

Child Tax Credit Overview

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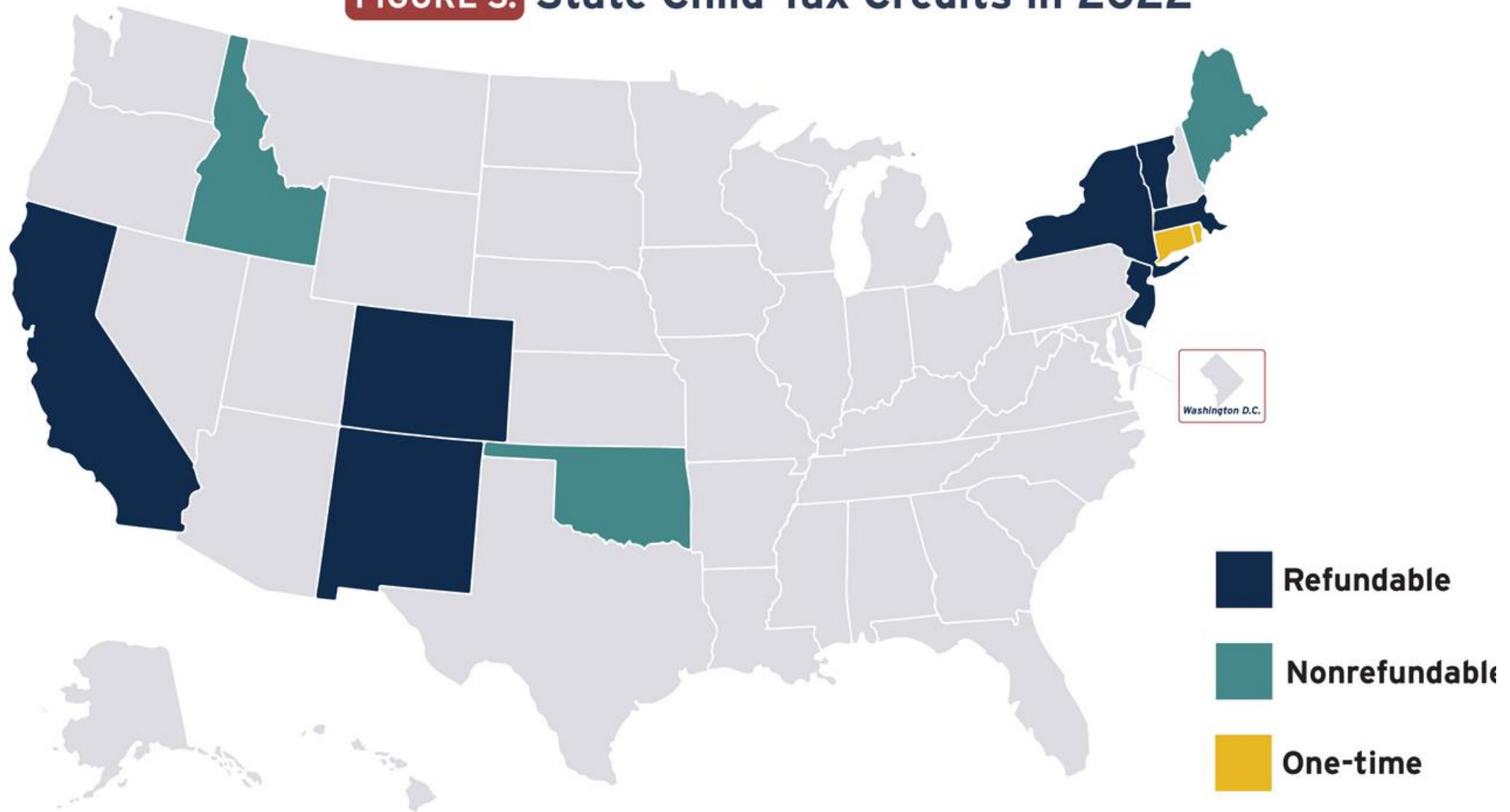
Federal Child Tax Credit

- Federal law provides a child tax credit for taxpayers who have a qualifying child or other dependents and whose adjusted gross income is under a certain threshold. See, I.R.C. §§ 24 and 152.

Other States' Child Tax Credits

- As of Jan. 1, 2023, 9 states also provide a state-level child tax credit.
 - California, Colorado, Idaho, Maine, New York, New Jersey,* New Mexico (until 2027),* Oklahoma, and Vermont*
 - *State that enacted a CTC in 2022
- Maryland had a temporary CTC from 2020-2022

FIGURE 3. State Child Tax Credits in 2022



Note: Maryland has a modest, temporary CTC (through January 1, 2023) that is limited to children with disabilities; taxpayer AGI must be under \$6,000.

