

Private Request for Analysis: Third Way

Options for Expanding the Child Tax Credit

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Proposal

This report considers the following proposed reforms for the Child Tax Credit, all of which would come into effect in 2026. Table 1 describes each reform.

Table 1. Proposed Provisions

Scenario	Description
1. TCJA CTC Extensions	Extending the levels and requirements included in TCJA
2. New Phase-in Level (1)	CTC phases in at the first dollar of earnings
3. New Phase-in Level (2)	CTC phases in at \$3,000 of earnings
4. Phase-in by Number of Children	CTC phases in based on the per-child condition of the Wyden-Smith bill
5. Earlier Phase-out	CTC phases out at \$112,500 for single parents and \$225,000 for married filing jointly
6. Increased Credit Value (1)	Maximum CTC value increased to \$2,500
7. Increased Credit Value (2)	Maximum CTC value increased to \$3,000
8. Credit Value by Child's Age	Maximum CTC value increased to \$2,400 for young children (0-5 years of age)
9. Baby Bonus (1)	Bonus value of \$2,000 in the first month of a child's life, phasing in at 15%
10. Baby Bonus (2)	Bonus value of \$3,000 in the first month of a child's life, phasing in at 15%
11. Increased Credit Value, Earlier Phase-out	Maximum CTC value increased to \$3,000, phasing out at 5% starting at \$112,500 for single parents and \$225,000 for married filing jointly
12. Increased Credit Value, ARPA Phase-out	Maximum CTC value increased to \$3,000, phasing out by 5% starting at \$112,500 for single parents and \$225,000 for married filing jointly until it reaches TCJA levels and then phases out normally
13. Increased Credit Value, Refundable Partial Credit	Maximum CTC value increased to \$3,000 with a \$1,500 fully refundable credit at \$0 of earnings. Phases in at 15% starting at the first dollars of earnings
14. Wyden-Smith, no Lookback Requirement	A permanent implementation of the Wyden-Smith bill except for the lookback requirement for CTC eligibility
15. TCJA CTC Indexed to Inflation	TCJA CTC value and other parameters with value indexed to inflation
16. Increased Credit Value Indexed to Inflation	Maximum CTC value increased to \$3,000 and indexed to inflation

We assume TCJA CTC parameters where not specified. For example, for the reforms which raise the maximum credit value but do not change refundability rules, we keep the maximum per-child refundable credit at its current-law indexed value.

Estimated Budgetary Effects

Table 2 below presents estimated budgetary effects over the ten-year budget window starting in fiscal year 2026. The first line, TCJA CTC, is relative to the current law baseline in which the TCJA expires, and the subsequent scenarios are relative to the TCJA CTC. Budget-window totals are reported both in dollars and as a share of GDP.

Table 2. Estimated Budgetary Effects, FY2026-2035

Description	Billions of Dollars										Budget Window			
	Billions of Dollars										Billions of Dollars		Share of GDP	
	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	Relative to Current Law	Relative to Option 1	Relative to Current Law	Relative to Option 1
1. TCJA CTC	-67	-84	-85	-87	-88	-89	-91	-91	-92	-93	-867	-	-0.24%	-
2. Phase-In (\$0)	-2	-2	-2	-2	-2	-1	-2	-1	-1	-1	-882	-15	-0.24%	0.00%
3. Phase-In (\$3,000)	0	0	0	0	0	0	0	0	0	0	-864	3	-0.23%	0.00%
4. Phase-In (Number of Children)	-4	-4	-4	-4	-4	-4	-4	-4	-3	-3	-904	-37	-0.25%	-0.01%
5. Earlier Phase-Out	8	11	12	12	13	14	14	15	16	17	-735	132	-0.20%	0.04%
6. Credit Value (\$2,500)	-17	-22	-22	-23	-23	-23	-24	-24	-24	-25	-1,092	-225	-0.30%	-0.06%
7. Credit Value (\$3,000)	-32	-41	-42	-43	-43	-44	-45	-45	-46	-47	-1,296	-429	-0.35%	-0.12%
8. Credit Value Young (\$2,400)	-4	-5	-5	-6	-6	-6	-6	-6	-6	-6	-922	-55	-0.25%	-0.01%
9. Baby Bonus (\$2,000)	-5	-6	-6	-6	-6	-6	-6	-6	-6	-6	-927	-60	-0.25%	-0.02%
10. Baby Bonus (\$3,000)	-8	-9	-9	-9	-9	-9	-9	-9	-9	-9	-956	-89	-0.26%	-0.02%
11. Credit Value (\$3,000), Earlier Phase-Out	-22	-27	-27	-27	-27	-26	-27	-26	-25	-26	-1,127	-260	-0.31%	-0.07%
12. Credit Value (\$3,000), ARPA Phase-Out	-28	-35	-35	-36	-36	-36	-37	-36	-36	-37	-1,219	-352	-0.33%	-0.10%
13. Credit Value (\$3,000), Refundable Partial	-45	-52	-52	-53	-53	-56	-55	-57	-57	-56	-1,404	-537	-0.38%	-0.15%
14. Wyden-Smith, No Lookback	-9	-8	-7	-12	-12	-17	-17	-17	-22	-22	-1,009	-142	-0.27%	-0.04%
15. TCJA CTC Indexed to Inflation	0	0	-4	-5	-9	-9	-10	-14	-14	-19	-950	-83	-0.26%	-0.02%
16. Credit Value (\$3,000) Indexed to Inflation	-32	-44	-45	-50	-51	-55	-60	-61	-65	-71	-1,403	-536	-0.38%	-0.14%

Source: The Budget Lab, Tax-Simulator version 65d398a

Methodological Assumptions

We estimated the budget effects of this proposal using our [tax microsimulation model](#). Model version [65d398a](#) is used to generate the numbers in this report.

