Bipartisan Policy Center

Comparing the CDCTC and CTC

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The American Rescue Plan Act of 2021 temporarily expanded two tax credits that support families with children—the Child and Dependent Care Tax Credit and the Child Tax Credit. Because both tax credits support families with children, they are often conflated. The following explainer delineates the two tax mechanisms to help policymakers and advocates better speak to their valuable, distinct roles.

	Child and Dependent Care Tax Credit	Child Tax Credit
Purpose	To help working parents cover a portion of the cost of care for children under age 13 or adult dependents.	To help families offset the variety of expenses needed to raise children.
Eligibility	Depends on actual expenses for child or dependent care and household income.	Depends on number of children and household income.
Maximum Number of Eligible Children or Dependents	Two	No maximum
Credit - Underlying Law	Up to $3,000 in expenses per dependent can be claimed for a maximum of $6,000. Taxpayers may receive between 20% – 35% of those expenses as a credit, based on income. It does not phase out. Not refundable.	Up to $2,000 per child 16 and under. Phases in with earnings, fully phases out starting at income of $200,000 (for single filers) or $400,000 (married filers). Up to $1,400 is refundable.
Credit - American Rescue Plan	Up to $6,000 in expenses per dependent can be claimed for a maximum of $12,000. Taxpayers may receive 20% – 50% of those expenses as a credit, based on income. The maximum credit rate of 50% applies to all household incomes below $125,000. The rate then gradually decreases until it reaches 20% for incomes above $183,000. The credit plateaus, and then phases out beginning at $400,000 of income. Households with incomes above $438,000 are ineligible. Fully refundable.	Up to $3,600 per child under 6 and $3,000 per child aged 6 to 17 (note the additional year children are eligible). All families making below $75,000 (single filers) or $150,000 (married filers) are eligible for the full credit. Credit gradually phases down to $2,000, plateaus, and then fully phases out starting at incomes of $200,000 (single filers) or $400,000 (married). Provides a portion of the credit throughout the year, the remainder during tax filing. Fully refundable.

Case Study

Mr. and Mrs. Jeffries live in Arizona with their 9-month-old, 4-year-old, and 6-year-old. Both parents work full-time, and their household income is $60,000. The Jeffries need full-time child care for their younger children, but do not qualify for any state assistance in affording it. Their annual child care costs are $14,300 per year, or about 23% of their income. Their 6-year-old goes to a friend's house after school. They are eligible for both the CDCTC to help cover their child care expenses, and the CTC to help them cover the range of expenses associated with raising three young children.

Child and Dependent Care Tax Credit

Under the permanent CDCTC structure, they can count up to $6,000 of their child care expenses. Based on their income, they can claim 20% of those expenses, meaning they are eligible $1,200 toward their federal income tax liability—or less than 10% of their child care expenses. They cannot receive any portion as a refund.

Under the American Rescue Plan, for 2021, the Jeffries can count their entire $14,300 in child care expenses towards the credit, and can receive 50% of these expenses as their CDCTC. Therefore, they may receive a credit of $7,150 towards their federal income tax liability. After their tax liability is reduced to zero, they can claim the remainder as a tax refund.

Child Tax Credit

Prior to the American Rescue Plan, the Jeffries' household earned enough to be eligible for the entire CTC of $2,000 for each of their children. They could therefore reduce their federal income tax liability by $6,000. Unless their federal income tax liability is at least that amount, they cannot receive the full value of the credit.

Under the American Rescue Plan, for 2021, the Jeffries will receive the expanded credit of $3,600 each for their two youngest children, as well as $3,000 for their 6-year-old. They therefore receive a refundable tax credit of $10,200, for which they would be eligible even if they had lower or no earnings. They will start receiving monthly payments in July and will receive the remaining amount when they file taxes in 2022.

FAQ

Does the ARP change these credits permanently? No, only through 2021.

What is a refundable credit? A refundable credit allows families whose credit is larger than their federal income tax liability to receive the remaining amount of the credit as a refund.

Can the CTC be used for child care costs? Yes, parents can spend their CTC on anything they choose, including on child care costs.

Are families eligible for both credits? Yes, if families meet the criteria, receiving one credit does not preclude a family or individual from receiving the other credit.

How do the credits interact? In 2021, since both credits are fully refundable, families can receive the full amount under each credit. However, in other years, because both credits operate by reducing tax liability and the CDCTC is applied first, receiving the CDCTC may decrease the amount a family can receive from the CTC.

For more, read our report on the CDCTC.