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## Any Year-End Tax Legislation Should Expand Child Tax Credit to Cut Child Poverty

By Chuck Marr, Kris Cox, and Sarah Calame

Letting 9 million children in this country live in poverty is a policy choice, as recent Census data underscores. With press reports indicating that congressional tax writers have begun negotiating a possible year-end tax bill, policymakers have an opportunity to make a different — and better — choice in the coming weeks.<sup>1</sup> They should prioritize reducing child poverty — and improving the life prospects of millions of children — through a well-designed expansion of the Child Tax Credit in any tax legislation considered.

Currently an estimated 19 million children receive less than the full Child Tax Credit because their parents' incomes are too low. These children should be the focus of any Child Tax Credit expansion. Proposals to expand the credit that would do little or nothing to reduce child poverty or expand the credit meaningfully for these 19 million children should be rejected.

Child poverty dropped sharply in 2021, due in part to the American Rescue Plan's 2021 expansion of the Child Tax Credit. But Census data released this September showed the unfortunate result of policymakers' decision to allow the expansion to expire at the end of 2021: 5.2 million more children were in families with incomes below the poverty line in 2022 than in the year before.<sup>2</sup>

If Congress had continued the American Rescue Plan's Child Tax Credit expansion in 2022, about 3 million fewer children would have been in poverty, preventing *more than half* of the increase in the number of children in poverty last year, we estimate.<sup>3</sup> (See Figure 1.)

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<sup>1</sup> Letter to Majority Leader Schumer, Speaker Johnson, Minority Leader McConnell, and Minority Leader Jeffries, November 2, 2023, <https://documents.nam.org/TAX/2023%20Tax%20Priorities%20Sign-On%20Letter%20FINAL.pdf>

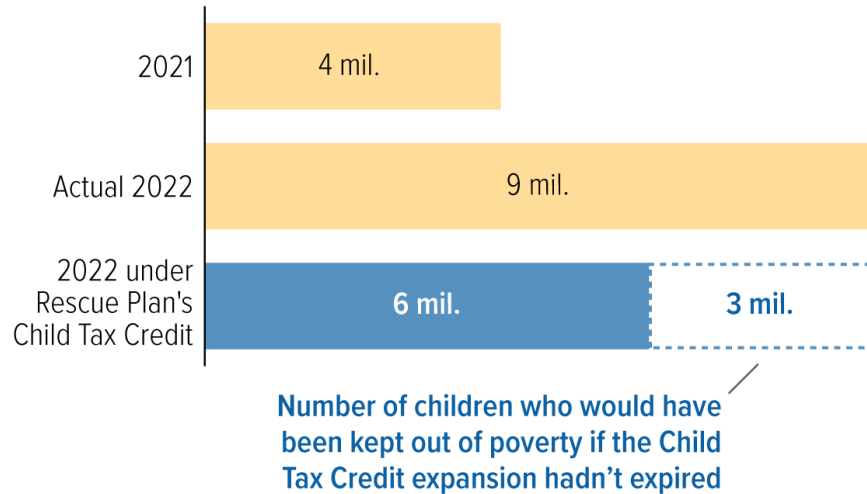
<sup>2</sup> Figure is based on the Supplemental Poverty Measure (SPM), the more comprehensive of the government's two poverty measures, which counts tax credits and non-tax benefits as family resources. Under the SPM, a two-adult, two-child family renting in an average-cost community in 2022 was considered "poor" if its resources were below \$34,500.

<sup>3</sup> Sharon Parrott, "Record Rise in Poverty Highlights Importance of Child Tax Credit; Health Coverage Marks a High Point Before Pandemic Safeguards Ended," CBPP, September 12, 2023, <https://www.cbpp.org/press/statements/record-rise-in-poverty-highlights-importance-of-child-tax-credit-health-coverage>. CBPP analysis of the U.S. Census Bureau's March 2023 Current Population Survey.

FIGURE 1

### 3 Million Fewer Children Would Have Been in Poverty in 2022 Had Child Tax Credit Expansion Been Renewed

Children in poverty



Note: Figures use Supplemental Poverty Measure (SPM). For 2021 the American Rescue Plan made the full Child Tax Credit available to families with low or no incomes and increased the maximum credit amount, among other expansions to the credit.

Source: U.S. Census Bureau published figures and CBPP analysis of U.S. Census Bureau's Current Population Survey

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The Rescue Plan's Child Tax Credit expansion made several important changes: it provided the full credit to children whose families have low or no income, increased the maximum credit, and provided the credit on a monthly basis. All three changes helped families afford the basics each month. But even more modest expansions can do a lot to reduce poverty: providing the full credit to children in low-income families is projected to lift 1.5 million children above the poverty line even if the maximum credit remains at \$2,000.

The Biden Administration and congressional Democrats have made clear that such a Child Tax Credit expansion is a top priority, and there have been hopeful signs of emerging interest from Republicans.<sup>4</sup>

Lifting children out of poverty can significantly improve their life prospects, including their health, educational attainment, and lifetime earnings. That's why it's critical that policymakers seize the chance this year to drive down child poverty and expand opportunity — but the details of any Child Tax Credit expansion are important.

