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How Congress Can Improve the Child Tax Credit in 2025

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Without Congressional action this year, the Child Tax Credit (CTC) will be slashed in half when provisions in the 2017 Tax Cuts and Jobs Act expire. Millions of American families would have to navigate the rising cost of caring for children with fewer dollars in their pockets. That's why, as the Republican majority in Congress builds a new tax package, they should extend the larger Child Tax Credit. Better yet, they should improve upon it to better help working families. We have new numbers to show just how possible improvements can be.

In a recent analysis, we explained several different policy levers that policymakers might shift up or down to change the scope and impact of the tax credit. Building on this, we worked with the Budget Lab at Yale to estimate what a series of policy improvements to the credit might cost over the course of the next 10 years. These range from things like phasing in the value of the credit sooner, to compensating for inflation and the rising costs of having a family. Modeling suggests changes can range from $15 billion to $500 billion in additional costs over a decade.

In this report, we break down five ways to improve the CTC. We then show, in the scheme of the tax changes coming down the line, these extensions and improvements can be far less costly than other Republican policy changes.

Five Ways to Improve the Child Tax Credit

Below, we highlight five potential policy tweaks to the Child Tax Credit and what these adjustments would cost over the next 10 years (beginning in Fiscal Year 2026). This starts with simply extending the current credit in the soon-to-expire 2017 tax bill, and all of our subsequent estimates are relative to the extended 2017 CTC.

1. Simply extend the 2017 Child Tax Credit

Policy Lever: The 2017 tax law made a host of changes to the individual income tax code that expire at the end of this year. These included modifications to the Child Tax Credit, increasing it from $1,000 to $2,000, expanding eligibility to higher-earning households, and making part of the credit refundable. [1] That is, if the taxpayer's income tax burden is less than the size of the credit, extra dollars can be given in a refund.

Budgetary Impact: Extending the CTC provisions for another 10 years would add around $867 billion to the federal budget deficit. [2] Extending the CTC provisions is also considered current policy.

2. Add a Baby Bonus

Policy Lever: As part of CTC reform, policymakers could choose to provide a bigger credit during the first year of a child's life. This is known as a "baby bonus." This idea has support from both sides of the aisle—both the Harris and Trump presidential campaigns suggesting they'd pursue some form of the policy. [3] A baby bonus could help more families navigate the larger costs often associated with the early days of a child's life.

Budgetary Impact: Our analysis looked at expanding the Child Tax Credit to include a baby bonus of either $2,000 or $3,000. Under this policy, a parent who recently welcomed a newborn could claim this bonus on top of what they would already get through existing CTC policy. A baby bonus of $2,000 would cost $60 billion over the course of a decade, and a $3,000 baby bonus would cost $89 billion. [4]

3. Index the Child Tax Credit to inflation

Policy Lever: Indexing the value of the credit to inflation would prevent the erosion of the tax benefit over time. [5] Since 2018, the value of the credit declined by 22% in inflation-adjusted terms. Put another way—the value of today's credit is equivalent to roughly three-fourths of what it was just seven years ago. Tying the Child Tax Credit to future inflation has bipartisan support—the joint bill introduced last year by Representative Jason Smith (R-MO) and Senator Ron Wyden (D-OR) included a provision indexing the credit value to inflation. [6]

Budgetary Impact: Indexing the Child Tax Credit of $2,000 to inflation would cost $89 billion over the next decade. [7] This assumes CPI inflation follows the Congressional Budget Office projection of 2.3% on average over the next decade.

4. Adjust the phase-in of the Child Tax Credit

Policy Lever: A tax credit that phases in typically means there is a minimum amount of earnings that someone must make to be eligible to receive the full benefit. As one's earnings increase, so does the value of the credit—until it hits the maximum value. Phase-ins around earned income can be interpreted as a de-facto "work requirement" since it excludes those who haven't earned any income in the previous year. [8]

Under the 2017 tax law, the phase-in level for the Child Tax Credit began at $2,500 of earnings and increased at a rate of 15%. This means that for every $100 earned over $2,500, a family's potential credit went up by $15. The Wyden-Smith bill from 2024 included a tweak that would adjust the phase-in rate based on the number of children in a family as a way to help lower-income families with multiple children access more of the full value of the credit. [9]

