

**DESCRIPTION OF H.R. 4935, THE
“CHILD TAX CREDIT IMPROVEMENT ACT OF 2014”**

Scheduled for Markup
by the
HOUSE COMMITTEE ON WAYS AND MEANS
on June 25, 2014

Prepared by the Staff
of the
JOINT COMMITTEE ON TAXATION



June 23, 2014
JCX-72-14

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INTRODUCTION

The House Committee on Ways and Means has scheduled a committee markup of H.R. 4935, the “Child Tax Credit Improvement Act of 2014,” on June 25, 2014. This document,¹ prepared by the staff of the Joint Committee on Taxation, provides a description of the bill.

¹ This document may be cited as follows: Joint Committee on Taxation, *Description of H.R. 4935, the “Child Tax Credit Improvement Act of 2014”* (JCX-72-14), June 23, 2014. This document can also be found on our website at www.jct.gov.

**A. Modification of Child Tax Credit
(sec. 24 of the Code)**

Present Law

An individual may claim a tax credit for each qualifying child under the age of 17.² The amount of the credit per child is \$1,000.³ A child who is not a citizen, national, or resident of the United States cannot be a qualifying child.

The aggregate amount of child credits that may be claimed is phased out for individuals with modified adjusted gross income (“MAGI”) over a threshold amount. Specifically, the otherwise allowable child tax credit is reduced by \$50 for each \$1,000 (or fraction thereof) of MAGI over \$75,000 for unmarried taxpayers, \$110,000 for married individuals filing joint returns, and \$55,000 for married individuals filing separate returns. For purposes of this limitation, modified AGI includes certain otherwise excludable income earned by U.S. citizens or residents living abroad or in certain U.S. territories. These dollar amounts are not indexed for inflation.

The credit is allowable against both the regular tax and the alternative minimum tax. To the extent the child credit exceeds the taxpayer’s tax liability, the credit is refundable in an amount equal to 15 percent of the taxpayer’s earned income in excess of a threshold dollar amount (the “earned income” formula).⁴ For taxable years beginning before January 1, 2018, the dollar amount is \$3,000 (not indexed for inflation). For taxable years beginning after December 31, 2017, the dollar amount is \$10,000 (indexed for inflation after 2000). The staff of the Joint Committee on Taxation estimates that the indexed \$10,000 amount would be \$13,600 in 2014.

A taxpayer with three or more children may determine the refundable portion of the child tax credit using an “alternative formula,” if it results in a larger refundable credit than determined under the earned income formula. Under the alternative formula, the additional child tax credit equals the amount by which the employee share of the taxpayer’s Social Security taxes exceed the taxpayer’s earned income credit.⁵

Earned income is defined as the sum of wages, salaries, tips, and other taxable employee compensation plus net self-employment earnings which are taken into account in computing the individual’s taxable income. Otherwise excludable combat pay is treated as earned income for these purposes.

² Sec. 24(c)(1).

³ Sec. 24(a).

⁴ Sec. 24(d). The refundable portion of the credit is referred to as the “additional child tax credit.”

⁵ Sec. 24(d)(1)(B)(ii).

For a credit to be allowable with respect to any child, the name and taxpayer identification number of the child must be included on the taxpayer's tax return.⁶

Description of Proposal

The proposal modifies the child tax credit in three ways. First, the \$1,000 credit amount is indexed for inflation to the nearest multiple of \$50 in calendar years beginning after 2014. Second, the beginning of the child credit phaseout for joint filers is increased from \$110,000 to \$150,000 (for married individuals filing separate returns, the amount applicable to an unmarried individual, *i.e.*, \$75,000, applies). Third, the beginning point of the income phaseouts is indexed for inflation to the nearest \$1,000 in calendar years beginning after 2014.

Effective Date

The proposal applies to taxable years beginning after December 31, 2014.

⁶ Sec. 24(e).

B. Estimated Revenue Effects

Fiscal Years [Billions of Dollars]												
<u>Item</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2015-19</u>	<u>2015-24</u>
Revenues [1]...	-0.7	-4.7	-7.8	-9.4	-10.9	-12.4	-14.6	-16.1	-18.4	-20.0	-33.5	-114.9

NOTE: Details do not add to total due to rounding.

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2015-19</u>	<u>2015-24</u>
[1] Estimate contains the following outlay effects...	---	[2]	1.6	1.6	2.0	2.0	2.9	3.0	4.0	4.0	5.2	21.0

[2] Gain of less than \$50 million.