Although the average benefit is greater among higher income families, most families benefitting from head of household status are low-income. In particular, 9.6 million families with AGI below $50,000 benefit from the head of household filing status out of a total of 14.3 million families that benefit.

Child credit (CTC) and additional child tax credit (ACTC). Taxpayers may be eligible for a partially refundable child credit of $1,000 for each dependent child under age 17. In general, the child credit is non-refundable, but taxpayers with insufficient tax liability may claim the refundable additional child tax credit equal to 15% of earned income in excess of $3,000 up to the value of the unused portion of the child credit. The child credit phases out beginning at $75,000 ($110,000 for married filers) of modified AGI. None of the CTC or ACTC parameters are indexed for inflation. Table 3A shows the distribution of benefits by AGI category for the combined CTC and ACTC. Table 3B separately shows the benefits from the refundable portion. An estimated 34.8 million families receive $54.3 billion in benefits with an average benefit of $1,558. Unlike the dependent exemption and head of household filing status, the benefits of tax credits are not increasing in marginal tax rates. In addition, the ACTC is refundable and the CTC is phased out for higher-income taxpayers. As a result, the average benefit is about the same for taxpayers across the income distribution, except for higher-income families who do not receive it; and the CTC and ACTC are progressive, in that their benefit constitutes a greater share of after-tax income for lower income families than for other families. An estimated 19.4 million families, 55.7% of the total number of families with eligible children, receive at least some of their total child credit as a refund.

[12] Taxpayers who maintain a home for a dependent relative other than a child may also claim the head of household filing status. Table 2 includes a small number of families without children who are maintaining homes for dependent relatives.

Earned income tax credit (EITC). Taxpayers may be eligible for a refundable earned income tax credit. The credit phases in with earned income, remains constant over a range of earned income, and then phases out on the greater of earned income and AGI. The credit begins to phase out at a higher income level for married taxpayers to counteract work disincentives faced by the secondary earner. The credit is more generous for families with more children.[13,14] Taking the one-child case as an example, the credit phases in at a rate of 34% of income up to $10,030 and a maximum credit of $3,410. Beginning at $18,390 ($23,990 for joint filers) of income, the credit begins phasing down at a rate of 15.98%, phasing out completely at incomes over $39,730 ($45,330 for joint filers). The full parameter schedule for all family sizes and marital status is in Appendix Table A2. In 2017, the maximum EITC for taxpayers without children is $511 while the maximum EITC for taxpayers with three or more children is $6,336. Children may qualify the taxpayer for the EITC even if the child is self-supporting so long as the other qualifying requirements (relationship, residence, age, and SSN) are met. Table 4 shows the distribution of this credit by AGI.[15] An estimated 27.2 million families receive $64.3 billion in benefits with an average benefit of $2,367. As is obvious from the phaseout and refundability provisions, the benefit of the EITC is heavily concentrated at the lower end of the income distribution; no family with income greater than $60,000 benefits from the EITC.

Child and dependent care credit (CDCTC). Taxpayers with child care expenses may be eligible for a nonrefundable child and dependent care tax credit. The maximum credit is for 35% of up to $3,000 of child care expenses for one child and $6,000 for two or more children. The credit rate phases down beginning at incomes over $15,000 until it reaches 20% at incomes in excess of $43,000. CDCTC parameters are not indexed. The credit is generally available for working taxpayers with children under age 13 who are not supporting themselves, but is also available for working taxpayers supporting their parents or other dependents needing care. The credit parameters and the income limits are not indexed. Table 5 shows the distribution of this credit by

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[13] There are four different EITC schedules, for those with zero, one, two, and three or more qualifying children.
[14] Married taxpayers must file jointly in order to claim the EITC; married filing separately couples are not eligible for this credit.
[15] Table 4 includes 7.3 million families and individuals who receive a benefit of $2.2 billion in EITC for workers who do not claim a qualifying child.

AGI.[16] An estimated 6.3 million families receive $3.5 billion in benefits with an average benefit of $555. This credit provides benefits to families with children at all income levels, although the benefit structure is progressive in that benefits fall as a proportion of income as income rises.

Education credits. Taxpayers with education expenses may be eligible for one of two credits for expenses paid on behalf of themselves or their dependent children. Taxpayers may claim an American opportunity tax credit (AOTC) of up to $2,500 per student, with up to 40% of the credit being refundable. The credit phases out beginning at $80,000 ($160,000 for joint filers) of income and is available for four years. To be eligible for the AOTC, the student must attend school at least half-time. Taxpayers may also claim a lifetime learning tax credit (LLTC) for 20% of up to $10,000 of tuition and required fees per year per return. This credit phases out beginning at $56,000 ($112,000 for joint filers) of income and is available to part-time students. There is no limit on the number of years that a student is eligible for the LLTC. In any given year, a taxpayer may only claim one credit for each student in the family for whom there are education expenses.[17] The phase-out range for the LLTC is indexed. Neither the phase-out range for the AOTC nor the other parameters of the AOTC or LLTC are indexed. Although these credits are not aimed solely at dependent children, most of the AOTC benefits and a substantial share of the LLTC benefits are claimed by parents who paid these expenses on behalf of their dependent children. Table 6 shows the distribution of education credits by AGI.[18] An estimated 13.3 million families receive $20.1 billion in benefits with an average benefit of $1,511. Because the AOTC does not phase out completely until income hits $90,000 for single filers and $180,000 for joint filers, and education expenses tend to rise with income, the education credits provide benefits across most of the income distribution. Only those with very high income (e.g., AGI above $200,000 in the table) receive no benefit. Nonetheless, the benefits are mildly progressive because benefits as a proportion of income are somewhat larger at lower than at higher income levels.

[16] Table 5 includes a small number of families who have expenses for the care of disabled dependents other than their young children.
[17] In years prior to 2016, taxpayers may also have chosen to claim a tuition deduction instead of a tuition credit. Because this benefit is scheduled to expire at the end of 2016, it is not included in this analysis.
[18] Table 6 includes families with qualifying education expenses for themselves as well as for their children.

Section 2: Marginal and Average Tax Rates and Tax Support for Families with Children

The amount of income tax owed and tax benefits received at any level of income is determined by the interaction of the taxpayer's income and filing status with the other characteristics of the taxpayer's family. This paper continues with five figures showing the marginal and average tax rates faced by five typical family types with different incomes, who are claiming child-related tax benefits. For families with children, the total amount of tax support provided to the family due to the presence of that dependent is also shown. These figures show estimates for 2017.

In order to produce these figures, a number of simplifying assumptions about the families were made. First, the examples assume that all income is earned income (e.g., wages) and families are only eligible for the benefits listed above. Second, taxpayers may claim a standard deduction that varies with filing status or itemize deductions. The examples assume that 18 percent of family income will be spent on expenses that would qualify for an itemized deduction, and that the family itemizes when it is tax beneficial to do so. Because itemized expenses and therefore deductions rise with income (at a rate of 18 percent), the marginal tax rate for itemizers is reduced by 0.18 times the statutory tax rate. The presentation also includes a simplified alternative minimum tax which reduces the value of itemized deductions and personal exemptions. Other tax provisions ("PEP" and "Pease") reduce or phase-out the value of personal exemptions and itemized deductions, but at higher levels of income than shown on these graphs. The figures are illustrative and do not account for the specific circumstances of any actual family that would affect their tax liability.[19]

Figure 1 presents the marginal and average tax rates faced by a single filer. The actual marginal tax rate deviates from the statutory marginal rate schedule due to the EITC and itemization. The EITC decreases the marginal tax rate as the credit phases in, and increases it as the credit phases out. Itemization drops the rate of tax on the last dollar earned, as discussed above.

[19] Marginal tax rates are calculated based on thousand dollar earnings increments, except in Figure 1 which (without loss of comparability) uses hundred dollar increments in order to conform to the lower income scale on the horizontal axis.

Figure 2 presents the marginal and average income tax rates faced by a married filer with one dependent child and no child care expenses. The figure also presents the amount of tax support the family receives as a result of the child. Key components of the marginal tax rate are the large negative tax rates as the EITC and ACTC phase in followed by a high marginal rate as the EITC phases out; a drop in the marginal tax rate due to itemizing; a temporary increase in the marginal tax rate as the child credit phases out; and a loss of any further tax support on behalf of the child as the family enters the alternative minimum tax (AMT) and marginal rates rise slightly.

Figure 3 repeats Figure 2 for a head of household filer with one dependent child and no childcare expenses. The marginal rate graph in Figure 3 shares all of the key features seen in Figure 2, but with a less generous underlying statutory marginal rate schedule and lower income levels for credit phase-outs. The amount of tax support for this family type includes the added element that the child creates eligibility for head of household status, and thus a more generous rate schedule than applies to other unmarried taxpayers. The portion of the tax support due to the difference in schedules is shown in a lighter shade than the portion due to the remaining child-related provisions.

Figure 4 presents the marginal and average tax rates faced by a married filer with a dependent student who is assumed to have sufficient education expenses to qualify for the maximum credit. The figure also presents the amount of tax support the filer receives as a result of the student. Key differences between this figure and Figure 2 are the large initial benefit from the refundable portion of the AOTC, which affects tax support but not marginal rates; no eligibility for the child credit; and high marginal tax rates as the AOTC phases out.

Figure 5 presents the marginal and average tax rates faced by a head of household filer with one dependent child and sufficient child care expenses to qualify for the maximum child and dependent care credit. The figure also presents the amount of tax support the filer receives as a result of the child. Key differences between this figure and Figure 3 are the higher marginal rates for taxpayers earning modest incomes as the child and dependent care credit phases down, and the additional benefit from this credit affecting taxpayers at all but the lowest levels of income.

