How Dependents Affect Federal Income Taxes

Average Tax Benefit per Dependent

Adjusted Gross Income (Dollars)

Dollars

2019

2026

0
1,000
2,000
3,000
4,000

Less Than 15,000
15,000–24,999
25,000–34,999
35,000–49,999
50,000–74,999
75,000–99,999
100,000–149,999
150,000 or More
All Income Groups
At a Glance

Several provisions of the individual income tax code reduce taxes for people with dependents—generally, people who live with and are financially supported by the taxpayer. In this report, the Congressional Budget Office examines the tax benefit (that is, the reduction in tax liability after refunds from credits are accounted for) of having dependents and the distribution of that benefit under current law in 2019 and in 2026, after certain provisions of the 2017 tax act expire.

- **Major Provisions That Affect Taxpayers With Dependents.** For both 2019 and 2026, single taxpayers with dependents will typically be able to file as a head of household, which provides a larger standard deduction than the single filing status and results in a greater share of the taxpayer's income being taxed at lower rates. Although exemptions for dependents are not allowed for 2019, taxpayers with dependents may be eligible for one or more of several credits—the earned income tax credit, the child tax credit (for children younger than 17), and the credit for other dependents. In 2026, after certain provisions now in place expire, the child tax credit will be smaller, the credit for other dependents will no longer be available, and dependent exemptions will once again be allowed.

- **Factors That Contribute to the Tax Benefit of Having Dependents.** The tax benefit that a taxpayer receives is based on the dependent’s age and relationship to the taxpayer, the taxpayer’s income and marital status, and other eligibility requirements. In general, the tax benefit of children younger than 17 is greater than the tax benefit of older children or other relatives.

- **Value of the Tax Benefit of Having Dependents.** The tax benefit per dependent in 2019 is estimated to be $2,300 ($3,800 per family), on average. The average benefit per dependent varies across the income distribution and within income groups because of differences in eligibility for the various provisions. Under the 2026 tax rules, that benefit would be $1,700 per dependent ($2,800 per family), on average, and there would be less variation in the average benefit than there is under the 2019 rules.

CBO also analyzes how three policy options that would simplify dependent-related tax provisions—raising the age limit for the child tax credit, establishing a dependent credit, and eliminating the head-of-household filing status—would affect the tax benefit of having dependents.
List of Exhibits

Factors That Determine the Value of the Tax Benefit of Having Dependents
1. Contributions of Selected Provisions to the Tax Benefit of Having a Dependent Child for a Married Couple Filing Jointly, 2019 and 2026
2. Contributions of Selected Provisions to the Tax Benefit of Having a Dependent Child for a Single Taxpayer, 2019 and 2026
3. The Tax Benefit of Having a Dependent Child, by Taxpayer’s Marital Status, 2019 and 2026
4. The Tax Benefit of the First Dependent, by Type of Dependent, 2019 and 2026
5. The Tax Benefit of Having a Dependent Under the 2019 and 2026 Tax Rules, by Type of Dependent
6. The Tax Benefit of the First, Second, and Third Dependent Child, 2019 and 2026

Distribution of the Tax Benefit of Having Dependents
7. Distribution of Taxpayers With Dependents, by Marital Status and Income, 2019
8. Average Tax Benefit per Dependent, 2019
9. Average Tax Benefit per Dependent, 2026
10. Average Tax Benefit per Family, 2019 and 2026
11. Distribution of the Tax Benefit per Dependent, 2019
12. Distribution of the Tax Benefit per Dependent, 2026
13. Middle 50 Percent of the Range of Values of the Tax Benefit per Dependent, 2019 and 2026

Three Policy Options That Would Affect the Tax Benefit of Having Dependents
14. Three Policy Options’ Effects on the Average Tax Benefit per Dependent, 2019
15. Three Policy Options’ Effects on the Average Tax Benefit per Dependent, 2026
16. Middle 50 Percent of the Range of Values of the Tax Benefit per Dependent Under Three Policy Options, 2019
Notes

All years referred to in this document are calendar years.

Numbers in the text, exhibits, and table may not add up to totals because of rounding.

Income is measured as adjusted gross income calculated for 2019. In general, taxpayers will file tax returns based on 2019 income and family characteristics in 2020.

As referred to in this report, the Affordable Care Act comprises the Patient Protection and Affordable Care Act (Public Law 111-148), the health care provisions of the Health Care and Education Reconciliation Act of 2010 (P.L. 111-152), and the effects of subsequent judicial decisions, statutory changes, and administrative actions.
How Dependents Affect Federal Income Taxes

Summary
Several provisions of the federal individual income tax code reduce the tax liability of people who have one or more dependents—generally people who live with and are financially supported by the taxpayer and meet certain other requirements. Such provisions are intended to at least partially account for the differences in people’s ability to pay taxes that arise from their differing family situations. The provisions also reflect lawmakers’ decisions to provide assistance to families through the tax system instead of through separate transfer programs.

Dependents affect taxpayers’ filing status and eligibility for various credits and exemptions that can reduce their tax liability below what it would be otherwise.\(^1\) Having a dependent is a prerequisite for eligibility for head-of-household filing status, the child tax credit, the credit for other dependents, and the dependent exemption (which is temporarily suspended). The number of dependents taxpayers claim also determines the amount of the earned income tax credit (EITC) for which they are eligible. The reduction in income tax liability, or tax benefit, stemming from dependents varies on the basis of characteristics of the taxpayer and dependent. (For this analysis, refundable credits are included in the calculation of that tax benefit.) Furthermore, several provisions of the 2017 tax act (Public Law 115-97) that are related to dependents will expire at the end of 2025, so under current law, the tax benefit of having dependents will change beginning in 2026.

To analyze the tax benefit of dependents under the 2019 and 2026 tax rules, the Congressional Budget Office used two methods. (For details, see the appendix.) First, the agency analyzed the tax benefit that hypothetical taxpayers would receive in 2019 and 2026 under current law to illustrate how the various provisions contribute to that benefit and how those contributions vary by a dependent’s age and relationship to the taxpayer as well as by taxpayers’ income and marital status. Second, CBO simulated the tax benefits of dependents for a nationally representative sample that reflects the distribution of income and dependents among taxpayers in 2019. To estimate the tax benefit that the same sample would receive under the 2026 tax rules, the agency adjusted the tax parameters that will, under current law, be in place that year to remove the effects of inflation and income growth between 2019 and 2026.

In addition, CBO analyzed the effects of three policy options related to the tax benefit of dependents, all of which would simplify the tax code. The agency simulated the distribution of the dependent tax benefit under each of the options in both 2019 and 2026 and compared the results with the estimates for those years under current law to see how much the options would increase or decrease the tax benefit for taxpayers in different income groups.

Who Is a Dependent?
A taxpayer can typically claim a qualifying child or qualifying relative as a dependent. Generally, a qualifying child is one who is under the age of 19, lives with the taxpayer for over half the year, and does not provide more than half of his or her own support for the year. Someone who does not meet those requirements may instead be a qualifying relative. To be a qualifying relative, a person must be related to the taxpayer or live with the taxpayer for the entire year, have gross income that does not exceed a specified threshold, and receive more than half of his or her support from the taxpayer. Some provisions related to dependents have additional eligibility criteria.

\(^1\) In this report, taxpayer refers to a tax-filing unit, which consists of a single person or a married couple and any dependents that the individual or couple claims on the federal income tax return.
What Are the Major Provisions That Affect Taxpayers With Dependents in 2019 and 2026?
Several provisions of the federal tax code, many of which were altered by the 2017 tax act, define how dependents affect taxpayers’ filing status, credits, and exemptions. For this analysis, CBO focused on the following:

- **Head-of-Household Filing Status.** A single or separated taxpayer with dependents may be eligible to file as a head of household. A head of household receives a larger standard deduction than a taxpayer who files as single, and a greater share of his or her income is taxed at a lower rate.

- **Earned Income Tax Credit.** The amount of the credit taxpayers receive is based on the number of qualifying children they claim.

- **Child Tax Credit.** The credit is available to taxpayers with qualifying children younger than 17. The 2017 tax act temporarily expanded the credit, doubling the size of the credit and raising the income thresholds to allow people with higher income to claim it. That expansion expires at the end of 2025.

