



VERMONT LEGISLATIVE Joint Fiscal Office

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Issue Brief

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Vermont Child Tax Credit: A One-Year Lookback

Executive Summary

Act 138 (2022) established the Vermont Child Tax Credit (CTC), that went into effect in tax year 2022. Taxpayers with children ages five and under who have adjusted gross income (AGI) of \$175,000 or below qualify for the CTC. Households with AGI of \$125,000 or below receive \$1,000 per eligible child. The credit then phases out at a rate of 2% per \$1,000 of income above \$125,000, reaching zero at incomes of \$175,000 and above. The CTC is fully refundable.¹

In 2022, 21,034 tax filers claimed the Vermont Child Tax Credit and received approximately \$25.1 million from the credit.

In tax year 2022, 21,034 tax returns claiming 27,214 children received the CTC. Credits to these taxpayers totaled approximately \$25.1 million. The majority of credits were claimed on tax returns with less than \$75,000 in AGI. Among CTC claimants, 38.3% also received the Earned Income Tax Credit (EITC), 28.6% received the Child and Dependent Care Credit (CDCC), and 4.7% received all three.

This issue brief analyzes the first year of the CTC and provides insight into the following categories:

- Breakdown of claimants
- Income distribution of recipients
- Distribution of children claimed by AGI category
- Marital status of claimants
- Overlapping credits

Statutory Reference

[Act 138 \(2022\)](#) established the Vermont Child Tax Credit (CTC) in 32 V.S.A. § 5830f. The Act created an income tax credit for qualifying taxpayers with children ages five and younger. The credit is fully refundable, which means that if taxpayers owe less than the amount of the credit, they receive a refund in the amount of the excess credit. The statutory purpose of the CTC, per 32 V.S.A. § 5813(y), is to provide financial support to families with young children.

¹ If a credit is fully refundable, when the amount of the credit is greater than the tax owed, taxpayers have their tax reduced to zero and receive a refund in the amount of the excess credit.

Households with AGI of \$125,000 or below are entitled to a fully refundable credit of \$1,000 per child. For households with AGI above \$125,000, the credit is reduced by 2% for every additional \$1,000 in AGI and fully phases out at AGI above \$175,000.

History and Overview of the Federal Child Tax Credit

Prior to tax year 2021, the federal government provided a Child Tax Credit (CTC) to eligible filers with children below the age of 17. Credit amounts were equal to \$2,000 per child. Up to \$1,400 of that amount was fully refundable. The credit was available to filers with an AGI of \$200,000 or below (\$400,000 if filing jointly).

In 2021, the federal CTC was expanded for lower-income households. The maximum credit amount was raised to \$3,600 per child under the age of six and \$3,000 per child above the age of six for single filers earning less than \$75,000, Head of Household (HoH) filers earning less than \$112,500, and joint filers earning less than \$150,000. The credit phased out at a rate of \$50 per \$1,000 in AGI beyond these thresholds. Additionally, the credit was expanded to include children 17 years old.

The 2021 changes also created advance CTC payments. This let claimants receive half of their estimated CTC amount in the form of monthly payments.

In 2022, the federal CTC largely reverted to the less generous pre-2021 guidelines. Filers with income up to \$200,000 (\$400,000 if filing jointly) are eligible for a \$2,000 credit per child under the age of 17. Up to \$1,500 of this amount is fully refundable, an increase over the pre-2021 \$1,400. The credit is still phased out at a rate of 2% per \$1,000 in AGI beyond this income threshold.

The Vermont CTC, created in 2022, provides an additional benefit beyond the federal CTC, offering eligible filers a fully refundable credit against State income taxes.

Statistical Summary

In tax year 2022, 21,034 tax returns claimed and received the Vermont CTC. These filers claimed 27,214 children and received approximately \$25.1 million in credits.² In 2022, 329,354 tax returns were filed in Vermont, meaning that 6.4% of tax returns claimed the State CTC.

Claimants filed their taxes in multiple ways:

- Of the 21,034 total claimants, 20,431 filed electronically and 603 submitted paper returns.
- Of the electronic filers, 227 filed through the Internal Revenue Service's Volunteer Income Tax Assistance (VITA) program – a free tax preparation program available to taxpayers who are low-income, disabled, or have limited English proficiency.³
- Among the electronically filed returns, 8,387 were filed using a paid provider.

