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Next Steps on the Child Tax Credit

Robert Greenstein

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Robert Greenstein
The Hamilton Project

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Abstract

The American Rescue Plan greatly expanded the Child Tax Credit for tax year 2021, reducing child poverty by 30 percent or more, but the expansion has ended. The CTC now provides no or only a partial credit to nearly 19 million of the poorest children because their parents lack earnings or their earnings are too low. Bipartisan negotiations on a CTC expansion are expected in coming weeks as part of year-end tax legislation. What should the priorities for such an expansion be? A growing body of research shows that poverty can damage children's health and educational attainment and their long-term prospects, while income support for low-income children not only reduces child poverty but also can also improve children's health, educational attainment and earnings as adults. Moreover, the expanded credit of 2021 also reduced food insecurity among children, eased other hardships, and achieved these gains without leading parents to leave the workforce. This argues for again extending the CTC in full to low-income children, as was done in 2021. Any CTC expansion as part of compromise year-end tax legislation will require 60 votes for Senate passage, however, which may make such full extension difficult to attain now. But based on the CTC's impressive achievements in 2021, this paper argues, the top priority should be to advance the CTC as far as possible toward full extension to low-income children and to strengthen it as much as possible for such children, and to do so without hurting significant numbers of low- or modest-income families through offsetting budget cuts. The paper discusses possible ways to do this. It also explores whether moving the credit to the Social Security Administration would be helpful or harmful to the CTC's long-term prospects.

Executive Summary

The American Rescue Plan (ARP) greatly expanded the Child Tax Credit (CTC) for tax year 2021 and provided half of the credit in advanced monthly payments for the last six months of that year. The expansion raised the credit amount and made the CTC fully refundable, meaning that it was available in full to children in the poorest families even if the credit amount exceeded whatever federal income taxes they might owe. Child poverty fell by 30 percent or more as a result of the expansion.

The expansion, however, was temporary, and expired at the end of 2021. As a result, a Tax Policy Center (2022) analysis shows, the CTC now provides no credit or only a partial credit to nearly 19 million of the poorest children because their parents do not have any earnings or their parents' earnings are too low.[1] Some 28 percent of children under age 17, about 45 percent of Black children under 17, up to 39 percent of Latino children that age, and well over half of the children under 17 who live in families headed by a single female parent receive no credit or only a partial credit. This includes 670,000 children in families with a veteran or active-duty military member (Tax Policy Center 2022; Marr, Cox, Calame et al. 2022). Meanwhile, children in families making as much as $400,000 a year receive the full credit.

Bipartisan negotiations over a CTC expansion are expected in Congress' 2022 lame-duck session as a possible part of a 2022 year-end tax bill, raising the question of what the priorities for such an expansion should be. A growing body of research strongly supports the idea of making the CTC fully refundable for low-income children on a permanent basis. Poverty, the research shows, can damage children's health and educational attainment and adversely affect their long-term prospects. Income support for low-income children, on the other hand, can not only reduce child poverty substantially but also can improve children's health, educational attainment, and earnings as adults. Moreover, research finds, the expanded credit of 2021 substantially reduced food insecurity among children and eased other hardships, and it achieved these gains without leading parents to leave the workforce or prompting increased spending on alcohol, tobacco, or drugs. A fully refundable CTC would have particularly strong effects among Black and Latino families and would advance racial equity, which is especially important given historical and continuing discrimination in the labor market.

Any CTC expansion as part of compromise year-end tax legislation, however, will require 60 votes for Senate passage, which means that full refundability is unlikely to emerge from such discussions except potentially for discrete groups of children such as very young children and children raised by people who are elderly or have serious work-limiting disabilities. Historically, efforts to provide cash benefits to people who are not employed or elderly and do not have a disability have faced formidable political obstacles in the United States. In recent decades, policymakers have significantly expanded multiple programs that provide *in-kind* benefits to people of limited means, such as the Supplemental Nutrition Assistance Program (SNAP) and Medicaid. But policymakers have also significantly cut programs that provide *cash* to people who are not employed, including cash welfare assistance and unemployment insurance (UI). The poor record of cash assistance is accompanied by extensive public opinion research that shows reluctance to provide cash assistance to people who are not employed but whom a significant part of the public believes can work.

Another issue is that the higher the cost of a possible CTC expansion climbs, the more difficult the expansion likely will be to enact. This is because the costs of a very expensive CTC expansion likely would need to be financed to secure the needed votes in Congress, and lawmakers will be hard-pressed to find large offsetting budget cuts or tax increases that are politically viable on a bipartisan basis as well as substantively sound.

Based on the CTC's striking poverty-reducing achievements of 2021 and the impressive research findings about the benefits of income support for low-income children, the top priority for CTC reform in the coming months should be to advance the CTC as far as possible toward full refundability and to strengthen the credit as much as possible for low-income children, without hurting significant numbers of low- or modest-income families through budget cuts to offset the expansion's costs. Senator Mitt Romney (R-UT) and key Senate Democrats have said they intend to try to reach agreement on a CTC expansion. Romney and two Senate GOP colleagues have proposed legislation that would make progress for poor children by phasing in the credit much more rapidly for families with very low earnings. Under the proposal, children in families with no earnings would remain ineligible. But the credit would rise substantially for millions of children in working-poor and near-poor families.

Other aspects of the Romney measure raise concerns, however, highlighting the need for clear priorities. The bill is very costly, both because: 1) it would raise the credit amount from its current $2,000 per child to $4,200 for children ages 5 and younger and $3,000 for children ages 6 and above, which is more for younger children than under the CTC's 2021 expansion; and 2) unlike the 2021 expansion, it would provide substantially higher CTC benefits to families with incomes between about $200,000 and $500,000. To offset its high cost, the Romney bill would substantially cut other programs on which millions of low- and moderate-income families rely. It would shrink the Earned Income Tax Credit (EITC) significantly. It also would eliminate both head-of-household tax filing status and the tax credit for child-care costs. (In addition, it would end the federal deduction for state and local taxes.) As a result, analysts at the Center on Budget and Policy Priorities (CBPP) have found that low- and moderate-income families would pay for more than half of the cost of the bill's CTC expansion and that despite the CTC expansion,

1. The Tax Policy Center estimate of 18.7 million children does not include immigrant children who are ineligible for the CTC because they do not have a Social Security number.

about 9 to 10 million children in nearly 7 million families with incomes below $50,000 would see their incomes shrink even as many families in the $200,000 to $500,000 range would see their incomes increase (Marr, Cox, et al. 2022).

History suggests that the current income thresholds for CTC eligibility are higher than necessary to maintain widespread support for the credit. For the CTC's two decades prior to the 2017 tax-cut law, the credit began to phase down for married families when their incomes topped $110,000, and phased out entirely for married families with two children when their incomes reached $150,000. That did not appear to weaken the CTC politically; to the contrary, policymakers continued to expand the CTC in those years, including by extending it to more families with low incomes. With Republican opposition to virtually any tax increases, however, and Democratic opposition to any tax increases on people making less than $400,000, policymakers almost certainly will not consider lowering the current income thresholds in the coming CTC negotiations. If the per child credit amount is raised, however, policymakers can limit that increase to families whose incomes fall under a lower threshold such as $150,000 or $200,000—as the 2021 expansion did—rather than extend the full increase in the credit amount all of the way up to families earning $400,000 a year.

Policymakers also can explore the possibility of securing agreement to make the CTC fully refundable for very young children and to remove the earnings requirement for parents or other child caretakers who are elderly or who have a serious work-limiting disability, which would help many poor children.