- **Credit for Other Dependents.** The 2017 tax act introduced the credit, which allows taxpayers to claim a credit for dependents who do not meet the requirements for the child tax credit. The credit will expire at the end of 2025.

- **Dependent Exemptions.** The 2017 tax act suspended the personal exemption for dependents (hereafter referred to as dependent exemptions) until the end of 2025.

What Are the Main Factors That Determine the Tax Benefit of Having Dependents?
The tax benefit of having dependents is not uniform for all taxpayers. Rather, the benefit is determined by several characteristics of the taxpayer and the dependent.

- **Marital Status of Taxpayer.** Most married couples with dependents file jointly; single or separated taxpayers with dependents can file as single but typically file as a head of household. The income levels at which the tax credits and dependent exemptions begin to phase out are lower for single and head-of-household filers than they are for married couples filing jointly.

- **Income of Taxpayer.** The value of nonrefundable credits and exemptions rises as taxpayers’ income increases, and those benefits phase out for taxpayers with income above specified thresholds. In addition, taxpayers who pay the alternative minimum tax (AMT)—generally, higher-income taxpayers—do not benefit from the head-of-household status or dependent exemptions.

- **Age of Dependent.** Dependent children younger than 17 who meet certain conditions qualify taxpayers for the child tax credit. To make a taxpayer eligible for a larger EITC, dependent children generally must be younger than 19. The other dependent-related tax provisions described in this report have no age restrictions.

- **Relationship of Dependent to Taxpayer.** To qualify a taxpayer for a larger EITC or the child tax credit, a dependent must be the child of the taxpayer or related in one of a few other ways specified under the tax code. For the taxpayer to claim head-of-household filing status, the dependent must be related to the taxpayer and meet certain other requirements.

How Will the Tax Benefit of Having Dependents Be Distributed Among Taxpayers Under the 2019 and 2026 Tax Rules?
CBO estimates that taxpayers with dependents will receive an average tax benefit of $3,800 for 2019. Under the rules that will be in place in 2026 after the expiration of certain provisions of the 2017 tax act, that average benefit would fall to $2,800, mainly because of the smaller child tax credit, CBO estimates. Taxpayers whose adjusted gross income (AGI) for 2019 is between $15,000 and $24,999—and who are thus likely to be eligible for the EITC—are projected to receive the largest tax benefit from dependents, on average. The average benefit gradually declines at higher income levels as the EITC and then the child tax credit phase out.

To account for differences in family size, CBO also examined the tax benefit per dependent (the taxpayers’ total tax benefit from dependents divided by the number of dependents). That measure follows the same pattern across the income distribution as the total tax benefit of having dependents. CBO estimates that the average benefit per dependent for 2019 will be $2,300 (see the figure on page 3). Because only children younger than 17 are eligible for the child tax credit, the
The tax benefit of having dependents is the reduction in a taxpayer’s income tax liability stemming from dependent-related tax provisions. The tax benefit per dependent is calculated as the tax liability that the taxpayer would have without dependents minus the taxpayer’s tax liability with dependents, divided by the number of dependents in the family.

The tax parameters that will be in effect in 2026 under current law have been adjusted to account for inflation and income growth between 2019 and 2026. The income groups reflect adjusted gross income as calculated under the 2019 tax rules.

Average tax benefit per child younger than 17 in 2019 is greater than the average benefit for other dependents—$2,800 per child compared with $1,000 per other dependent. If the rules in effect in 2026 (after the expansion of the child tax credit expires) were in place in 2019, the average per-dependent tax benefit for all dependents would fall to $1,700, and the difference between the average benefit per child and the average per other dependent would narrow, CBO estimates.

Among taxpayers with similar income, the tax benefit per dependent varies because of differences in eligibility for the various provisions. The factor that accounts for the wide variation in the tax benefit per dependent for lower-income taxpayers is whether they have children who make them eligible for a larger EITC. The variation generally narrows among taxpayers in higher-income groups, who are not eligible for the EITC.

The variation in the tax benefit per dependent among taxpayers with similar income will decrease in 2026 after certain provisions of the 2017 tax act expire. Changes in the child tax credit, in particular, will reduce that variation: The maximum amount of the credit will be lower, and the credit will phase out at much lower income thresholds. Thus, differences between the tax benefit of children younger than 17 and that of other dependents will be smaller in 2026 than they are estimated to be in 2019. In addition, dependent exemptions will once again be allowed. Those exemptions will reduce taxable income by the same amount for all dependents (though the reduction in tax liability depends on the taxpayer’s marginal tax rate).

How Would Policy Changes Affect the Tax Benefit of Having Dependents?

When designing provisions that account for the dependents whom a taxpayer supports, policymakers attempt to balance several competing goals, including keeping the federal government’s costs of providing dependent benefits down, ensuring that taxpayers with similar income have a similar tax burden, and facilitating taxpayers’ compliance with the tax code. For this report, CBO analyzed the following options that illustrate different ways of simplifying the array of tax provisions available to taxpayers with dependents:
Those approaches would alter both the average tax benefit of having dependents and the distribution of that benefit among taxpayers. Raising the age limit for the child tax credit would increase the tax benefit of having dependents for taxpayers with older children. Replacing the credit for other dependents and dependent exemptions with a credit equal to 15 percent of the dependent exemption would reduce the benefit that taxpayers in higher-income tax brackets receive. Eliminating the head-of-household filing status would reduce the benefit for single taxpayers who support dependents.

**Background**

To account for differences in taxpayers’ family situations, policymakers have created several provisions in the federal individual income tax code that provide a tax benefit to taxpayers who have dependents. The following background information is useful for understanding that benefit:

- When designing provisions, policymakers must weigh several aspects of a given policy, including how it will affect federal revenues, the complexity of the tax code, and people’s incentives to work or save.

- Policymakers have established certain requirements related to age, relationship, income, and support that must be met before a taxpayer can claim another person as a dependent.

- Taxpayers who claim dependents are eligible to receive certain tax benefits under several provisions of the federal income tax code, including the head-of-household filing status, certain tax credits, and dependent exemptions.

Although many of the specific tax benefits for dependents were changed by the 2017 tax act, those changes will expire at the end of 2025, so under current law, the tax rules in 2026 will differ significantly from those that were in place in 2019.

**Policy Considerations**

Policymakers face various tradeoffs when designing tax provisions to account for taxpayers’ taking care of dependents. The design of the benefit—its size, its eligibility requirements, and how it is phased out at higher income levels—affects its cost to the government, the complexity of the tax code, how taxpayers with similar income are treated, and the incentives that people face. The design also reflects policymakers’ decisions to provide assistance to families through the tax system instead of through separate transfer programs. (Because in most cases, assistance could be provided through the transfer system or the tax system and would increase recipients’ resources either way, it is typically helpful for policymakers to consider the two systems together; however, transfer payments are outside the scope of this analysis.) Those many considerations can conflict with one another. For example, minimizing costs to the government by targeting benefits to families who meet specific requirements could add complexity to the tax code, and phasing out assistance as income rises could affect people’s decisions about working, saving, or other economic activities.

**Size of the Benefit.** Reductions in tax liability increase a taxpayer’s resources and make families better off. For example, researchers have found that expansions in refundable tax credits, particularly the EITC, have had positive effects on health, educational attainment, and labor market outcomes. The reductions in tax liability stemming from dependent-related provisions at least partially account for the differences in people’s ability to pay taxes that arise from their differing family obligations.  


3. For example, the child tax credit was enacted to lessen tax liability to reflect a family’s reduced ability to pay taxes as the size of the family increases. See Joint Committee on Taxation, *General Explanation of Tax Legislation Enacted in 1997* (December 1997), p. 6, https://go.usa.gov/xp6Wh.
Eligibility Requirements. To limit costs to the government, policymakers can restrict benefits to taxpayers who meet various requirements. Those requirements can add complexity to the tax system. For example, some taxpayers might need to do additional recordkeeping or calculations to determine whether they can claim head-of-household filing status. It might also be difficult for the Internal Revenue Service to verify that some of those requirements have been met.