Breakdown of Claimants

- Most Vermont CTC claims were from low- and moderate-income households.
- Moderate- to higher-income household CTC claimants claimed more children on average.
- Married CTC claimants were more likely to be higher income, while single CTC claimants were more likely to be lower income.

There was significant overlap between the CTC, EITC, and CDCC. CTC claimants were very likely to also receive the EITC, and moderate- to higher-income CTC claimants were more likely to also receive the CDCC.

² These results were updated as of November 3, 2023.

³ There are other, non-government free tax preparation programs available that could not be captured in this analysis.

Almost 1,000 CTC claimants received all three credits. This is discussed in more detail in the overlapping credits section below.

Income Distribution of Credit Recipients

92% of Vermont taxpayers fall within the income eligibility criteria for the CTC. As can be seen in *Table 1*, the 303,015 income-eligible filers (not all of whom necessarily have age-eligible children) were distributed as follows:

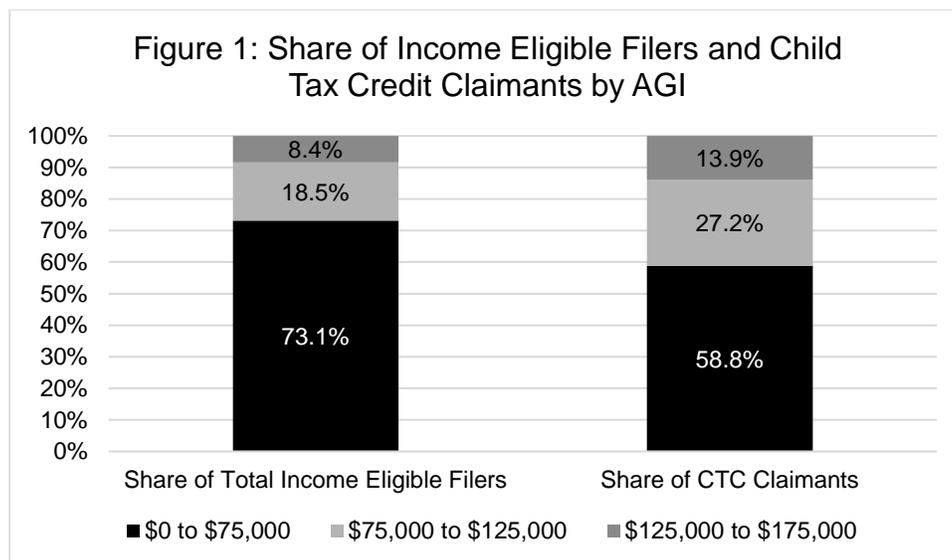
- Those with an AGI of \$75,000 or below accounted for 73.1% of total income eligible filers; 5.6% of these filers claimed the CTC.
- Those earning above \$75,000 and \$125,000 or less accounted for 18.5% of total income eligible filers; 10.2% of these households claimed the CTC.
- Those earning between above \$125,000 and \$175,000 or below made up 8.4% of total income eligible filers; 11.5% of these taxpayers claimed the CTC.⁴
- 128 of those earning \$75,000 or less who received the CTC had income below \$0; 61 reported income of exactly \$0.

Table 1: Count of total tax returns and CTC Claimants by income

Income	Total Income Eligible Filers	CTC Claimants	Share of Filers in AGI Group that Claimed the CTC
\$0 to \$75,000	221,373	12,375	5.6%
\$75,000 to \$125,000	56,209	5,726	10.2%
\$125,000 to \$175,000	25,433	2,933	11.5%
Total	303,015	21,034	6.9%

