



Institute for
Research on
Poverty

UNIVERSITY OF WISCONSIN-MADISON

Delivering the Expanded Child Tax Credit

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Research | Training | Policy | Practice

Understanding the Child Tax Credit

Institute for Research on Poverty: Child Tax Credit

June 2021
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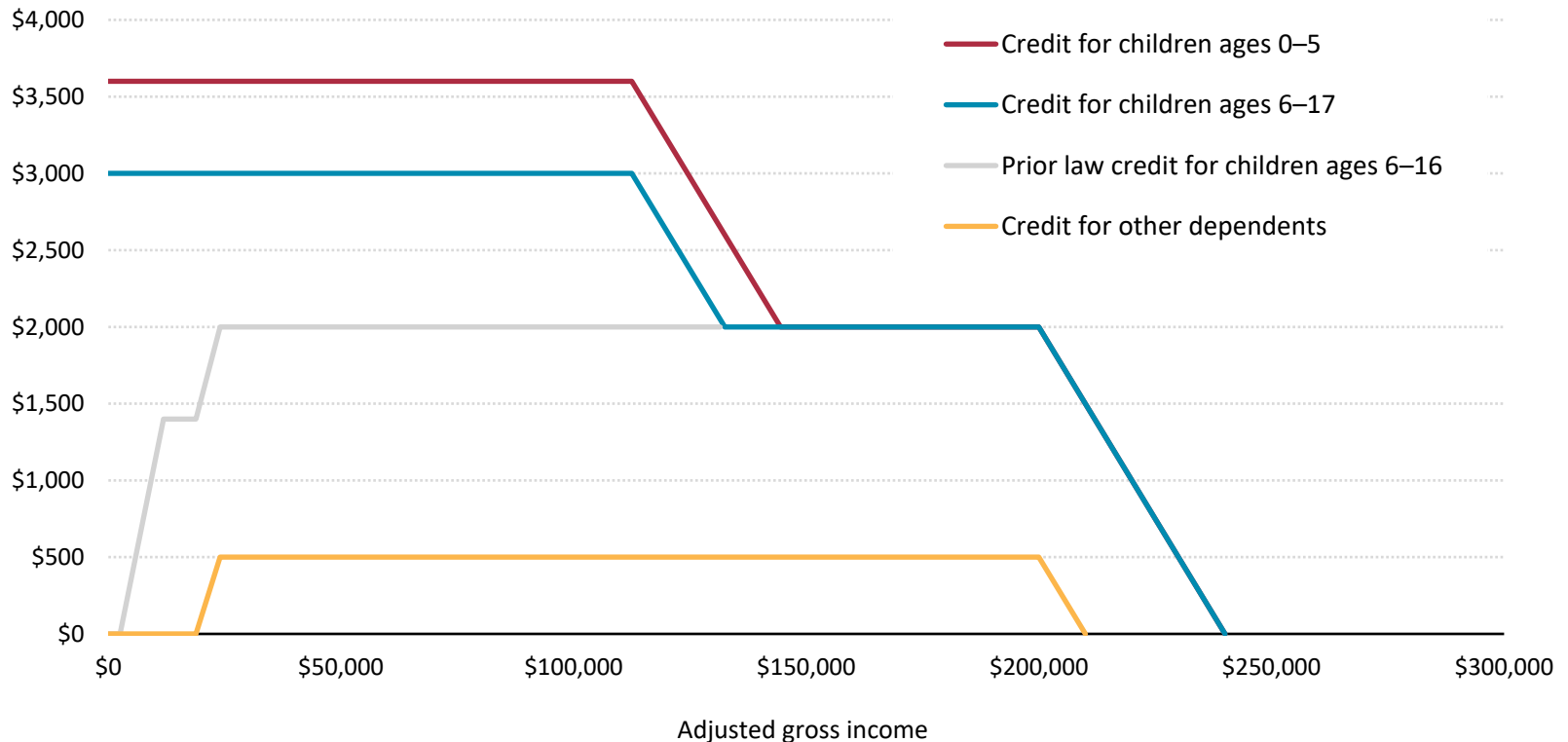
TAX POLICY CENTER
URBAN INSTITUTE & BROOKINGS INSTITUTION

- \$3,000 per child credit for children under 17
 - +\$600 if under age 6
- Temporary increase from \$2,000 for 2021 as part of American Rescue Plan
- All low-income citizen children are eligible
- Phases out at higher incomes
- Builds on existing credit – about 92 percent of families will benefit; previously about 90 percent of families benefited

Child Tax Credit 2020 and 2021



FIGURE 1
Child Tax Credit, Single Parent
For one child, tax year 2021



Source: Urban-Brookings Tax Policy Center calculations.

