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Without Improvements to Refundability, any Child Tax Credit Expansion Cannot Benefit Low-Income Working Families

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Summary

- Expansions to the non-refundable part of the CTC typically require families to have at least $36,000 of earnings to see any increased benefit. Refundability is the key mechanism for a CTC expansion to benefit low-income working families.
- Families receiving the refundable part of the CTC only “don’t pay taxes” if you ignore two-thirds of the tax system. Low-income families pay almost 30 percent of their income to payroll taxes and state and local taxes.
- Most experiences of poverty are temporary, rather than chronic. Almost 95 percent of beneficiaries of the EITC and refundable part of the CTC paid more in federal income and payroll taxes between 2008 and 2018 than they received in benefits from those credits.

Some critics oppose expanding the part of the Child Tax Credit (CTC) that is “refundable,” arguing it benefits people who “don’t pay taxes” and amounts to welfare. This misleading rhetoric cloaks opposition to any kind of benefit expansion for lower-income, working families. If lawmakers exclusively increased the non-refundable part of the CTC, a typical family would need to earn at least $36,000 to receive any benefit. An earnings requirement this high means one in four children would not benefit from the change.

Improving the refundable part of the CTC does not require decoupling CTC eligibility from work. The vast majority of children who would be excluded from a non-refundable CTC expansion have parents who work—they just do not make enough to receive any benefits from a larger nonrefundable credit.

The specific arguments against refundable credits are at best misleading. Families receiving the refundable part of the CTC only “don’t pay taxes” if you ignore two-thirds of the tax system. Low-income families pay almost thirty percent of their income to payroll taxes and state and local taxes.

Moreover, families who receive refundable credits in some years earn more and pay federal income taxes in other years. Over the course of a decade, almost 95 percent of beneficiaries of the Earned Income Tax Credit (EITC) and refundable part of the CTC paid more in federal income and payroll taxes than they received in benefits from those programs.

Income Requirements to Benefit from Expansion of the Non-Refundable Part of the Child Tax Credit

The Child Tax Credit has two parts. The refundable part of the credit benefits low-income families with children, while the non-refundable part primarily benefits middle- and high-income families. Any expansion of the non-refundable portion of the credit requires at least $25,000 of earnings to receive any benefit. Considering the composition of families with children, the typical family would need to earn at least $36,000 to benefit.[2]

Filing Status	Number of Children	Minimum Earnings To Receive Benefit From Non-Refundable CTC Expansion
Head of Household (Single Parent)	1	$25,500
Married Filing Jointly	1	$33,000
Head of Household (Single Parent)	2	$28,500
Married Filing Jointly	2	$36,000
Head of Household (Single Parent)	3	$34,500
Married Filing Jointly	3	$39,000

Without expansion of the refundable part of the CTC, one in four children will not benefit from the expanded credit, including the vast majority of children in poverty.[3]

[2] The median family with children is married with two children. These figures are for the status quo tax code in 2025, and assume parents' only earn income from working. Many families would need even higher earnings to benefit—for instance, if a family qualifies for any "above the line" deductions or saves for retirement in a 401(k). On the other hand, it is possible to not work but have a high-enough tax bill from other sources of income like capital gains to receive the full CTC.

[3] Tax Policy Center. *T24-0082 – Distribution of Tax Units, Children, and Dependents by Size of Child Tax Credit (CTC), 2025.* Urban Institute & Brookings Institution, December 10, 2024. https://taxpolicycenter.org/model-estimates/CTC-Dec-2024/T24-0082

Designing policy to benefit this group does not require decoupling CTC eligibility from work. Over 90 percent of children who would be excluded from a non-refundable CTC expansion have parents who work—they just do not make enough to receive any benefits from a larger nonrefundable credit.[4] In fact, I estimate one-third of kids with working parents excluded from the full credit have a parent who works full time, year round, but still does not make enough to receive the full CTC.[5] The income level required to receive the full CTC requires working full time at more than double the minimum wage for the typical single-earner household.

Several pieces of legislation have been introduced that would meaningfully increase CTC benefits to lower-income working families—including legislation that passed the House last year by overwhelming bipartisan majorities.[6] Key changes include making families eligible for the full credit at lower levels of income, and phasing in the credit by income on a "per-child" basis.

