

The Child Tax Credit: A Tool for Fighting Child Poverty in Colorado

The Child Tax Credit (CTC) helps offset the cost of raising children by reducing families' tax bills or increasing their refund checks by up to \$2,000 per eligible child. The CTC also helps fight child poverty because it is partially refundable, meaning that working families can benefit from the credit even if their incomes are so low that they owe little or no federal income tax (they still pay payroll taxes).

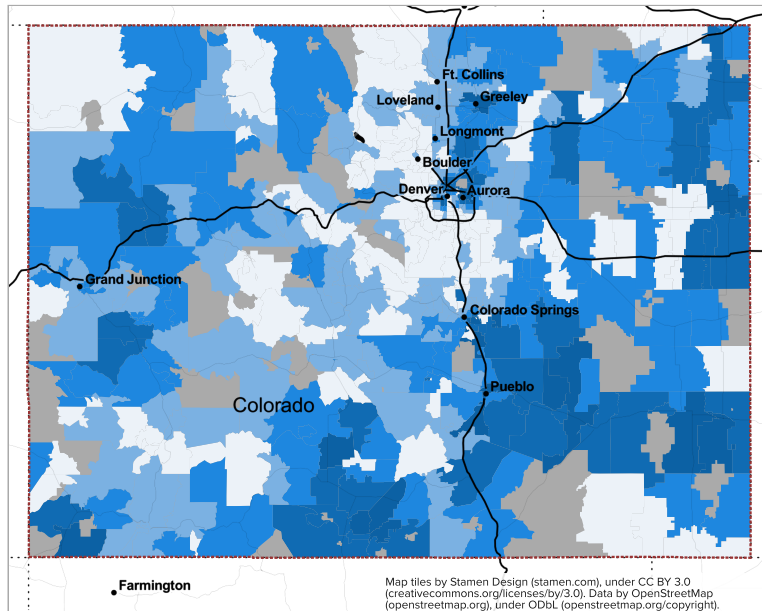
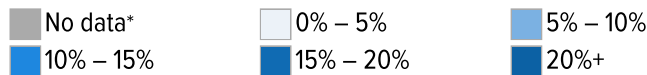
In 2016, 18.5 million working families benefited from the refundable portion (also known as the “low-income” portion) of the CTC — **including 250,000 families in Colorado** — underlining its importance in fighting child poverty. Consider two minimum-wage workers who work full time to support themselves and their two children. They make \$30,000 a year and receive a \$3,400 CTC, which gives them a much-needed boost to help with the cost of raising their children. Part of their CTC offsets their income taxes, but a significant portion — \$2,800 — is refundable, which means that they receive it in the form of a refund check.

Reducing Poverty and Expanding Children's Opportunities

An estimated **250,000** households in this state receive the refundable portion of the Child Tax Credit. This map shows refundable CTC usage by ZIP code:

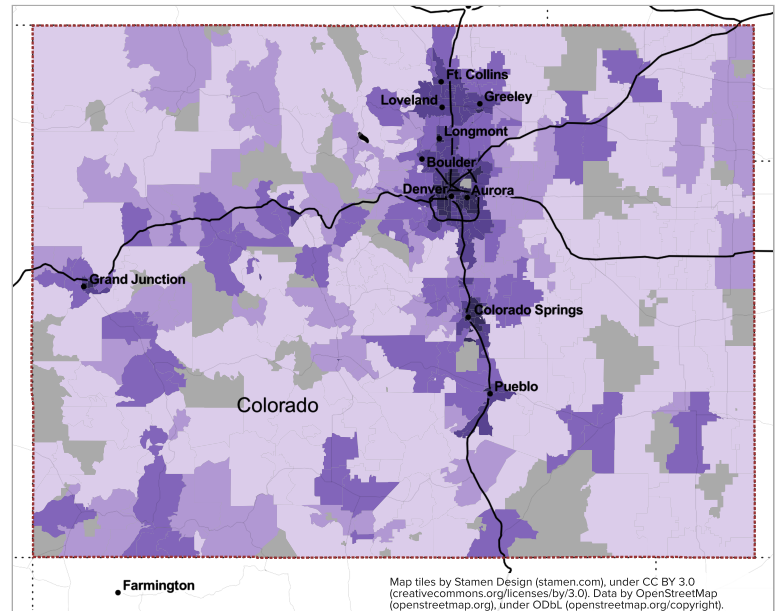
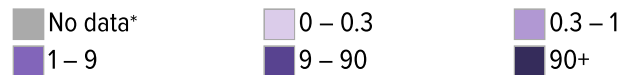
Share of Households Receiving Refundable Portion of Child Tax Credit

By zip code



Where Households Receiving Refundable Portion of Child Tax Credit Live

Number of recipient households per square mile by zip code



*Gray areas have few households and data are suppressed for privacy reasons.

