No surprises as Finance subcommittee examines social and economic impact of child tax credit

Democrats and Republicans on the Senate Finance Subcommittee on Taxation and IRS Oversight largely stuck to familiar partisan talking points during a July 13 hearing to consider the effectiveness of the child tax credit in supporting families and reducing child poverty since its inception in 1997 and how Congress should address certain expired or expiring enhancements that were made to the credit by Republicans in 2017 and Democrats in 2021.

This was actually the second such hearing for Senate taxwriters in a relatively short span of time. The structure of the child tax credit figured prominently in the discussion when the full Finance panel gathered on June 14 to consider the broader array of family support and poverty-reduction provisions currently in the tax code. (For prior coverage, see *Tax News & Views*, Vol. 24, No. 24, June 16, 2023.)
URL: https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2023/TNV/230616_2.html

American Rescue Plan expansions

Subcommittee Chairman Michael Bennet, D-Colo., recently introduced legislation alongside fellow Senate Democratic taxwriter Sherrod Brown of Ohio—the Working Families Tax Relief Act—that would, among other things, make permanent enhancements to the credit that were enacted in the American Rescue Plan (P.L. 117-2) but expired after 2021.
URL: https://www.kaine.senate.gov/imo/media/doc/working_families_tax_relief_act.pdf
URL: https://www.congress.gov/117/plaws/publ2/PLAW-117publ2.pdf

The American Rescue Plan, which moved through Congress during the coronavirus pandemic in 2021 with only Democratic support, expanded the child tax credit from $2,000 per child to $3,600 per child up to age 5 and $3,000 for children up to age 17. For that year only, the credit was also made fully refundable (rather than partially refundable, depending in part on an individual's earnings, as under current law); moreover, many taxpayers could elect to receive the benefits as "advanceable" monthly payments rather than waiting to claim them when filing a tax return in the following year. The American Rescue Plan also expanded—for 2021 only—the earned income tax credit for individuals without qualifying dependents (which is comparatively small, capping out at only $600 in 2023) and made the child and dependent care tax credit more generous and refundable.

In his opening statement at this week's hearing, Bennet lauded the American Rescue Plan's changes, saying they were a boon to reducing child poverty in America.

"Sixty-two million kids benefited. Ninety percent of kids in every single state," Bennet argued. ". . . It reduced stress for kids and their parents. It helped cut child poverty in half and hunger by a quarter. And we found out that an extra $10 a day didn't actually reduce workforce participation as some suggested it would."

Work requirements still a big hang-up: But Bennet's contention that the 2021 expansions—particularly, the changes that made the child tax credit fully refundable without regard to wages—did not negate incentives to stay in the workforce or seek employment has been heavily disputed by Republicans.

Subcommittee ranking member John Thune, R-S.D., who also serves as Senate minority whip, argued that the American Rescue Plan's decoupling of work requirements from eligibility for the full benefit of the child tax credit ran counter to the credit's original intent and "essentially turned a credit that targets assistance toward working families into universal basic income for anyone with a child."

". . . While some try to reframe the discussion, the child tax credit originated during the broader 'back-to-work' welfare reform push of the 1990s and cannot be understood without comprehending the lessons of this highly successful series of reforms," Thune continued. "One primary objective of welfare reform was to get families out of the cycle of perpetual poverty, by providing them with a hand up rather than a handout."

Republicans also took issue with the steep budgetary cost of permanently extending the American Rescue Plan's changes to the credit, another factor that has consistently dogged bipartisan talks around pairing child tax credit reform with an extension of certain lapsed business provisions from the Tax Cuts and Jobs Act (TCJA, P.L. 115-97), most notably the ability to expense certain research-related expenses under tax code section 174 rather than amortizing them over five years (or 15 years, if the research is conducted abroad).
URL: https://www.congress.gov/115/plaws/publ97/PLAW-115publ97.pdf

Democrats, especially more progressive members of the caucus, have consistently demanded that a child tax credit expansion accompany any new business-focused tax relief. But Republicans have countered that the budgetary costs of that policy trade are far too lopsided. (Taxwriters in the House debated that very point last month during a mark-up of an "economic growth" package offered by Ways and Means Committee Chairman Jason Smith, R-Mo., and the panel's Republicans. Democrats offered an amendment that would have paired an expanded child tax credit with more generous rules for the treatment of research expenditures, bonus depreciation, and deductibility of business interest expenses, but that proposal was defeated along strict party lines. For prior coverage, see *Tax News & Views*, Vol. 24, No. 24, June 16, 2023.)
URL: https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2023/TNV/230616_1.html

While the discussion among Senate taxwriters at this week's hearing once again demonstrated that a bipartisan breakthrough on these issues is not immediately at hand, it is expected that talks will continue in anticipation of potentially moving tax changes alongside other "must-pass" legislation later this year.

TCJA expansions

Senators on the subcommittee also discussed the various changes made to the child tax credit by the Tax Cuts and Jobs Act—the Republican tax reform bill enacted in 2017—all of which are set to revert to their pre-2018 parameters after December 31, 2025. In fact, virtually all of that law's changes on the individual side of the tax code—such as adjustments to the tax brackets and various modifications to itemized deductions and the standard deduction—are set to lapse after 2025.

Beginning in 2026, the maximum per-child credit amount is scheduled to fall from its current level of $2,000 to $1,000 and the income thresholds above which the credit phases out will also decrease considerably. (For example, for married individuals filing jointly, the credit will begin phasing out when income exceeds $110,000 rather than the current level of $400,000). Additionally, a TCJA provision that allows a $500 credit for certain non-child dependents is scheduled to expire.

Sen. Thune expressed his hope that lawmakers will “see the necessity for this expanded child tax credit to not be allowed to simply expire in just a few short years.”

Subcommittee Chairman Bennet, for his part, contended that the TCJA’s increase in the income phase-out threshold for the child tax credit succeeded in making the credit available to more affluent taxpayers but did nothing to support the neediest individuals.

However, it remains very uncertain how this and myriad other TCJA-related issues will be addressed over the course of the next two-and-a-half years. Much will depend on the outcome of the November 2024 presidential and congressional elections and the balance of power when the victors take office in January 2025.

— Alex Brosseau
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