Notes: Assumes all income comes from earnings, and child meets all tests to be a CTC-qualifying dependent. \$3,000 and \$3,600 credits are fully refundable; prior law limited refunds to \$1,400 out of the maximum \$2,000 credit. Credit for married parents first phases out at \$150,000 of income until credit reaches pre-2021 level; begins second phase out at \$400,000 of income. Only citizen children qualify for the \$3,000 and \$3,600 credits for children under 18. Noncitizens under age 18 who meet the dependency tests of eligibility can qualify other dependent credit.

Can affect state taxes due to existing linkages

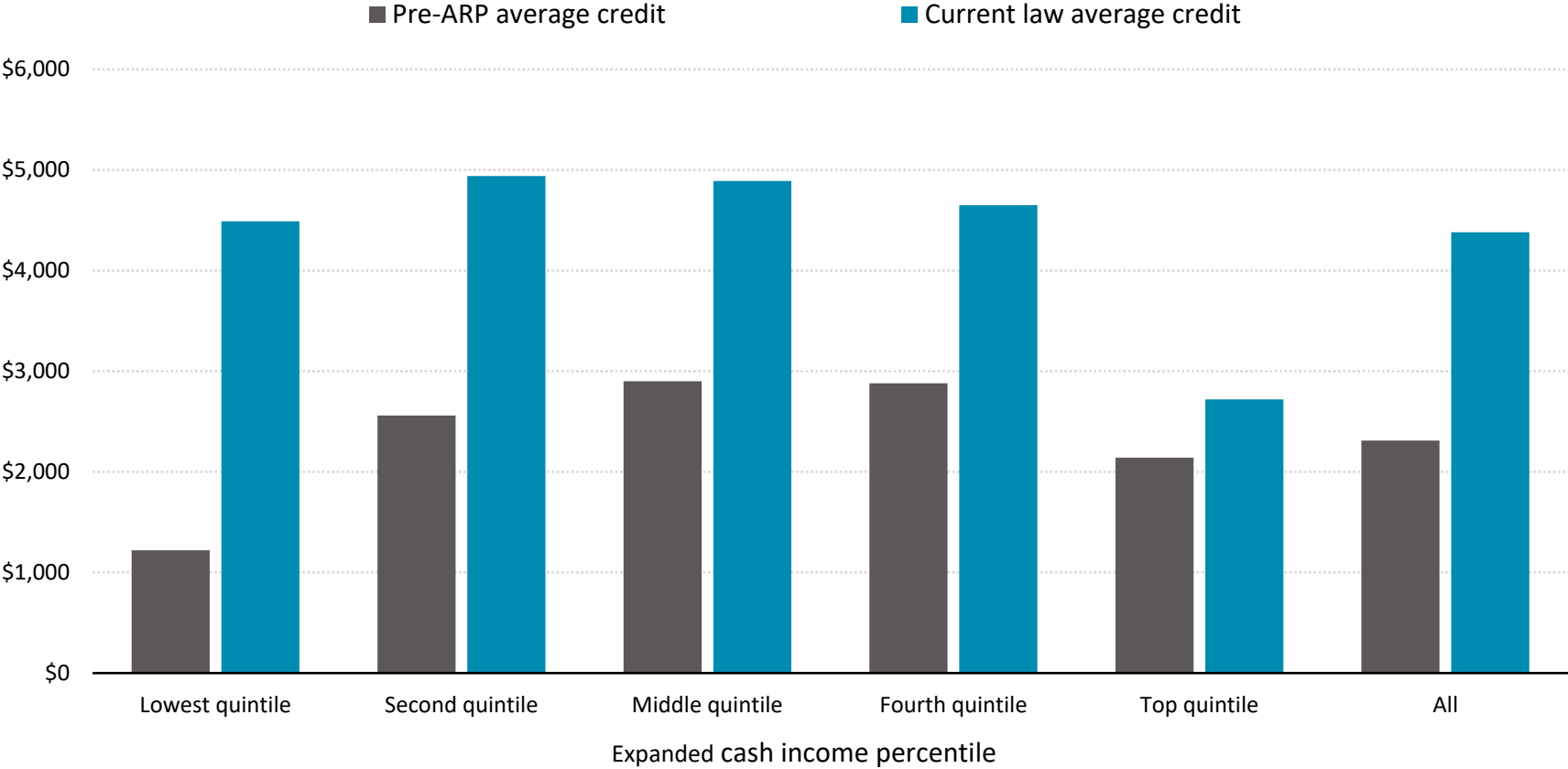


- Oklahoma CTC +\$100 (average)
- Some people will owe *more* state tax (\$115) but still much better off with federal credit averaging +\$2,700.

Average benefits CTC



FIGURE 2
Average Benefits of Child Tax Credit for Tax Units with Children: Pre-ARP and Current Law



Source: Urban-Brookings Tax Policy Center. "TPC Microsimulation Model, version 0920-2."

- Typically, the CTC for low-income families is paid when tax returns are filed.
 - People recently completed their 2020 tax returns now (in 2021)