A CTC agreement will be most beneficial if it is designed in ways that make it easier, rather than more difficult, to attain full refundability in the future. That suggests, among other things, that it would be ill-advised for policymakers to convert the credit to a spending program that the Social Security Administration (SSA) administers, as some have suggested. Public opinion research shows that voters much more strongly support tax benefits—which proponents portray as tax cuts that reduce family tax burdens—than government spending programs. Converting the CTC from a tax credit to a spending program would risk altering public perceptions of it and, in turn, risk weakening it politically and its prospects for future expansion. In addition, and of particular importance, supporters of the CTC and EITC have repeatedly secured expansions in these tax credits as part of the horse trading that occurs when lawmakers assemble tax legislation. Policymakers have expanded the CTC, the EITC, or both, *14 times* since 1984, under presidents and Congresses of both parties and in legislation that cut taxes, legislation that raised taxes, and legislation that was revenue neutral. Indeed, the very reason that there is a possibility of enacting a CTC expansion in coming weeks illustrates this political dynamic: a number of congressional Democrats are tying their support for postponing a scheduled corporate tax increase that the business community is pushing to defer to the inclusion of a significant CTC expansion in the same tax legislation.

Nor does SSA administration automatically confer on a program the political benefits of Social Security itself, as the history of the Supplemental Security Income (SSI) program demonstrates. SSI not only provides rather meager benefits that leave many of its elderly and disabled beneficiaries in poverty, but it also suffered cuts in the 1980s and 1990s, and its parsimonious asset limits and certain other eligibility parameters are more restrictive today than when the program began in 1974 because policymakers have not adjusted them for inflation. SSA administration also would be unlikely to lead to large gains in the share of eligible families that receive the CTC, compared to what other reforms, including reforms to improve IRS and SSA collaboration with respect to the CTC, could achieve. The expanded CTC for 2021 reached about 90 percent of eligible children, while SSI's take-up rate is just 61 percent. Moreover, moving the CTC to SSA would not remove a key barrier to still-higher CTC take-up that the CTC faced in 2021—the complexity of determining who is eligible to claim a child for the CTC in many separated, divorced, multigenerational, or otherwise extended families. All of this strongly suggests that converting the CTC from a tax credit to a cash spending program that SSA would administer would be ill-advised, at least until the CTC is fully refundable and full refundability is safely embedded in the US social program structure for the long run.

I. Full Refundability: How the CTC Falls Short

The CTC provides limited benefits for children in low-income families even as it provides full benefits to children in rather affluent families. Children in families that earn less than $2,500 during the year are entirely ineligible. Once family earnings surpass $2,500, the credit phases in at just 15 cents per dollar of earnings above the $2,500 threshold. And although the *full* credit is $2,000 per child, the credit is capped at a maximum of $1,500 per child for families that do not earn enough to owe federal income tax, which affects both working-poor families and many modest-income families. Finally, the credit's slow phase-in of 15 cents per dollar above $2,500 of family earnings applies regardless of the number of children in a family, with the result that a second child receives no credit at all until the family earns enough to receive the maximum per child amount for which it qualifies for its first child (see table 1).

The Tax Policy Center estimates that because of these features of the CTC, 18.7 million children under age 17—some 28 percent of children in that age bracket—will receive either no credit or only a partial credit for 2022 (Tax Policy Center 2022). Based on the TPC analysis and Census data, analysts at the Center on Budget and Policy Priorities estimate that about 45 percent of Black children under 17 and up to 39 percent of Latino children under 17[2], as well

2. As noted in footnote 1, the Tax Policy Center estimate that 28 percent of children under age 17 receive no credit or only a partial credit because their families lack earnings or their earnings are too low does not include children who are

TABLE 1

CTC Amount for a Married Family with Two Children, by Family Income Level

Family income	Total CTC	CTC per child (total credit divided by number of children)
≤$2,500	$0	$0
5,000	375	187.50
10,000	1,125	562.50
15,000*	1,875	937.50
25,000	3,000	1,500
50,000	4,000	2,000
250,000	4,000	2,000
400,000	4,000	2,000

Notes: * = roughly equal to full-time earnings at the federal minimum wage.

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as 670,000 children in families with a veteran or active-duty military member, will receive no credit or only a partial one (Marr, Cox, Calame 2022), while earlier research indicates this also is true for a substantial majority of children in households headed by a single female parent (Collyer, Harris, and Wimer 2019; Congressional Research Service [CRS] 2021a; Goldin and Michelmore, 2021; Marr et al. 2021). In 2022 a single parent with two children must earn at least $29,400, and a married couple with two children at least nearly $36,000—both twice or more what a full-time job at the federal minimum wage pays—to receive the full $2,000 per child for both children (Marr, Cox, et al. 2022). Meanwhile, married filers with children and with incomes up to $400,000 receive the full credit, and married filers with incomes above that threshold receive a partial credit until their incomes reach $440,000 if they have one child, $480,000 if they have two children, and $520,000 if they have three children.

The CTC's benefit structure conflicts with research on poverty's effects on children and the effects of making low-income children less poor by supplementing their families' incomes.

A. Poverty's Effects on Children

The United States has high rates of child poverty compared to other Western industrialized nations and generally provides families with less income support. Yet, evidence of poverty's adverse effects on children has been growing for some time. "Children living in poverty generally perform poorly in school, with markedly lower standardized test scores and lower education attainment," a 2015 article in the *Journal of the American Medical Association* explained (Hair et al. 2015, 822). Four years later, a National Academies of Sciences, Engineering, and Medicine (NASEM) panel, which Congress chartered to examine child poverty and how to reduce it, drew the following conclusions:

- "A wealth of evidence suggests that a lack of adequate family economic resources compromises children's ability to grow and achieve success in adulthood, hurting them and the broader society as well. . . . Many studies show significant associations between poverty and poor child outcomes," including adverse effects on brain development and physical and mental health. "Studies also show significant associations between child poverty and lower educational attainment, difficulty obtaining steady, well-paid employment in adulthood, and a greater likelihood of risky behaviors, delinquency, and criminal behavior in adolescence and adulthood" (NASEM 2019a, 1–2).

- "Poor children develop weaker language, memory, and self-regulation skills than their peers. When they grow up, they have lower earnings and income, are more dependent on public assistance, have more health problems, and are more likely to commit crimes. Robust research evidence has shown that low income itself, rather than other conditions poor children face, is responsible for much of these negative impacts on children's development" (NASEM 2019b).

More-recent research has only strengthened these findings, including a study that found that monthly cash payments have positive effects on brain development among infants in low-income families (Troller-Renfree et al. 2022). After reviewing the literature, Berlin and Gale (2022) observed, "The effects of being poor are so severe that children raised in poverty have significantly less gray matter brain development than more fortunate kids, leading to

ineligible for the CTC because they lack a Social Security number. Children without an SSN are in neither the numerator nor the denominator of the fraction that yields TPC's 28 percent estimate. In assessing the share of Black and Latino children under age 17 who receive no or only a partial credit, however, CBPP analysts were not able to remove children without an SSN because of limitations in the Census data. This should not have much impact on the estimated share of Black children who receive no or only a partial credit because of the CTC's earnings requirements but could result in the estimate that 39 percent of Latino children receive no or only a partial credit because of the earnings requitements being modestly too high. For this reason, the CBPP analysis speaks of "up to" 39 percent of Latino children receiving no or a partial credit because their families lack earnings or their earnings are too low.

permanent differences in educational outcomes." Other experts, including Melissa Kearney (2021), Janet Currie (2021), and a panel of scholars convened by the American Enterprise Institute and the Brookings Institution (Cabrera et al. 2022), have reached similar conclusions.

B. The Expanded CTC of 2021

Fresh evidence comes from 2021. The ARP, enacted in March 2021, eliminated for that year the credit's restrictions on low-income families and raised the full credit from $2,000 per child to $3,000 per child ages six and older[3] and to $3,600 per child ages five and younger. Policymakers made the CTC fully refundable, so low-income children received the full credit regardless of whether their families had earnings or the level of earnings. The federal government paid the credit in monthly increments for six months starting in July 2021 and paid the remaining credit amount at tax time in early 2022.