Note: Recipients are assumed to be evenly distributed within each zip code tabulation area. “Households” are tax filers.

Source: IRS Zip Code Data, Tax Year 2016; U.S. Census Bureau

The value of the CTC increases with a household's earnings, up to \$2,000 per child (or \$1,400 per child for the refundable portion). A family that earns less than \$2,500 is ineligible for the credit, however, and a single parent with two children who earns over \$2,500 and less than \$30,000 receives only a partial credit. Because higher-income households need less help to pay the costs of raising children, couples with two children and family incomes above \$400,000 (\$200,000 for single or head-of-household filers) receive a smaller CTC, and those with family incomes above \$480,000 (\$280,000 for singles or household heads) receive no CTC.

Despite its limited refundability, the CTC is a powerful weapon against poverty. Combined with the Earned Income Tax Credit, it lifted approximately 4.8 million children above the poverty line and lessened poverty for another 7.7 million children in 2017. (See figure.) Many of these low-income families are ineligible for other tax-based assistance for children, like the Child and Dependent Care Tax Credit, which is not refundable.

Also, research suggests that boosting working families' incomes can expand opportunities for children, such as by improving school performance. Lifting low-income families' income when a child is young not only tends to improve a child's immediate well-being, but is associated with better health, more schooling, more hours worked, and higher earnings in adulthood, research has found.

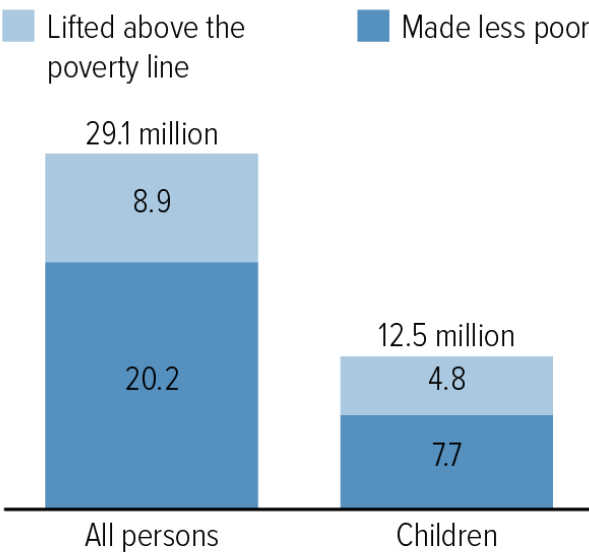
Steps to Improve the CTC

While the 2017 tax law increased the maximum credit available per-child from \$1,000 to \$2,000, it denied that full increase to 26 million children in low- and moderate-income working families. Of those children, 11 million were in families that received a CTC increase of \$75 or less because the CTC is limited to 15 percent of their earnings above \$2,500 and their earnings were too low to benefit from the increase in the maximum credit. Another 15 million children live in families that received a CTC increase of more than \$75 but less than the much touted \$1,000-per-child increase because the law limited the portion of the total credit that was refundable to \$1,400 per child.

Congress should fix these shortcomings in the 2017 law's CTC increase and ensure that low- and moderate-income families are not left out. The CTC should be made fully refundable so that low- and moderate-income families receive the full \$2,000-per-child credit. At the very least, policymakers should begin to phase it in at the first dollar of earnings, increase the phase-in rate, and eliminate the \$1,400 refundability cap.

Earned Income Tax Credit and Child Tax Credit Have Powerful Anti-Poverty Impact

Millions of persons lifted above the poverty line or made less poor (using Supplemental Poverty Measure) by EITC and CTC, 2017



Note: Unlike the Census Bureau's official poverty measure, the SPM counts the effect of government benefit programs and tax credits.

Source: CBPP analysis of Census Bureau's March 2018 Current Population Survey and 2017 SPM public use file.