Section 3: A Proposal to Simplify the Family Credits

As described in Section 1, there are multiple tax provisions providing support to families with children. This creates complexity because each tax provision has its own unique structure and each one targets a different, but overlapping population. This, in turn, results in the complicated marginal tax rate schedules and sharp peaks and troughs in the tax support provided by income as depicted in Section 2. In addition, the current set of provisions creates work disincentives for non-working and lower-earning spouses because the introduction of a second earner (or an increase of hours by the second earner) would move the family income into a region of higher marginal tax rates.[20]

Policy makers have long recognized the challenges to tax efficiency that result from the policy decision to provide benefits to families through the tax code. Since 2000, there have been many calls for reform focusing on simplifying definitions, improving incentives for second earners, and consolidating the credits. For example, Holtzblatt and McCubbin (2003) discuss the costs and benefits of unifying the definition of a child across the different family-related tax provisions. Their work summarizes the policy discussion that ultimately led to the passage of the uniform definition of a child included in the Working Families Tax Relief Act of 2004.[21] Maag's 2010 work on this topic highlights ways that complexity remains even after passage of these simplification measures. Maag (2011) and Kearney and Turner (2013) directly address work disincentives faced by second earners in families with modest incomes and propose alternatives. Finally, the President's Advisory Panel on Federal Tax Reform (2005) proposes to consolidate many of the family related provisions into a work credit and family credit. This basic structure, a work-based credit combined with a single family-based credit, has influenced many subsequent proposals, including the President's Economic Recovery Advisory Board (PERAB) report on tax reform (2010) and Maag (2015).

In this section of the paper, we demonstrate the difficulty of simplifying the current set of tax provisions targeted to families. We present a proposal that captures many of the features desired by policy makers to illustrate that simplification cannot be achieved without imposing a tax increase on some families and without losing substantial revenue. Like the proposals in the

[20] For a more detailed discussion of the income tax treatment of married couples, see the "Income Tax Treatment of Married Couples", U.S. Treasury (2016).
[21] Public Law 108-311.

President's Advisory Panel report and the PERAB report, the proposal centers around a refundable work credit and a nonrefundable child/dependent credit.

For this exercise, we repeal the personal and dependent exemptions, the head of household filing status, the CDCTC, the CTC, the ACTC, and the EITC.[22] These provisions are replaced with a non-refundable family credit, a refundable work credit, and a refundable second earner credit. The structure of the replacement credits is simpler than the combination of tax provisions they replace. Parameters were chosen to provide similar benefits to current law for the majority of taxpayers while limiting the number of taxpayers, and in particular moderate income taxpayers, who would face large losses relative to current law. The proposal also mitigates work disincentives for second earners under current law through the second-earner credit. This proposal would be effective for tax years after December 31, 2016 and the parameters for the family, work, and secondary earner credits would be indexed for inflation. Overall, the proposal would cost $788M over tax years 2017 through 2026, the typical ten-year window used for tax revenue analysis. This revenue cost is small since the main goal of this exercise is to maintain the same level of benefits using fewer tax provisions.

Definition of a qualifying child. Under the proposal, the definition of a qualifying child is simplified across the family-related tax provisions. While the relationship and residency tests are maintained, the support test is eliminated and the age test is simplified. To satisfy the age test, the child must meet one of the following requirements: be under age 19, under age 22 and a full-time student for at least five months of the year, or any age and permanently disabled. The age to qualify for a benefit is the same across all components of the proposed family provisions, providing simplification over current law. Additionally, for the child to be a qualifying child for purposes of the work credit, the child must have an SSN. Under current law, children must have SSNs to be claimed for the EITC, but SSNs are not required for children to be claimed for the CTC or ACTC.

Family credit. The family credit is a non-refundable credit that varies by marital status, number of dependents, and type of dependent. For 2017, the baseline family credit amount is equal to

[22] This proposal maintains current law education benefits. For a more detailed discussion on education benefits and ways to simply these provisions, see *Tax Expenditures for Education* in this series.

$820 for unmarried filers without dependents and $1,640 for married couples filing jointly and unmarried filers with at least one dependent. For families with dependents, the family credit amount is increased by $1,320 for each child dependent and by $820 for each non-child dependent. Thus, a married couple with one dependent child and an unmarried taxpayer with one dependent child would receive a family credit of $2,960. In contrast to current law personal exemptions which cannot be applied against the Alternative Minimum Tax (AMT) taxable income, the family credit would be applied against the AMT. The proposed family credit parameters are detailed in Appendix Table A3.

The family credit per person for individuals and non-child dependents is set at an amount that is equivalent to the tax value of the personal exemption for a taxpayer with a 20% marginal tax rate. For example, under current law, a single taxpayer with no dependents is allowed one personal exemption valued at $4,100 in 2017. Since the personal exemption lowers the taxpayer's taxable income by $4,100, the value of excluding this amount from income is $4,100 times the taxpayer's marginal tax rate. This product comes to $820 for a taxpayer in the 20% tax bracket. The value of the current exemption is lower for taxpayers in a lower bracket, e.g., it is $615 in the 15% bracket, and higher for taxpayers in a higher bracket, e.g., $1,025 for taxpayers in the 25% bracket.

Replacing the child tax credit and personal and dependent exemptions with the family credit will have effects that vary from family to family, depending on family composition and income level. For families with child dependents, the family credit per child of $1,320 is set at an amount equivalent to the tax value of the personal exemption for a dependent of a taxpayer with a 20% marginal tax rate plus half of the maximum amount of the current law child tax credit. At these family credit amounts, families in a tax bracket at or below 20% will benefit (or be unaffected) by replacing personal exemptions with the family credit, but may be worse off by partially replacing the child credit with a non-refundable family credit. In contrast, depending on family composition and income, some families in the 25% tax bracket or higher might be worse off under the proposal since they would be trading an exemption worth at least $1,025, or 25% of $4,100, per person for a credit worth as little as $820 per person.[23] However, those with incomes high enough to be in the personal exemption phase-out range may be better off because the

[23] For example, a married couple with a marginal tax rate of 25% and one non-child dependent would be trading off exemptions worth $3,075 (25% of 3*$4,100) for a family credit of $2,460 ($1,640 plus $820). If instead the dependent were a child, their family credit would be worth $2,960 ($1,640 plus $1,320).

exemption phases out but the proposed family credit does not.[24] In addition, taxpayers who are subject to the AMT will generally see a tax decrease from replacing the exemptions with the family credit. Differences in final tax liability (as opposed to the relative effects of the personal exemptions and the family credit discussed here) will depend on the effect of all provisions and is discussed beginning on page 9.

Work credit. The work credit is a refundable credit roughly similar in design to the current law EITC. Like the EITC, the work credit would phase in based on earnings, phase out with the greater of earned income or adjusted gross income, and be subject to an asset income test. But there are important differences between the two credits, e.g., in contrast to the EITC, the work credit has higher phase-in rates, higher maximum amounts, does not phase out completely for taxpayers with qualifying children, and does not vary by marital status. It has four schedules based on the number of qualifying children (none through three or more). For childless workers, the work credit would phase-in at a rate of 15.3% or double of the phase-in rate under current law. In 2017, the maximum childless work credit would be $765 and phase-out to zero between $11,500 and $21,500. For families with qualifying children, the phase-in rate is 15 percentage points higher than under the current law EITC, in order to replace the refundable portion of the current law child tax credit. To further replace a portion of the child tax credit, the work credit phases down less severely than does the current EITC, to $500 for families with one child, $1,000 for families with two children, and $1,500 with families with three or more children. The proposed work credit parameters are detailed in Appendix Table A4.

Secondary earner credit.[25] This is a refundable credit targeted to dual-earner married couples. This credit in motivate in part to replace EITC marriage penalty relief, but also to offer more general tax relief for married couples with two earners. While EITC marriage penalty relief benefits dual-earner couples with earnings in the extended plateau and phaseout range, it benefits single-earner couples in the extended plateau and phaseout range as well. EITC marriage penalty

[24] The personal exemption begins to phase out when AGI is above $262,200 in 2017 ($314,650 if married).
[25] This proposed secondary earner credit is more generous than that proposed in the Administration's FY2017 Budget. The Administration's Budget proposes a secondary earner credit equal to 5% of the lower earner's earned income up to $10,000 for a maximum credit of $500 and the credit would be phased out at a rate of one-half of a percentage point for every $10,000 of AGI over $120,000. Under our simplification proposal, the secondary earner credit would not phase out to prevent lower earners from facing high marginal tax rates with the tradeoff being that high income couples would still be eligible to receive the credit.

relief does not benefit dual-earner couples who earn less than the end of the plateau for single fliers. In contrast, the secondary earner credit would directly target dual-earner couples by making the credit a function of the lower earner spouse's earnings only. In 2017, the secondary earner credit phases in at a rate of 7.65% of the second earner's (i.e., the lower earner's) earnings up a maximum of $8,000 of earnings. The maximum credit would be $612 (7.65% of $8,000). Because it would not phase down, dual-earner married couples throughout the income distribution receive a tax benefit from the secondary earner credit, in contrast to the EITC benefits.

Calculating tax liability. Boxes 1 through 3 show the breakdown of tax liability and credits for a variety of family types under current law and under the simplification proposal. These examples illustrate how the specific components of current law and the replacement credits differ and contribute to a family's final tax liability. The examples also illustrate the inherent tension between simplification efforts and preventing tax increases for some family types.

Box 1
Comparison of Tax Liability and Tax Credits under Current Law and Simplification Proposal for Unmarried Taxpayers without Children

This family consists of an unmarried taxpayer with no children. The breakdown of tax liability is shown if she earns $30,000 and if she earns $100,000. In both cases, she claims a standard deduction under current law. This example illustrates how the family credit is less generous for taxpayers with higher incomes. Relative to current law, the unmarried taxpayer earning $30,000 would owe $205 less in tax liability under the proposal. In contrast, the unmarried taxpayer earning $100,000 would owe $249 more in tax liability under the proposal than under current law.