Budgetary Impact: Adjusting the phase-in level of the Child Tax Credit can be used to expand eligibility to more families, particularly those with lower incomes. Policymakers could tweak the policy so that families are eligible to receive some amount of the credit after their first dollar of earnings. This adjustment is estimated to cost an extra $14 billion over the course of 10 years. [10]

Another way to better help lower-income families who have multiple children is to account for the number of children a family has in the calculation of the phase-in rate. This means that instead of the credit increasing by $15 for every $100 earned over the phase-in level, it would be $15 multiplied by the number of children a family has. So, a family with three eligible children would see their credit go up by $45 for every $100 over the earned income requirement. Adjusting the policy to include a phase-in rate based on the number of children at the current phase-in $2,500 threshold would cost an additional $36 billion over 10 years. [11]

5. Increase the value of the Child Tax Credit

Policy Lever: Politicians on both sides of the aisle have called to increase the value of the credit, especially as concerns over inflation continue to plague American families. For example, the $2,000 CTC tax credit when it passed into law is worth about $2,500 in purchasing power today. [12]

In addition, a larger credit value for younger children could help support families with larger costs but keep budgetary impacts lower because families with younger children typically see larger costs associated with raising a child—mainly due to the steep price tag of child care. [13]

Budgetary Impact: Boosting the existing credit to $2,500 from $2,000 would cost an extra $242 billion over the course of 10 years. And boosting the credit to $3,000 would cost an extra $465 billion. [14]

An expanded credit could also be targeted toward younger children. If policymakers wanted an enhanced credit for younger children, for example, then increasing the tax credit to $2,400 for children five and under but keeping the credit the same for older children, would cost around $59 billion over 10 years. [15]

Budgetary Overview

The budgetary numbers detailed above provide policymakers with a range of options for improving the Child Tax Credit. The following table details all options in one place.

Budgetary Impact of Improvements to the Child Tax Credit

Policy Lever	Cost of Adding these Policies (FY2026–FY2034)
Extend the Child Tax Credit	**$867 billion**
Add a baby bonus of $2,000	**An additional $60 billion**
Add a baby bonus of $3,000	**An additional $89 billion**
Index the credit to inflation	**An additional $89 billion**
Start phase-in at $0 of earnings	**An additional $14 billion**
Change phase-in rate to be by number of children	**An additional $36 billion**
Increase the maximum credit to $2,500	**An additional $242 billion**
Increase the maximum credit to $3,000	**An additional $465 billion**
Increase the maximum credit to $2,400 just for children ages 0 to 5, keep $2,000 credit for children over age 5	**An additional $59 billion**

Source: Analysis from the Budget Lab at Yale.

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Comparing CTC Costs to Other GOP Priorities

Tax bills done in the reconciliation process are always a complicated political and policy negotiation full of tradeoffs. For example, in 2017, Sens. Marco Rubio (R-FL) and Mike Lee (R-UT) fought to boost the CTC to a $2,000 credit level by minimizing the reduction of the corporate tax rate from 35% to 21% (rather than 20% as others wanted). [16]

Below, we summarize four different Republican tax policy priorities outside of the Child Tax Credit that may come up during reconciliation negotiations and compare them to the costs of extending or improving the Child Tax Credit.

Ending or adjusting SALT: The state and local tax deduction (known as SALT) allows taxpayers to deduct property, sales, or income taxes that they have already paid to state and local governments from their federally taxable income. Prior to the passage of the 2017 tax law, there was no cap on the amount someone could claim in SALT deductions. The 2017 law changed that by setting a limit of $10,000 which, from a budget point of view, limited the net cost of the tax changes. [17] Today, some existing Republican proposals seek to expand the cap, however many groups view this change as expensive regressive and increasing tax complexity.

