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THE 2025 TAX PACKAGE: A CHANCE TO MAKE THE TAX CODE FAIR BY EXPANDING CREDITS AND INCREASING REVENUE

Ashley Burnside and Jesse Fairbanks | February 2025

In 2025, several provisions in the Tax Cuts and Jobs Act (TCJA) of 2017 are scheduled to expire. This provides an opportunity for lawmakers to reform our tax code so that it serves families with low incomes instead of the wealthiest individuals and corporations. The Center for Law and Social Policy (CLASP) has recommendations that would improve the well-being of families and children with low incomes through the tax code, and have positive benefits for our economy.[1]

Who Benefitted from the TCJA

The TCJA largely benefitted wealthy households and corporations through measures such as reducing the corporate tax rate. These measures not only drove up the deficit but also made our tax code less fair. While the TCJA doubled the size of the Child Tax Credit (CTC) that families can claim per child, it also made the full credit available to families making from $110,000 all the way up to $400,000 in annual income, dramatically expanding eligibility for the full credit to high income families. But families with the lowest earnings cannot claim the full credit because it is not fully refundable. The TCJA also restricted eligibility for children who don't have Social Security numbers. The 2025 tax package presents an important opportunity to reverse these policy choices to ensure the very wealthy and corporations pay their fair share.

Extending the TCJA Would be Expensive and Leave Less Revenue for Families

The tax code creates revenue for critical infrastructure in our nation. If lawmakers extended the TCJA provisions for ten years, the Department of Treasury estimated this would cost **$4.2 trillion**.[2] If lawmakers reversed the tax cuts for those with incomes above $400,000 and allowed the business and estate tax cuts to expire on schedule, the total cost would be reduced to $1.8 trillion. The extra

$2.4 trillion could be used for worthy investments that would help working families, like implementing a national paid family leave policy, expanding child care for families, and investing in home and community-based services for people with disabilities. Lawmakers should not extend tax breaks for the very wealthy and instead should make investments in the care economy.

Recommendations

CLASP believes that lawmakers should prioritize the following three goals in the 2025 tax package:

1. Expand tax credits targeted at individuals and families with low incomes, including the CTC, the Earned Income Tax Credit (EITC), and a new temporary Renters Tax Credit.
2. Make the tax code fairer by asking the very wealthy and corporations to pay their fair share.
3. Use the tax code to generate more revenue than would be generated if the TCJA simply expired. This revenue should be invested in housing, communities, and infrastructure.

Expanding Tax Credits to Boost Income for Families, Renters, and Workers

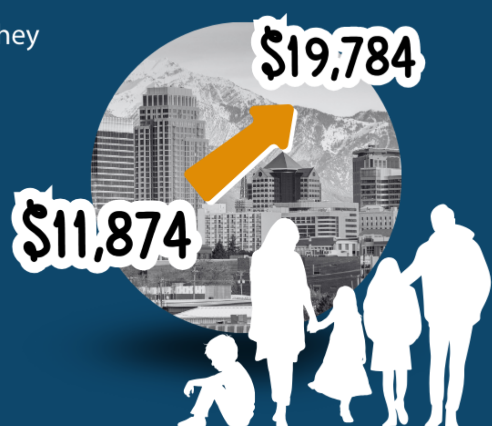
Expand the CTC and Allow Access for Mixed-Immigration Status Families

The CTC is an important tool for reducing poverty and investing in children. Congress should expand the CTC and make it accessible to families with little to no earnings by permanently making the credit fully refundable. Under current law, an estimated 18 million kids[3] don't get the full credit because their families earn too little – and this disproportionately includes Black, Latino, and Indigenous children due to the wage gap, discrimination in the labor market, and other systemic factors.[4]

This family rents a three-bedroom apartment in Salt Lake City, UT for $2,170. They work two minimum wage jobs to support their three children ages 6-16. Their household income is $30,000.

Currently, this family receives $11,869 in tax credits. They receive $4,125 through the CTC and $7,749 through the EITC.