Because eligibility for certain tax benefits is based on nonfinancial characteristics of the taxpayer or dependent, federal income tax liability can vary among taxpayers with similar income. Analysts disagree about whether such variation is fair. Some argue that the variation at least partially accounts for differences in people's ability to pay taxes that arise because of the increased expenses associated with having dependents. Others assert that families choose to spend their income differently from how other taxpayers spend theirs and that the tax system should not favor taxpayers who spend their income on any particular goods or services.

In addition, provisions that provide benefits to taxpayers with dependents can make the system more or less progressive. Under a progressive income tax system, the average tax rate generally increases as taxpayers' income increases. An example of a provision that alters the tax code's progressivity is the age limit for a qualifying child, which is higher for full-time students than it is for other children. Because college attendance is correlated with family income, higher-income taxpayers with children in college can receive a greater reduction in their tax burden than lower-income taxpayers with children who are not in school; thus, the provision makes the tax code less progressive.

Phaseouts. Policymakers can also constrain costs or target assistance to families with fewer resources by reducing benefits for higher-income taxpayers. How a benefit phases out affects the marginal tax rate—the percentage of an additional dollar of earnings that is paid in taxes. The rate at which a benefit phases out increases the marginal tax rate because an additional dollar of earnings results in a reduction in the tax benefit and a larger tax liability.

By reducing the compensation a worker retains, the phaseout of tax benefits can affect people's incentives to work: People tend to respond to higher marginal tax rates by working fewer hours or choosing not to participate in the labor force at all, whereas people respond to lower marginal tax rates by increasing their working hours or returning to the labor force.

A benefit can be phased out gradually over a broad income range or more quickly over a narrower income range. Marginal tax rates are lower when the first approach is adopted than they are when the second approach is used.

The size of the benefit also affects the marginal tax rate. Over the same income range, phasing out a larger benefit leads to a higher marginal tax rate than does phasing out a smaller benefit.

Types of Dependents

Typically, a dependent is someone who lives with and is supported by the taxpayer, though some provisions have additional eligibility requirements. A person can be claimed as a dependent by only one taxpayer in a given year. In general, a dependent can be classified as one of two types—either a qualifying child or a qualifying relative. To qualify as either type of dependent, a person must meet the relationship, age, residency, and support requirements specific to that category.


6. Some further restrictions determine who can claim a dependent and who can be claimed as a dependent. Taxpayers who themselves can be claimed as a dependent by another taxpayer cannot claim any dependents. In addition, a dependent must be a U.S. citizen, resident alien, or national (an individual who, if not a U.S. citizen, was born either in American Samoa or in the Commonwealth of the Northern Mariana Islands) or be a resident of Canada or Mexico. A married person who files a joint return cannot be claimed as a dependent unless that return is filed only to claim a refund of withheld income tax or estimated tax payments.
Qualifying Child. Generally, a qualifying child must meet four tests:

- **Relationship**—The child must be the taxpayer’s son, daughter, sibling, foster child, or a descendant of one of them.
- **Age**—The child must be under the age of 19 (or 24 if a full-time student) at the end of the year and younger than the taxpayer. The child can be of any age if he or she is permanently and totally disabled.
- **Residency**—The child must live with the taxpayer for over half the year. For some provisions, however, that residency test may be waived for noncustodial parents if the custodial parent waives his or her claim.7
- **Support**—The child must provide less than half of his or her own financial support for the year.

Additional rules are used to ensure that a child is claimed as a qualifying child by only one taxpayer. In cases of divorced or separated parents, if the child lives with each parent for half of the year and both parents attempt to claim the child, the child is deemed to be a qualifying child for the parent with the higher AGI.

Qualifying Relative. A person who does not meet the requirements to be a qualifying child for any taxpayer may instead be a qualifying relative if he or she meets the following requirements:

- **Residency or relationship**—The person must either be related to the taxpayer in one of many specified ways (including child, sibling, parent, and grandparent) or, if unrelated, live with the taxpayer all year.
- **Age**—There is no age requirement; a person of any age can be a qualifying relative.
- **Support**—More than half of the person’s total support for the year must be provided by the taxpayer claiming the person as a dependent. Total support includes expenses for food, lodging, clothing, education, medical and dental care, recreation, transportation, and other necessities. If no single taxpayer meets the support test, a taxpayer who provides more than 10 percent of the person’s support can claim the person as a dependent as long as everyone else who provides more than 10 percent of the person’s support agrees.
- **Income**—The person’s gross income must be less than a specified amount ($4,200 in 2019).8

Major Tax Provisions That Affect Taxpayers With Dependents

Taxpayers’ filing status, credits, and exemptions are affected by dependents under the following provisions of the federal income tax code:

- A single taxpayer with dependents may be eligible to file as a head of household, which provides a larger standard deduction than the single filing status and lower tax rates that apply to a greater share of income than the single filing status.
- The amount of the EITC increases with the number of qualifying children a taxpayer can claim.
- The child tax credit, which was temporarily expanded by the 2017 tax act, is available to taxpayers with qualifying children younger than 17.
- A credit for other dependents, which was introduced by the 2017 tax act, is available for the next several years but expires at the end of 2025.
- Dependent exemptions were temporarily suspended by the 2017 tax act but will be restored in 2026.

Other provisions of the federal individual income tax code pertain to the tax treatment of dependents, but they are not included in this analysis because they depend on other choices made by taxpayers and are less widely used than those in this analysis. Examples of such provisions include the child and dependent care credit, the premium tax credits for certain health insurance coverage, and tax credits for educational expenses. The tax treatment of a dependent’s income is also excluded from this analysis.

---

7. For tax purposes, the custodial parent is the parent with whom the child lived for the greater number of nights during the year.

8. That amount is based on the personal exemption for dependents that was in place before 2018 and is indexed to account for inflation.
Head-of-Household Filing Status. To file as a head of household, a single or separated taxpayer generally must live with a qualifying person—either a qualifying child or a qualifying relative who is related to the taxpayer—for over half of the year and pay more than half of the costs of maintaining the home.9 Not all dependents qualify taxpayers for head-of-household filing status: An unrelated dependent (such as a cohabitating partner) is not a qualifying person. The costs of maintaining the home for the purposes of qualifying as a head of household include rent, mortgage interest, property taxes, and utilities—a more limited list of expenses than that considered in the support test for qualifying relatives.

About 44 percent of taxpayers with dependents in 2019 will claim head-of-household status when they file their returns, and that filing status will reduce total tax liabilities of single filers with dependents by about $18 billion, CBO estimates. The standard deduction for a head of household for 2019 is $18,350; the 12 percent statutory tax rate at which it phases in and out, and the income thresholds that define the phase-in and phaseout ranges—depend on the number of qualifying children the taxpayer claims.10 Those features are generally the same for all taxpayers, regardless of their filing status. (The exception is that for married couples filing jointly, the income threshold at which the EITC begins to phase out is higher than the threshold for other groups.) The credit is refundable: If the amount of the credit exceeds the taxpayer’s other income tax liability, the excess is paid as a refund. The income thresholds are indexed for inflation.

The maximum credit amount for a taxpayer without qualifying children for 2019 is $529. The maximum credit amount increases to $3,526 for a taxpayer with one qualifying child, to $5,828 for a taxpayer with two qualifying children, and to $6,557 for a taxpayer with three or more qualifying children. CBO estimates that about 36 percent of taxpayers with dependents will claim the EITC on their 2019 return and that total tax liabilities (net of any outlays for the refundable portion of the credit) would be $64 billion higher if those taxpayers’ EITC was calculated as though they had no qualifying children.

In 2026, after the lower statutory tax rates and the increased standard deduction implemented under the 2017 tax act expire, most taxpayers’ tax liability will increase. As a result, although the 2017 tax act did not make direct changes to the EITC, the allocation of the effect of the EITC between federal outlays (the portion of the credit paid by the government as a refund) and revenues (the portion applied toward income tax liability) will change.13


11. To be considered a qualifying child for the EITC, a dependent does not need to meet the support test discussed above—that is, the child can provide more than half of his or her own support and be a qualifying child if they meet the other conditions.

12. For more on the EITC and child tax credit, see Congressional Budget Office, Refundable Tax Credits (January 2013), www.cbo.gov/publication/43767.