	Earnings $30,000		Earnings $100,000	
	Current Law	Proposal	Current Law	Proposal
Personal Exemptions	4,100	0	4,100	0
Standard Deduction	6,400	6,400	6,400	6,400
Taxable Income	19,500	23,600	89,500	93,600
Tax Before Credits	2,456	3,071	18,101	19,170
Non-Refundable Credits:				
Child Credit	0	0	0	0
Family Credit	0	820	0	820
tentative baseline credit	*0*	*820*	*0*	*820*
tentative dependent credit	*0*	*0*	*0*	*0*
Total Nonrefundable Credits	0	820	0	820
Tax Before Refundable Credits	2,456	2,251	18,101	18,350
Refundable Credits:				
EITC	0	0	0	0
Additional Child Tax Credit	0	0	0	0
Work Credit	0	0	0	0
Total Refundable Credits	0	0	0	0
Final Tax Liability[1]	2,456	2,251	18,101	18,350
Net Change in Liability from Reform[2]		-205		249

[1] Negative values indicate the family is receiving a refund.

[2] The net change in liability from reform is calculated as the change in tax liability faced by the family that would occur if the proposal were enacted. A negative value indicates that the family's liability (refund) would decrease (increase).

Box 2
Comparison of Tax Liability and Tax Credits under Current Law and Simplification Proposal for Married Taxpayers without Children

This family consists of a married couple with no children. The breakdown of tax liability is shown if the couple contains one earner with $30,000 and one earner with $100,000. In both cases they claim a standard deduction under current law. This example illustrates how the family credit is less generous for taxpayers with higher income. Relative to current law, the married couple earning $30,000 would owe $820 less in tax liability under the proposal. In contrast, the unmarried taxpayer earning $100,000 would owe $410 more in tax liability under the proposal than under current law.

	Earnings $30,000		Earnings $100,000	
	Current Law	Proposal	Current Law	Proposal
Personal Exemptions	8,200	0	8,200	0
Standard Deduction	12,800	12,800	12,800	12,800
Taxable Income	9,000	17,200	79,000	87,200
Tax Before Credits	900	1,720	11,203	13,253
Non-Refundable Credits:				
Child Credit	0	0	0	0
Family Credit	0	1,640	0	1,640
tentative baseline credit	*0*	*1,640*	*0*	*1,640*
tentative dependent credit	*0*	*0*	*0*	*0*
Total Nonrefundable Credits	0	1,640	0	1,640
Tax Before Refundable Credits	900	80	11,203	11,613
Refundable Credits:				
EITC	0	0	0	0
Additional Child Tax Credit	0	0	0	0
Work Credit	0	0	0	0
Total Refundable Credits	0	0	0	0
Final Tax Liability[1]	900	80	11,203	11,613
Net Change in Liability from Reform[2]		-820		410

[1] Negative values indicate the family is receiving a refund.
[2] The net change in liability from reform is calculated as the change in tax liability faced by the family that would occur if the proposal were enacted. A negative value indicates that the family's liability (refund) would decrease (increase).

Box 3
Comparison of Tax Liability and Tax Credits under Current Law and Simplification Proposal for a Single Parent with Two Children

This family consists of a single parent with two children who are eligible for the EITC and the child credit. The breakdown of tax benefits is shown if she earns $20,000 and if she earns $30,000. In both cases she claims a standard deduction under current law. This example illustrates how difficult it is to retain current benefit levels for the lowest earners with a simplified set of credits. Under both current law and the simplification proposal, the single parent would not owe any tax. Relative to current law, the parent earning $20,000 would receive $693 less in refundable credits under the proposal. In contrast, the parent earning $30,000 would receive a refund $769 greater under the proposal than under current law.

	Earnings $20,000		Earnings $30,000	
	Current Law	Proposal	Current Law	Proposal
Personal Exemptions	12,300	0	12,300	0
Standard Deduction	9,400	6,400	9,400	6,400
Taxable Income	0	13,600	8,300	23,600
Tax Before Credits	0	1,571	830	3,071
Non-Refundable Credits:				
Child Credit	0	0	830	0
Family Credit	0	1,571	0	3,071
tentative baseline credit	*0*	*1,640*	*0*	*1,640*
tentative dependent credit	*0*	*1,640*	*0*	*1,640*
Total Nonrefundable Credits	0	1,571	830	3,071
Tax Before Refundable Credits	0	0	0	0
Refundable Credits:				
EITC	5,293	0	3,187	0
Additional Child Tax Credit	2,000	0	1,170	0
Work Credit	0	6,600	0	5,126
Total Refundable Credits	7,293	6,600	4,357	5,126
Final Tax Liability[1]	-7,293	-6,600	-4,357	-5,126
Net Change in Liability from Reform[2]		693		-769

[1] Negative values indicate the family is receiving a refund.
[2] The net change in liability from reform is calculated as the change in tax liability faced by the family that would occur if the proposal were enacted. A negative value indicates that the family's liability (refund) would decrease (increase).

Figure 6 presents the marginal and average tax rates faced by joint filers with one dependent child, and one earner. This is the same family as in Figure 2.[26] In addition to marginal and average tax rates, the figure also presents the amount of tax support the family receives as a result of the child. The tax support for the child that is due to the worker credit is shown in a lighter shade than the portion due to the remaining child-related provisions. Under the simplification proposal, marginal rates are often lower than under current law and rarely higher. For instance, taxpayers do not face the repeal of the child credit beginning at $110,000 and there is a smaller range of moderate-income taxpayers facing marginal rates at or above 25.98%.[27] In contrast, marginal rate brackets begin at lower incomes under the proposal than under current law due to the loss of the dependent exemption under the simplification proposal.[28] The repeal of the dependent exemption also smooths the tax support for a child as incomes increase because an exemption lowers taxes by the value of the exemption times a filer's marginal tax rate.

Families with a tax decrease or tax increase. Tables 7-9 show the distribution of families with a tax change under the simplification proposal by AGI relative to current law. Table 7 contains all taxpayers, Table 8 is restricted to taxpayers without dependents, and Table 9 is restricted to taxpayers with dependents.

Table 7 shows that overall, 54.8% of families would experience a tax decrease under this simplification plan with an average benefit of $792, and 20.3% of families would experience a tax increase with an average loss of $514. The average net tax change is a decrease of $330. With the exception of families with AGI below $15,000, a majority of families in each income bin would receive a tax cut under the simplification proposal. Most families with AGI between $0 and $15,000 would have no tax change.

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[26] The number of earners under current law does not affect tax liability.

[27] Under current law, the phase-out rate for EITC claimants with one child is 15.98%. Most claimants in the phase-out range are in the 10% marginal rate bracket. Under the simplification proposal, claimants in the 10% bracket have their taxable income offset by the family credit, and therefore have a marginal rate of zero before considering the work credit.

[28] Dependent exemptions decrease taxable income relative to adjusted gross income under current law. Thus, removing the dependent exemptions from the calculation of taxable income decreases the adjustable gross income at which a taxpayer would enter the next marginal rate bracket.

Table 8 shows that among taxpayers without dependents, 48.9% have a tax decrease while 17.1% have a tax increase. The average tax change among those with a tax decrease is -$434 while the average tax change among those with a tax increase is $284. Most taxpayers without dependents who have AGI between $15,000 and $50,000 would pay lower taxes under the simplification proposal. For taxpayers with AGI between $50,000 and $200,000, most experience a tax increase. The tax increase in this income range is mainly due to the proposal's family credit being less generous than current law's personal exemption for persons with relatively high marginal tax rates. In particular, the family credit is as generous as the personal exemption assuming a 20% tax rate, but many taxpayers' marginal tax rate is greater than 20% (See Box 1 and Box 2 for examples). With the exception of taxpayers subject to the AMT, taxpayers in the 25% tax bracket or higher with incomes below the personal exemption phase out will generally be worse off under the proposal. Taxpayers subject to the AMT would benefit from the replacing the personal exemptions with the family credit as discussed above. Taxpayers with high enough income to be sufficiently constrained by the current law personal exemption phase-out will be better off when exemptions are replaced by the family credit.

Table 9 shows that among taxpayers with dependents, 68.2% would have a tax decrease while 27.7% would have a tax increase under the simplification proposal. The average tax change among those with a tax decrease is -$1,383 while the average tax change among those with a tax increase is $840. There is a large share of low-income families that would experience a tax increase. In particular, 34.4% of families with AGI between $0 and $15,000 and 48.8% of families with AGI between $15,000 and $30,000 would experience a tax increase. As depicted in Figures 1-6, there is a large spike in current law tax benefits around these income levels, which comes from the combined benefit of the EITC and the ACTC. By consolidating these provisions, the proposal is trading off a simpler tax system for a lower level of benefits for this income group (See Box 3 for an example). To reduce the fraction of families experiencing a tax increase in these income ranges using the current structure of the simplification proposal, the refundable work credit would have to be significantly expanded. This would result in a disproportionately large revenue cost because families at higher income levels, many of whom are already experiencing a tax decrease, would also receive a larger work credit. For example, if the phase-in rates for the work credit with children are increased by 10 percentage points and the start of the phase-out is shifted out to $28,000 instead of $23,000, then the fraction of families with a tax increase reduces from 34.4% to 7.2% for those with AGI between 0 and 15,000, and from 48.8% to 11.9% for those with AGI between $15,000 and $30,000. However, expanding the work credit in this way adds an additional $361 million dollars (or nearly 50%) to the cost of the simplification proposal, bringing the total cost to almost $1.2 billion over the 10 year window. Between 2017 and 2026, between 50% and 65% of the additional annual cost is a result of increasing benefits to families with AGI between $30,000 and $75,000, among which the vast majority was already experiencing a tax decrease under the original work credit specification.

The vast majority of families with dependents and AGI above $30,000 would experience a tax decrease from this simplification proposal. The presence of taxpayers with dependents who experience a tax increase throughout the income distribution is due in part to the restriction of the work credit to families with SSNs and by not allowing a more generous work credit for families with three or more children. Using 2013 INSOLE data, the estimated number of families claiming the CTC or ACTC with a child who does not have an SSN was 1.5 million. Under current law, the child tax credit can be claimed for children without SSNs and each qualifying child (no matter how many) gives the taxpayer up to $1,000 in credit; the portion of the work credit replacing the current law child credit is lost to these families.