 - Calculate how much credit they qualify for
 - Subtract that from taxes owed
 - Receive difference as refund (up to \$1,400 per child)
- Payments – for tax year 2021- scheduled to start in July

- Attempt to better match timing to need.
 - Nearly 40 percent of low-income, working-age adults have household income that spikes or dips in at least 6 months of the year.
- Opens up risk of overpayment
 - OR – Increased administrative complexity

- Expansion of existing CTC that distributes one-quarter of new benefits to very low-income families;
- Will provide benefits for lowest income families with children on par with benefits from middle-income families;
- Temporary

Delivering the Expanded Child Tax Credit: *The Potential for Poverty Reduction*

Megan Curran, PhD



Based on work conducted with:

**Sophie Collyer, Robert Paul Hartley,
Jordan Matsudaira, Zachary Parolin,
Jane Waldfogel, and Christopher Wimer**

- **Traditional Supplemental Poverty Measure (SPM) poverty analysis**

Use annual data available on a considerable lag; assess impact of policy on poverty within a one-year window

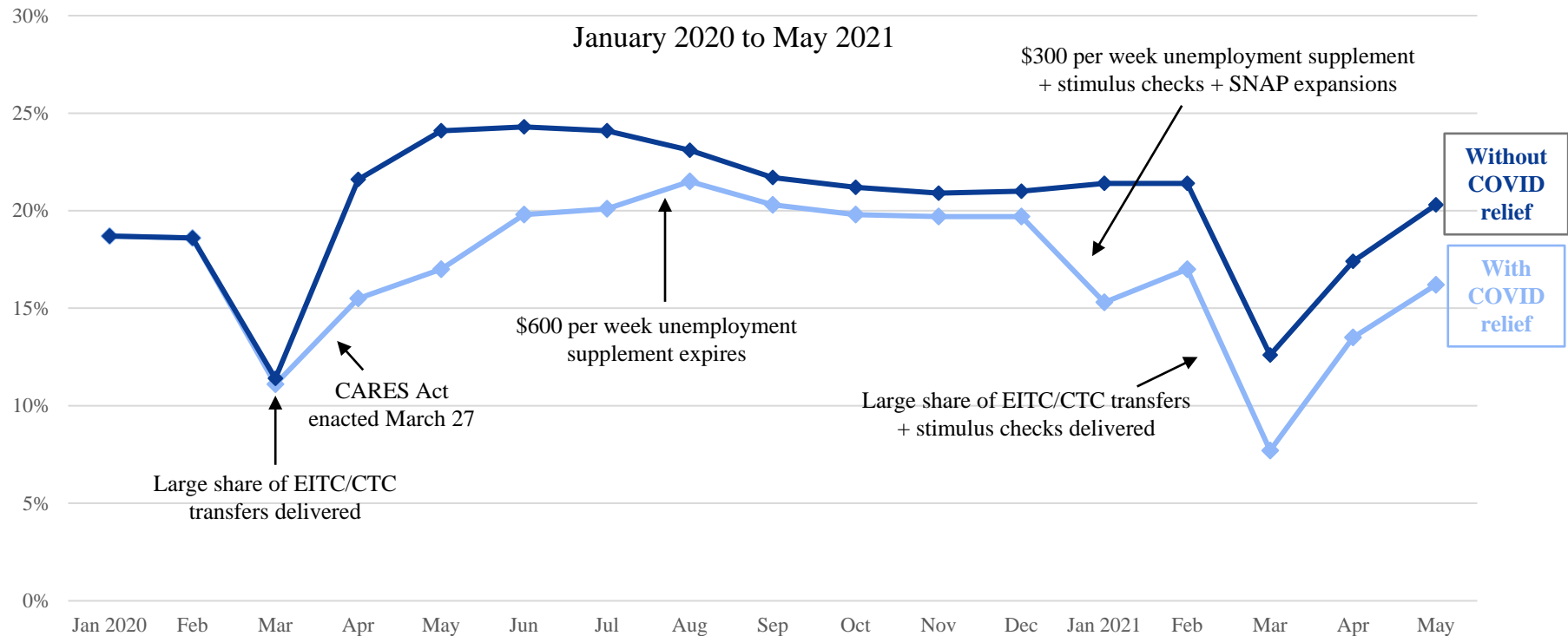
- **Forecasting ‘real-time’ monthly SPM poverty estimates**