Source: Institute on Taxation and Economic Policy, Columbia Center on Poverty and Social Policy, 2022

Federal Child Tax Credit

- Who is a qualifying taxpayer?
 - U.S. citizen, national, or resident
 - Has a taxpayer identification number (TIN) by tax return due date
 - Individual Taxpayer Identification Number (ITIN) or Social Security Number (SSN)
- Income eligibility
 - Maximum credit when taxpayers have modified AGI of:
 - \$400,000 or less for married filing jointly; or
 - \$200,000 or less for all other filers.
 - When modified AGI exceeds thresholds, amount of credit phases out.
 - AGI threshold amounts only for taxable years 2018-2025 under Tax Cuts and Jobs Act (TCJA)

Federal Child Tax Credit

- Who is a qualifying child?
 - Child claimed as a dependent by taxpayer. Required relationship:
 - Child (including adopted child or child lawfully placed for adoption), stepchild, foster child placed by an authorized agency or court
 - A sibling, half sibling, step-sibling, or their descendant
 - U.S. citizen, national, or resident
 - 16 years of age or younger
- Support
 - Qualifying child must live in same household as taxpayer for more than half the tax year and cannot be self-supporting. Child generally cannot have filed a joint return.

Federal Child Tax Credit

- Who is a qualifying child? (cont.)
 - Taxpayer identification number
 - Child must have a SSN to qualify.
 - If child does not have a SSN, but another TIN, child may qualify for the other dependent credit.
- \$2,000 per qualifying child
- Only available tax years 2018-2025 under TCJA

Federal Child Tax Credit

- Who is a qualifying other dependent?
 - Any other qualifying relative claimed as a dependent by taxpayer
 - Dependent cannot also be used to claim child tax credit
 - U.S. citizen, national, or resident
 - Support
 - Relative is not required to live with taxpayer claiming exemption, but relative cannot be self-supporting.
 - Taxpayer must provide more than half of relative's support.
 - Other dependent must have a TIN (not necessarily SSN)
- \$500 per qualifying relative
- Only available tax years 2018-2025 under TCJA

Federal Child Tax Credit

Recent history

- American Taxpayer Relief Act of 2012
 - \$1,000 per child and increased income threshold to correspond with EITC.
- Tax Cuts and Jobs Act of 2017
 - \$2,000 per child and limited refundable amount of credit to \$1,400 per child.
 - Created \$500 nonrefundable credit for other qualifying dependents.
 - Imposed income phaseout thresholds and rates for higher-income taxpayers.
 - TCJA changes are temporary and sunset on December 31, 2025.
- American Rescue Plan Act of 2021 (taxable year 2021 only)
 - Increased maximum credit
 - Made credit fully refundable
 - Paid out half of credit in advance monthly payments from July-December 2021

Vermont Child Tax Credit

- Act 138 of 2022: Vermont enacted its own Child Tax Credit in 32 V.S.A. § 5830f
 - Refundable
 - For children who are:
 - 5 years of age and younger at end of taxable year
 - who qualify under federal CTC
 - Support, relationship, SSN, etc.

Vermont Child Tax Credit

- Credit amount is \$1,000 per qualifying child
 - Phases out for taxpayers with adjusted gross income over \$125,000
 - \$0 at \$175,000 AGI
 - Same threshold for both joint and single filers
 - Phases out for part-year residents by a percentage of the amount of total income that is Vermont income

Vermont Child Tax Credit

- CTC deemed like Earned Income Tax Credit and does not affect State or local benefit program determinations (eligibility or amount of assistance)
- CTC excluded from any State program, including:
 - Child Care Financial Assistance Program, Reach Up, SNAP, General Assistance, Home Weatherization Assistance Program, and Low Income Home Energy Assistance Program

Vermont Child Tax Credit

- Exclusion is both intent and acknowledgement of supremacy of federal law.
- Exclusion from benefit determinations only applies to the extent that:
 - (1) it does not conflict with federal law relating to the benefit or assistance program, such as SNAP; and
 - (2) any required federal approval or waiver is first obtained for the program.

Vermont Child Tax Credit

- CTC declared not to be assets, income, or resources to the same extent the credit would be disregarded pursuant to 26 U.S.C. § 6409 and the general welfare doctrine.
 - Federal statute excludes federal income tax refunds (or advance payments of refunds) from federal benefit programs for a period of 12 months from receipt of refund.
 - No blanket exclusion of state refunds, however.
- General welfare doctrine states that certain refundable tax credits that promote the general welfare are not taxable income.
 - Not a clear exclusion from federal benefit programs, however.