Another aspect of the simplification proposal that creates both families with tax increases and tax decreases in any given year is the standardization of the age rules. As a result, a family may experience tax decreases in certain years and experience tax increases in other years. Families whose children have aged out of the current law child credit (older than 16) would still receive family and work credits based on those children under the simplification proposal. On the other hand, families supporting students age 22 and 23 would lose current law tax benefits. Furthermore, families with children would benefit from the proposal over time because the benefits are indexed for inflation whereas the current law CDCTC and CTC are not indexed. As a result, the fraction of families with children who would experience a tax decrease would be higher in later years while the fraction of families who would experience a tax increase would be lower.

Figure 7 compares taxes under the simplification proposal and current law for a joint filer with one dependent child and income under $60,000. Filers with one and two workers are shown separately for the simplification proposal. At incomes where tax liability is below the x-axis, the family receives a refund. At the point where tax liability crosses the x axis, the couple moves from receiving a refund to having positive tax liability. Filers receive refunds at higher incomes under the proposal than under current law. This figure shows that at the lowest incomes, one- and two-earner married couples are slightly better off under the proposal than under current law. The one-earner families are worse off under the proposal than under current law at incomes between $8,000 and $32,000. Thereafter one-earner families are generally better off under the proposal than under current law. Two earner families have similar tax liability under the proposal and current law at incomes between $10,000 and $26,000. Thereafter two-earner families are generally better off under the proposal than under current law.[29] Although the details would be different for single filers or families with a different number of dependents, this comparison illustrates the inherent tension between simplification efforts and preventing revenue losses or tax increases for some categories of taxpayers.

Section 4: Conclusion

This paper has provided a description of the major tax benefits available to families with children under current law. As a result of these benefits, families with dependent children pay lower federal income taxes than similar families without children. Many families receive substantial refunds. In addition to describing the main provisions supporting families with children, and describing the distribution of these benefits in a series of tables, this paper presents a series of figures to show how these provisions interact to affect the final tax liability of the families benefitting from them.

As is illustrated in the figures and tables in Sections 1 and 2, current law tax provisions are complicated, marginal tax rates may be high and may vary greatly over small income bands. Therefore, the third section presents an alternative set of credits that could replace the main

[29] One-earner families with incomes in excess of $60,000 and one dependent child are better off under the proposal than under current law except at incomes between $100,000 and $123,000. However, the differences in tax liability between the proposal and current law in this range are small, representing less than one percent of current-law after-tax resources. Two earner families with incomes in excess of $60,000 and one dependent child are better off under the proposal than under current law except at incomes between $107,000 and $11,000 where differences are negligible (less than $10). Recall that Figure 7, like all of the figures presents results for typical families, subject to the simplification assumptions described on page 4. The figures are illustrative and do not account for the specific circumstances of any actual family that would affect their tax liability.

current law benefits with an aim toward simplifying the tax benefits for families. This exercise shows one way that consolidating and simplifying tax benefits could be achieved. However, the exercise also demonstrates that simplification is not possible without imposing a tax increase on some families or by reducing income tax revenue.

Section 5: Works Cited

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Table 1
Estimated Benefit from
Dependency Exemptions for Children
Tax Year 2017

Adjusted Gross Income	Families Benefiting (Thousands)	Total Benefit ($Millions)	Average Benefit ($)
0 <= 15,000	694	98	142
15,000 <= 30,000	7,413	3,784	511
30,000 <= 40,000	4,656	3,934	845
40,000 <= 50,000	3,656	3,622	991
50,000 <= 60,000	3,105	3,333	1,073
60,000 <= 75,000	3,880	4,509	1,162
75,000 <= 100,000	5,262	6,570	1,249
100,000 <= 200,000	8,363	14,717	1,760
200,000 and over	1,515	2,430	1,604
Total[1]	38,544	42,999	1,116

Office of Tax Analysis June 21, 2016

[1] Families with negative income are excluded from the lowest income class but included in the total line.

Table 2
Estimated Benefit from
Head of Household Filing Status
(Compared to Single Filing Status)
Tax Year 2017

Adjusted Gross Income	Families Benefiting[1] (Thousands)	Total Benefit ($Millions)	Average Benefit ($)
0 <= 15,000	133	63	473
15,000 <= 30,000	4,502	1,300	289
30,000 <= 40,000	2,948	1,572	533
40,000 <= 50,000	2,051	1,077	525
50,000 <= 60,000	1,447	800	553
60,000 <= 75,000	1,317	1,476	1,120
75,000 <= 100,000	1,080	1,727	1,600
100,000 <= 200,000	777	1,324	1,703
200,000 and over	73	247	3,356
Total[2]	14,329	9,586	669

Office of Tax Analysis June 21, 2016

[1] This table includes head of household filers with child and non-child dependents.

[2] Families with negative income are excluded from the lowest income class but included in the total line.

Table 3A

Estimated Benefit from

the Child Tax Credit and the Additional Child Tax Credit (ACTC) by Adjusted Gross Income

Tax Year 2017

Adjusted Gross Income	Families Benefiting (Thousands)	Total Benefit ($Millions)	Average Benefit ($)
0 <= 15,000	5,588	5,458	977
15,000 <= 30,000	8,620	14,071	1,632
30,000 <= 40,000	4,062	7,091	1,746
40,000 <= 50,000	3,072	5,459	1,777
50,000 <= 60,000	2,537	4,390	1,731
60,000 <= 75,000	3,086	5,386	1,745
75,000 <= 100,000	4,055	7,056	1,740
100,000 <= 200,000	3,697	5,186	1,403
200,000 and over	2	1	510
Total[1]	34,850	54,305	1,558

Office of Tax Analysis June 21, 2016

[1] Families with negative income are excluded from the lowest income class but included in the total line.

Table 3B

Estimated Benefit from

the Additional Child Tax Credit (ACTC) by Adjusted Gross Income

Tax Year 2017

Adjusted Gross Income	Families Benefiting (Thousands)	Total Benefit ($Millions)	Average Benefit ($)
0 <= 15,000	5,586	5,456	977
15,000 <= 30,000	8,308	12,735	1,533
30,000 <= 40,000	2,772	4,358	1,572
40,000 <= 50,000	1,480	2,163	1,461
50,000 <= 60,000	647	935	1,445
60,000 <= 75,000	331	476	1,436
75,000 <= 100,000	128	215	1,684
100,000 <= 200,000	24	37	1,571
200,000 and over	0	0	491
Total[1]	19,406	26,579	1,370

Office of Tax Analysis June 21, 2016

[1] Families with negative income are excluded from the lowest income class but included in the total line.

Table 4
Estimated Benefit from
the Earned Income Tax Credit (EITC) by Adjusted Gross Income
Tax Year 2017

Adjusted Gross Income	Families Benefiting[1] (Thousands)	Total Benefit ($Millions)	Average Benefit ($)
0 <= 15,000	13,027	23,498	1,804
15,000 <= 30,000	8,399	31,710	3,775
30,000 <= 40,000	3,793	7,158	1,887
40,000 <= 50,000	1,570	1,636	1,042
50,000 <= 60,000	179	66	368
60,000 <= 75,000	0	0	0
75,000 <= 100,000	0	0	0
100,000 <= 200,000	0	0	0
200,000 and over	0	0	0
Total[1]	27,167	64,315	2,367

Office of Tax Analysis June 21, 2016

[1] This table includes 7.3 million EITC claimants who do not have qualifying children. They receive a total benefit of $2.2 billion.

[2] Families with negative income are excluded from the lowest income class but included in the total line.

Table 5
Estimated Benefit from
Child and Dependent Care Credit (CDCTC)
Tax Year 2017

Adjusted Gross Income	Families Benefiting[1] (Thousands)	Total Benefit ($Millions)	Average Benefit ($)
0 <= 15,000	4	0	61
15,000 <= 30,000	576	251	435
30,000 <= 40,000	677	414	611
40,000 <= 50,000	571	319	558
50,000 <= 60,000	486	253	521
60,000 <= 75,000	606	338	559
75,000 <= 100,000	971	559	575
100,000 <= 200,000	1,734	998	575
200,000 and over	626	340	544
Total[2]	6,252	3,472	555

Office of Tax Analysis June 21, 2016

[1] This table includes families with child and non-child dependents with care expenses.

[2] Families with negative income are excluded from the lowest income class but included in the total line.

Table 6
Estimated Benefit from
American Opportunity Tax Credit (AOTC) and Lifetime Learning Credit (LLC)
Tax Year 2017

Adjusted Gross Income	Families Benefiting[1] (Thousands)	Total Benefit ($Millions)	Average Benefit ($)
0 <= 15,000	2,278	1,918	842
15,000 <= 30,000	2,782	3,527	1,268
30,000 <= 40,000	1,403	2,138	1,524
40,000 <= 50,000	1,161	1,864	1,607
50,000 <= 60,000	941	1,565	1,663
60,000 <= 75,000	1,143	2,088	1,826
75,000 <= 100,000	1,414	2,676	1,892
100,000 <= 200,000	2,140	4,285	2,002
200,000 and over	0	0	0
Total[2]	13,309	20,107	1,511

Office of Tax Analysis June 21, 2016

[1] This table includes families with education expenses for the tax filers or for their dependent children.

[2] Families with negative income are excluded from the lowest income class but included in the total line.