13. The 2017 tax act changed the measure of inflation used to adjust certain tax parameters, including the income
Child Tax Credit. For 2019, taxpayers can receive a partially refundable credit of $2,000 for each qualifying child under the age of 17. Individuals whose tax liability before certain tax credits is less than the child tax credit can receive a refundable credit of up to $1,400 per child that is equal to 15 percent of their earnings above $2,500. Alternatively, taxpayers who have three or more children can calculate the refundable portion of their credit as the difference between the payroll thresholds for the phase-in and phaseout ranges of the EITC and the investment income limit.

A qualifying child for the child tax credit is not necessarily a qualifying child for the EITC. For the child tax credit, a custodial parent may waive his or her claim to the noncustodial parent, but the larger EITC can only be claimed by the custodial parent. For 2018 to 2025, a child must have a valid Social Security number for the taxpayer to qualify for the child tax credit; thereafter, an Individual Taxpayer Identification Number will suffice. For a taxpayer to qualify for a larger EITC, a child must have a valid Social Security number.

For 2019, the total credit amount from the child tax credit and credit for other dependents phases out at a rate of 5 percent for single taxpayers whose income exceeded $200,000 in 2019 and for married taxpayers filing jointly whose income exceeded $400,000. That is, the total credit amount is reduced by $50 for each $1,000 of income above those thresholds. Neither the credit amount nor the income thresholds are indexed for inflation. CBO estimates that 73 percent of taxpayers with dependents will claim the child tax credit on their 2019 return and that total tax liabilities (net of outlays) for the year would be $117 billion higher.

The expansion of the child tax credit will expire at the end of 2025. The amount of the credit will drop to $1,000 for each qualifying child younger than 17, and the income thresholds at which the credit begins to phase out will decrease from $200,000 to $75,000 for single filers and from $400,000 to $110,000 for joint filers. In addition, the income threshold at which the credit becomes partially refundable will rise from $2,500 to $3,000.

Credit for Other Dependents. For 2019, taxpayers can receive a nonrefundable credit of $500 for each dependent who does not qualify for the child tax credit. The combined credit from the child tax credit and credit for other dependents phases out at a rate of 5 percent for single taxpayers whose income exceeded $200,000 in 2019 and for married taxpayers filing jointly whose income exceeded $400,000. Neither the credit amount nor the income thresholds are indexed for inflation. CBO estimates that about 18 percent of taxpayers with dependents will claim the credit for other dependents on their 2019 return and that total tax liabilities will be reduced by $9 billion. The credit for other dependents will expire at the end of 2025.

Dependent Exemptions. The temporary suspension of personal and dependent exemptions will expire at the end of 2025. In 2026, a taxpayer will be able to exclude $4,950 of income from taxation.

---

Credit for Other Dependents. For 2019, taxpayers can receive a nonrefundable credit of $500 for each dependent who does not qualify for the child tax credit. The combined credit from the child tax credit and credit for other dependents phases out at a rate of 5 percent for single taxpayers whose income exceeded $200,000 in 2019 and for married taxpayers filing jointly whose income exceeded $400,000. Neither the credit amount nor the income thresholds are indexed for inflation. CBO estimates that about 18 percent of taxpayers with dependents will claim the credit for other dependents on their 2019 return and that total tax liabilities will be reduced by $9 billion. The credit for other dependents will expire at the end of 2025.

---

To calculate taxable income, taxpayers subtract either the standard deduction or itemized deductions from their adjusted gross income.

---

Dependent Exemptions. The temporary suspension of personal and dependent exemptions will expire at the end of 2025. In 2026, a taxpayer will be able to exclude $4,950 of income from taxation.
for each dependent, CBO projects. The reduction in tax liability from an exemption is equal to the taxpayer’s marginal tax rate applied to the exemption amount. As a result, the value of the exemption interacts with a taxpayer’s filing status and generally increases as income and tax rates rise. The exemption amount is indexed to account for inflation.

Two provisions will reduce the value of dependent exemptions for higher-income taxpayers. First, in 2026, the exemptions are projected to start to phase out when a head of household’s income exceeds $348,150 or joint filers’ income exceeds $379,800. The exemptions are projected to fully phase out when a head of household’s income reaches $470,650 or joint filers’ income reaches $502,300. Second, taxpayers who face the alternative minimum tax do not benefit from dependent exemptions. The AMT is a parallel income tax system with fewer exemptions, deductions, credits, and rates than the regular income tax system. Taxpayers must calculate the amount they owe under both the AMT and the regular income tax systems and pay the larger of the two amounts. Because exemptions reduce tax liability before credits are applied, taxpayers with many dependents are more likely to face the AMT than are taxpayers who have similar income but fewer dependents.

CBO estimates that if the 2026 tax rules had been in effect in 2019, 98 percent of taxpayers with dependents would claim a dependent exemption and that the exemption would lower total tax liabilities for 2019 by $101 billion.

Provisions That Are Not Included in This Analysis. Other provisions of the individual income tax code that are associated with dependents are not analyzed in this report because they depend on additional choices made by the taxpayer and are less widely used. For example, the child and dependent care tax credit and the exclusion for employer-provided child and dependent care are based on a taxpayer’s work and child care arrangements. The premium tax credit is another credit that increases with the number of family members, but it is available only to taxpayers who purchase health insurance coverage through the marketplaces established by the Affordable Care Act. Tax credits for higher education would probably increase the tax benefit of having older dependents enrolled in college, but they are also excluded from this analysis.

State individual income taxes may also contribute to the tax benefit of having dependents, but this analysis is limited to federal taxes. Federal income taxes can affect state income taxes because states often conform their individual income tax to the federal income tax. For instance, some states use federal taxable income as the basis for state taxable income, so a reduction in federal taxable income from the dependent exemption reduces a taxpayer’s state tax liability as well. States that set their EITC as a percentage of the federal EITC also provide a larger EITC to workers with children than they do to other workers.

16. A custodial parent may waive his or her claim to the dependent exemption to the noncustodial parent.

17. The 2017 tax act temporarily increased the AMT exemption amount and limited itemized deductions. Those changes reduced the percentage of taxpayers that will be affected by the AMT for 2019 and those taxpayers’ AMT liability.

18. For a discussion of the tax preferences available to students pursuing higher education, see Congressional Budget Office, Distribution of Federal Support for Students Pursuing Higher Education in 2016 (June 2018), www.cbo.gov/publication/53732. In this analysis, the tax benefit of having dependents includes the higher age limit for qualifying children that applies to full-time students.
The amount of the tax benefit that taxpayers receive for having dependents varies on the basis of certain characteristics of the taxpayer and dependent.

The exhibits in this section show how various tax provisions contribute to the tax benefit of having dependents and how that benefit varies by selected characteristics under current law. Because certain provisions of the 2017 tax act expire at the end of 2025, the exhibits show the provisions’ effects on hypothetical taxpayers in 2019 alongside their effects in 2026. Most of the exhibits focus on the tax benefit of having dependents for married taxpayers because most children live with their parents. Almost 40 percent of tax returns are filed by married couples filing jointly, and about half of joint filers have dependents. In most of these exhibits, the tax benefit of having one dependent is shown; families who have two or more children would receive a greater total tax benefit.

The hypothetical taxpayers whose tax benefits are analyzed in these exhibits differ slightly from exhibit to exhibit, but all share some characteristics. In all cases, the taxpayers’ income is entirely from wages (including salaries). The taxpayers have itemized deductions worth 8 percent of income in 2019 and 18 percent of income in 2026 (after the cap on the deduction for state and local taxes expires), and they claim the greater of those deductions or the standard deduction. (The 8 percent and 18 percent values are CBO’s projections of the average ratio of itemized deductions to income for taxpayers who itemize on their 2019 and 2026 returns.) Mortgage interest and charitable contributions (which are deductible under the AMT) account for 60 percent of the itemized deductions, and state and local taxes (which are not deductible under the AMT) account for 40 percent.
Exhibit 1.

Contributions of Selected Provisions to the Tax Benefit of Having a Dependent Child for a Married Couple Filing Jointly, 2019 and 2026

Dollars

The tax benefit of having dependents is the reduction in a taxpayer’s income tax liability stemming from dependent-related tax provisions. It is calculated as the tax liability that the taxpayer would have without dependents minus the taxpayer’s liability with dependents.

