Delivering the Expanded Child Tax Credit

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Research | Training | Policy | Practice
Federal tax credit

- $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

![Graph showing Child Tax Credit for 2021](image)

**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

Administrative Change

• 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
Understanding Advanced Payments

- 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
Conclusion

• 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

January 2020 to May 2021

- Large share of EITC/CTC transfers delivered
- CARES Act enacted March 27
- $600 per week unemployment supplement expires
- With COVID relief
- $300 per week unemployment supplement + stimulus checks + SNAP expansions
- Without COVID relief
- Large share of EITC/CTC transfers + stimulus checks delivered

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**

<table>
<thead>
<tr>
<th></th>
<th>Without the American Rescue Plan</th>
<th>With the American Rescue Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Population</td>
<td>12.3%</td>
<td>8.5%</td>
</tr>
<tr>
<td>Under 18</td>
<td>13.5%</td>
<td>5.9%</td>
</tr>
</tbody>
</table>

*These projections also account for the December 2020 relief*

**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

**Based on:** Parolin, Collyer, Curran, Wimer (2021)

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)

One-third of all children were excluded from the full Child Tax Credit because their families earned too little.
Improving the Child Tax Credit: American Family Act (AFA)

- 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

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

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

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-Meekin – 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

- 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