Use combination of available monthly data to assess changes in family income & poverty rates by month; monthly SPM poverty threshold = annual SPM income threshold divided by 12

- **Forecasting ‘real-time’ annual SPM poverty estimates**

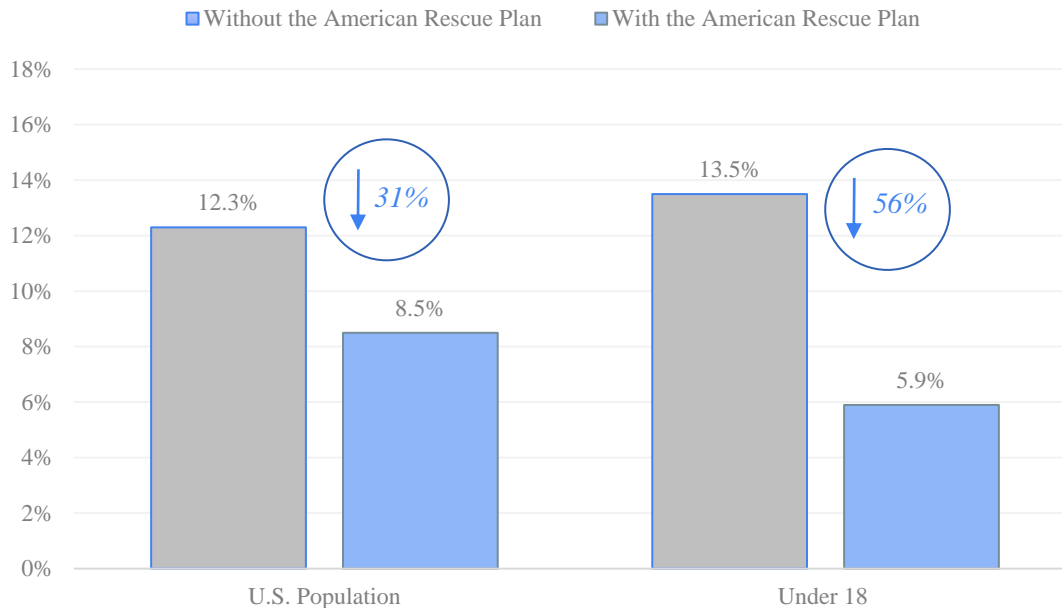
Project family income & poverty rates for the current or near-future years (e.g. what might 2021 or 2022 poverty look like?)

Monthly Child Poverty During COVID-19



Based on: [Parolin, Curran, Matsudaira, Waldfogel, and Wimer \(2020\)](#)
Access all results at: <https://www.povertycenter.columbia.edu/forecasting-monthly-poverty-data>