Source: Vermont Department of Taxes; analysis by the Joint Fiscal Office

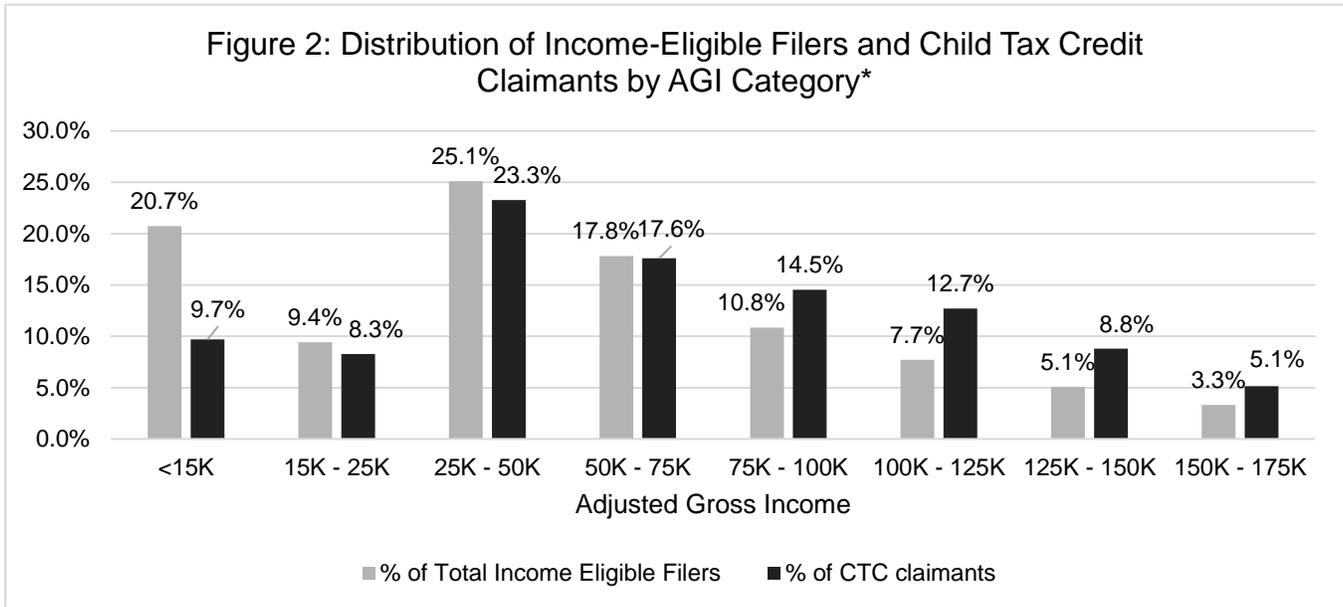
The majority of CTC claimants earned less than \$75,000, which corresponds with the income breakdown of all income eligible filers. As seen in *Figure 1*, those earning \$75,000 or less accounted for 58.8% of total CTC claimants, those earning more than \$75,000 and \$125,000 or less accounted for 27.2% of claimants, and those earning more than \$125,000 and \$175,000 or less accounted for 13.9% of claimants.



⁴ In 2021, the median household income in Vermont was \$67,674 (U.S. Census Bureau <https://www.census.gov/quickfacts/fact/table/VT/PST045222>).

The distribution in *Figure 1* indicates that lower-income CTC claimants are proportionately less likely to have age-eligible children and claim the CTC than filers in the other income categories. It is likely that there is a cohort of Vermonters who have age-eligible children but either did not file a tax return or were unaware that they could claim the credit.

Claimants with income higher than \$75,000 all claimed the credit at higher rates than their share of total income eligible taxpayers. The 73.1% of total income eligible tax returns reporting income under \$75,000 accounted for 58.8% of CTC claimants. Those earning more than \$75,000, on the other hand, accounted for 26.9% of total income eligible filers but made up 41.1% of CTC claimants. This suggests that eligible claimants with higher incomes are proportionately more likely to claim the credit (*see Figure 2*).

