

Changes to Child Claiming Rules

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These views do not necessarily represent the IRS, Treasury, or other agency

Main Child-Claiming Rules (Current Law)

- Residency test: child lives with claimant more than half the year
- Relationship test: child is claimant's child, grandchild, niece, nephew, sibling, etc
- Prioritization rule: non-parent can claim child only if non-parent's income is greater than parent's

Proposal 1: Eliminate Relationship Test

- Relationship test excludes children from benefits
 - 330k who don't live with a close enough relative
 - 1.5m because of interaction with earnings test
- Proposal: drop relationship test → flexible household test
- Limit flexibility:
 - Channel to parents over non-relatives when possible
 - Primary caregiver requirement? (Canadian approach; House W&M draft)

Proposal 2: Reform Residency Test

- Hard to quantify how many kids excluded because of residency test
- Programs with an earnings test (EITC, pre-2021 CTC):
 - Proposal: relax residency test (e.g., residency OR significant support)
 - Trade-off between channeling goals and inclusion
 - Effect on work incentive is ambiguous
- Programs without an earnings test (2021 CTC)
 - Proposal: Maintain residency test
 - Channeling benefits
 - Allow child to claim self as a fallback
- Programs with sub-annual advance payments (2021 CTC)
 - Switch to sub-annual eligibility (monthly residency tests)

Proposal 3: Simplify Prioritization Test

- Current rule
 - Non-parents cannot claim child unless their income $>$ parent's income
- Rationale: preserve integrity of income phase-outs
- Downside: complexity, information requirements

- Proposal: limit prioritization rule to cases in which parent has income above start of income phase-out.

- More complex rule \rightarrow less complexity “on the ground”

Other Changes

- Automatic eligibility for “auto-enrolled” taxpayers
 - Expanded administrative data linkages (e.g., school districts + safeguards)
- Limiting repayments of advance credits (e.g., presumptive eligibility)
- Simplify requirements for proving eligibility to claim a child on audit
- IRS should rethink audit selection prioritization, which child-claiming rules are targeted for audit.
- More **qualitative** research into non-filing, claiming mistakes, etc.