Projected 2021 poverty rates with and without the American Rescue Plan



*These projections also account for the December 2020 relief

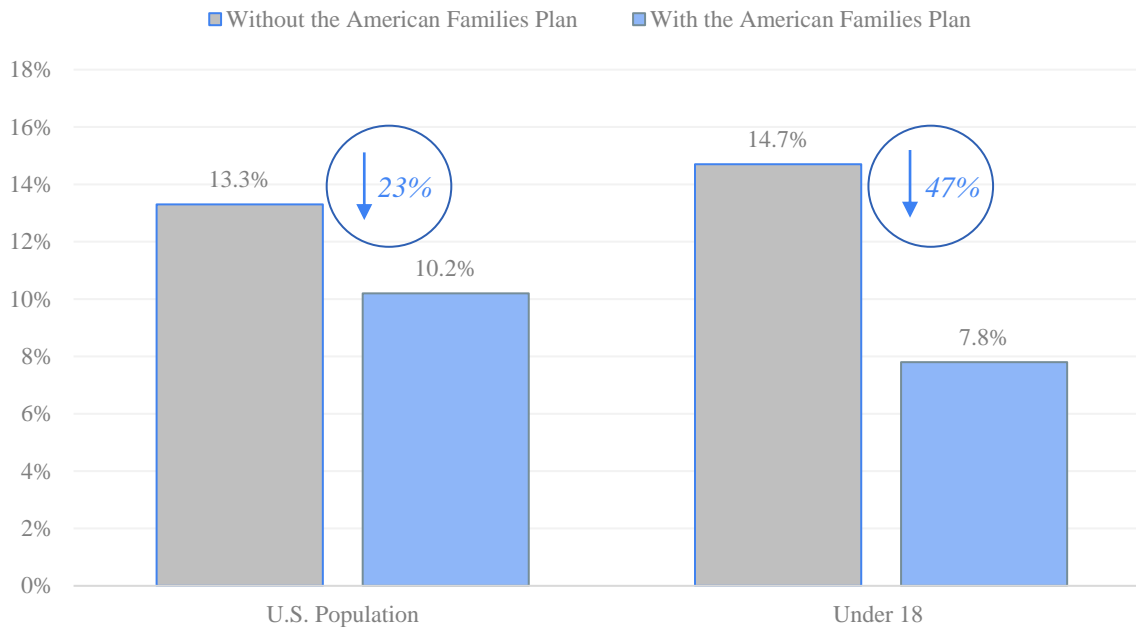
Based on: [Parolin, Collyer, Curran, Wimer \(2021\)](#)

Access all results at: <https://www.povertycenter.columbia.edu/s/Poverty-Reduction-Analysis-American-Rescue-Plan-CPSP-2021.pdf>

The American Rescue Plan includes:

- Extension of 15% SNAP increase
- Direct payments of \$1,400 per person
- Extension of \$300 per week UI supplement
- **Fully refundable increased Child Tax Credit (\$3000/\$3600)**
- Expanded Earned Income Tax Credit for childless workers
- Expanded and refundable CDCTC

Projected 2022 poverty rates with and without the American Families Plan



The American Families Plan includes:

- Expansion of subsidized child care
- *Fully refundable increased Child Tax Credit (\$3000/\$3600)*
- Expanded Earned Income Tax Credit for childless workers
- Expanded and refundable CDCTC
- Expansion of Summer-EBT benefits
- Expansion of the Pell Grant

Based on: [Parolin, Collyer, Curran, Wimer \(2021\)](#)

Access all results at: <https://www.povertycenter.columbia.edu/s/Poverty-Reduction-Analysis-American-Families-Plan-CPSP-2021.pdf>

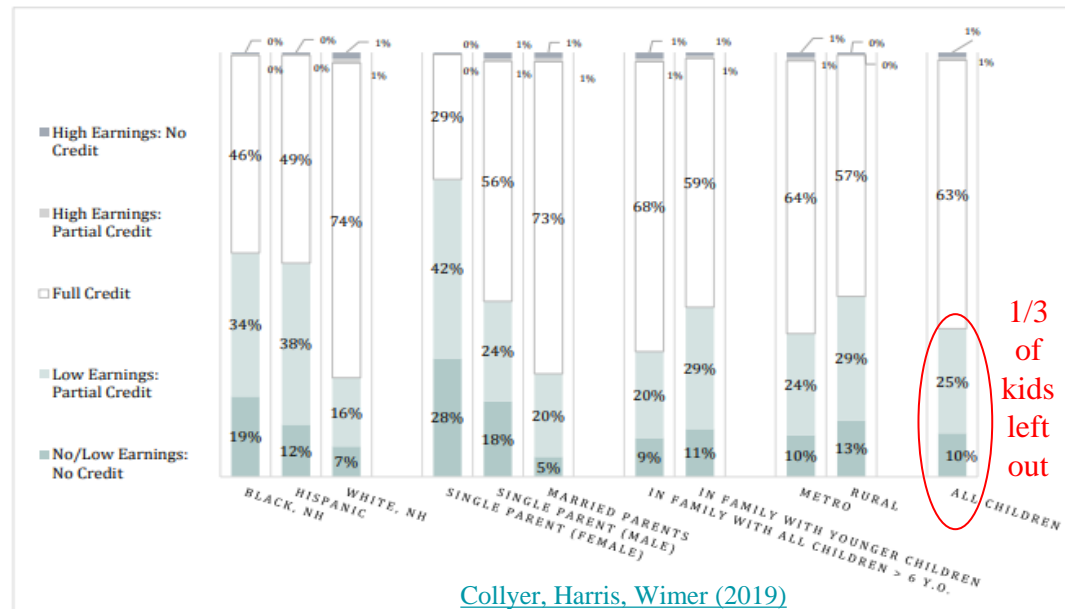
One-third of all children were excluded from the full Child Tax Credit because their families earned too little