Table 7
Families with a Tax Decrease/Tax Increase from Simplification Proposal
Tax Year 2017

	Families with a Tax Decrease				Families with a Tax Increase				Total		
	Families		Tax Decrease		Families		Tax Increase		Families	Net Tax Change	
Adjusted Gross Income	Number (thousands)	%	Total ($millions)	Average ($)	Number (thousands)	%	Total (thousands)	Average ($)	Number (thousands)	Total ($millions)	Average ($)
0 <= 15,000	19,188	31.5%	-9,384	-489	3,225	5.3%	1,830	568	60,827	-7,554	-124
15,000 <= 30,000	20,741	68.1%	-11,290	-544	5,622	18.5%	4,943	879	30,454	-6,348	-208
30,000 <= 40,000	12,417	87.5%	-7,612	-613	1,406	9.9%	1,772	1,260	14,192	-5,840	-412
40,000 <= 50,000	9,294	80.7%	-5,527	-595	2,017	17.5%	1,032	512	11,521	-4,495	-390
50,000 <= 60,000	4,903	53.2%	-4,046	-825	4,211	45.7%	1,329	316	9,211	-2,717	-295
60,000 <= 75,000	5,972	54.7%	-5,830	-976	4,850	44.4%	1,924	397	10,912	-3,906	-358
75,000 <= 100,000	8,310	61.9%	-8,371	-1,007	5,049	37.6%	1,789	354	13,435	-6,582	-490
100,000 <= 200,000	11,143	56.1%	-9,076	-814	8,463	42.6%	3,447	407	19,848	-5,629	-284
200,000 and over	6,403	78.7%	-16,905	-2,640	1,698	20.9%	662	390	8,140	-16,243	-1,996
Total[1]	98,787	54.8%	-78,275	-792	36,633	20.3%	18,820	514	180,334	-59,455	-330

Office of Tax Analysis May 10, 2016

[1]Families with negative income are excluded from the lowest income class but included in the total line.

Table 8

Families with a Tax Decrease/Tax Increase from Simplification Proposal, Taxpayers without Dependents

Tax Year 2017

	Families with a Tax Decrease				Families with a Tax Increase				Total		
	Families		Tax Decrease		Families		Tax Increase		Families	Net Tax Change	
Adjusted Gross Income	Number (thousands)	%	Total ($millions)	Average ($)	Number (thousands)	%	Total (thousands)	Average ($)	Number (thousands)	Total ($millions)	Average ($)
0 <= 15,000	14,953	28.6%	-6,852	-458	267	0.5%	133	497	8,332	-6,720	-129
15,000 <= 30,000	15,604	79.4%	-5,000	-320	351	1.8%	79	224	10,323	-4,921	-250
30,000 <= 40,000	8,607	96.0%	-2,748	-319	74	0.8%	31	413	4,932	-2,718	-303
40,000 <= 50,000	6,087	81.2%	-1,873	-308	1,243	16.6%	197	158	3,749	-1,676	-223
50,000 <= 60,000	2,365	40.6%	-1,234	-522	3,382	58.1%	751	222	3,146	-483	-83
60,000 <= 75,000	2,868	42.4%	-1,799	-627	3,834	56.6%	916	239	3,913	-882	-130
75,000 <= 100,000	3,821	48.5%	-2,321	-607	3,988	50.6%	951	238	5,310	-1,370	-174
100,000 <= 200,000	4,181	38.0%	-1,113	-266	6,734	61.1%	2,457	365	8,559	1,344	122
200,000 and over	2,685	62.1%	-3,649	-1,359	1,599	37.0%	580	362	3,743	-3,069	-710
Total[1]	61,500	48.9%	-26,716	-434	21,480	17.1%	6,093	284	52,260	-20,623	-164

Office of Tax Analysis — May 10, 2016

[1]Families with negative income are excluded from the lowest income class but included in the total line.

Table 9
Families with a Tax Decrease/Tax Increase from Simplification Proposal, Taxpayers with Dependents
Tax Year 2017

	Families with a Tax Decrease				Families with a Tax Increase				Total		
	Families		Tax Decrease		Families		Tax Increase		Families	Net Tax Change	
Adjusted Gross Income	Number (thousands)	%	Total ($millions)	Average ($)	Number (thousands)	%	Total (thousands)	Average ($)	Number (thousands)	Total ($millions)	Average ($)
0 <= 15,000	4,235	49.3%	-2,531	-598	2,958	34.4%	1,698	574	52,495	-834	-97
15,000 <= 30,000	5,137	47.5%	-6,290	-1,225	5,271	48.8%	4,864	923	20,132	-1,426	-132
30,000 <= 40,000	3,810	72.8%	-4,864	-1,277	1,332	25.5%	1,741	1,308	9,260	-3,123	-597
40,000 <= 50,000	3,207	79.8%	-3,655	-1,140	774	19.2%	836	1,080	7,772	-2,819	-701
50,000 <= 60,000	2,538	74.9%	-2,813	-1,108	828	24.4%	579	699	6,065	-2,234	-659
60,000 <= 75,000	3,104	75.0%	-4,031	-1,299	1,016	24.5%	1,007	992	6,999	-3,024	-731
75,000 <= 100,000	4,489	80.8%	-6,051	-1,348	1,061	19.1%	838	790	8,125	-5,212	-938
100,000 <= 200,000	6,962	78.8%	-7,962	-1,144	1,729	19.6%	990	572	11,289	-6,972	-789
200,000 and over	3,718	97.4%	-13,257	-3,565	99	2.6%	83	837	4,396	-13,174	-3,450
Total[1]	37,286	68.2%	-51,559	-1,383	15,153	27.7%	12,728	840	128,074	-38,832	-711

Office of Tax Analysis May 10, 2016

[1]Families with negative income are excluded from the lowest income class but included in the total line.

Figure 1
Marginal and Average Tax Rates as Family Income Increases
Single Filer No Dependents
Tax Year 2017

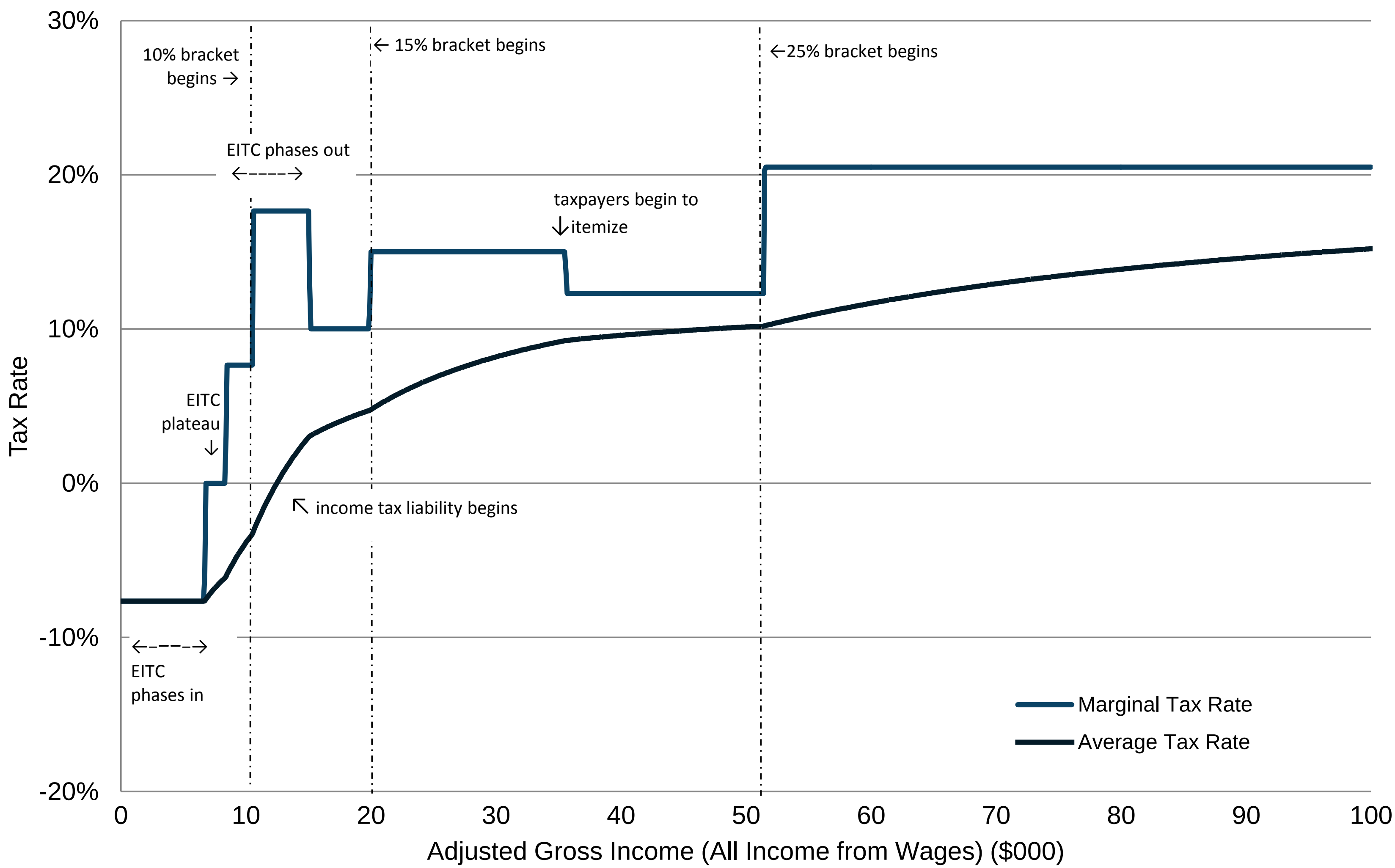


Figure 2
Marginal and Average Tax Rates and and Tax Support for a Child for
Joint Filer with One Dependent Child
Tax Year 2017