This exhibit illustrates the tax benefit that a hypothetical taxpayer—a married couple filing jointly—would receive at different income levels. The couple has one dependent—a qualifying child younger than 17. All of the couple’s income is from wages. They have itemized deductions worth 8 percent of income in 2019 and 18 percent of income in 2026, and they claim the greater of those deductions or the standard deduction. Mortgage interest and charitable contributions account for 60 percent of the itemized deductions, and state and local taxes account for 40 percent.

Values for 2026 are in nominal dollars.

Source: Congressional Budget Office.

In 2026, the dependent exemption will contribute to the tax benefit of having a child, decreasing the share of the total dependent tax benefit that stems from the child tax credit. The reduction in tax liability from the exemption will increase each time the taxpayer enters a higher tax bracket. (In this example, the tax brackets start when income equals $31,000, $53,000, $131,000, and $245,000.) Because the reduction in tax liability from the exemption depends on tax rates and because the rates will be higher in 2026, the reductions in tax liability will be greater than they would be under the 2019 tax rates. For higher-earning taxpayers, the tax benefit of having a child will be smaller in 2026 than it was in 2019 because taxpayers who must pay the AMT do not benefit from the dependent exemption. (In this example, the couple is subject to the AMT before their income exceeds the exemption’s phaseout threshold.)

The relative effects of provisions that contribute to the tax benefit of having a child younger than 17 vary on the basis of a taxpayer’s income. For taxpayers with low levels of income, the benefit stems mainly from the EITC, but as income increases, the EITC phases out and the child tax credit phases in. The full amount of the child tax credit is available when a taxpayer’s tax liability equals or exceeds the nonrefundable portion of the child tax credit (for the hypothetical couple examined here, that occurs when their income equals $31,000 in 2019); married couples filing jointly are eligible for the full credit as long as their income was less than $400,000 in 2019.
How Dependents Affect Federal Income Taxes

Exhibit 2.

Contributions of Selected Provisions to the Tax Benefit of Having a Dependent Child for a Single Taxpayer, 2019 and 2026

For single taxpayers, the head-of-household filing status generally adds to the tax benefit of having dependents. That status has no effect on the size of the benefit for taxpayers at the lowest income levels because their tax liability would be zero even if they filed as single. But some heads of household with higher income would face a higher statutory tax rate if they instead filed as single because the 12 percent and 22 percent tax brackets begin at a lower income level for the single status than they do for the head-of-household status. Thus, in this example, the benefit of head-of-household status increases along with income when the hypothetical taxpayer would be in a different tax bracket if he or she filed as single. When the taxpayer would be in the same bracket under either status, the benefit—which in that case derives from having a larger share of income taxed in lower brackets—flattens out.

In 2026, the dependent exemption will also contribute to the tax benefit of having dependents. The taxpayer’s tax benefit declines when the taxpayer’s income is high enough ($202,000 in this example) that the taxpayer is subject to the AMT because he or she has a dependent but would face the regular income tax if not for that dependent. The tax benefit drops to zero when the taxpayer would be subject to the AMT even if he or she filed as single rather than as a head of household (when the taxpayer’s income reaches $277,000 in this example) because the AMT rules do not distinguish between those two statuses or allow for dependent exemptions.

The tax benefit of having dependents is the reduction in a taxpayer’s income tax liability stemming from dependent-related tax provisions. It is calculated as the tax liability that the taxpayer would have without dependents minus the taxpayer’s liability with dependents.

This exhibit illustrates the tax benefit that a hypothetical taxpayer—a single taxpayer filing as a head of household—would receive at different income levels. The taxpayer has one dependent—a qualifying child younger than 17. All of his or her income is from wages. The taxpayer has itemized deductions worth 8 percent of income in 2019 and 18 percent of income in 2026, and he or she claims the greater of those deductions or the standard deduction. Mortgage interest and charitable contributions account for 60 percent of the itemized deductions, and state and local taxes account for 40 percent. The contribution of the head-of-household filing status was calculated without the dependent exemption, and the contribution of the exemption was calculated using the head-of-household status.

Values for 2026 are in nominal dollars.

Source: Congressional Budget Office.
The tax benefit of having dependents affects federal income taxes because of the head-of-household filing status and differences in how other tax provisions are applied. Although the amounts of the EITC and child tax credit are the same for married and single taxpayers, the credits phase out at lower income levels for single taxpayers. In addition, under the AMT system, the exemption amount for single taxpayers is less than the exemption for married couples filing jointly.

For 2019, among filers whose income was less than $230,000, the dependent tax benefit is generally greater for single taxpayers than it is for married couples. Beginning at income of about $230,000, married couples have the advantage because single taxpayers are no longer eligible for the child tax credit. But after the credit phases out for married couples, the tax benefit of having children is once again greater for single taxpayers because they can still file as a head of household.

In 2026, the tax benefit of having a dependent will generally be greater for single taxpayers, though they will be subject to the AMT and will lose that benefit at lower income levels than married taxpayers. However, at very high income levels (higher than those shown here), single taxpayers with a child will calculate their tax liability under the regular income tax system and be able to file as a head of household. In this example, when the single taxpayer's income reaches $680,000, he or she can file as a head of household and receive a tax benefit of $6,300.

---

Source: Congressional Budget Office.
Because the eligibility requirements for tax provisions differ, the benefit of having dependents varies on the basis of the age of the dependent and whether the dependent is a qualifying child or relative of the taxpayer. The tax benefit of a dependent child younger than 17 is greater than the benefit of a dependent who qualifies by other means because the child tax credit is larger than the credit for other dependents and partially refundable; thus, even taxpayers whose tax liability is zero can receive a benefit. In addition, taxpayers who have a qualifying child can claim a larger EITC than taxpayers who do not. Taxpayers whose dependents are qualifying relatives (for example, children age 19 or older) are eligible only for the credit for other dependents, which is nonrefundable and therefore does not increase the tax benefit of having dependents until a taxpayer’s income tax liability is greater than zero.

In 2026, the benefit that taxpayers who claim a dependent receive will still be greater if the dependent is a child under 17 than if the dependent qualifies by other means, although the difference in the benefit derived from younger children and from other dependents will narrow because of the expiration of the expansion of the child tax credit. In this example, the amount of the credit shrinks to $1,000, and the credit phases out completely when the taxpayer’s income exceeds $130,000. At higher levels of income, the dependent tax benefit stems solely from the dependent exemption, which does not distinguish between the different types of dependents. ◆
Exhibit 5.

The Tax Benefit of Having a Dependent Under the 2019 and 2026 Tax Rules, by Type of Dependent

Source: Congressional Budget Office.

The tax benefit of having dependents is the reduction in a taxpayer’s income tax liability stemming from dependent-related tax provisions. It is calculated as the tax liability that the taxpayer would have without dependents minus the taxpayer’s liability with dependents.

This exhibit illustrates the tax benefit that a hypothetical taxpayer—a married couple filing jointly—would receive at different income levels. The couple has one dependent—a qualifying child younger than 17 or a qualifying relative. All of the couple’s income is from wages. They have itemized deductions worth 8 percent of income in 2019 and 18 percent of income in 2026, and they claim the greater of those deductions or the standard deduction. Mortgage interest and charitable contributions account for 60 percent of the itemized deductions, and state and local taxes account for 40 percent.

The tax parameters that will be in effect in 2026 under current law have been adjusted to account for inflation and income growth between 2019 and 2026.

For this exhibit, the tax parameters that will be in place in 2026 were indexed to 2019 income levels to remove the effects of inflation and real income growth over those years and to allow for a direct comparison of the 2019 and 2026 tax rules.

For the hypothetical married couple with a child younger than 17 whose dependent tax benefit is illustrated in this exhibit, the benefit is generally larger under the 2019 rules than it is under the 2026 rules because of the temporary expansion of the child tax credit. Because neither the credit amount nor the phaseout threshold is indexed to account for inflation, the value of the credit would diminish over time even without those statutory changes.