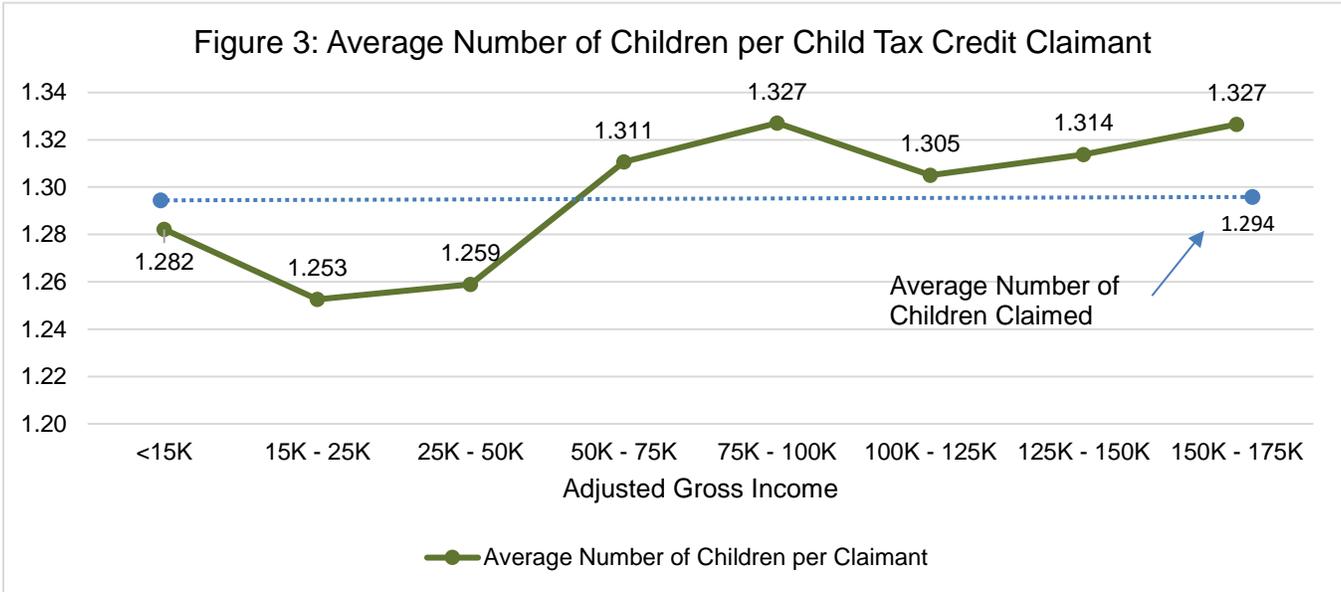


*Filers are not differentiated by filing status, as the Vermont Child Tax Credit does not differentiate based on filing status.
Source: Vermont Department of Taxes; analysis by the Joint Fiscal Office

Distribution of Children Claimed by AGI Category

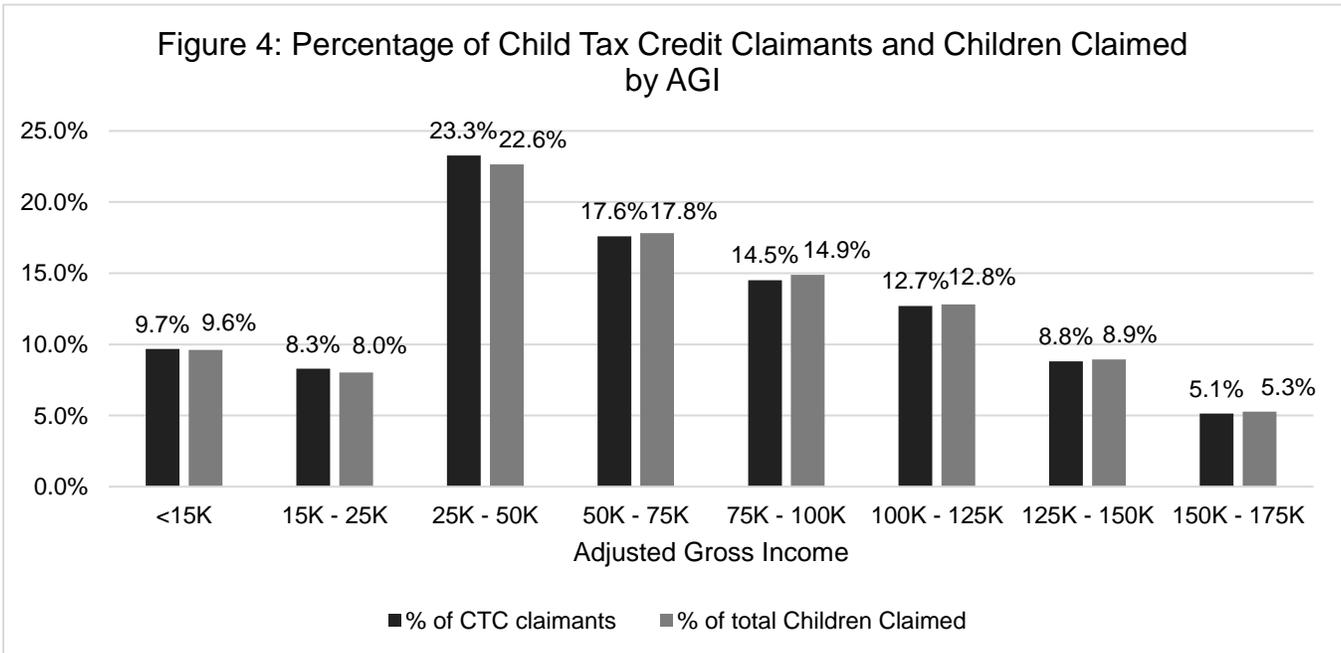
Lower-income filers tended to claim fewer children than the average, but the differences between income categories are relatively minor. In 2022, an average of 1.294 children were claimed per CTC claimant. *Figure 3 on the following page* shows the breakdown of the average number of children per CTC claimant income group. Filers with incomes between \$0 and \$50,000 claimed slightly fewer children than the average. Filers with incomes between \$15,000 and \$25,000 claimed the fewest children on average (1.253 per claimant, 3.1% below the average). Filers with incomes between \$50,000 and \$175,000 claimed slightly more children than the average claimant; those between \$75,000 and \$100,000 and those between \$150,000 and 175,000 claimed the most children, claiming 1.327 children on average – 2.6% above the overall average (*see Figure 3*).

