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

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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)
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
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