For the couple with a qualifying relative, whether the value of the benefit is greater under the 2019 rules or under the 2026 rules depends on their income. Under the 2019 rules, the benefit stems from the credit for other dependents, and the value of that credit is the same—$500 per dependent—once the couple’s tax liability exceeds $500 until their income reaches the phaseout threshold. Once the couple’s income exceeds $263,000, they are required to pay the AMT and therefore do not benefit from the dependent exemption.
The tax benefit of having dependents is the amount by which dependents reduce a taxpayer’s income tax liability. In this exhibit, the tax benefit of each dependent is calculated as the increase in tax liability if the taxpayer had one less dependent. This exhibit illustrates the tax benefit that a hypothetical taxpayer—a married couple filing jointly—would receive at different income levels. The couple has three dependents, all of whom are qualifying children younger than 17. All of the couple’s income is from wages. They have itemized deductions worth 8 percent of income in 2019 and 18 percent of income in 2026, and they claim the greater of those deductions or the standard deduction. Mortgage interest and charitable contributions account for 60 percent of the itemized deductions, and state and local taxes account for 40 percent. Values for 2026 are in nominal dollars.

The tax benefit of each additional child differs from the benefit of the previous child because of the EITC and how different provisions phase out. (This exhibit examines the tax benefit of each child separately; a family’s total dependent tax benefit is the sum of the benefit associated with all of its dependents.) The tax benefit from the EITC is generally higher for the first qualifying child than it is for the second or third child. (The total EITC does not increase after the third qualifying child; none of the tax benefit of the fourth child stems from the EITC.)

Unlike the EITC, the child tax credit is the same amount for each child. The income level at which it begins to phase out is also the same for each child, but additional children increase the income level at which the total credit phases out completely. In this example, when the couple’s income is between $50,000 and $400,000, they receive the full amount of the credit for 2019. The first $2,000 reduction in the credit amount is allocated to the first child and the next $2,000 reduction to the second.

In 2026, the dependent exemption will allow the same amount to be deducted from taxable income for each dependent. Because dependent exemptions lower tax liability under the regular income tax, a taxpayer with more dependents will be subject to the AMT at a lower income level than will taxpayers with fewer dependents. Thus, in this example, the tax benefit of the third child begins to decline at a lower income level than does the tax benefit of the first or second child.◆
Distribution of the Tax Benefit of Having Dependents

The exhibits in this section show how the tax benefit of having dependents would be distributed among a nationally representative sample of taxpayers with dependents under the 2019 and 2026 tax rules. To calculate that benefit, CBO used its microsimulation tax model to estimate income tax liabilities with and without the dependent-related provisions in place. To account for differences in the size of families, CBO divided families’ total dependent tax benefit by their number of dependents to get the average tax benefit per dependent in each family. The sample reflects income and demographic projections for 2019 so that the analysis focuses on changes in tax law rather than on other factors that might affect the tax benefit of having dependents. CBO adjusted the parameters of the tax system that will be in place in 2026 under current law to be consistent with 2019 income levels so that the 2019 and 2026 projections could be compared.
Single taxpayers with dependents tend to have fewer dependents and less income than married taxpayers with dependents. Of taxpayers with dependents in 2019, on average, single taxpayers are estimated to claim 1.6 dependents and married taxpayers 1.9 dependents. Of those single taxpayers, 95 percent will report AGI of less than $100,000, whereas 53 percent of the married taxpayers will have AGI of less than that amount, CBO estimates.

Different provisions contribute to the tax benefit of having dependents for married and single taxpayers. Most single taxpayers with dependents file as a head of household, though the reduction in tax liability stemming from that status is limited for lower-income taxpayers. The percentage of single taxpayers with dependents who will receive the EITC is significantly larger than the percentage of married taxpayers with dependents who will receive the credit—56 percent compared with 18 percent, CBO estimates. The child tax credit and credit for other dependents are estimated to benefit about the same proportion of single taxpayers and married taxpayers. However, the amounts received for claiming those credits will vary by income. Taxpayers with very low income tax liability will receive only a partial amount of the credits because the refundable portion of the child tax credit is capped and the credit for other dependents is nonrefundable.◆
The average tax benefit per dependent for 2019 is estimated to be $2,300. That amount reflects the effects of the EITC, the child tax credit, the credit for other dependents, and the head-of-household filing status. The estimated tax benefit per dependent is largest, on average, for taxpayers whose AGI is between $15,000 and $24,999 and decreases as income increases.

For 2019, the average tax benefit of children younger than 17 is estimated to be significantly larger than the average benefit of other dependents—$2,800 per child compared with $1,000 per other dependent. That discrepancy arises because most taxpayers with children younger than 17 are eligible for the child tax credit. The maximum amount of the child tax credit, which is partially refundable, is $2,000, whereas the maximum amount of the credit for other dependents, which is nonrefundable, is $500.

---

**Exhibit 8.**

**Average Tax Benefit per Dependent, 2019**

![Graph showing average tax benefit per dependent based on Adjusted Gross Income (AGI)].

Source: Congressional Budget Office, using data from the Census Bureau and the Internal Revenue Service.

The tax benefit of having dependents is the reduction in a taxpayer’s income tax liability stemming from dependent-related tax provisions. The tax benefit per dependent for all dependents is calculated as the tax liability that the taxpayer would have without dependents minus the taxpayer’s tax liability with dependents, divided by the number of dependents in the family. To calculate the benefit per child younger than 17, CBO divided the total reduction in the taxpayer’s tax liability attributable to such children by the number of those children. To calculate the tax benefit per other dependent, the agency subtracted the benefit attributable to children younger than 17 from the taxpayer’s total dependent benefit and divided any remaining benefit by the number of other dependents that the taxpayer reported. That approach effectively assigned the benefit of the head-of-household filing status to children younger than 17.
How Dependents affect Federal Income taxes

Exhibit 9.

Average Tax Benefit per Dependent, 2026

---

Source: Congressional Budget Office, using data from the Census Bureau and the Internal Revenue Service.

The tax benefit of having dependents is the reduction in a taxpayer’s income tax liability stemming from dependent-related tax provisions. The tax benefit per dependent for all dependents is calculated as the tax liability that the taxpayer would have without dependents minus the taxpayer’s tax liability with dependents, divided by the number of dependents in the family. To calculate the benefit per child younger than 17, CBO divided the total reduction in the taxpayer’s tax liability attributable to such children by the number of those children. To calculate the tax benefit per other dependent, the agency subtracted the benefit attributable to children younger than 17 from the taxpayer’s total dependent benefit and divided any remaining benefit by the number of other dependents that the taxpayer reported. That approach effectively assigned the benefit of the head-of-household filing status to children younger than 17.

The tax parameters that will be in effect in 2026 under current law have been adjusted to account for inflation and income growth between 2019 and 2026. The income groups reflect adjusted gross income as calculated under the 2019 tax rules.

If the 2026 tax rules had been in place in 2019, the estimated average tax benefit per dependent would drop to $1,700. That estimate is lower than the estimate in the previous exhibit because certain provisions of the tax code—particularly the expanded child tax credit—will expire at the end of 2025. The 2026 estimate incorporates the effects of the EITC, the child tax credit, and the head-of-household filing status—all of which are allowed under the 2019 rules—but it also reflects the effects of the dependent exemption, which cannot be claimed for 2019.

The difference between the tax benefit of children younger than 17 and that of other dependents is smaller under the 2026 rules because the child tax credit is smaller and the phaseout thresholds are lower, reducing the percentage of taxpayers with dependents who receive the child tax credit—from an estimated 73 percent under the 2019 rules to an estimated 58 percent under the 2026 rules. Overall, the average tax benefit per child is estimated to be about $2,000, and the average tax benefit per other dependent about $1,000. The gap between those average benefits is estimated to be wider for lower-income taxpayers who are eligible for the EITC and to narrow at higher income levels, after the EITC and child tax credit phase out. The average tax benefit per child younger than 17 is about $800 less under the 2026 rules than it is under the 2019 rules; the average benefit per other dependent, however, is about the same under both sets of tax rules.
The tax benefit of having dependents reflects the number of dependents in the family and their eligibility for various provisions. In 2019, CBO estimates, 44 percent of taxpayers with dependents had one dependent, 35 percent had two, and 20 percent had three or more. On average, taxpayers in the lowest-income group had 1.5 dependents, and all other taxpayers had 1.8 dependents. Of taxpayers with dependents, about two-thirds had at least one child younger than 17.