Refundable Tax Credit Recipients Pay Considerable Payroll and State and Local Taxes

[4] Landry, Jack. *The Impact of Families with No Income on an Expanded Child Tax Credit.* New York: Jain Family Institute, November 8, 2023. https://jainfamilyinstitute.org/wp-content/uploads/2023/11/How-Important-Was-Including-Parents-Without-Income-in-the-Expanded-Child-Tax-Credit.pdf
According to the Tax Policy Center, 88 percent of children who will not receive the full CTC in 2025 will receive a partial CTC, which means their parents had at least some earnings.
Tax Policy Center. T24-0082 - Distribution of Tax Units, Children, and Dependents by Size of Child Tax Credit (CTC), 2025. Urban Institute and Brookings Institution, December 10, 2024.
https://www.taxpolicycenter.org/model-estimates/CTC-Dec-2024/T24-0082

[5] Full-time, year-round work is defined as working at least 40 hours a week, 52 weeks a year, inclusive of paid sick and vacation time.

[6] Landry, Jack. *Bipartisan Child Tax Credit Expansion: Analysis of the Tax Relief for American Families and Workers Act of 2024.* Jain Family Institute, January 18, 2024. https://jainfamilyinstitute.org/wp-content/uploads/2024/01/Working-Families-Tax-Relief-Act-Analysis_JFI_1.18.24.pdf
U.S. House of Representatives. *H.R.353 – Family First Act.* 119th Cong., 1st sess. Introduced January 13, 2025.
https://www.congress.gov/bill/119th-congress/house-bill/353

The commonly voiced objection to expanding the refundable portion of the CTC is that beneficiaries of refundable tax credits do not pay taxes.[7] This talking point comes from exclusively considering federal income taxes, which comprise just one-third of the overall tax system that low-income families face.[8] While low-income families with children receive federal income tax benefits, they pay considerable portions of their income to federal payroll taxes, as well as taxes levied by state and local governments.

According to the Institute for Taxation and Economic Policy, the bottom 20 percent of earners pay 13.6 percent of their families' income to state and local taxes.[9] These averages do not mask lower numbers in low-tax states: in fact, states that raise less tax revenue per person have on average higher tax burdens on low-income families.[10]

Similarly, low-income families pay a significant amount of federal payroll taxes, which are separate from federal income taxes. Workers directly pay 7.65 percent of their earnings to payroll taxes, with firms contributing an equivalent 7.65 percent. However, most economists (including conservative economists) believe that the entire incidence of payroll taxes falls on

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[7] For instance, Senator Thom Tillis argued "[Democrats] love to use the term "refundability," which means ensuring that people get money from the government even if they don't pay taxes." Tillis, Thom. "The Senate Should Reject the Wyden-Smith Tax Bill." *Wall Street Journal*, February 28, 2024. https://www.wsj.com/opinion/the-senate-should-reject-the-wyden-smith-tax-bill-washington-policy-0bffbcfb
The Heritage Foundation describes the refundable part of the Child Tax Credit as welfare, and an op-ed from American Enterprise Institute Senior Fellow Kevin Cornith advocates against expansions to the refundable part of the credit to not, "turn the Child Tax Credit into welfare"
Corinth, Kevin. "Let's Not Turn the Child Tax Credit Into Welfare." *The Dispatch*, January 29, 2024. https://www.aei.org/op-eds/lets-not-turn-the-child-tax-credit-into-welfare/.
Rector, Robert, Preston Brashers, Richard Stern, and Joel Griffith. *The Tax Relief for American Families and Workers Act: Light on Tax Relief and Heavy on Welfare Expansion.* The Heritage Foundation, January 27, 2024. https://www.heritage.org/taxes/report/the-tax-relief-american-families-and-workers-act-light-tax-relief-and-heavy-welfare
[8] This calculation comes from comparing total income taxes to total payroll taxes and total state and local taxes, detailed in the appendix.
[9] Appendix G figure D page 92 that accounts for state and local taxes paid "exported" to other jurisdictions. Institute on Taxation and Economic Policy. *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States.* 7th ed. January 2024. https://sfo2.digitaloceanspaces.com/itep/ITEP-Who-Pays-7th-edition.pdf
[10] Author's analysis using ITEP data on the fraction of taxes paid by the lowest 20 percent income group and Tax Foundation data on state and local tax collections per capita. Johns, Joseph. State and Local Tax Collections Per Capita by State, 2025. Tax Foundation, May 13, 2025. https://taxfoundation.org/data/all/state/state-local-tax-collections-per-capita/

workers.[11] Including both employer and employee payroll taxes, the effective total payroll tax rate is 15.3 percent. Adding state and local taxes as well as payroll taxes, low-income families have a total tax liability of 28.9 percent outside the federal income tax system.