Figure 1. Phase-in of Child Tax Credit Value by Income and Family Size: Joint Tax Filers



Curran and Collyer (2020)

Figure 1. What share of children in different demographic groups receive a partial or no Child Tax Credit?



Collyer, Harris, Wimer (2019)

Table 1. Estimated reduction in child poverty by the American Family Act

	<i>Poverty Rate: Current Law</i>	<i>Poverty Rate: Under AFA</i>	<i>Percentage point reduction</i>	<i>Percent change</i>
All children < 18	13.6%	7.5%	6.1%	44.9%
Child's race and ethnicity				
<i>Asian American & Pacific Islander</i>	12.1%	7.6%	4.5%	37.0%
<i>Black, non-Hispanic</i>	23.7%	11.3%	12.4%	★ 52.4%
<i>Hispanic</i>	21.7%	11.8%	9.9%	★ 45.4%
<i>Multiracial & all other groups</i>	11.9%	7.3%	4.6%	38.7%
<i>Native American</i>	16.7%	6.4%	10.3%	★ 61.5%
<i>White, non-Hispanic</i>	7.0%	4.3%	2.7%	38.6%

- ✓ Increase annual maximum benefit values to \$3000, with extra bump for young children under age 6 (\$3600)
- ✓ Make it fully available to children in families with the lowest incomes
- ✓ Pay it out in regular installments

[CPSP fact sheet 2021](#); research led by Sophie Collyer

Results represent what is possible if all who are eligible *receive*
the newly expanded Child Tax Credit

To achieve these poverty reductions, access remains key

Child Tax Credit

Potential Challenges

Sarah Halpern-Meehin – University of Wisconsin-Madison



What do we know from previous research?

- Parents having money earmarked as “children’s money” shapes their allocation decisions (Sykes et al. 2015)
 - Not necessarily good or bad
- Families are likely to spend this money on back bills/debts, current bills, and special extras for children (Halpern-Meekin et al. 2015; Mendenhall et al. 2012)
 - The meaning of spending decisions and the dollars allocated to them may not match
 - Debt repayment and asset building are an open question—lump sum vs. periodic payments

Challenges for lower- income families


- Less likely to have secure relationship with banking institution
 - Unbanked
 - Change in bank account
 - Paper checks sent by mail may not be received if families have moved
- Less likely to have access to internet and computer to enter/adjust CTC claiming information in IRS portal
 - Ease of portal use on cell phone?

Challenges for current filers

- Life changes can create a mismatch between who claimed children on recent taxes and who should claim them now for CTC
 - Child custody (formal)
 - Child living situation (informal)
 - Child financial support (informal)
- Real life arrangements can be more complex than the tax system allows
 - E.g., two parents cannot both claim a child unless they are married

Challenges for non-filers

- Same challenges as for filers, plus:
- Need to take action to claim CTC
 - Opt-out for others, opt-in for non-filers
- Many were brought into the system through outreach efforts around stimulus checks
 - Those who were not reached are likely the most difficult to reach
- Signing up through the portal only covers half the CTC payments; still likely to need to file again at tax time for other half



Take-aways

- Organizations and state/local governments can help families sign up for the CTC
 - Now & again at tax time
 - [Childtaxcredit.gov](https://childtaxcredit.gov)
- On-going attention to the user experience with the IRS portal is necessary
- Policy being new and changing means it will take a while before we see how this fits into families' financial management strategies (if it continues)
- Need to examine impacts on children and families AND on communities