The results were dramatic. Child poverty fell by 30 percent in the latter months of 2021 due to the monthly child tax credit payments (i.e., compared to what the poverty rate would have been after counting other income support but without the monthly CTC payments), according to Parolin and his colleagues (Parolin, Ananat et al. 2022). And using annual Census data, analysts at the Center on Budget and Policy Priorities estimate that the CTC expansion reduced child poverty by one-third in 2021—an unprecedented decline in a single year—relative to what it would have been with other income supports in place but without the CTC expansion (Marr, Trisi, et al. 2022). In addition, food insecurity among children fell substantially (Adams et al. 2022; Karpman et al. 2022; Parolin, Ananat et al. 2021; Shafer et al. 2022; Zippel 2021a), and researchers also found a "significant reduction in the number of material hardships experienced by families with low incomes," such as inability to pay for utilities or medical bills (Pilkaukas et al. 2022, 3). Another study found that the expanded credit led to reduced reliance on taking payday loans, pawning or selling belongings, and selling blood plasma, as well as declines in credit card debt and a lower risk of eviction (Hamilton et al. 2022).

Nor did the expanded credit for families with low or no earnings generate adverse side effects such as greater substance abuse through increased spending on alcohol, tobacco, and drugs. Spending for these items did not rise as a result of the 2021 CTC expansion, a recent study finds (Collyer et al. 2022; see also Yoo et al. 2022), while spending on food and items like children's educational needs did. Some 40 percent of the low-income families receiving the expanded credit that had incomes below $35,000 used it in part for education-related costs such as schoolbooks and supplies, afterschool programs, and transportation to and from school, according to the Census Bureau's Pulse survey (Zippel 2021b).

1. The CTC Expansion's Employment Effects

The main political obstacle to extending the full credit on an ongoing basis to families with little or no earnings has been the argument that doing so would drive many low-income parents to stop working or to work less. That was the main criticism Republican lawmakers leveled at the 2021 CTC expansion and a key reason why Senator Joe Manchin (D-WV) objected to, and secured the removal of, a provision in the House-passed Build Back Better (BBB) legislation to make the credit fully refundable on a permanent basis. The research to date, however, does not support this criticism.

"The CTC expansion had no meaningful impact on employment and labor-force participation after six months of benefit distribution," a National Bureau of Economic Research study reported, including "no significant effect on employment and labor force participation for the lowest-income groups" (Ananat et al. 2022, 19). A different team of researchers similarly found "no evidence . . . that [the 2021] CTC payments led parents to leave the workforce. Our analyses also found no significant differences in employment rates for low-income, middle-income, or high-income families receiving the CTC. We also see no evidence that the CTC is increasing the proportion of parents who are staying home with their children rather than working. Our results appear consistent with the bulk of the evidence concerning the CTC and employment" (Roll, Hamilton, and Chun 2022, 2). A third study, by researchers at the Tax Policy Center, similarly found no significant difference in changes in employment between households that received the CTC payments and those that did not (Karpman et al. 2022).

The most recent examination of these issues, a National Bureau of Economic Research working paper issued in October 2022, likewise found "no significant effects of the CTC on employment, which is consistent with other studies that use nationally representative samples. We examined overall employment, full-time employment, part-time employment, and general labor force participation and found no significant effects for any outcome." This, the researchers note, "should provide some reassurance to policy makers who are concerned that individuals with very low incomes may leave the labor force or reduce their labor supply as a result of the CTC" (Pilkaukas et al. 2022, 24).

These results may seem surprising to some observers, but they should not be. Unlike cash welfare assistance, or the cash payments from the negative income tax experiments of the 1970s, the CTC payments did not begin to phase down until earnings were well up into the six-figure range. Low-income parents did not lose their CTC payments or see them fall if they started to work or worked more.

In addition, the monthly CTC payments of 2021 enabled many parents to afford child care or better-quality child care, apparently lowering a barrier to employment. One analysis of Census data (Roll, Hamilton, and Chun 2022) found that about one in eight families receiving the expanded credit used it at least in part for child care, while another analysis of such data found that 16 percent of

3. The ARP also made 17-year-old children eligible for the CTC for the first time. Like the other CTC provisions in the ARP, this expansion was in place for 2021 only and has now expired.

families receiving the credit that had children under age five and incomes below $35,000 used the credit at least in part for child-care costs (Zippel 2021b). Still another analysis reached similar conclusions (Marr, Trisi, et al. 2022).[4] The Census data also show that the percentage of parents reporting they were unemployed because they had to care for children "substantially decreased" (Roll, Hamilton, and Chun 2022, 2; see also Collyer et al. 2022). It may be that a small fraction of families worked less due to the unconstrained cash income of the 2021 CTC, but that any such decline in employment was offset by other parents working more because they could better afford child care and other work expenses. All told, the reduction in employment that some feared did not materialize.

2. The 2021 Expansion's Overall Effects

Together, the research indicates, an expanded CTC for families with low or no earnings produces strong benefits—dramatically reducing poverty and food insecurity and helping families meet the rising costs of raising children (Sawhill, Welch, and Miller 2022)—and apparently did so in 2021 without significant negative impacts on employment or substance abuse. It is possible that the employment effects could be somewhat different over a longer period. But Berlin and Gale (2022) note that the effects on employment are "uncertain and likely to be small," and they conclude that "When the costs of raising children in poverty are so great, and the lifelong benefits of even small cash allowances so significant," expanding the CTC to cover fully the poorest children "is a bargain" (Berlin and Gale 2022).[5]

II. Cash Benefits to Families Without Earnings: The Political Obstacles

The provision of significant cash benefits to people who are not employed, elderly, or disabled has long faced formidable political obstacles in the United States. Overall, social programs have grown robustly in recent decades; from 1979 to 2019, federal expenditures for mandatory programs (i.e., entitlements and other programs funded outside the annual appropriations process) that are targeted by income grew 280 percent, after adjusting for inflation and population growth, while mandatory programs that are universal (i.e., that go to everyone who is eligible, regardless of income) grew by 154 percent. Targeted programs like Medicaid, SNAP (formerly the Food Stamp program), and the EITC expanded substantially, as did universal programs like Social Security and Medicare. But cash assistance for poor families with children and little or no earnings, and UI for people who are not currently employed, were cut significantly. Years of public opinion surveys find public reluctance (outside of recessions) to providing cash assistance for people who are not employed but whom a substantial part of the public views as being able to work (Greenstein 2022).

Between 1993 and 2016, spending on cash assistance for poor families with children through Aid to Families with Dependent Children (AFDC) and its successor, Temporary Assistance for Needy Families (TANF), plunged 78 percent in inflation-adjusted terms (Parolin 2021)—and that drop came after large benefit cuts had already occurred in the two decades before 1993. In 1970, AFDC benefits lifted a family of three with no other income above 60 percent of the poverty line in most states, and no state provided benefits that left families below 20 percent of the poverty line. In 2021, not a single state provided benefits of at least 60 percent of the poverty line, 44 states and the District of Columbia provided benefits of less than 40 percent of poverty, and 16 states provided benefits of less than 20 percent. In 1979, for every 100 families with children and cash incomes below the poverty line, 82 families received AFDC cash assistance; in 2020, for every 100 such families, only 21 received TANF cash aid (CBPP 2022). States also severely cut their own general assistance programs, which provide cash assistance to very poor individuals who are not elderly or raising children (Schott 2020).

UI shrank as well, with both federal and state cuts. In the early 1980s, President Reagan and Congress scaled back UI's Extended Benefits program, making it more difficult for states to qualify for that program[6] (Committee on Ways and Means 1993). In addition, a number of states have reduced the number of weeks of UI benefits they provide, or have added or tightened eligibility restrictions, especially over the past decade (Congdon and Vroman 2021; von Wachter 2019). From 2011 through 2019, US Department of Labor data show, only 27 percent of the unemployed received UI benefits in an average month (US Department of Labor n.d.). To be sure, policymakers expanded UI greatly during the recent pandemic and accompanying recession. But those expansions have expired, and various states are currently making new rounds of UI cuts (Gwyn 2022).