While higher-income claimants tended to claim more children than lower-income claimants, the variance is not large enough to suggest income has a significant impact on the number of age-eligible children a household has.



Source: Vermont Department of Taxes; analysis by the Joint Fiscal Office

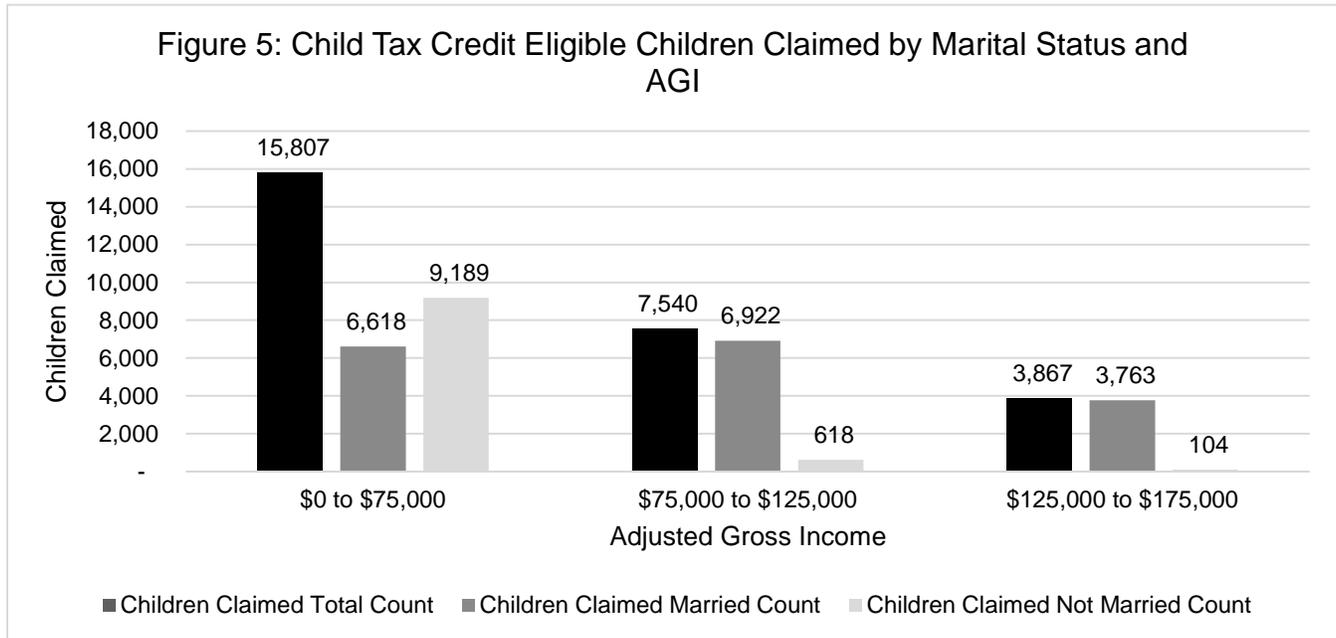
Figure 4 shows the percentage of CTC claimants and children claimed by AGI. Claimants with income below \$50,000 made up 41.3% of total claimants and accounted for approximately 40.3% of children claimed. All income groups above \$50,000 AGI combined claimed a higher share of children (59.7%) than their share of total CTC claimants (58.8%). This reaffirms what is seen in Figure 3. Among CTC claimants, those with higher incomes are more likely to claim more children, but the difference is not significant.