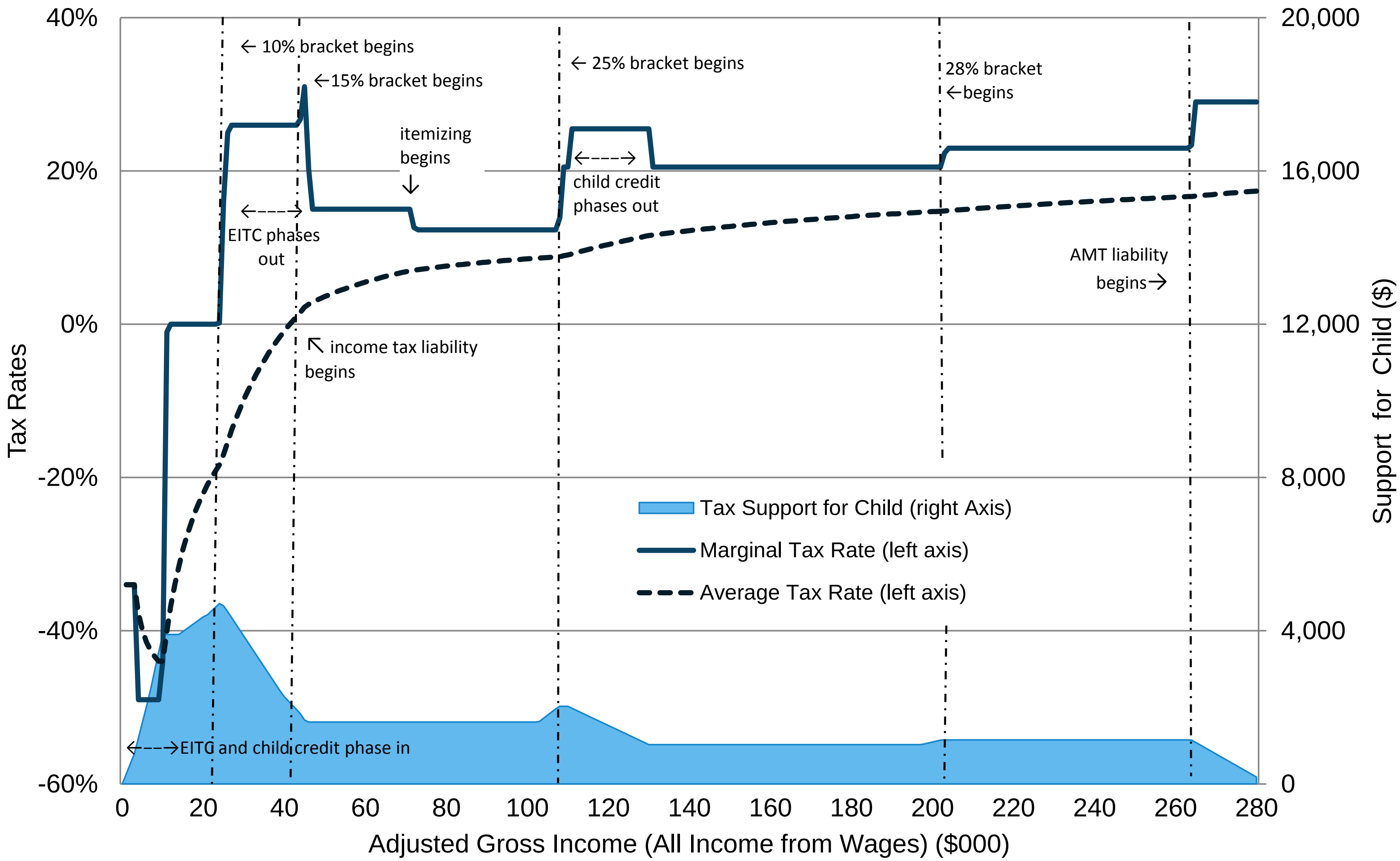


Figure 3
Marginal and Average Tax Rates and and Tax Support for a Child for
Head of Household Filer with One Dependent Child
Tax Year 2017

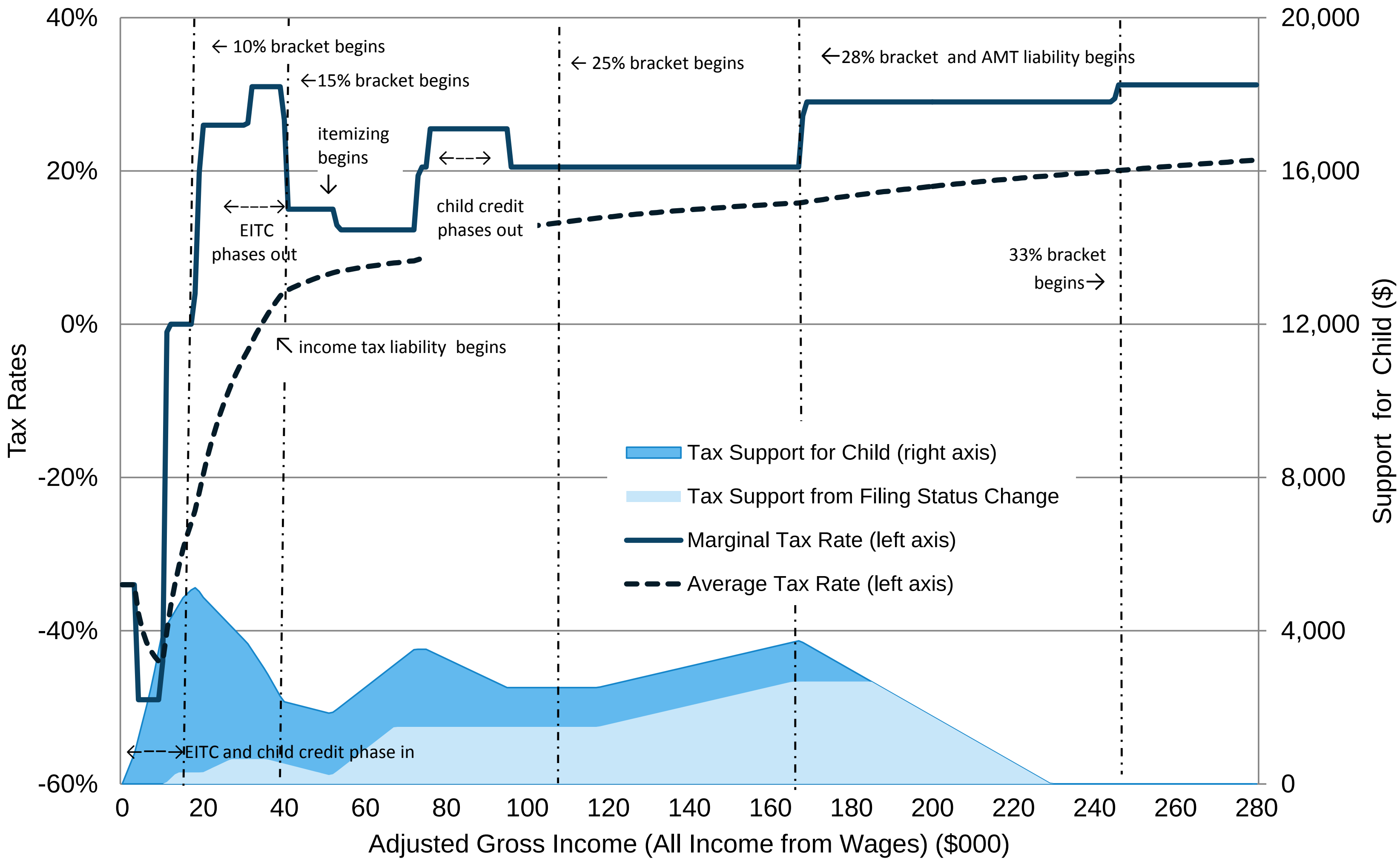


Figure 4
Marginal and Average Tax Rates and and Tax Support for a Student for
Joint Filer with One Dependent Student
Tax Year 2017

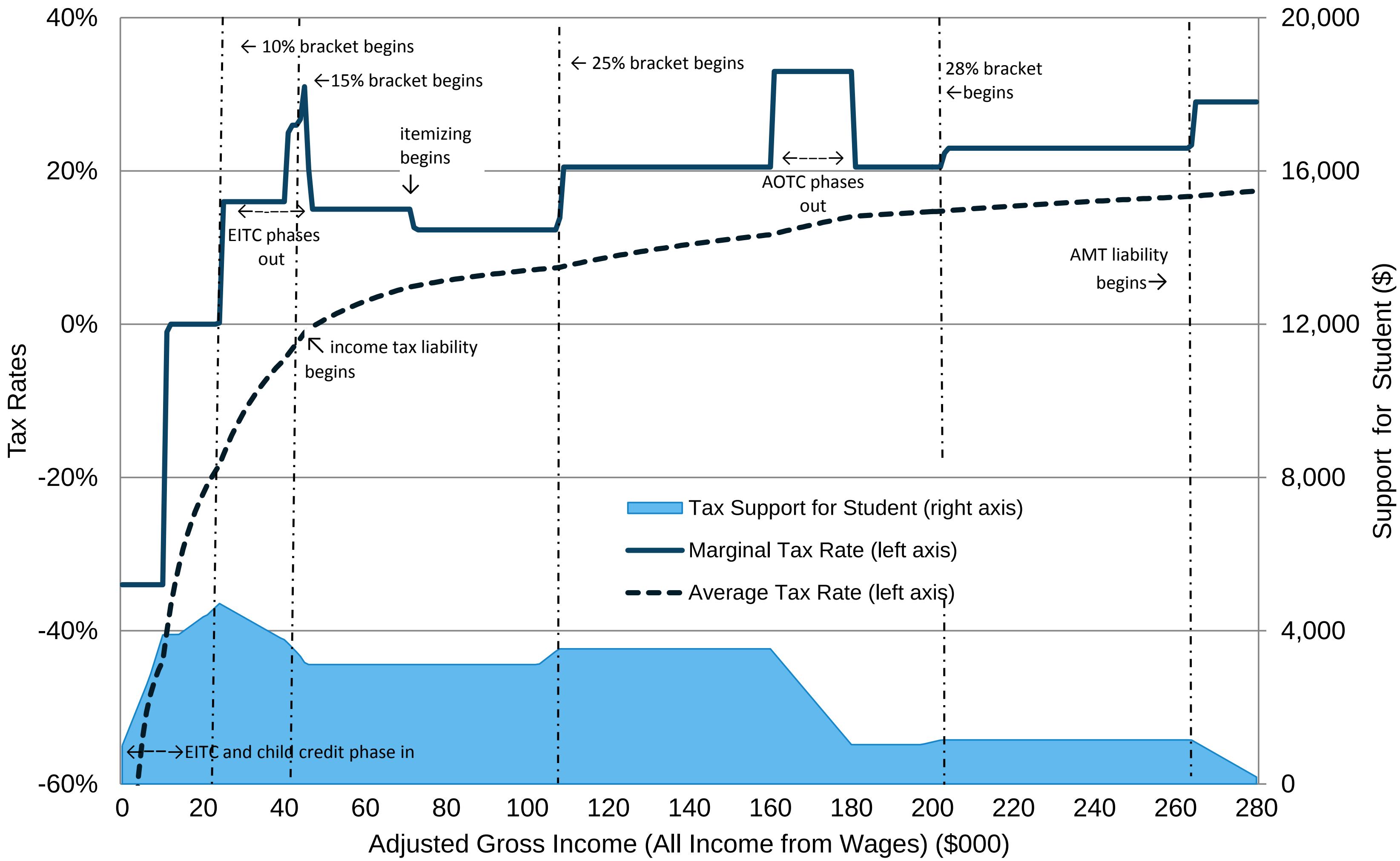


Figure 5
Marginal and Average Tax Rates and and Tax Support for a Child for
Head of Household Filer with One Dependent Child in Dependent Care
Tax Year 2017