Both cash welfare aid and UI provide cash benefits mainly to people who are not currently employed and are not elderly or severely disabled. In 2009 Greg Shaw reported that the share of respondents to public opinion surveys who said the nation spends too little on assistance for the poor had consistently held at more than 60 percent for two decades, while the share saying the same about "welfare" was consistently about 40 percentage points lower (Shaw 2009). Other public opinion research has revealed similar results (Howard 2022; Howard et al. 2017). Along the same lines, an earlier research review found "considerable [public] ambivalence in supporting such

4. A somewhat smaller share (5–7 percent) of respondents to a survey administered in conjunction with the study by Pilkaukas et al. (2022) reported using part of the expanded CTC for child-care costs.

5. Pulliam and Reeves (2021) similarly note a "broad consensus . . . that child allowances [like the CTC] will have uncertain, modest effects on employment and family formation, but clear and large effects on current poverty levels."

6. In the early 1980s, federal policymakers also imposed significant interest charges on the loans that states often take from the federal UI trust fund during recessions, which created a new incentive for states to pare back UI eligibility and benefits.

programs as public assistance or unemployment compensation" (Hasenfeld and Rafferty 1989, 1028).

The robust growth of targeted programs such as Medicaid and SNAP that also serve substantial numbers of people who lack earnings—programs that provide their benefits in kind rather than in cash—makes the TANF and UI cuts all the more striking. Howard (2022) concludes that when aid goes for specific necessities like food and health care, the public is less insistent that people work in order to receive the benefits, but when the aid comes in the form of cash that beneficiaries can spend as they choose, the public is more insistent on work requirements.

A. What This Means for the CTC

The sobering history of cash assistance for people who are not employed underscores the political challenges to making the CTC fully refundable on a permanent basis, as reflected most recently in proponents' inability this year to secure congressional approval of full CTC refundability on an ongoing basis and the opposition of Senator Manchin and congressional Republicans to CTC expansion without a work requirement. Even so, other factors suggest that CTC full refundability may be attainable in the future. As explained below, CTC expansion likely offers the best opportunity to secure more-adequate income assistance for very poor children and, in turn, to reduce child poverty significantly and to improve low-income children's life prospects.

Consider the CTC's evolution since its creation in 1997. When policymakers created the credit, most families that did not earn enough to owe federal income tax were entirely ineligible for it. Then, in 2001, policymakers created a partially refundable component of the CTC, phasing in the credit starting when a family's earnings for the year rose above $10,000. In subsequent years, policymakers lowered the $10,000 threshold in several steps to $2,500, before the ARP made the credit fully refundable for 2021. This history of repeated CTC expansions to cover more families with low incomes suggests that policymakers may well be able to find the votes in the years ahead to continue broadening the CTC's refundable component to cover more very poor families—and ultimately to make the credit fully refundable on a permanent basis. Senator Mitt Romney introduced legislation in 2021 to make the credit fully refundable, although that measure lacked support from any other GOP lawmakers. In 2022 he introduced less-ambitious CTC legislation that does not include full refundability but would move in its direction. His newer bill, cosponsored by two other Republican senators, would begin to phase in the credit with the first dollar of earnings (rather than after $2,500 in earnings, as under current law) and would phase it in considerably faster than under current law as family earnings rise.

Furthermore, the CTC differs in key respects from earlier, unsuccessful efforts to provide more-substantial cash assistance to the poorest families. Unlike cash welfare aid, the CTC has a number of features that historically have made social programs politically stronger and less vulnerable.

- Rather than being limited to people who are poor, the CTC also provides benefits to tens of millions of middle-income children. The social programs that have expanded most robustly over the past half-century are targeted by income but extend well beyond the poverty population, include millions of hard-pressed working families, and often extend into the middle class (Greenstein 2022).

- The CTC is a tax credit, not a spending program. Ellis and Faricy (2021) find much greater public support for benefits delivered through the tax code—which typically are portrayed as tax cuts—than for benefits delivered through government spending programs. Furthermore, the CTC (and the EITC) have benefited greatly from the horse trading that typically occurs when lawmakers assemble tax legislation. CTC and EITC supporters have secured expansions of one or both credits 14 times since 1984. Indeed, the expansions of the CTC, EITC, and a tax credit for college costs were the only social program expansions that the American Recovery and Reinvestment Act of 2009 (ARRA) established on a temporary basis that policymakers subsequently made permanent (Greenstein 2022).

- The CTC is fully federally funded and administered, with national eligibility rules and benefit levels that states cannot, and have no incentive to, scale back. By contrast, cash public assistance and UI, both of which are highly decentralized, lack much in the way of federal eligibility, benefit, and access standards and rely at least in part on state revenues.

- The CTC is focused on children. Historically, programs that serve children have enjoyed more support than programs that serve other groups, with the exception of programs serving people who are elderly or have disabilities.

- The CTC is increasingly viewed as a highly effective program in reducing child poverty in the near term and in improving children's prospects over the long term. Such perceptions can help strengthen a program politically, especially in light of general public skepticism about the efficacy of many government programs.

In short, while a fully refundable, expanded CTC would drive substantial gains for millions of children, particularly those living in or near poverty, enacting such an expansion on a permanent basis will require overcoming longstanding political barriers. As a result, those who seek to expand the credit and make it fully refundable should pursue a careful long-term strategy.

B. Implications for Policymakers in the Period Ahead

That raises a timely question: Since, given GOP opposition, full refundability is not likely to be politically feasible in the immediate future except possibly for limited groups of children (such as those who are very young or are being raised by people who are elderly or have disabilities), but Congress may consider incremental CTC improvements as early as December 2022 if Congress writes year-end tax legislation, what should policymakers seek to do? What incremental changes would not only help children in need now but also enhance the prospects for full refundability in the future? We turn to these questions in the next section of this paper.

III. Priorities for an Incremental CTC Expansion

The president and Congress frequently enact year-end tax legislation, especially when various temporary tax breaks known as tax extenders (called that because policymakers repeatedly extend them) are about to expire and policymakers face pressure to renew them, or when a tax increase is scheduled to kick in and policymakers face pressure to defer it. Congress will likely consider such legislation as soon as late 2022, and CTC expansion could be part of the negotiations, especially since Mitt Romney and two other Republican senators recently introduced CTC expansion legislation, as noted above, and both Romney and key Senate Democrats have expressed interest in reaching a bipartisan agreement to expand the CTC.

If full refundability cannot be secured in such negotiations, what should the priorities be, and what would be the best possible outcomes? President Biden's budget and the House-passed Build Back Better legislation of late 2021 help shed light on this issue. In 2021 and 2022 Biden and most House Democrats supported making permanent the ARP's *full* CTC expansion, including its full refundability and its increase in the per child credit amount, but that expansion was very costly and did not fit within their fiscal constraints so proponents were forced to make choices. When the president crafted his budget and when House Democrats crafted their BBB legislation, both prioritized full refundability. Biden proposed to make full refundability permanent and to extend the increased per child amounts through 2025. House Democrats, facing tighter fiscal constraints to secure the votes for passage, proposed to make full refundability permanent and to extend the increased per child amounts for one year.[7]

Those priorities reflected both the research findings cited above and hard political realities. Raising the per child dollar amounts *without* easing the CTC's restrictions on low-income children would do little to reduce child poverty and help low-income children, because few low-income children would get any increase in their credit. CBPP estimates this would reduce child poverty by only 2 percent (Marr, Cox, Calame et al. 2022), while an Urban Institute study finds that full refundability would, by itself, lift more than 13 times as many children out of poverty as the ARP's increase in the per child dollar amounts (Acs and Werner 2021). Yet the cost of permanent full refundability would be only a small fraction of the cost of permanently raising the full-credit amounts to the ARP levels; the Joint Committee on Taxation, Congress' official scorekeeper on tax legislation, places the cost of full refundability at about $12 billion a year (Joint Committee on Taxation 2021).