Source: Vermont Department of Taxes; analysis by the Joint Fiscal Office

Marital Status of CTC Claimants

The majority of children claimed by CTC recipients were from married households (17,303, or 63.6%). Children from single CTC claimants accounted for 9,911, or 36.4%, of total children claimed. The distribution of children claimed across income categories is very different depending on the marital status of the household (see Figure 5 on the following page). The overwhelming majority of single filer claimants reported less than \$75,000 in AGI. The children of married claimants, on the other hand, were more likely to be claimed on returns reporting higher incomes.



Source: Vermont Department of Taxes; analysis by the Joint Fiscal Office

Overlapping Credits

In many cases, CTC claimants in tax year 2022 were also eligible to receive the Vermont Earned Income Tax Credit (EITC) and the Child and Dependent Care Credit (CDCC).^{5,6} Both of these credits are also fully refundable and meant to financially support working families. Among the 21,034 CTC claimants:

- 8,060, or 38.3% of CTC claimants, also received the EITC
- 6,006, or 28.6% of CTC claimants, also received the CDCC
- 987, or 4.7% of CTC claimants, received all three credits

Only those CTC claimants who earned between \$0 and \$75,000 claimed the EITC. EITC eligibility is predicated on having earned income, which means that recipients are required to work to be eligible. Income thresholds used to determine eligibility for the EITC vary based on filing status and the number of dependents claimed. In tax year 2022 the highest income cap for the EITC was \$59,187, which falls within the \$0 to \$75,000 range.

In tax year 2022, 32,911 filers claimed the EITC and received approximately \$24.4 million from the credit. CTC claimants represented 8,060 (24.5%) of this cohort and approximately \$9.2 million (37.9%) of the statewide EITC received. Many lower-income Vermont households that claim the CTC are working families, as evidenced by the significant overlap between tax returns that claim the CTC and the EITC.

⁵ The EITC provides low- and moderate-income working households with a refundable credit. It boosts the incomes of workers paid low wages while offsetting payroll and income taxes. In tax year 2022, the Vermont EITC was calculated as 38% of the federal EITC that a claimant receives.

⁶ The CDCC allows claimants to recoup qualifying expenses on child and dependent care. In tax year 2022, the Vermont CDCC was calculated as 72% of the federal CDCC claimants receive.

The distribution of CTC claimants who also received the CDCC does not mirror that of those who also claimed the EITC, partially because the CDCC has broader income eligibility criteria than the EITC and partially because a filer must have CDCC eligible expenses to qualify.⁷

- Of CTC claimants earning \$75,000 or less, 15.9% also claimed the CDCC.
- Of CTC claimants earning more than \$75,000 and \$125,000 or less, 42.2% also claimed the CDCC.
- Of CTC claimants earning more than \$125,000 and \$175,000 or less, 55.3% also claimed the CDCC.

The average total credit amount for the 987 CTC claimants who received all three credits was approximately \$2,495. These claimants received approximately \$2.5 million in total (*see Table 2*).

Table 2: Count and Amount of Other Credit Received by CTC Claimants

Income	Child Tax Credit		EITC		CDCC		All Three	
	Count	Value	Count	Value	Count	Value	Count	Value*
\$0 to \$75,000	12,375	\$15,568,312	8,060	\$9,237,302	1,970	\$819,346	987	\$2,462,839
\$75,000 to \$125,000	5,726	\$7,366,506	-	-	2,414	\$1,173,704	-	-
\$125,000 to \$175,000	2,933	\$2,179,401	-	-	1,622	\$797,374	-	-
Total	21,034	\$25,114,219	8,060	\$9,237,302	6,006	\$2,790,424	987	\$2,462,839

*The value column for “All Three” refers to the total combined value of all three credits. Other value columns refer to the value of the corresponding credit only.

Source: Vermont Department of Taxes; analysis by the Joint Fiscal Office

⁷ This pattern is also noted in the 2023 Tax Expenditure Reviews Report (p. 33) <https://lifo.vermont.gov/assets/Subjects/Tax-Expenditure-Reports/11b4d43c7d/2023-Tax-Expenditure-Reviews-Report.pdf>