The expiration of the temporary provisions of the 2017 tax act will reduce the average tax benefit of dependents. Whereas the average benefit per family for 2019 is estimated to be $3,800, if the 2026 rules had been in place, that average would fall to $2,800. For taxpayers in the lowest-income group, the average benefit is estimated to be similar under the 2019 and 2026 tax rules. Under either set of rules, the tax benefit of having dependents is greatest, on average, for taxpayers whose AGI is between $15,000 and $24,999 because that is the range in which the EITC and child tax credit phase in. The average benefit per family declines as income increases and the EITC phases out. At income levels above $150,000, the average benefit per family is estimated to be significantly lower under the 2026 rules than under the 2019 rules because of the phaseouts of the child tax credit and the dependent exemption.
The average tax benefit per dependent varies widely by income—not only from one income group to another but also within income groups. The greatest variation occurs among taxpayers whose AGI for 2019 is less than $50,000, mainly because of differences in eligibility for the EITC. Of taxpayers with AGI between $15,000 and $24,999, 10 percent are estimated to have an average tax benefit per dependent of less than $1,000, and 17 percent are estimated to have an average benefit per dependent of $5,000 or more.

For taxpayers with higher income, the average tax benefit per dependent stems primarily from the child tax credit. About half of taxpayers whose AGI for 2019 is between $50,000 and $149,999 are estimated to receive a tax benefit per dependent of between $2,000 and $2,999; in those income groups, taxpayers who file as a head of household will receive the largest benefit per dependent, on average. The phaseout of the child tax credit lowers the average benefit per dependent at higher income levels. The share of taxpayers who receive a tax benefit per dependent of less than $1,000 is estimated to be largest for the group whose AGI is $150,000 or more. ◆
Exhibit 12.

Distribution of the Tax Benefit per Dependent, 2026

Percent

In general, the tax benefit per dependent is estimated to be smaller under the 2026 tax rules than it is under the 2019 rules. For taxpayers whose AGI is less than $35,000, the per-dependent benefit would still vary widely within each income group under the 2026 rules because of the EITC. For taxpayers whose AGI is between $35,000 and $149,999, the tax benefit under the 2026 rules would stem from a combination of the head-of-household filing status, the child tax credit, and the dependent exemption.

At higher levels of income, the share of taxpayers estimated to receive a tax benefit of more than $2,000 per dependent, on average, would shrink under the 2026 rules, and the share whose benefit is less than $1,000, on average, would increase. In groups whose AGI is $100,000 or more, the average benefit per dependent falls as the number of taxpayers who file as a head of household or claim benefits under other dependent provisions shrinks. About one-quarter of taxpayers with AGI between $100,000 and $149,999 would receive the child tax credit, CBO estimates. Of the taxpayers whose AGI is $150,000 or more, none would receive the child tax credit, and CBO estimates that about half would pay the AMT, which does not allow for dependent exemptions or the head-of-household filing status.

Source: Congressional Budget Office, using data from the Census Bureau and the Internal Revenue Service.
Exhibit 13.

Middle 50 Percent of the Range of Values of the Tax Benefit per Dependent, 2019 and 2026

For this analysis, CBO measured uniformity by the spread of the middle 50 percent of estimates of the tax benefit per dependent—that is, the difference between the 75th and 25th percentiles of the distribution. Variation in the tax benefit within income groups can be used to measure how the tax code treats taxpayers whose income is comparable. The expiration of temporary provisions at the end of 2025 will lower the tax benefit per dependent and decrease the variation within income groups in 2026. If the 2026 tax rules had been in place in 2019, the median tax benefit per dependent, which is estimated to be about $2,000 under the current rules, would fall to about $1,400, and the spread of the middle 50 percent would narrow from $1,800 to $1,500.

Under both the 2019 and 2026 rules, the median tax benefit per dependent generally falls—and the variation in the size of that benefit decreases—as income increases. Under the 2026 rules, about 53 percent of the group with income of $150,000 or more would receive no tax benefit for dependents, CBO estimates.

The variation in the tax benefit per dependent would be smaller under the 2026 rules because of changes to the child tax credit. First, the credit amount is smaller, narrowing the difference between the tax benefit of children younger than 17 and that of other dependents. Second, the income thresholds at which the credit begins to phase out are lower, resulting in fewer taxpayers receiving the full amount of the credit and thus further reducing the variation in the per-dependent benefit within income groups. ◆

Source: Congressional Budget Office, using data from the Census Bureau and the Internal Revenue Service.

The tax benefit of having dependents is the reduction in a taxpayer’s income tax liability stemming from dependent-related tax provisions. The tax benefit per dependent is calculated as the tax liability that the taxpayer would have without dependents minus the taxpayer’s tax liability with dependents, divided by the number of dependents in the family.

The tax parameters that will be in effect in 2026 under current law have been adjusted to account for inflation and income growth between 2019 and 2026. The income groups reflect adjusted gross income as calculated under the 2019 tax rules.
If providing uniform benefit amounts and simplifying the rules that determine eligibility for those benefits are goals of policymakers, they could consider policies that would reflect those goals better than the current tax code does. The array of tax provisions now in place results in a wide range of values for the tax benefit of dependents. Furthermore, the different eligibility criteria for each provision add complexity to the tax code.

This section analyzes the following three policy options involving dependents, each of which illustrates a targeted approach to simplifying the tax code that would address a specific provision:

- Raise the age limit for the child tax credit to match that used to determine eligibility for the EITC,
- Replace the credit for other dependents and dependent exemptions with an indexed dependent credit, and
- Eliminate the head-of-household filing status.

The first option would allow taxpayers to claim the child tax credit for children ages 17 or 18 (or up to 24, if the child is a full-time student). That age limit would match the age test used to determine if a child qualifies the taxpayer for the larger EITC, thereby simplifying the tax code by making most EITC-qualifying children eligible for the child tax credit as well. The option would also increase the tax benefit of older children. Because the child tax credit phases in and out on the basis of earnings, the option would affect marginal tax rates and incentives to work of taxpayers who were made eligible for the child tax credit by the change in policy.

The second option would replace the credit for other dependents and dependent exemptions with a nonrefundable credit equal to 15 percent of the
dependent exemption amount. (Children under 17 would be eligible for both the child tax credit and that dependent credit.) Like that exemption, the dependent credit would be indexed to account for inflation, it would phase out at higher income levels, and it could not be claimed against the AMT. In 2019, the credit would be $600 for each dependent. In 2026, the credit would be less than the value of the dependent exemption for taxpayers in tax brackets above 15 percent (because the value of an exemption increases as marginal tax rates rise). By limiting the benefit that taxpayers with higher income received and distributing the benefits more evenly than the exemption, the option would make the tax system more progressive than it is projected to be under current law in 2026.

The third option would eliminate the head-of-household filing status for single taxpayers with dependents; they would instead file as single taxpayers. As a result of that change, single taxpayers would receive a smaller dependent benefit than they would under current law, increasing the government’s tax revenues. The option would reduce the complexity of determining whether a taxpayer meets the requirements to file as a head of household for taxpayers and the IRS. In particular, it would eliminate the additional recordkeeping often necessary to document that a taxpayer has a qualifying person living with them and pays the majority of the costs of maintaining a home, both of which are requirements to claim head-of-household status. Because head-of-household filers tend to have less income than married taxpayers with dependents, this option would make the tax code less progressive.

Those options do not represent the full range of possibilities for simplifying the tax treatment of dependents. One approach not considered here involves consolidating the set of provisions that affect taxpayers with dependents.19 Such proposals would also impose greater uniformity in the definition of a qualifying child or relative for the dependent benefit than currently exists.20 Under current law, some dependent provisions have additional requirements for a qualifying child, and that variation in requirements adds to the complexity of filing taxes. Instead, the options analyzed here are used to illustrate how each policy change in isolation would affect the tax value of dependents. The exhibits in this section show how the three policy options would alter the tax benefit per dependent and how that tax benefit would be distributed.


The option to standardize the age limit for the child tax credit and the EITC and the option to introduce a dependent credit would, on average, increase the tax benefit of dependents in 2019, whereas eliminating the head-of-household filing status would decrease that benefit.