Moreover, if policymakers extended full refundability for only a few years, supporters might find it difficult to extend it further unless there was unified Democratic control of both chambers of Congress and the White House, due to strong Republican opposition to providing the CTC to families that lack earnings. Temporary increases in the amount per child, by contrast, would likely face better prospects of being continued, since prior increases in the per child amount have enjoyed significant GOP support. The Republican tax-cut bill of 2001 (the Economic Growth and Tax Relief Reconciliation Act) raised the per child amount from $500 to $1,000, and the Republican tax-cut bill of 2017 (the Tax Cuts and Jobs Act) raised it further to $2,000. Thus, CTC supporters would likely find it easier to extend temporary increases in the per child amounts in future years than to extend temporary full refundability.

A. Charting a Course for the CTC

Where does that leave us, and what does it suggest about priorities for expected negotiations in the weeks ahead over a CTC measure?

Both the research and political realities strongly suggest that the top priority should be to strengthen the credit as much as possible for children in low-income families and to advance as far as possible toward full refundability. The 2022 Romney bill would move significantly in this direction by starting to phase in the credit with a family's *first* dollar in earnings and by *fully* phasing it in for *all* qualifying children once the family's earnings reach $10,000. Families with earnings below $10,000 would receive a proportional amount; if a family earned $5,000—half of the $10,000 threshold—it would receive half of the full credit amount for each child in the family. The poorest children—those in families with no earnings—would continue to be shut out of the CTC. But for millions of children in working-poor families, the credit would rise substantially (see table 2).

Other aspects of the Romney proposal raise concerns, however, further underscoring the need to set priorities. The proposal is extremely expensive; its CTC expansions cost more than the expansions in the ARP because it would raise the full credit to $3,000 per child ages 6 to 17 and $4,200 for children ages 5 and under, which is more for the younger children than under the ARP. In addition, it would provide substantially higher benefits than the ARP did for families with incomes between about $200,000 and $500,000.[8] To offset its high cost, the Romney bill would substantially cut the support that several other programs provide, shrinking the EITC substantially and eliminating the tax credit for child-care costs and the tax code's head-of-household filing

7. The Biden budget similarly proposed to continue the ARP's extension of the CTC to 17-year-olds through 2025, while the House BBB bill would have extended that provision for one year.

8. The Romney proposal also would make pregnant women eligible for the CTC during the final four months of pregnancy.

TABLE 2

Credit Amount Under Current Law and the Romney Phase-In Provisions, If the Fall Credit Remains at $2,000 Per Child

	Families with 1 Child		Families with 2 Children		Families with 3 Children	
Family Earnings Level	Current Law	Romney Phase-In	Current Law	Romney Phase-In	Current Law	Romney Phase-In
$0	$0	$0	$0	$0	$0	$0
5,000	375	1,000	375	2,000	375	3,000
10,000	1,125	2,000	1,125	4,000	1,125	6,000

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status. The bill also would eliminate the federal tax deduction for state and local taxes.

Due to these cuts, CBPP has found, families with low or moderate incomes would pay for more than half of the cost of the Romney bill's CTC expansion (Marr, Cox, Hingtgen et al. 2022), and millions of modest-income families would see their after-tax income shrink. CBPP estimates that about 9-10 million children under age 17 in families with incomes below $50,000 would see their incomes decline despite the CTC expansion,[9] with the typical (or median) loss exceeding $800 per affected family. Among single-parent families with incomes between about $16,000 and $40,000, a substantial majority would see their incomes fall, and those made worse off would disproportionately be Black and Latino (Marr, Cox, Hingtgen et al. 2022). The CBPP analysis examines the effects of the Romney measure's EITC and head-of-household filing status changes, but not its elimination of the tax credit for child care expenses, which could make some additional modest-income families worse off. These results are difficult to justify alongside the Romney measure's very generous CTC increases for millions of quite-affluent families.

Through 2017, the CTC began to phase down for married families when their incomes surpassed $110,000 and phased out entirely for married families with two children when their incomes reached $150,000. In 2017, the Republican tax-cut legislation raised the $110,000 income threshold to $400,000. But in designing the ARP, the Biden administration phased out its increase in the per child amount when a married family's income reached about $200,000; for families with incomes between about $200,000 and $400,000, the credit remained at $2,000 per child rather than rising.

The Romney bill, by contrast, provides its generous per child credit increase all the way up to $400,000 for married filers. As a result, the credit for a married filer who makes $400,000 and has one child aged five or under and one child aged six or above would jump from its current $4,000 to $7,200 (see table 3). This feature adds to the bill's cost, necessitating larger cuts in other programs to finance it, including in other support for modest-income families. It also conflicts with Melissa Kearney's admonition that "we have a lot of evidence showing that increasing the income and material resources of low-income families with children leads to better school performance, better child and maternal health outcomes, and better long run outcomes for children," with the result that "there is a very compelling social investment case" for extending the CTC for lower-income families, but that the investment case "falls apart the farther up the income distribution we go" (Kearney 2021).

Consequently, for any near-term legislation it would be best to follow the course of the ARP in starting to phase down any increase in the per child amount at roughly $150,000 in income and phase it out entirely at about $200,000 for married filers, rather than fully extending any increase to $400,000 and only starting to phase it down at that point. (There is a strong case for lowering the $400,000 threshold, as section IV of this paper explains, but that change does not appear politically viable at this time.) Senator Romney has said that he is willing to negotiate on his plan's income thresholds (AEI 2022).

B. The Top Priority

All in all, the top priority for next-step CTC improvements should be to strengthen the credit as much as possible for children with very low incomes, to advance as far as possible toward full refundability, and to do so without hurting significant numbers of other low- or modest-income families. There may also be a possibility of securing full refundability for very young children, particularly if a number of lawmakers who are otherwise opposed to full refundability show openness to it for very young children in light of the Supreme Court's Dobbs decision that enables states to limit access to abortion, resulting in more babies being carried to full term. Congressional negotiators can also consider establishing exceptions to the CTC's earnings requirement or broadening how it is applied, such as by dropping the

9. It is unclear from the materials that Senator Romney's office has issued on his proposal whether families with children aged 18 and over who qualify for the EITC (but are above the age limit for the CTC) would be moved to the scaled-back EITC benefits schedule that the Romney proposal would create or would remain under the current EITC schedule (with there being two separate EITC schedules for families with children). CBPP estimates that the number of children under age 17 whose families would suffer a net loss of after-tax income under the Romney plan would be 10 million if families with EITC-eligible children aged 18 and above were moved to the new EITC schedule and would be nearly 9 million if all families with an EITC-eligible child aged 18 or over—including families that also include a younger child who qualifies for the CTC—remained on the current EITC schedule. Creating two different EITC schedules for families with children would add new complexity to the tax code.

TABLE 3

Child Tax Credit for Married Filers with Two Children, One of Whom is Under Age 6

Income Level	Current Law and ARP	Romney
$300,000	$4,000	$7,200
400,000	4,000	7,200
450,000	1,500	4,700
500,000	0	2,200

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requirement for, and phase-in with, earnings for children who are being raised by adults who are elderly or have a work-limiting disability, and allowing the use of family earnings over a two-year rather than one-year period in CTC eligibility determinations, which would help children in working families that experience a temporary period of limited or no employment. Such measures would enhance the CTC's poverty-reducing effects.

Raising the per child credit amount significantly is also desirable. It should be a lesser priority, however, than easing the restrictive CTC parameters that adversely affect millions of children in lower-income families, especially given the high cost of substantially raising the per child amounts and the difficulty of finding accompanying budget offsets that have bipartisan support, are sound policy, and do not hurt substantial numbers of low- or modest-income families.

IV. Keeping the CTC in the Tax Code vs. Moving It to the Social Security Administration

If policymakers seek to negotiate a CTC compromise in the weeks ahead, they may face the question of whether to convert the CTC from a tax credit to a spending program that the SSA would administer, a step the Romney bill would take. The issues here are whether SSA administration would strengthen the CTC's political support, and whether it would cause the credit to reach more children who are eligible.

