



## Budget Model

# Presidential Candidate Joe Biden's Proposed Child Tax Credit Expansion

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**Summary:** Presidential candidate Joe Biden recently announced a proposal to temporarily expand the Child Tax Credit (CTC). We find that this proposal would cost \$110 billion if implemented solely for calendar year 2021 and would cost \$1.4 trillion over ten years if extended permanently. While higher income households are more likely to have qualifying children and would see larger average tax cuts (\$1160 for the 90-95th percentile), lower income groups would see the largest relative benefit, with after-tax incomes increasing by 9 percent for the bottom quintile.

## Introduction

Presidential candidate Joe Biden recently announced [a proposal](#) to expand the Child Tax Credit (CTC) for the duration of the COVID-19 economic crisis. This policy is adopted from the CTC expansion included in the HEROES Act, which itself is modeled after Senator Michael Bennet's (D-CO) [American Families Act](#).

## Current Law

Under current law, the CTC provides a credit of up to \$2,000 per child. The credit is restricted to children aged 16 and younger who are US citizens. The credit phases out for married couples with Adjusted Gross Income (AGI) of more than \$400,000 (\$200,000 for single parents). The CTC is partially refundable: a family for whom the credit's value is larger than their federal income tax liability is eligible to receive a refund equal to 15 percent of earnings above \$2,500, up to a maximum per-child value of \$1,400. Under current law, the CTC is scheduled to become less generous beginning in 2026 when it will revert to its 2017 law parameters. The value of the credit will fall to \$1,000, the phaseout threshold will decrease to \$1,000, and the refundability threshold for earnings will rise to \$3,000.

## Biden Proposal

Biden's proposal would increase the value of the CTC to \$3,000 per qualified child under the age of 17 and provide a bonus of \$600 for each child under the age of 6. The proposal would also make the credit fully refundable, meaning that families without any federal income tax liability and limited or no earnings would be able to claim the full value of the credit. Critically, the expansion would be temporary and would expire once the COVID-19 public health emergency, as [declared](#) by the Department of Health and Human Services, has ended.

In this post, we describe PWBM's estimates of the budgetary and distributional impacts of the proposed CTC expansion. We first model a temporary policy, as proposed by Biden, and assume that the CTC expansion applies only to calendar year 2021. For illustrative purposes, we also model a scenario in which the expansion is made permanent.

### Projected Budgetary Effects

PWBM estimates that Biden's proposed one-year expansion would cost \$110 billion, split between fiscal years 2021 and 2022. If the expansion were made permanent, we estimate it to cost \$1.4 trillion over the budget window. Table 1 shows the estimated annual budget impacts of both scenarios. Under the permanent expansion, the cost of the CTC expansion increases from slightly above \$100B at beginning of the decade to about \$180B per year by the end of the budget window -- a result of the expiration of provisions of the Tax Cuts and Jobs Act (TCJA) set to expire at the end of 2025.

Table 1. Budget Cost of CTC Expansion Scenarios

*Billions of Dollars, Change from Current-Law Baseline*

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Scenario	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total
One-Year Expansion	-85	-25	0	0	0	0	0	0	0	0	-110
Under Permanent Expansion	-85	-109	-108	-107	-106	-161	-178	-179	-179	-180	-1,391

### Projected Distributional Effects

Table 2 reports the distributional effects of the proposed CTC expansion in 2021. All income groups below the 99th percentile would see net tax liabilities decrease on average. The 90-95th percentile group would get the largest tax cut (\$1160 on average), with 40 percent of tax units in this income range receiving a tax cut. This comparatively large effect is due to the fact that tax units in these income groups tend to have more dependents (and qualifying children) relative to lower income groups. Tax units in the bottom income quintile are less likely to have children and thus only 12 percent in this group would benefit from the proposal.

Table 2. Distribution of Federal Tax Change, Calendar Years 2021 and 2026

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- Distributional Effects of CTC Expansion in 2021
- Distributional Effects of Permanent Expansion in 2026

**Distributional Effects of CTC Expansion in 2021**

<b>With corporate income tax burden:</b>							
<b>Income Group</b>	<b>Average Tax Change</b>	<b>Share with a Tax Cut</b>	<b>Average Tax Cut For Those With a Tax Change</b>		<b>Share of Tax Change</b>	<b>Share of Federal Taxes Paid</b>	
			<b>With a Tax Change</b>	<b>Percent Change in After-Tax Income</b>		<b>Before Tax Change</b>	<b>After Tax Change</b>
Bottom quintile	-410	12%	-3,825	9%	18%	0.1%	-0.6%
Second quintile	-780	28%	-3,305	3%	26%	2.9%	2.1%
Middle quintile	-515	24%	-2,720	1%	17%	10.5%	10.3%
Fourth quintile	-620	26%	-2,815	1%	17%	18.8%	18.9%
80-90%	-1,040	37%	-3,145	1%	12%	14.7%	14.8%
90-95%	-1,160	40%	-3,285	1%	6%	10.8%	11.0%
95-99%	-735	28%	-3,240	0%	3%	16.2%	16.7%
99-99.9%	0	0%	0	0%	0%	12.7%	13.2%
Top 0.1%	0	0%	0	0%	0%	12.8%	13.3%

**Distributional Effects of Permanent Expansion in 2026**

<b>With corporate income tax burden:</b>							
<b>Income Group</b>	<b>Average Tax Change</b>	<b>Share with a Tax Cut</b>	<b>Average Tax Cut For Those With a Tax Change</b>		<b>Share of Tax Change</b>	<b>Share of Federal Taxes Paid</b>	
			<b>With a Tax Change</b>	<b>Percent Change in After-Tax Income</b>		<b>Before Tax Change</b>	<b>After Tax Change</b>
Bottom quintile	-400	11%	-3,805	8%	11%	0.1%	-0.4%
Second quintile	-965	28%	-3,735	3%	21%	3.3%	2.5%
Middle quintile	-895	25%	-3,770	2%	19%	11.0%	10.6%
Fourth quintile	-1,140	27%	-4,285	1%	20%	19.0%	18.9%
80-90%	-2,225	41%	-5,475	2%	16%	14.7%	14.6%
90-95%	-2,395	44%	-5,505	1%	8%	10.9%	11.0%
95-99%	-1,405	27%	-5,215	0%	4%	16.6%	17.2%
99-99.9%	0	0	-8,445	0%	0%	12.3%	12.9%
Top 0.1%	0	0	0	0%	0%	11.7%	12.3%

Still, the plan is distributionally progressive: after-tax incomes would rise by 9 percent for the bottom quintile, compared with 1 percent and less than 1 percent for the middle quintile and top 5 percent, respectively. Conditional on benefiting from the expansion, those in the bottom quintile would receive the largest tax cut on average at \$3,825. This relatively large boost in after-tax income comes from removing the restrictions on refundability, which under current law limit benefits for parents with low earnings. The bottom two quintiles would receive 44 percent of the overall benefit.

Table 2 also displays the distributional effects of Biden's proposed CTC expansion in 2026 in the scenario under which the policy is made permanent. In 2021, the average benefit to the 80th-90th percentile group was about 1.5 times larger than that of the lowest group. In 2026, that ratio rises to 5.5. This effect is a result of current law provisions which expand the CTC but are set to expire after 2025 -- specifically, in 2026 the phaseout thresholds will decrease from \$400,000 to \$110,000 for married filers and from \$200,000 to \$75,000 for single filers. Thus, under the permanent expansion, households that would have lost access to the CTC under current law would benefit more in absolute dollar terms in the latter half of the decade. Still, when measuring relative to income, a permanent expansion would deliver the largest benefits to the lowest income groups.

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