If older children qualified for the child tax credit, the average tax benefit per dependent for 2019 would modestly increase for all income groups because an estimated 18 percent of taxpayers with dependents had a child over age 17 who would have qualified. The amount of the child tax credit is larger than the credit for other dependents, and it is refundable, which would benefit lower-income taxpayers in particular.

If the dependent credit was implemented, it would equal $600 per dependent in 2019. The greatest increase in the average tax benefit per dependent would be for taxpayers whose AGI was between $50,000 and $149,999 because their tax reduction from the head-of-household status rises with income in that range.

Eliminating the head-of-household filing status would lower the tax benefit per dependent, on average. About 44 percent of taxpayers with dependents are estimated to file as a head of household for 2019, and most of them will have AGI of less than $100,000. Taxpayers with AGI between $50,000 and $99,999 would be most negatively affected by the change because under current law, the tax reduction from the head-of-household status rises with income in that range.
The effects of the policy options on the average tax benefit per dependent in 2026 would differ considerably from those in 2019. Raising the age limit for the child tax credit would have smaller effects on the tax benefit per dependent, on average, in 2026 because under current law, the credit amount will be smaller and the income thresholds lower in 2026 than they were in 2019, which will limit the share of taxpayers who are eligible.

Unlike in 2019, in 2026 implementing the dependent credit would have positive effects for some taxpayers and negative effects for others, depending on their tax bracket: For taxpayers in the 10 percent bracket, the tax benefit per dependent would increase, but for taxpayers in the 25 percent bracket and above, that benefit would decrease. Because it would phase out for high-income taxpayers and could not be claimed against the AMT, the dependent credit would have a limited effect on taxpayers whose AGI was above $150,000.

Eliminating the head-of-household filing status would decrease the average tax benefit per dependent by a smaller amount in 2026 than it would in 2019 because of the changes in the standard deduction and tax rates for single and head-of-household filers that will take effect in 2026.
The policy options that CBO considered would not substantially change the overall uniformity of the tax benefit per dependent from what it is estimated to be under current law in 2019, though some of the options would alter the variation among taxpayers in higher-income groups.

Raising the age limit for the child tax credit to that of the EITC would narrow the spread of the middle 50 percent and reduce the variation in the value of the tax benefit per dependent by treating older children the same as younger children. (Qualifying relatives would still be ineligible for the child tax credit, but taxpayers with qualifying relatives account for a small share of taxpayers with dependents.)

Introducing a dependent credit would increase the variation in the value of the tax benefit per dependent in some income groups because it would increase the difference between the tax benefit of children under 17 and that of other dependents.

Eliminating the head-of-household filing status would increase the variation (and widen the spread of the middle 50 percent) in the tax benefit per dependent for taxpayers whose AGI was between $50,000 and $149,999, even though married and single taxpayers with dependents would be treated more similarly. Because among households with AGI of $50,000 or more, fewer single filers than married filers have dependents who are eligible for the child tax credit, the average tax benefit per dependent would drop to $500 for many single taxpayers with dependents.

The tax benefit of having dependents is the reduction in a taxpayer’s income tax liability stemming from dependent-related tax provisions. The tax benefit per dependent is calculated as the tax liability that the taxpayer would have without dependents minus the taxpayer’s tax liability with dependents, divided by the number of dependents in the family.

The tax benefit per dependent under each policy option reflects the assumption that all other provisions in effect under current law remain in place.

Source: Congressional Budget Office, using data from the Census Bureau and the Internal Revenue Service.
Appendix: Data and Methods

To analyze the tax benefit of having dependents in 2019 and 2026, the Congressional Budget Office used two methods. First, it constructed several examples that use hypothetical taxpayers to illustrate how different provisions of tax law contribute to that benefit and how they affect taxpayers differently on the basis of certain characteristics of the taxpayer and dependent. Second, the agency used its microsimulation model to estimate the tax benefit of having dependents for a nationally representative sample that reflects the distribution of income and dependents among taxpayers. This appendix details both approaches.

Illustrative Examples
The illustrative examples focus on hypothetical taxpayers whose only source of income is wages and salaries. The earned income tax credit (EITC) and the refundable portion of the child tax credit—two key sources of the tax benefit associated with dependents—are based on a taxpayer's earned income. Taxpayers claim the higher of the standard deduction or itemized deductions. In the examples, taxpayers have itemized deductions worth 8 percent of their income in 2019—the average ratio of itemized deductions to income for all taxpayers that year, CBO estimates. That percentage reflects the limit on deductions for state and local taxes that is in place until 2026; until data from tax returns filed after changes made by the 2017 tax act are available, that estimate is subject to considerable uncertainty. The hypothetical taxpayers' itemized deductions equal 18 percent of their income in 2026, on average—the average ratio of itemized deductions to income that, on the basis of historical tax return data, CBO projects for that year. State and local taxes make up 40 percent of the hypothetical taxpayers' itemized deductions, and mortgage interest and charitable contributions account for 60 percent.

Simulations
CBO's estimates of the distribution of the tax benefit of having dependents—under the 2019 tax rules, the 2026 tax rules, and the three policy options—are made using the agency's microsimulation tax model. That model is based on the public-use version of the Statistics of Income sample published by the Internal Revenue Service (IRS), which includes about 150,000 tax returns for 2010, and on data from the Census Bureau's 2011 Annual Social and Economic Supplement to the Current Population Survey. For this analysis, CBO restricted the sample to filers who have dependents—those who claim dependent exemptions, file as a head of household, or claim qualifying children for the EITC. CBO adjusted the data to reflect its projections of income and certain demographic characteristics in 2019 (including the size of the population and its distribution by age, sex, and marital status).

1. For more details on CBO's tax model, see Congressional Budget Office, "An Overview of CBO's Microsimulation Tax Model" (June 2018), www.cbo.gov/publication/54096.

2. The sample of tax returns is designed to represent all income tax returns filed in 2010. To protect the identity of taxpayers, the IRS modifies information in various fields so that the resulting records do not contain complete information from any individual tax return. In addition, the number of dependents for each taxpayer in the sample is capped at three. (About 2 percent of taxpayers in the sample had more than three dependents. In those cases, the IRS applied the limit sequentially by type of dependent, starting with children, and recorded the taxpayer's three youngest dependents, ensuring that most dependents who qualify for the child tax credit and EITC remain in the sample.)

To allow for comparisons between the tax rules that were in effect in 2019 and that will be in effect in 2026 under current law, CBO adjusted the parameters of the tax system in 2026 to be consistent with 2019 income levels. Specifically, before simulating taxes under the 2026 rules, the agency removed the effects of inflation and income growth by using the nominal rate of per capita income growth to deflate unindexed parameters and the real rate of such growth to deflate indexed parameters; both rates are outputs of CBO’s tax model. Applying those adjusted tax parameters to 2019 income yields the same tax liabilities that taxpayers would have incurred under current law in 2026 if nominal income grew by 26.2 percent between 2019 and 2026 and prices grew by 16.1 percent (resulting in a 10.1 percentage-point increase in real income growth for all taxpayers over that period). To estimate the tax benefit of having dependents under each of the three policy options, CBO kept all parameters of 2019 or 2026 law in place and altered only those related to the policy option under consideration.
About This Document

This Congressional Budget Office report was prepared at the request of the Chairman of the House Budget Committee. In keeping with CBO’s mandate to provide objective, impartial analysis, the report makes no recommendations.

Shannon Mok prepared the report with guidance from Janet Holtzblatt (formerly of CBO), John McClelland, and Joseph Rosenberg. Ed Harris and Rebecca Chenevert provided helpful comments. Seth Bertolucci and Ellen Steele fact-checked the report.

Elaine Maag of the Urban-Brookings Tax Policy Center, Aparna Mathur of the American Enterprise Institute, and Patricia Tong of the RAND Corporation also reviewed the report. The assistance of external reviewers implies no responsibility for the final product, which rests solely with CBO.

Wendy Edelberg, Jeffrey Kling, and Robert Sunshine reviewed the report. The editor was Bo Peery, and the graphics editor was Jorge Salazar. This report is available on CBO’s website (www.cbo.gov/publication/56004).

CBO continually seeks feedback to make its work as useful as possible. Please send any comments to communications@cbo.gov.

Phillip L. Swagel
Director
January 2020