History casts serious doubt on the notion that converting the CTC to a spending program operated by SSA would benefit the credit politically. As we have seen, spending programs that provide cash assistance to people who are not elderly and do not have a disability have fared poorly in recent decades, while programs that provide income through the tax code have prospered.

A. The Issue of Political Strength

EITC and CTC expansions over the years have been particularly dramatic. As noted, policymakers have expanded one or both tax credits 14 times since 1984—in tax legislation that raised taxes (e.g., 1990 and 1993), cut taxes (e.g., 2001, 2003, 2015, and 2017), or was revenue-neutral (e.g., the 1986 Tax Reform Act). Neither tax credit has ever suffered a major cut, except for a 2017 measure making undocumented immigrant children, who were already ineligible for the EITC and most other social programs, ineligible for the CTC as well.

A number of factors have contributed to these repeated expansions. First, proponents generally portray expansions of these and other tax credits as tax cuts that reduce family tax burdens. In addition, and of particular importance, these tax credits have benefited greatly from the horse trading that typically occurs when lawmakers assemble tax legislation. In 2015, for example, lawmakers were drafting legislation to extend business and other tax breaks that were slated to expire. Key Democrats conditioned their support for that legislation on adding provisions to make *permanent* the expansions of the CTC, EITC, and a partially refundable tax credit for college costs that were enacted on a temporary basis in the 2009 Recovery Act (ARRA). As a result, the CTC, EITC, and college credit expansions were ARRA's only social program expansions to achieve permanent status.

Moreover, the same type of dynamic is at play again in 2022, with a number of congressional Democrats vowing to tie their support for tax provisions that the business community seeks, including a provision to postpone a corporate tax increase related to research and experimentation expenses that took effect in 2022 but that the business community is pushing to cancel retroactively for this year and to defer for one or more years ahead, to inclusion of a significant CTC expansion in the same legislation. CTC proponents will lose this type of leverage if the credit is removed from the tax code and converted to a spending program.

In addition, in their recent book, *The Other Side of the Coin: Public Opinion Toward Social Tax Expenditures*, Christopher Ellis and Christopher Faricy (2021) find, "People who receive aid through the tax code are perceived as more deserving than people who receive otherwise identical aid directly. . . . Our results support that the public finds social tax expenditures, all else being equal, more palatable than direct social spending programs" (112–13). They note that the tax code "can be used to deliver monetary [i.e., cash] benefits to lower income citizens while priming fewer of the racial stereotypes that often accompany" benefits delivered through government spending programs (12). The public does not associate tax benefits with "big government," they report, and tax benefits tend to garner more support from people who distrust government than spending programs do.

Similarly, Joshua McCabe (2021a) cites public opinion research that finds a 14- to 18-percentage point *drop* in support for the CTC when it is described as cash for families rather than as a tax credit. In addition, over the past decade both the Affordable Care Act subsidies to make health coverage more affordable and the stimulus payments to help people weather the pandemic and related recession have come in the form of refundable tax credits rather than as spending programs.

As a result, converting the credit to a spending program and moving it to SSA would risk altering how people view it. Rather than viewing it as a measure that reduces family tax burdens, policymakers and the public would come to see it as a government spending program. That would conflict with analyst Stuart Kasdin's admonition in a recent podcast: "Anything that in essence you can structure in order to rely on the tax code is likely to be safe and/or safer" (Niskanen Center 2021). If, however, the CTC remains in the tax code, supporters will be able to continue to portray efforts to expand it as tax relief and efforts to pare it back as proposed tax increases rather than as cuts in "big government spending."

Some may respond that no program is more popular than Social Security. But that popularity essentially reflects perceptions of Social Security itself—that it is an earned benefit financed by workers' payroll taxes that people can receive when they reach retirement age or suffer a work-limiting disability—rather than perceptions related to SSA administration. Consider the history of the Supplemental Security Income program (SSI), which SSA also administers. SSI has not fared well in the political realm. Its low benefits have remained essentially unchanged in inflation-adjusted terms since the program's inception in 1974, and it suffered cuts in the early 1980s and the 1990s. Moreover, SSI's draconian asset limits—$2,000 for an individual and $3,000 for a couple, with certain assets exempted—are significantly *lower* today in inflation-adjusted terms than they were when the program began nearly five decades ago, as are the income disregards the program uses in determining program eligibility and benefit levels. In addition, SSI reaches only an estimated 61 percent of those eligible for it, a much lower take-up rate than for programs ranging from SNAP to the EITC and CTC (Greenstein 2022; US Department of Health and Human Services 2021).

In short, converting the CTC from a tax credit to a cash spending program would likely make it harder politically, not easier, to expand the CTC in the future and thus would likely make it more difficult ultimately to extend the credit in full to children in families with no or low earnings. Furthermore, cash assistance spending programs are more likely to come with restrictive eligibility conditions such as drug tests or asset limits, and to require prospective beneficiaries to provide more documentation, than tax-benefit programs. The IRS generally cannot administer such restrictions. As Pamela Herd and Donald Moynihan note in *Administrative Burden* (2018, 210–11), "The IRS has largely resisted adding burdens typical of traditional welfare programs onto the EITC, pointing to another reason the program has relatively low burdens. . . . The IRS did not approach EITC compliance in the same way that traditional welfare agencies would, seeking more documentation before providing benefits. . . . The IRS also sought to change the rules in ways that favored simplification rather than complexity."

Nor does retaining the CTC as a tax credit make the United States an outlier among Western industrialized nations with respect to child benefits. "Administering family allowances as refundable tax credits with some amount of income-testing at the top is very common across rich democracies," McCabe (2021b) reports. Among the countries administering payments for children through the tax code are Canada, the United Kingdom, and Australia (Hammond and Koggan 2021).

B. What About Access?

Some proponents of shifting the CTC to SSA also argue that doing so would boost the share of eligible families receiving it (Bruenig and Williams 2021; Matthews 2021). In part, this appears to reflect an assumption that other programs would match or approach Social Security's take-up rate of nearly 100 percent if SSA were to administer them. SSI's 61 percent take-up rate, however, undercuts that assumption.

Moreover, administering the CTC is fundamentally different from administering Social Security in ways that moving the CTC to SSA would not alter. In Social Security, eligibility is determined on an *individual* basis and is based on an individual's earnings record, a record that SSA has without requiring beneficiaries to submit additional information and documents. In the CTC, by contrast, the administering agency must determine who is a member of a family and, in particular, who is eligible to claim each child, which can be complicated with divorced, separated, extended, or multigeneration families—in which millions of children live—especially when those families' composition fluctuates[10] (Goldin and Kleiman 2021; Smeeding 2021). As a result, the Congressional Research Service (CRS) noted, "some families may be unable to anticipate who will be eligible to claim a child in the future, and benefits paid based on past information may not reflect a child's current living arrangements" (CRS 2021b, 2).

Moving the CTC to SSA would not resolve these issues. As former SSA official and Social Security analyst Kathleen

10. CRS (2021b, 2) has noted, "Studies drawing on different data sources and methodologies estimate that one-third, or perhaps closer to one-half, of US children experience a change involving a parent entering or leaving their household over the course of childhood. . . . About one-third of children are estimated to have lived with nonparent, non-sibling relatives at some point during their childhood. One study estimates that 2.1 million children (almost 3 percent of all children) experienced a transition in parental presence or the presence of a parent's partner in the household during a single year (2017). Another study estimates that about 5 percent of children (younger than age 15) experienced a change in the presence of a parent over a two-year period (2008–2010). Approximately 10 percent of children in the study experienced a change in the co-residence of a non-parent, non-sibling relative over the same period. A third study estimates that 8 percent of children experienced a change in family type annually (between 2008 and 2012), with family type defined as either a married couple, a single parent, a cohabiting couple, or relative/foster care. In short, some families may be unable to anticipate who will be eligible to claim a child in the future, and benefits paid based on past information may not reflect a child's current living arrangements" (2).

