# Next Steps on the Child Tax Credit

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The American Rescue Plan greatly expanded the Child Tax Credit (CTC) for tax year 2021, reducing child poverty by 30 percent or more. But the expansion has ended, and 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. Some 28 percent of children under 17, 45 percent of Black children under 17, and up to 39 percent of Latino children that age receive no or only a partial credit for this reason. Meanwhile, children in families making as much as $400,000 receive the full credit.

Bipartisan negotiations on a CTC expansion are expected in coming weeks as a possible part of year-end tax legislation, 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" on a permanent basis—i.e., available in full to children in poor families that do not owe federal income tax, as was done in 2021. The research shows poverty can damage children's health and educational attainment and adversely affect their long-term prospects, while income support for low-income children not only reduces child poverty but can also improve children's health and educational attainment and their earnings as adults. Moreover, multiple studies have found, the expanded credit of 2021 substantially reduced food insecurity among children, eased other hardships, and 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 advance racial equity.

Any CTC expansion as part of compromise year-end tax legislation will require bipartisan support for passage. Full refundability consequently is unlikely to emerge from such discussions except possibly for discrete groups of children as noted below. But based on the CTC's dramatic poverty-reducing achievements in 2021 and the impressive research findings, the top priority for near-term CTC reform should be to advance the CTC as far toward full refundability as possible and to strengthen it as much as possible for low-income children—and to do so without hurting significant numbers of low- or modest-income families through offsetting budget cuts. Senator Mitt Romney has proposed legislation that would phase in the credit much more rapidly for families with very low earnings; children in families without earnings would remain ineligible, but the credit would rise substantially for millions of children in working-poor and near-poor families. The CTC could do still more for very poor children if policymakers were to go further now and also make the credit fully refundable at least for very young children (for whom there is less expectation of a parent working) and for children whose parents or caretakers are elderly or have work-limiting disabilities.

The Romney expansion, however, would be extremely costly. It would raise the credit amount substantially—to higher levels for young children than under the CTC's 2021 expansion—and unlike the 2021 expansion, which phased out its increase in the amount per child when a family's income reached about $200,000, it would provide a big increase in CTC benefits to families with incomes in the $200,000 to $500,000 range. To offset the high cost, it would cut other programs on which millions of low- and moderate-income families rely, shrinking the Earned Income Tax Credit (EITC) significantly and eliminating both "head of household" tax filing status and the tax credit for child care costs. Analysis indicates that about 9 to 10 million children in families with incomes below $50,000 would see their incomes shrink despite the CTC expansion, even as many families in the $200,000 to $500,000 range saw their incomes rise.

Whether and how policymakers address these issues will have a large bearing on child poverty and children's well-being. Policymakers have an opportunity to make significant progress in the period ahead.

### Should the CTC Be Converted from a Tax Credit to a Spending Program Operated by the Social Security Administration?

One question policymakers may face is whether to convert the Child Tax Credit to a spending program administered by the Social Security Administration (SSA). Would doing so strengthen the CTC's support and boost its long-term prospects?

Public opinion research persuasively shows that voters much more strongly support tax benefits—which proponents can portray as tax cuts—than government spending programs. Converting the CTC from a tax credit to a spending program consequently could risk altering public perceptions of it and weakening prospects for its future expansion, including prospects for full refundability. In addition, CTC and EITC supporters 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, EITC, or both 14 times since 1984, under presidents and Congresses of both parties, and the tax negotiations expected in coming weeks are yet another illustration of this dynamic. Moreover, SSA administration doesn't appear to confer on a program the political benefits of Social Security itself, as indicated by the Supplemental Security Income (SSI) program, which is administered by SSA. SSI provides low benefits that leave many of its elderly and disabled beneficiaries in poverty; it suffered cuts in the 1980s and 1990s; and its parsimonious asset limits and various other eligibility parameters are more restrictive today than when the program started. And while the expanded CTC for 2021 reached about 90 percent of eligible children, SSI's "take-up rate" is 61 percent.

Converting the CTC from a tax credit to a cash spending program under SSA thus appears 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.