Addendum

Following comparison with other organizations' work on increasing the credit value to \$3,000, we re-ran our modelling of Option 6 (Credit value \$2,500) and Option 7 (Credit value \$3,000). Relative to the previous iteration, these new scenarios have no maximum refund, have a phase in that begins at the first dollar of income, and have a credit that phases in per child (which we had previously modeled in Option 4). The new results are shown below.

Table 3. Revised Estimated Budgetary Effects FY2026-2035

Description	Billions of Dollars										Budget Window			
	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	Billions of Dollars		Share of GDP	
											Relative to Current Law	Relative to TCJA CTC	Relative to Current Law	Relative to TCJA CTC
1. Credit Value (\$2,500)	-17	-22	-22	-23	-23	-23	-24	-24	-24	-25	-1,241	-374	-0.34%	-0.10%
2. Credit Value (\$3,000)	-32	-41	-42	-43	-43	-44	-45	-45	-46	-47	-1,540	-673	-0.42%	-0.18%

Source: The Budget Lab, Tax-Simulator version 65d398a

As above, the scenarios are relative to the TCJA CTC. Budget-window totals are reported both in dollars and as a share of GDP.

These additional parameters increase the proposals' cost by \$149B and \$244B respectively. This stems from low-income families now being able to receive a greater portion of the more generous credit, whereas before they were limited by having lower tax liabilities than their higher earning counterparts. With a lower phase-in threshold and no cap on refunds, they receive the credit earlier and at a higher value. Low-income families with multiple children benefit the most from these additional reforms.

Second Addendum

We ran an additional set of scenarios to account for a full extension of the Tax Cuts and Jobs Act, whereas before we had only simulated the extension of the TCJA's Child Tax Credit. This change dramatically increases the cost of every policy configuration relative to current law, with the specific amount being approximately \$2.1 trillion over the budget window.

Table 4. Estimated Budgetary Effects, Revised FY2026-2035

Description	Billions of Dollars										Budget Window			
	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	Billions of Dollars		Share of GDP	
											Relative to Current Law	Relative to Option 1	Relative to Current Law	Relative to Option 1
1. TCJA Extension	-221	-290	-298	-269	-277	-294	-309	-323	-339	-353	-2,973	-	-0.81%	-
2. Phase-In (\$0)	-2	-2	-2	-2	-1	-1	-1	-1	-1	-1	-2,987	-14	-0.81%	0.00%
3. Phase-In (\$3,000)	0	0	0	0	0	0	0	0	0	0	-2,970	3	-0.80%	0.00%
4. Phase-In (Number of Children)	-4	-4	-4	-4	-4	-3	-4	-3	-3	-3	-3,009	-36	-0.82%	-0.01%
5. Earlier Phase-Out	8	11	12	12	13	14	14	15	16	17	-2,841	132	-0.77%	0.04%
6. Credit Value (\$2,500)	-19	-24	-24	-24	-25	-25	-25	-25	-25	-26	-3,214	-242	-0.87%	-0.07%
7. Credit Value (\$3,000)	-36	-45	-46	-47	-47	-48	-48	-49	-49	-50	-3,437	-465	-0.93%	-0.13%
8. Credit Value Young (\$2,400)	-5	-6	-6	-6	-6	-6	-6	-6	-6	-6	-3,032	-59	-0.82%	-0.02%
9. Baby Bonus (\$2,000)	-5	-6	-6	-6	-6	-6	-6	-6	-6	-6	-3,033	-60	-0.82%	-0.02%
10. Baby Bonus (\$3,000)	-8	-9	-9	-9	-9	-9	-9	-9	-9	-9	-3,061	-89	-0.83%	-0.02%
11. Credit Value (\$3,000), Earlier Phase-Out	-26	-31	-31	-31	-31	-30	-30	-29	-29	-29	-3,269	-296	-0.89%	-0.08%
12. Credit Value (\$3,000), ARPA Phase-Out	-32	-39	-39	-40	-40	-40	-40	-40	-40	-40	-3,361	-388	-0.91%	-0.11%
13. Credit Value (\$3,000), Refundable Partial	-48	-55	-55	-57	-57	-59	-58	-60	-59	-59	-3,540	-567	-0.96%	-0.15%
14. Wyden-Smith, No Lookback	-7	-7	-6	-11	-11	-16	-17	-16	-21	-22	-3,107	-134	-0.84%	-0.04%
15. TCJA CTC Indexed to Inflation	0	0	-4	-5	-9	-10	-10	-14	-15	-20	-3,061	-89	-0.83%	-0.02%
16. Credit Value (\$3,000) Indexed to Inflation	-36	-48	-50	-54	-56	-60	-65	-66	-70	-76	-3,555	-582	-0.96%	-0.16%

Source: The Budget Lab, Tax-Simulator version 65d398a

The results relative to full TCJA extension are mostly unchanged, with some scenarios differing in cost due to changes in taxable income. The same pattern holds for the additional scenarios detailed in the previous addendum, the results of which may be seen below.

Table 5. Estimated Budgetary Effects, Revised FY2026-2035

Description	Billions of Dollars										Budget Window			
	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	Billions of Dollars		Share of GDP	
											Relative to Current Law	Relative to TCJA Extension	Relative to Current Law	Relative to TCJA Extension
1. Credit Value (\$2,500)	-35	-38	-38	-37	-37	-37	-36	-36	-36	-35	-3,339	-366	-0.90%	-0.10%
2. Credit Value (\$3,000)	-61	-68	-68	-67	-67	-67	-67	-66	-66	-66	-3,638	-665	-0.99%	-0.18%

Source: The Budget Lab, Tax-Simulator version 65d398a