Romig has explained, SSA lacks many pieces of information it would need: "Who has custody of the child? Where does the family live (if they moved since the birth)? What's their bank account info? What's their family income [if the CTC is phased out above specified income levels]? …. Unless a child is a Social Security or SSI beneficiary (as about 6.5 percent of children are), SSA has none of this information. IRS has more up-to-date information on these questions for many more children and families."[11]

Romig also notes that keeping Social Security records up to date when beneficiaries' circumstances change is a significant problem for SSA. When SSA's Inspector General last investigated this matter in 2018, she explains, the IG found that SSA had a backlog of 3 million cases and that it typically needed at least four months to process changes. Yet if SSA were to administer the CTC and the credit payments were issued monthly, Romig observes, SSA would need to promptly gather and process families' updates to avoid substantial numbers of CTC overpayments and underpayments.

The assumption that SSA administration would significantly reduce paperwork burdens on applicants is dubious as well. In administering refundable tax credits, as Herd and Moynihan note, the IRS has resisted imposing burdens common in other social programs, such as requiring more documentation before paying benefits. Instead, "the professional culture of the IRS led it to deal with a large population of tax filers by placing much of the verification burden on the government rather than the individual" (Herd and Moynihan 2018, 210-211).

Moreover, the data indicate, the IRS succeeded in providing the expanded CTC in 2021 to roughly 90 percent of the children eligible for it,[12] a high take-up rate for the initial months of a program. For the EITC, the data also indicate, the IRS delivers close to 90 percent of the benefits that would be provided if every eligible family with children received it (Greenstein 2022).

Nevertheless, the CTC needs to do better in reaching eligible low-income children, especially if policymakers improve its benefits for children from families with very low incomes—a group for which the take-up rate of monthly CTC payments in 2021 appears to have been lower than the overall take-up rate for these CTC monthly payments (Pilkaukas and Michelmore 2021). Fortunately, the federal government has various tools with which to make substantial progress. It could, for example, establish procedures (and provide administrative funding) for states to electronically screen their SNAP and Medicaid caseloads, identify the low-income children enrolled in those programs, and provide those data to the federal government. The federal government, in turn, could match the data with its roster of children receiving the CTC, notify the families of children who have been left out, and seek to enroll those children with as little burden to the families as possible. The IRS might also be able to provide many low-income households with prepopulated forms that use data from administrative records (Code for America 2022). And the IRS and SSA could establish significantly greater cross-agency collaboration; for example, children could be registered for the CTC when they are born in a hospital and given a Social Security number through SSA's enumeration-at-birth process, and SSA could share with the IRS other data it may have that could be useful in reaching eligible children (Hammond and Koggan 2021). SSA involvement could be particularly helpful in reaching more children in households that include an individual receiving Social Security or SSI, as an estimated 10 percent of children do; these children had a lower-than-average CTC take-up rate in 2021 (L'Esperance, Grooms, and Smeeding forthcoming). An Urban Institute paper discusses these and other possible collaborative steps between IRS and SSA (Hammond and Maag 2021).

There are two bottom lines. First, keeping the CTC in the tax code will likely enhance the chances for future CTC expansions and ultimately full refundability, compared to converting it to a straight spending program and moving it to SSA. Second, maintaining the CTC in the tax code need not mean forgoing progress in reaching more of the eligible children. It consequently would be wise to retain the CTC in the tax code, at least until a fully refundable CTC has become safely embedded in the US social program structure for the long term.

V. Would Making the CTC Universal Strengthen It Politically?

Would making the credit *universal*—so that any child is eligible regardless of how high their family's income may be—strengthen or weaken it politically? Would that strengthen or weaken future efforts to enlarge the credit and ultimately make it fully refundable? Would it help many more eligible children receive it?

A. Universal vs. Targeted Programs

As noted, the CTC provides its full $2,000-a-child credit to married filers with incomes up to $400,000 and a partial credit to married families with incomes between $400,000

11. This quotation and the related material citing Kathleen Romig are from an email communication from Romig in February 2021 and are cited here with her permission.

12. Data indicate that the expanded CTC available for 2021 under the ARP reached roughly 90 percent of the eligible children. Up to 67 million children qualified, according to estimates from Zachary Parolin and his colleagues (Parolin et al. 2021), who noted that other estimates of the number of eligible children ranged from 65.6 million to 67.6 million. The Tax Policy Center estimates that in 2022, some 64.8 million children under age 17 either are eligible for the CTC or are ineligible because their parents or guardians lack earnings or have earnings below the $2,500 threshold (Tax Policy Center 2022). Adjusting this number to include 17-year-olds yields a figure of 68 to 69 million children, which may be another way to approximate the number of eligible children in 2021. IRS data show that in December 2021, 61.2 million children received a monthly CTC check, while another 1.9 million tax filers with eligible children opted out of receiving the monthly payments and elected instead to receive their full CTC benefits when they filed their 2021 tax returns. Even if all filers who opted out of the monthly payments had only one child, that would bring the total number of children receiving the credit to about 63 million, or more than 90 percent of those eligible. A recent report from the Treasury Inspector General for Tax Administration (2022) estimates that monthly CTC payments went to 1.5 million taxpayers who were ineligible while missing 4.1 million eligible tax filers. Adjusting the numbers cited above to reflect the Inspector General's estimates produces a take-up rate of roughly 90 percent for the expanded CTC.

and $440,000 if the family has one child, $400,000 and $480,000 if the family has two children, and $400,000 to $520,000 if the family has three children. Some have suggested eliminating these income thresholds and making the credit universal.

Also, as noted, providing income support to children in low-income families produces, in Melissa Kearney's words, "a large social return" that diminishes the farther up the income scale one goes. "We have very little evidence," Kearney writes, "that supplementing the income of higher-income families has a positive social return" (Kearney 2021). The case for making the CTC universal must rest on other grounds.

One argument advanced for making the CTC universal is that doing so would strengthen the credit politically. Universal programs, the argument goes, avert cuts and grow over time, while targeted programs are cut or eliminated over time. But that belief, while widely held in some circles, does not reflect the historical record.

Over the four decades from 1979 to 2019, entitlement and other mandatory programs that are targeted by income—such as SNAP, Medicaid, and the EITC—grew at an annual average rate more than 40 percent faster than the main universal social programs (Social Security, Medicare, and UI). After adjusting for inflation and population growth, targeted mandatory programs overall grew 280 percent. In both the targeted and universal categories, policymakers expanded some programs but cut others, such as cash welfare assistance and UI. Policymakers also imposed Social Security benefit reductions (in the early 1980s) that were never reversed (Greenstein 2022). The programs that grew the most were mainly targeted programs that are not limited to people who are poor but instead extend to millions, or tens of millions, of modest-income families above the poverty line and often into the middle class, while stopping far short of universality.

In addition, the CTC's own history undercuts the argument that making it universal would enhance its political strength and its prospects for further expansion. From its creation in 1997 through 2017, the CTC's benefits began to phase down for married filers when their incomes exceeded $110,000, and the credit phased out entirely for married, two-child families when their incomes reached $150,000. During these 20 years there was no evidence that the income thresholds weakened the credit politically. In fact, policymakers of both parties repeatedly expanded the credit during these years, especially its component for lower-income working families. The president and Congress expanded the CTC in 2001, 2003, and 2008, and on a temporary basis in 2009, before extending the 2009 provisions in 2010 and 2012 and making them permanent in 2015.

In the tax-cut law of 2017, Republican lawmakers eliminated the personal exemption for children, and in part to prevent that from raising the taxes of some middle- and upper-middle-income families, they boosted the full CTC from $1,000 to $2,000 per child and lifted the income level at which the credit begins phasing down from $110,000 to $400,000 for married filers. (For head-of-household filers, they raised the income level at which the credit begins to phase down from $75,000 to $200,000.) But while congressional Democrats embraced the 2017 law's increase in the CTC per child amount (and sought to raise it further), they did *not* embrace its increase in the income threshold to $400,000. Instead, the flagship Democratic CTC expansion proposal of those years—the 2019 American Family Act (AFA), cosponsored by most Democrats in both the House and the Senate—would have *lowered* the level at which the credit begins to phase down to $180,000 for married filers and would have phased out the credit entirely at $220,000 for a married family with two children. The AFA's authors viewed its large cost as one of its biggest obstacles to passage, and they concluded that maintaining the 2017 law's much higher income thresholds would hinder rather than enhance its prospects for passage due to the higher cost it would entail.