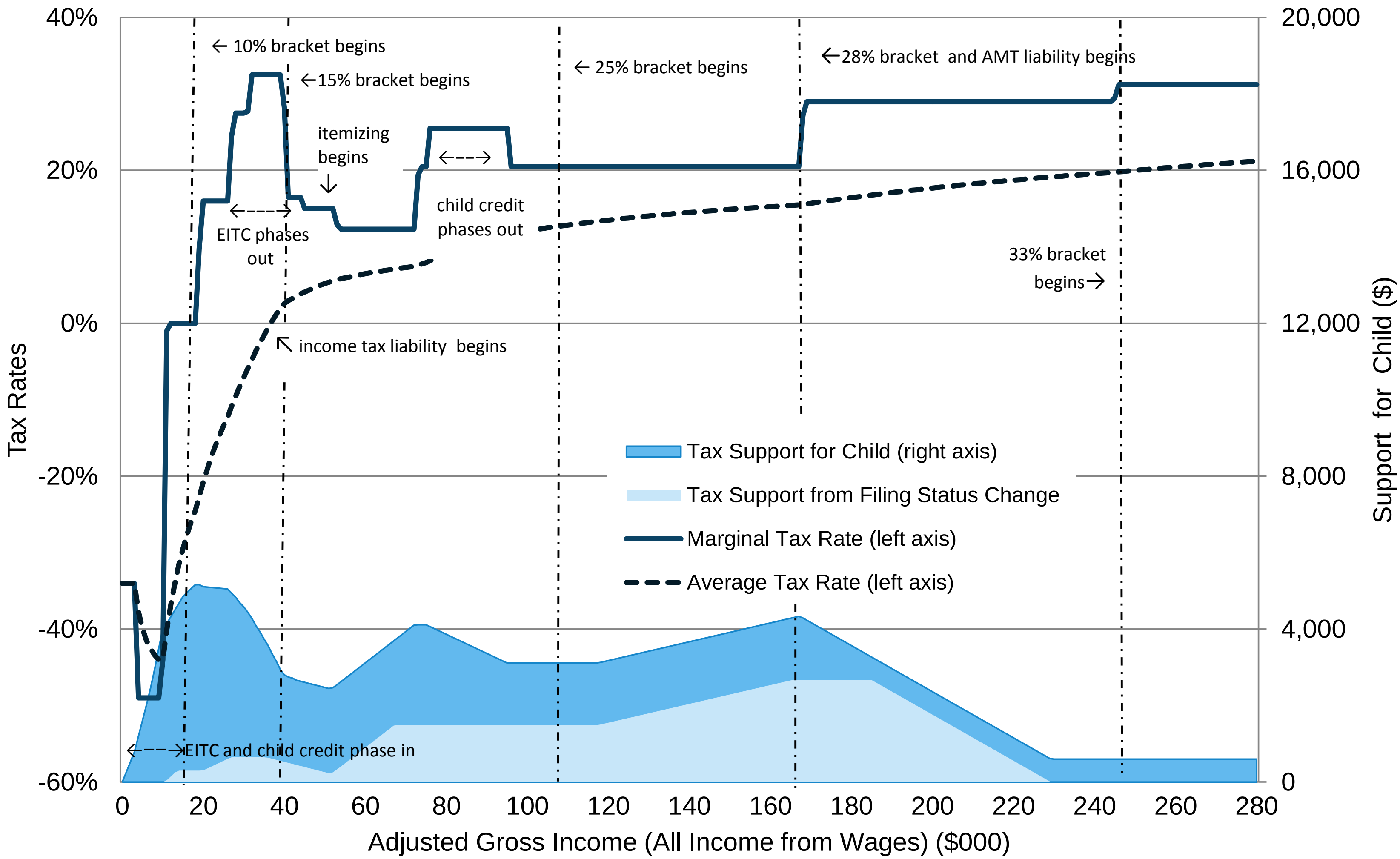


Figure 6
Marginal and Average Tax Rates and Tax Support for a Child for
Joint Filer with One Dependent Child and One Earner
Under Reform Proposal
Tax Year 2017

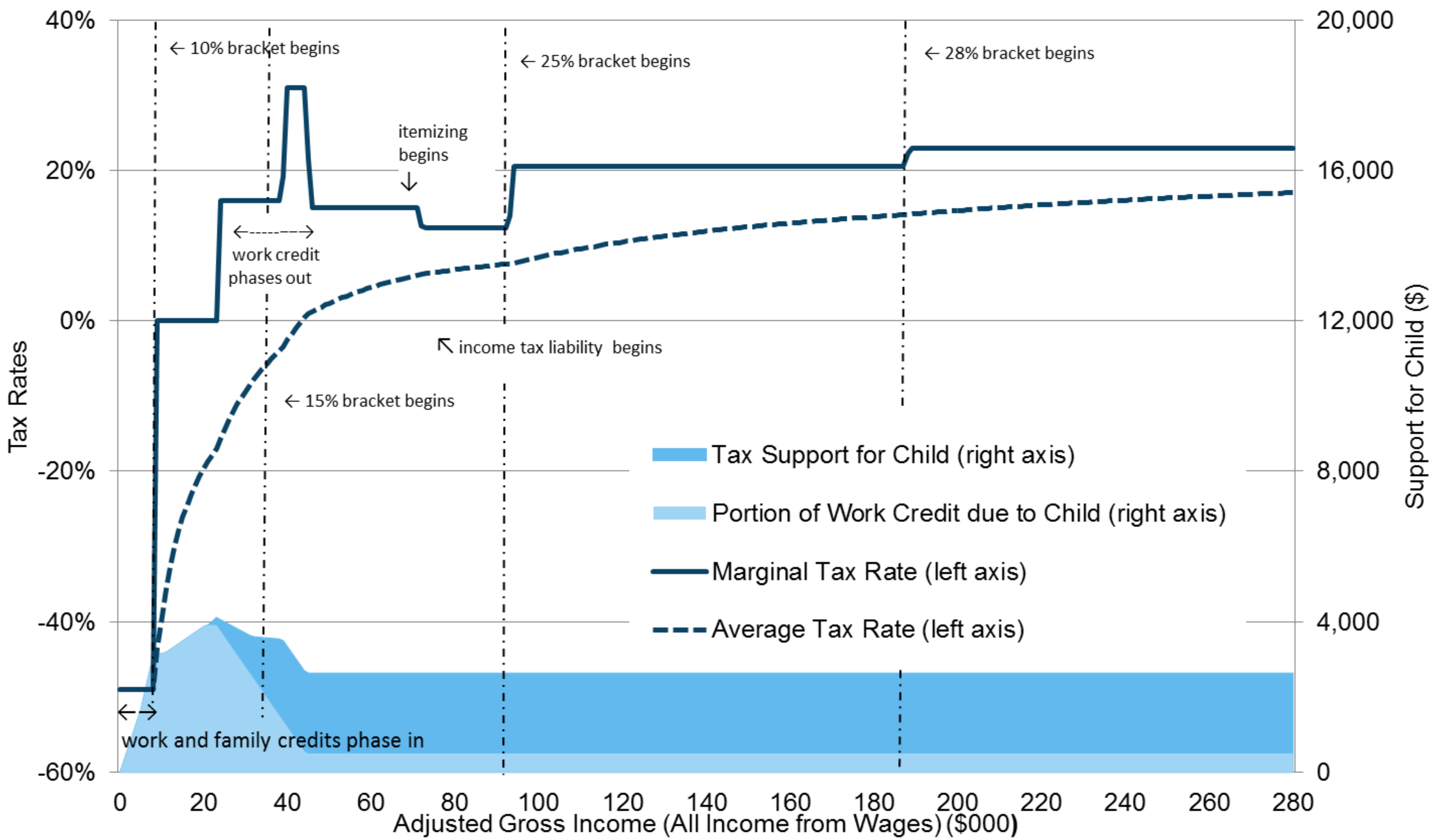
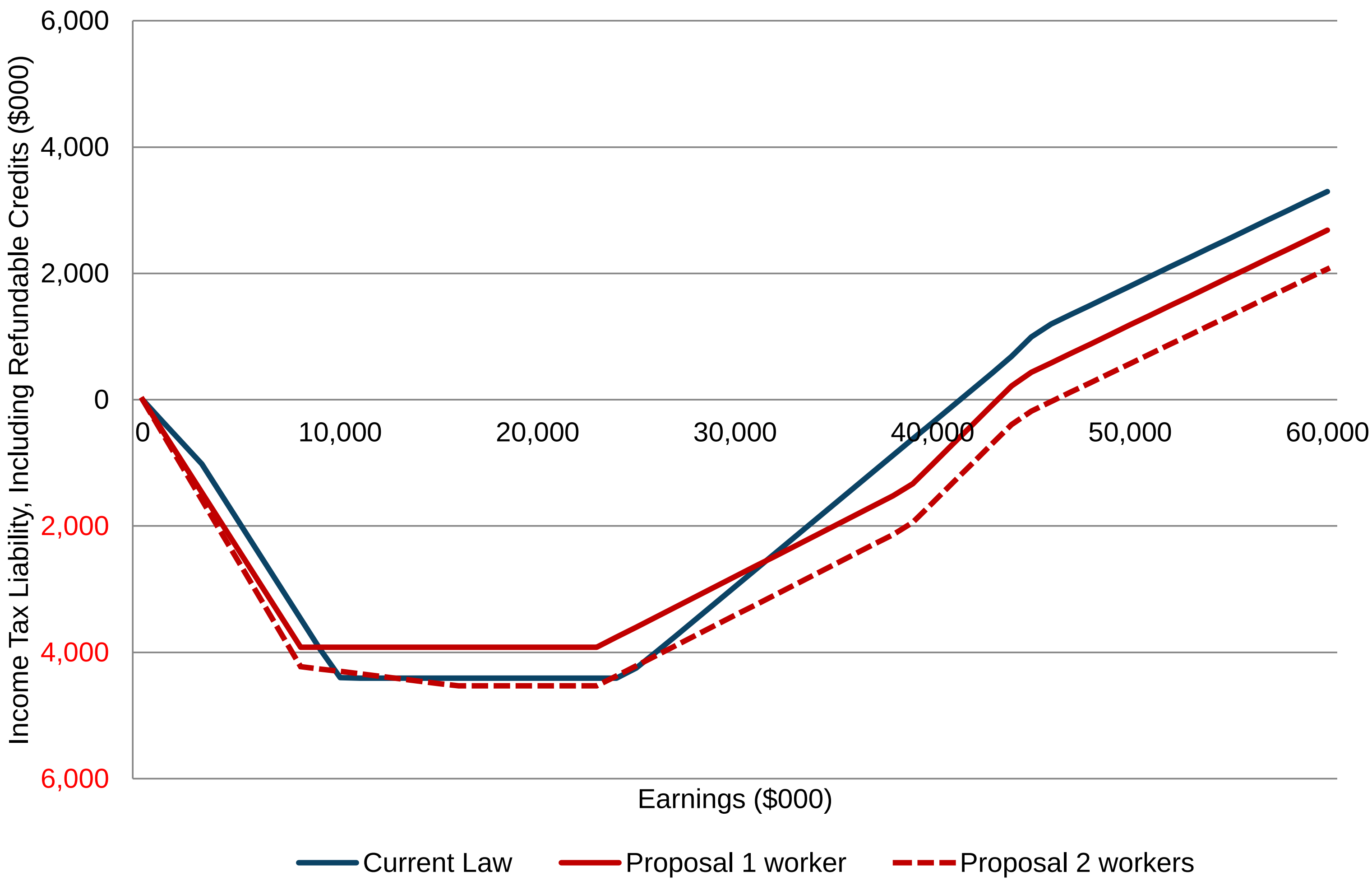