Budgetary Impact: Estimates from the Committee for a Responsible Federal Budget suggest that allowing the SALT cap to expire would cost an additional $1.2 trillion over a 10-year budget window. [18] Increasing the cap to $15,000 for single filers and $30,000 for joint filers would cost around $500 billion. [19]

Lowering the corporate tax rate: One of the major features of the 2017 tax law was its reduction of the corporate tax rate from 35% to 21% on a permanent basis. [20] President Trump and other Republicans in Congress have suggested they would like to lower the corporate rate to 20% or even 15% in a 2025 tax bill. [21]

Budgetary Impact: The Tax Foundation estimates that dropping down to a 20% corporate tax rate would cost $130 billion over a 10-year time span and a 15% rate would cost $673 billion. [22]

Extending the estate and gift taxes exemption: When someone gifts another person money or property during their lifetime, or leaves an estate at their death, the federal government taxes at a 40% rate amount in excess of the exemption. [23] The 2017 tax law doubled the amount of lifetime estate tax exemption to $11.4 million for single filers and $22.8 million for married couples with those values indexed to inflation.

Budgetary Impact: Congressional Budget Office estimates show that the higher estate tax exemption would add $167 billion to the federal deficit over a decade. [24]

Getting rid of taxes on tips: While President Trump continues to reiterate his calls for “no tax on tips,” the logistics of what such a proposal looks like are far from clear. In their recent analysis, experts at the Budget Lab at Yale provided a detailed look at the policy levers involved in such a proposal and their potential budgetary effects. [25]

Budgetary Impact: The analysis from the Budget Lab at Yale finds that just implementing an income tax deduction for tips would cost $107 billion over a decade. Implementing an income deduction, while also eliminating the application of payroll taxes on tips, would cost $195 billion over the same 10-year time period. [26]

How do those policy priorities compare to CTC fixes? Well, as we show below, many of them cost more than changes to the CTC. As Congress considers tradeoffs, upgrades to the CTC make sense from a substantive standpoint—and a budgetary one too.

Comparing the Costs of Child Tax Credit Changes to GOP Tax Priorities

Other GOP Tax Priorities

Policy Change	Budgetary Impact
Allow the expiration of the SALT tax cap	$1.2 trillion
Cut the corporate tax rate by 6%	$673 billion
Extend the TCJA estate and gift tax exemption	$167 billion
Cut the corporate tax rate by 1%	$130 billion
Implement income tax deduction on workers’ tips	$107 billion

Changes to the Child Tax Credit

Policy Change	Budgetary Impact
Extend the Child Tax Credit implemented under TCJA	$867 billion
Increase the Child Tax Credit to $2,500	$242 billion
Add a baby bonus of $3,000 to the Child Tax Credit	$89 billion
Index the Child Tax Credit to inflation	$89 billion
Change phase-in rate to be by number of children	$36 billion

Note: All score relative to a current law baseline except CTC enhancements which are relative to changes on top of CTC extension. All scores are for 10 years although the budget window is based on the source of the score.
Sources: See report text for individual sources.

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Conclusion

Working- and middle-class families are struggling with inflation, the ever-rising cost of child care, a shifting jobs landscape, and the anticipated costs of rising tariffs on everyday goods—from children’s clothing to groceries. In 2017, Republicans expanded the Child Tax Credit amid less turbulent economic times, and at the very least, they should extend that expansion in 2025 and beyond. But there are plenty of ways to do more on the CTC for relatively low costs that would create substantial benefits for working- and middle-class families with children.

Broadly speaking, most of these families with children are not likely to get significant new tax benefits from the plethora of expansion proposals on the table from Republicans, most of which are aimed at lowering taxes on high income earners and businesses. There are tradeoffs that Republicans could choose to make to better orient their next tax law towards families with children.

ENDNOTES

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14. However, there are offsetting policy adjustments legislators can make to shrink the price tag of such an increase. One way is to modify the phase-out rate and level of the credit. The phase-out level is when at a certain annual income families start to see the value of their credit decline until it reaches $0. The rate at which the credit approaches $0 is based on the phase-out rate set by the policy. For example, a phase-out rate of 5% starting at an income of $200,000 means the credit will start to decline by $5 for every $100 a family makes over $200,000. To lower costs associated with the CTC the phase-out rate and level could be set to better target lower-income families. Under the American Rescue Plan (ARP), the credit was increased for all eligible families, but lower to middle-income earning families saw an even higher credit value. At an income of $75,000 for single parents and $150,000 for married households the higher credit began to phase down to its original TCJA level of $2,000.

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