In designing what became the CTC component of the ARP of 2021, President Biden adopted nearly all the AFA's main features but not its lower income thresholds, since that would have violated his campaign pledge not to raise taxes on anyone making less than $400,000. But the president did not want his proposed increase in the CTC's per child amount to go to people with incomes substantially above the AFA's income limits, and the administration designed the ARP's increase in the CTC per child amount so it would begin to phase down for married filers once their incomes topped $150,000 and would phase out entirely when their incomes reached about $200,000.[13] For married filers with incomes between about $200,000 and $400,000, the ARP neither increased nor reduced the credit amount, maintaining it at $2,000 per child, as the 2017 tax-cut law set it.

This CTC history has implications for the question of whether to make the CTC fully universal. The tortuous Democratic negotiations over BBB in 2021 showed that high cost was a key political obstacle to making the ARP's full CTC expansion permanent. Removing the $400,000 threshold and extending the full credit to all children regardless of family income would add to that cost and thus be more likely to increase, rather than reduce, the political obstacles to enacting future major CTC expansions.

Some may assume that because CTC eligibility already extends high up the income scale, full universality would add only negligible cost because the number of children in families with more than $400,000 in income is not that large. But the cost increase would not be limited to the cost of extending the CTC to high-income families that are now ineligible for it. On the contrary, universality also would carry the cost of providing a full credit to substantial numbers of relatively high-income families that received only a partial credit under the ARP's CTC expansion, including all married filers with two children that have incomes between $150,000 and $480,000.

13. Under the ARP, the amount per child phased down to $2,000 once income reached $190,000 for a married filer with two children age six or older, and once income reached $214,000 for a married filer with two children age five or younger.

The question, then, is whether universality would give the CTC political benefits that outweigh the political drawbacks of the higher price tag, especially if the CTC expansion must be financed with offsetting budget cuts or tax increases. That the CTC's lower income thresholds of 1997 through 2017 apparently did not weaken it politically suggests that any political benefits from universality likely would not outweigh the political effects of the increase in cost. In addition, polling by David Shor and Blue Rose Research indicates that public support for the CTC actually rises a bit when the credit is targeted to a greater degree (Bazelon and Shor 2021; Philbrick 2022).[14] Adding to these factors is the reality that, in late 2021, when Senator Manchin appeared open to including a CTC expansion in BBB, he insisted that policymakers target the credit *more*, not less.

Nor does the experience of other countries clearly point to CTC universality. Child allowances with "some amount of means-testing at the top" are common among wealthy democracies, Joshua McCabe (2021b) notes.

B. The CTC, Universality, and Reaching Eligible Children

A related question is whether universality would raise the CTC's take-up rate among low-income families that do not otherwise file tax returns, because a family's income level would not affect its eligibility for the credit or the amount of its credit, making application for the credit simpler. In fact, universality likely would not raise the CTC's take-up rate significantly.

The government's experience in providing an expanded CTC in 2021 is instructive. When low-income families that do not file tax returns became eligible for the monthly CTC payments of the last half of 2021, these families *did not need to provide any income information to apply*. People who did not otherwise file a tax return could complete a very short form on an IRS online portal, and the portal told families not to use this form if their incomes exceeded $24,000 for a married couple filing jointly or $12,400 for a head-of-household filer—the levels above which people are required to file tax returns. People using the portal did not have to provide any income information via the portal or through other means. Any belief that low-income families needed to furnish income information, and that such a requirement impeded their receipt of the CTC, thus appears to be incorrect.

Instead, as noted in section IV, the biggest complexity for low-income families applying for the CTC—especially when it is provided on a monthly basis, as in the last half of 2021—is that the federal government lacks up-to-date information on children's living arrangements and on which adult is currently caring for a child, especially in separated, divorced, and extended or multigenerational families in which arrangements can fluctuate throughout the year. For some children more than one tax filer is eligible to claim them for the CTC, while for other children no one is eligible to claim them (CRS 2021b; Goldin and Kleiman 2021; Smeeding 2021). Also, many divorced, separated, and unmarried parents make arrangements for the tax treatment of their children that the government may not be aware of, such as parents splitting children between them for tax purposes or rotating which parent claims the credit for a particular child. Some parents may need to renegotiate these arrangements if policymakers revive the monthly CTC payments and make them permanent (Perano 2021).

Universality would not resolve these issues. Simplifying the CTC rules for claiming a child seems a better way to try to do so (Goldin and Kleiman 2021). Nor would universality address the barriers to CTC receipt that some low-income families face because they lack bank accounts or internet service (Holtzblatt and Karpman 2020). Fortunately, there are more promising ways to raise the CTC's take-up rate among low-income families than extending the credit all the way up the income scale.[15]

Conclusion

The United States has high rates of child poverty compared to other Western industrialized nations and generally provides families with less income support. The coming debates over whether, and how, to increase the CTC thus have particularly high stakes. The decisions of policymakers in the months and years ahead will likely have a significant impact on whether the United States—still the world's richest nation—makes major progress in shrinking child poverty and improving children's well-being or continues to have high levels of child poverty that put millions of children at a disadvantage.

Nothing on the policy horizon could do as much to reduce child poverty and improve the well-being of children as a fully refundable, expanded CTC. This suggests that policymakers should seek to make as much progress as possible toward this goal in the period ahead.

14. This and other polling by Shor and Blue Rose Research raise the question of whether, just as many people appear to resent wealthy individuals not paying their fair share of taxes, some people also may dislike giving to very affluent individuals government benefits that, unlike Social Security, Medicare, and UI, are not tied to a work record and are not viewed as earned (Bazelon and Shor 2021; Philbrick 2022).

15. If, despite the analysis presented here, future research finds that the CTC's income thresholds are impeding CTC take-up among low-income families, policymakers could consider a feature of CTC legislation that Senator Romney introduced in 2021. Under that proposal, the government would provide monthly CTC checks to families at all income levels, including families at the top, except for people who opt out of receiving the monthly payments. The government would then recover the payments it made to families above the CTC income limits when those families filed their tax returns (Jain Family Institute 2021; Spotlight on Poverty and Opportunity 2021). Once high-income filers learned that the government would recover the monthly payments when they filed their tax returns, they most likely would opt out of receiving those payments.

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The American Rescue Plan greatly expanded the Child Tax Credit for tax year 2021, reducing child poverty by 30 percent or more, but the expansion has ended. The CTC now provides no or only a partial credit to nearly 19 million of the poorest children because their parents lack earnings or their earnings are too low. Bipartisan negotiations on a CTC expansion are expected in coming weeks as part of year-end tax legislation. What should the priorities for such an expansion be? A growing body of research shows that poverty can damage children's health and educational attainment and their long-term prospects, while income support for low-income children not only reduces child poverty but also can also improve children's health, educational attainment and earnings as adults. Moreover, the expanded credit of 2021 also reduced food insecurity among children, eased other hardships, and achieved these gains without leading parents to leave the workforce. This argues for again extending the CTC in full to low-income children, as was done in 2021. Any CTC expansion as part of compromise year-end tax legislation will require 60 votes for Senate passage, however, which may make such full extension difficult to attain now. But based on the CTC's impressive achievements in 2021, this paper argues, the top priority should be to advance the CTC as far as possible toward full extension to low-income children and to strengthen it as much as possible for such children, and to do so without hurting significant numbers of low- or modest-income families through offsetting budget cuts. The paper discusses possible ways to do this. It also explores whether moving the credit to the Social Security Administration would be helpful or harmful to the CTC's long-term prospects.

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