Figure 7
Income Tax Liability for Married Filers with
One Dependent Child and Two Workers Under
Current Law and Reform Proposal
2017



Appendix

Table A1 Eligibility Rules for Child-Related Income Tax Benefits

	Dependent Exemption for Dependent Child (§ 151-152)	**Child Tax Credit Additional Child Tax Credit (CTC, ACTC - § 24)**	**Earned Income Tax Credit (EITC- § 32)**	**Child and Dependent Care Credit (CDCTC - § 21)**	**Proposal**
Definition of Benefit	$4,100 exclusion from income for self, spouse, and dependent relatives and children.	$1,000 nonrefundable credit per child. Refundable to the extent that 15% of earnings in excess of $3,000 exceeds otherwise allowable credit.	Refundable credit of up to $6,242 based on earnings (phases in), AGI (phases out), number of children, and filing status.	Partial credit for up to $3,000 of expenses for child or dependent care ($6,000 for two or more children or dependents). Credit rate reduces with income in excess of $15,000.	Three work and dependent related benefits that replace many current law benefits.
Income Criteria	Phases out sequentially at AGI in excess of $262,200 (single filers), $288,400 (head of household filers), and $314,650 (joint filers). Personal exemptions may not be applied against AMT income.	Phase out sequentially with AGI in excess of $70,000 ($110,000).	Taxpayer may not have more than $3,450 in unearned income. Credit phases out completely at $54,075. (See A3 for complete set of credit parameters.)	Credit phases down, but does not phase out. Credit match rate reaches a minimum at $43,000	Check text. Certain parts phase down or out with income.
Definition Qualifying Child	In general, a qualifying child must meet age, residency, relationship, and support criteria (see following four rows for details).	Generally, the same as dependent exemption (differences below).	Generally, the same as dependent exemption (differences below).	Generally, the same as current law for dependent exemption (differences below). [note: rules for CDCTC establish rules for similar benefits through a cafeteria plan.]	Generally the child must meet age, residency, and relationship criteria.
Age	Under 19 or under 24 if full-time student or any age if permanently and totally disabled.	Under 17.	Under 19, under 24 if full-time student, or any age if permanently and totally disabled.	Under 13 or any age if permanently and totally disabled.	Under 19 or under 22 if full-time student or any age if permanently and totally disabled.
Residency	Must reside with taxpayer for more than half the year.	Must reside with taxpayer for more than half the year (non-citizens must reside with taxpayer in U.S.)	Same as dependent exemption.	Same as dependent exemption.	Same as dependent exemption.
Relationship	Must be the taxpayer’s son or daughter, grandchild, sibling, niece/nephew, or foster child.	Same as dependent exemption.	Same as dependent exemption.	Same as dependent exemption.	Same as dependent exemption.
Support	Child cannot be claimed if he or she provides over half own support.	Same as dependent exemption.	No requirement.	Same as dependent exemption.	No requirement.

Table A1 Eligibility Rules for Child-Related Income Tax Benefits, Continued

	Dependent Exemption for Dependent Child (§ 151-152)	Child Tax Credit Additional Child Tax Credit (CTC, ACTC - § 24)	Earned Income Tax Credit (EITC- § 32)	Child and Dependent Care Credit (CDCTC - § 21)	Proposal
Child of Divorced or Separated Parents	Custodial parent can waive child to noncustodial parent if they provides over half of the child's support and there is a written agreement.	Same as dependent exemption.	Only the parent residing with the child can claim qualifying child for EITC.	Only the parent residing with the child can claim qualifying child for CDCTC.	Only the parent residing with the child can claim qualifying child.
Child: Citizenship/ Identity Documents and Residency in US	U.S. citizen or resident of U.S., Canada, or Mexico. Must have taxpayer identification number (TIN).	U.S. citizen or resident of U.S. Must have taxpayer identification number (TIN).	U.S. citizen or resident of U.S., Canada, or Mexico (and must reside in the US for over half the year). Must have SSN generally valid for work.	Same as dependent exemption	Must have SSN generally valid for work for work credit but ITIN is sufficient for family credit.
Filer(s): Citizenship/ Identity Documents and Residency in US	No explicit restrictions.	Same as dependent exemption.	Must have SSN generally valid for work.	Same as dependent exemption.	Must have SSN for work credit and second earner credit but ITIN is sufficient for family credit.

Notes:

For all purposes in this table, "citizen" also includes US nationals," who are individuals born in American Samoa or the Commonwealth of the Northern Mariana Islands who have made the election to be treated as US nationals and not US citizens. Individuals born in Puerto Rico, Guam, and the US Virgin Islands are US Citizens.

Dependent exemptions are also available for qualifying relatives. A qualifying relative can be any age, generally must reside with the taxpayer be related to the taxpayer, be supported by the taxpayer (who provides at least half of the relative's support), and have gross earnings less than the value of the dependent exemption. Dependent relatives are defined in § 151-152.

Unmarried taxpayers who maintain a home for a dependent child or relative may be eligible to file as a head of household and benefit from a higher standard deduction and a more generous income tax rate schedule than available to single filers. In certain cases, a married taxpayer with children may be considered unmarried for tax purposes. The taxpayer must live apart from his or her spouse for the last six months of the year, maintain the household where the children reside for more than half the year and be able to claim the children as dependents as defined in § 151-152.

Table A2
EITC Parameter Chart for 2017

	No Children	One Child	Two Children	Three or More Children
Phase-in Rate	7.65%	34.00%	40.00%	45.00%
Phase-out Rate	7.65%	15.98%	21.06%	21.06%
Maximum Credit	511	3,410	5,632	6,336
Phase-in Ends	6,680	10,030	14,080	14,080
Single				
Phase-out Begins	8,360	18,390	18,390	18,390
Phase-out Ends	15,040	39,730	45,133	48,475
Joint				
Phase-out Begins	13,960	23,990	23,990	23,990
Phase-out Ends	20,640	45,330	50,733	54,075

Table A3
Family Credit Parameters 2017

A. Baseline Credit	
Household	
Single, Childless	820
Single w/Dependent	1,640
Married	1,640
Dependent Filer	0

B. Dependent Benefits	
Dependent Type	
Child	1,320
Non-Child	820

Table A4
Work Credit Parameters 2017

	No Children	One Child	Two Children	Three or More Children
Phase-in Rate	15.30%	49.00%	55.00%	60.00%
Phase-out Rate	7.65%	15.98%	21.06%	21.06%
Maximum Credit	765	3,920	6,600	7,650
Phase-in Ends	5,000	8,000	12,000	12,750
Single				
Phase-out Begins	10,500	23,000	23,000	23,000
Phase-out Ends	20,500	44,402	49,591	52,202
Joint				
Phase-out Begins	10,500	23,000	23,000	23,000
Phase-out Ends	20,500	44,402	49,591	52,202
Phase-out credit	0	500	1000	1500