



Institute for
Research on
Poverty

UNIVERSITY OF WISCONSIN-MADISON



Robert M. La Follette
School of Public Affairs

UNIVERSITY OF WISCONSIN-MADISON

Design and Delivery of the Monthly Refundable Child Tax Credit (CTC) and the Child and Dependent Care Tax Credit (CDCTC)

IRP Conference Tax Policy for Low-Income Americans, August 27th 2021

Tim Smeeding

Lee Rainwater Distinguished Professor of Public Affairs and Economics

Member [NAS Committee on Halving Child Poverty](#)

Former Director, Institute for Research on Poverty

Tax Policy and the Delivery of the CTC: Working-Class vs. the Poor

- From “Tax policy is where social programs go to hide” to “the IRS is now America’s largest anti-poverty benefit administrator”
- Focus on CTC *and* CDCTC– not on EITC
- IRS : Pros and Cons
- What else we need to do better to make the monthly CTC more effective ?

TRIM and UI: how many kids get the CTC right away as children of taxpayers ?

- *Many more children in "working class" families (100-200% poverty ~\$30,000 to \$60,000 annual incomes) than poor families*
- *38-40% kids working class vs. 9-14% poor according to UI*
- **IRS paid out credits to 59.3 million kids in July and added 1.6 million in August (roughly 2.4 million more non filers did not get the benefit yet—most of them poor)**

Distribution of Children by Family Resources Relative to SPM Poverty
Before and after Expansion of CTC

SPM poverty (%)	Before expansion	After expansion
< 50%	2.9%	1.4%
50%–100%	11.3%	7.0%
100%–200%	37.5%	40.2%
> 200%	48.2%	51.4%

Source: Urban Institute's Analysis of Transfers, Taxes, and Income Security model, using data from the 2018 American Community Survey.

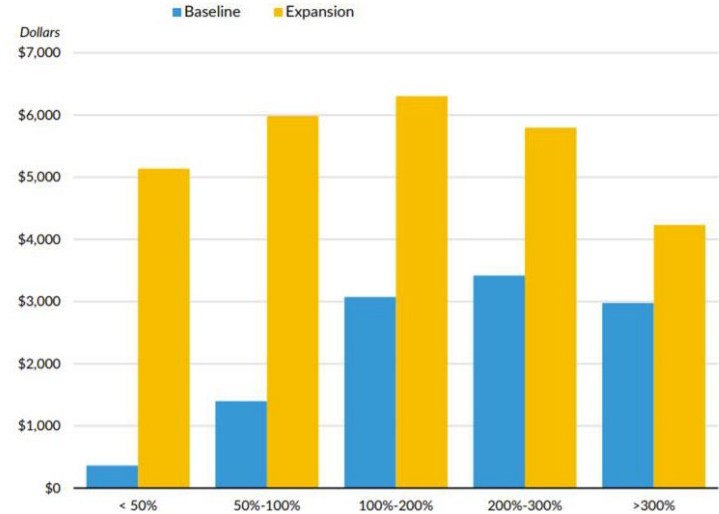
Note: Poverty is measured using the Supplemental Poverty Measure, or SPM.

And blue collar working-class (100-200% poverty) child benefits are larger too

- Benefits are~ \$6200 per family
- Gain from 2020 CTC is about + \$3200 per family
- Largest gains (~\$4600) still for poorer families
- Independent of EITC which is still being paid to most, but not all working class kids

FIGURE 1

Average CTC per Family with Children by Resources Relative to SPM Poverty, Before and After Expansion



Source: Urban Institute's Analysis of Transfers, Taxes, and Income Security model, using data from the 2018 American Community Survey.

Notes: Poverty is measured using the Supplemental Poverty Measure, or SPM. Averages include families with children receiving \$0 in child tax credits.

What's not to like ? IRS system harder to reach to the poor: immigrant families and grandfamilies

- Non-filers need to determine if they are eligible (kid SSN, residence test , support test) and then apply online to the IRS non-filer sign up portal – think of it as nonprofit tax assistance (VITA) in summer; connect-ability, language, and possibly “trust” issues in some cases , for immigrants (bad news IRS denials for some mixed status immigrants)
- Websites for IRS designed by Intuit – tax prep firm
- But new IRS action to allow Code for America to build a better non- filer portal ---should be big step forward

More tax policy benefit for the working class – the CDCTC

- The [Child and Dependent Care Tax Credit](#) (CDCTC)
- Fully refundable 50% rebate to workers w/ income under \$125k
- Credit is up to \$4,000, if a taxpayer has one qualifying individual; and \$8,000, for two or more qualifying individuals
- Qualifying expenses include the “formal” care of a child under 13, or other dependent unable to care for themselves (incurred so the taxpayer can work -- or look for work).
- Many are already paying for care using the monthly CTC and then a bigger refund, including the CDCTC, in Winter 2022 !

Overall Assessment

- IRS gets an **A** in dealing with the working class because of their links to the federal tax system (plus “visibility” effect ?)
- But only a **C** , so far, for reaching the poor and non filers
- Some issues could be resolved administratively to bring the take-up rate closer to 100% for non filers, and then the administrative burden of the CTC ends unless kid ages out
- Maybe Congress and the administration can clear up the glitch between the EITC (where the US born children of many immigrant ITIN filers are not eligible) and the CTC ?

What's next ?

- **Extending** the refundable CTC beyond one year
- **Paying** for this investment with higher taxes
- **Getting** more of the poor signed up
- **Bottom Line: CA - "merit good" w/ "external benefits"**
 1. USA has failed at universal health care for all
 2. USA was first with universal K-12 education for all
 3. Now USA has (almost) universal income support for kids, and we need to keep it