This family would receive $10,800 through the CTC if it was increased to $3,600 per child age 6+ and was made fully refundable. They could receive up to $1,235 if a RTC pilot program was established, totalling $19,784 in tax credits.[i]



Congress should implement other expansions to the CTC, including increasing the credit to a minimum of $4,320 per child under age 6 and $3,600 per child ages 6 through 17, and a baby bonus for babies during the first year of life structured like the American Family Act to ensure that all babies receive the same payment regardless of the month they were born in.[5] A safe harbor should be included to protect parents with lower incomes from having to repay the credit if their circumstances change, and the credit should be expanded for residents of U.S. territories. Lawmakers should also make the credit available monthly, as it was in 2021. CLASP research concluded that the expanded monthly CTC payments helped families afford bills and food and reduced financial stress for parents.[6]

Congress should also restore CTC eligibility for children with Individual Taxpayer Identification Numbers (ITINs). The TCJA removed access to the credit for an estimated 1 million children with ITINs.[7] Children should receive the CTC regardless of whether they have a Social Security number, as their families contribute billions of dollars in taxes and should be entitled to the same benefits as other tax-paying families.[8]

This family rents a 2-bedroom apartment in Staten Island, NY for $2,450. They have two children in middle school and a household income of $75,000. Both parents and one child have ITINs. The youngest child has a SSN.

Currently, this family receives $2,000 through the CTC.

This family would receive $7,200 through the CTC if it was increased to $3,600 per child age 6 and over, and extended to children with ITINs. They could receive up to $3,450 if a RTC pilot was established, totalling $10,650 in tax credits.[ii]

Expand the EITC for Workers Without Dependent Kids, Young Workers, and Old Workers

The EITC effectively bolsters the wages of workers with low and moderate incomes, but because of how the credit is structured, some workers who don't live with children are taxed deeper into poverty.[9] Congress should increase the credit for workers without dependent children in the household. Under the American Rescue Plan Act of 2021, the EITC tripled for this population temporarily (the maximum credit increased from about $500 to $1,500) the income cap to qualify for the full credit increased, and the credit phase-in and phase-out rates increased. Congress should include a similar expansion in the 2025 tax bill. Congress should also extend access to the credit for younger workers (ages 19-24, and age 18 for former foster care youth and homeless youth) and for older workers (ages 65 and over) as they did in 2021. This is especially important because young adults are largely excluded from our nation's anti-poverty programs, and the age demographic faces high poverty rates compared to other age groups.[10] Based on the Supplemental Poverty Measure, young adults ages 18- 24 in 2022 had a poverty rate of 17.7 percent, and 22.5 percent for young people of color.[11]

This 66-year old veteran rents a one-bedroom apartment in Greenlee County, AZ for $846. He has an annual income of $16,800.

Currently, this man receives $0 from the EITC due to the age limits for workers without dependent children.

This veteran would receive $1,246 through the EITC if it was extended to childless workers of all ages and expanded. He could receive up to $5,112 if a RTC pilot program was established, totalling $6,358 in tax credits.[iii]

Create a Temporary Renter's Tax Credit to Help People with Low Incomes Afford Housing

Low wages have combined with high housing costs to make renting the biggest expense many people face. About 75 percent of renters with very low incomes, or 8 million households, spend over 50 percent of their incomes on housing and utilities.[12] Cost-burdened renters earning less than $30,000 are left with an average of $170 a month for all other expenses.[13] High housing costs put a dire strain on renters' budgets, forcing millions of parents to decide between feeding their children, keeping the electricity on, or paying rent.

Despite millions of people struggling to afford housing, there is no reliable program providing rent relief to all who need it. Housing Choice Vouchers (HCVs) fail to reach most eligible renters because of severe underfunding—the program assists just a quarter of eligible people.[14] Additionally, HCVs are challenging to use because they depend on the private rental market to provide housing.

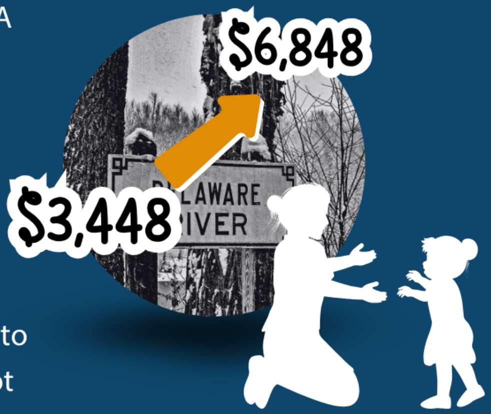
Landlords can choose not to participate in the program in most places, resulting in 40 percent of people who are lucky enough to get a voucher losing it before they find a place to rent.[15]

Every day that we wait for the government to invest in affordable housing results in another eviction, another tent on the street, or another parent foregoing dinner so their child can eat. **Congress must establish a temporary, refundable renter's tax credit for people with very low incomes. The credit could further target a population at great risk of eviction, such as single parents.** Establishing a targeted renter's tax credit will provide relief to people in desperate need of financial assistance until the government produces adequate affordable housing.