Most Refundable Tax Credit Recipients Have Temporarily Low Incomes

Arguing that an expansion to the refundable portion of the Child Tax Credit benefit people who do not pay taxes and is equivalent to welfare promotes a misleading "makers" vs. "takers" narrative. This framing is factually untrue. Most parents who do not have federal income tax liability in any given year will have federal income tax liability in future years. Looking at someone's economic status for a single year will not accurately assess their contributions to the nation's fiscal health.

According to analysis from the Manhattan Institute, 94.4 percent of beneficiaries of the EITC and refundable part of the CTC paid more in federal income and payroll taxes between 2008 and 2018 than they received in benefits from those programs.[12] This pattern reflects a key fact about poverty in the US.[13] Many people will experience dips in their income that might put them below the poverty line, but most experiences of poverty are temporary, rather than chronic. Researchers from the Federal Reserve and the Joint Committee on Taxation found that almost half of all children spent at least one year in poverty between 2007 and 2018. However, among those spending any time in poverty, they are below poverty for an average of just three years in total.[14] This explains why most

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[11] Alex Mengden and Daniel Bunn. "The U.S. Tax Burden on Labor, 2023." *Tax Foundation*, May 18, 2023. https://taxfoundation.org/data/all/federal/us-tax-burden-on-labor-2023/

[12] Pope, Chris. *Taxes Exceed Welfare Benefits for Most Poor Workers.* New York: Manhattan Institute, February 2025. https://media4.manhattan-institute.org/wp-content/uploads/taxes-exceed-welfare-benefits-for-most-poor-workers.pdf

[13] In addition, parents become net payers into the federal income tax system because they only have minor children temporarily. When parents' children age into adulthood and parents stop receiving the child tax credit, they both earn more (as peoples' income go up as they age) and they start paying into the federal tax system at a lower income level (because they are no longer eligible for the CTC or the EITC).

[14] Larrimore, Jeff, Jacob Mortenson, and David Splinter. *Presence and Persistence of Poverty in US Tax Data.* No. c14440. Cambridge, MA: National Bureau of Economic Research, 2020. https://www.nber.org/system/files/chapters/c14440/c14440.pdf Some of the sample of children aged into adulthood during the period of analysis.

refundable CTC recipients are not chronic users of government benefits—parents who qualify are generally experiencing temporary dips in their income that will eventually rebound.

Conclusion

Improving the refundable part of the CTC is essential to delivering benefits to lower-income working families. If Congress exclusively expands the non-refundable part of the CTC, the typical family will need to earn over $36,000 to benefit, functionally excluding one in four children from any benefit.

Arguments against refundability are misleading. While refundable credit recipients do not owe federal income taxes, they face a tax rate of almost 30 percent outside the federal income tax system. Moreover, the vast majority of refundable credit recipients pay into the federal income tax system over a longer period of time.

Appendix

Federal income taxes as a fraction of the overall tax system

To calculate how important income taxes are relative to other types of taxes imposed on low-income families, I draw on statistics from National Income and Product Accounts. Specifically, I compare the amount of money raised from federal income taxes to federal payroll taxes and state and local taxes. The calculation ignores other federal taxes raised like taxes on corporations, as the incidence of these taxes does not fall on low-income workers. Accounting for these additional tax systems would make federal income taxes look even less important.

The National Income and Product Accounts tables for 2024 show federal government personal current taxes (primarily income taxes) raised: $2,391.3 billion. Contributions for government social insurance (payroll taxes) raised $1,876.7 billion.[15] Current tax receipts for state and local governments raised $2,596.5 billion.[16] Putting these figures together, the federal income tax system raises 35 percent of the total revenue in the tax systems low-income families are exposed to.

[15] U.S. Bureau of Economic Analysis. Table 3.2. Federal Government Current Receipts and Expenditures. National Income and Product Accounts. U.S. Department of Commerce.
[16] U.S. Bureau of Economic Analysis. Table 3.3. State and Local Government Current Receipts and Expenditures. National Income and Product Accounts. U.S. Department of Commerce.

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