This single mom lives in a 2-bedroom apartment in Bucks County, PA with her toddler. She has a household income of $40,000 and pays $1,120 per month for rent.

Currently, this mom receives $3,448 in tax credits through the CTC and EITC. They receive $2,000 through the CTC and $1,448 through the EITC.

Her family would receive $4,320 through the CTC if it was increased to $4,320 per child under 6. She could receive up to $1,080 if a RTC pilot program was established, totalling $6,848 in tax credits.[iv]



Make the Tax Code Fairer by Asking the Wealthy and Corporations to Pay Their Fair Share

- **Lawmakers should raise the corporate tax rate to at least 28 percent.** The TCJA reduced the rate from 35 percent to 21 percent. Slashing the rate to such low levels cost an estimated $1.3 trillion over 10 years.[16]
- **Lawmakers should increase the top tax rate for households with the highest incomes.** The TCJA decreased the top individual tax rate from 39.6 percent to 37 percent. Extending this tax rate for income over $400,000 would cost roughly $600 billion over 10 years.[17]
- **Lawmakers should let the pass-through section 199A loophole expire.** The pass-through deduction passed under the TCJA especially benefited the wealthy. It would cost an estimated $700 billion if the policy is extended over the next ten years.[18]
- **Lawmakers should strengthen the estate tax.** The TCJA doubled the exemption for the estate tax and indexed it to inflation; as a result, $27 million could be inherited by heirs in 2024 without them being required to pay an estate tax.[19] Strengthening the tax would promote revenue and ensure that very affluent individuals pay their fair share when they are born into wealth.

- **Billionaires Tax.** Lawmakers should consider implementing a separate tax on billionaires, like a Billionaires Tax.[20] The Billionaires Income Tax would only apply to taxpayers who have over $1 billion in assets or more than $100 million in annual income for three consecutive years.

Increasing access to credits that can help families meet their basic needs and using revenue to invest in our future will help grow the U.S. economy and ensure that more people are able to thrive instead of just a wealthy few.

Please reach out to Ashley Burnside (**aburnside@clasp.org**) or Jesse Fairbanks (**jfairbanks@clasp.org**) with any questions about this fact sheet.

Endnotes

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Figures

i. The calculation for the renter's tax credit is modeled after the Rent Relief Act (H.R. 6721): https://www.congress.gov/bill/118th-congress/house-bill/6721. Under this design, families receive a percentage of thetotal credit based on their annual income (e.g., a family making between $50,000 and $70,000 annually receives50 percent of the credit). The formula used to calculate the credit is (Annual Fair Market Rent - (Annual Income x30 percent)) x Available Credit Percentage. In this example, the RTC = ($29,400 - ($75,000 x .30)) x .50. The currentCTC credit the family is eligible for is for tax year 2024. The EITC calculation was made using the EITC Assistanttool at https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/use-the-eitc-assistant.

ii. The EITC calculation was made using the EITC Assistant tool at https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/use-the-eitc-assistant. The RTC calculation was modeled after the RentRelief Act of 2023 (H.R. 6721): https://www.congress.gov/bill/118th-congress/house-bill/6721. The current CTC credit the family is eligible for isfor tax year 2024.

iii. The EITC calculation was made using the EITC Assistant tool at https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/use-the-eitc-assistant. The expanded EITC was calculated using estimatesfrom: Kiran Rachamallu, "About 14 Million Low-Income Adults Not Raising Children At Home Would BenefitFrom Permanently Expanded EITC," Center on Budget and Policy Priorities, September 2024, https://www.cbpp.org/blog/about-14-million-low-income-adults-not-raising-children-at-home-would-benefit-from-permanently. The RTC calculation was modeled after the Rent Relief Act of 2023 (H.R. 6721): https://www.congress.gov/bill/118th-congress/house-bill/6721.

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