<sup>4</sup> Laura Weiss, "Some Republicans crack open door to child tax credit compromise," Roll Call, August 10, 2023, <https://rollcall.com/2023/08/10/some-republicans-crack-open-door-to-child-tax-credit-compromise/>.

To highlight how policymakers could help the children who need it most and maximize the number of children the credit lifts above the poverty line, we explain below how the current Child Tax Credit is structured, how the Rescue Plan temporarily improved it, why some proposals would do little to reduce poverty, and how others could make substantial progress.

## Child Tax Credit's Current Structure Is Upside Down

The current structure provides no credit to children in families with less than \$2,500 in earnings and then phases in slowly (15 cents on the dollar, regardless of the number of children) as earnings rise above this level.<sup>5</sup> In 2023, families with two children don't receive the maximum \$2,000 credit per child until they hit about \$28,000 or \$35,000 in earnings, for head of household filers and married filers, respectively.

And regardless of how many children they have, families with incomes below about \$16,000 get less than \$2,000 in total, while middle- and high-income families get \$2,000 *per child*.

Two examples illustrate this upside-down structure:

- Consider a single parent, with a toddler and a second grader, who works part time providing child care and earns \$15,000 a year. The family's Child Tax Credit is calculated as follows:  $(\$15,000 - \$2,500) * 0.15 = \$1,875$  out of a maximum of \$4,000, or \$2,000 per child.<sup>6</sup> The \$2,500 figure is called the "earned income threshold" — families must earn at least this amount to qualify for any Child Tax Credit.
- This single parent provides child care for a married couple with a toddler and a fourth grader with an income of \$400,000. The married couple and their children receive \$4,000 in Child Tax Credits, out of a maximum of \$4,000. (See Figure 2.)

An estimated 19 million children are in circumstances similar to the first example family, that is, their family's income is too low to qualify for the full Child Tax Credit of \$2,000 per child.<sup>7</sup> Due to historical and ongoing racial discrimination, Black, American Indian and Alaska Native (AIAN), and Latine people are overrepresented in low-paid work and face more limited economic opportunities. As a result, nearly half of Black children, 4 in 10 AIAN children, and more than 1 in 3 Latine children get less than the full credit or no credit at all because their families' incomes are too low. And 1 in 6 white children and more than 1 in 7 Asian children are also left out of the full credit, as are 1 in 3 children of all races and ethnicities living in rural counties.<sup>8</sup>

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<sup>5</sup> Another feature of the credit, the refundability cap, enacted in the 2017 tax law, limits the credit amount that families can receive that exceeds their pre-credit federal income tax liability. In 2023, the refundability cap is \$1,600 per child.

<sup>6</sup> A seemingly technical point is important to focus on: the "phase-in" of the Child Tax Credit is 15 cents on the dollar despite that fact that this family has two children. While the overall Child Tax Credit is calculated on a "per-child" basis, it is not phased in that way for families with low incomes. Instead it is phased in at the same 15 cents on the dollar whether a family has one, two, or more children. This design flaw warrants special attention.

<sup>7</sup> Tax Policy Center estimate for 2022.

<sup>8</sup> Shares of children by race or ethnicity from Kris Cox *et al.*, "Top Tax Priority: Expanding the Child Tax Credit in Upcoming Economic Legislation," CBPP, updated June 12, 2023, <https://www.cbpp.org/research/federal-tax/top-tax-priority-expanding-the-child-tax-credit-in-upcoming-economic>; share of children in rural counties from Chuck Marr *et al.*, "Year-End Tax Policy Priority: Expand the Child Tax Credit for the 19 Million Children Who Receive Less Than the

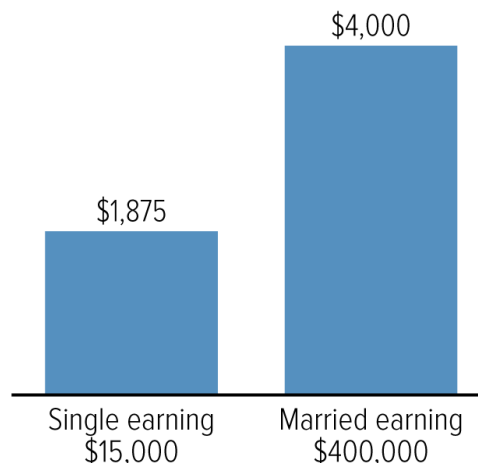
The current design of the Child Tax Credit is upside down: the children who would benefit the most — children whose families face challenges affording rent, utilities, food, clothing, and transportation — often get the least. As a result, more children live in poverty than would if children in families with low incomes received the same Child Tax Credit as children in families with higher incomes.

Policymakers should evaluate various proposals according to how much they address the flaws of the current Child Tax Credit structure:

- How many children would the proposal lift above the poverty line?
- How many of the 19 million children who currently receive less than the full amount or no credit at all would receive the full amount under the proposal?
- How much help is provided to the 19 million children who currently don't get the full credit because their incomes are too low and how much is provided to higher-income families, including families like those we've highlighted above?

FIGURE 2

### Families With Low Incomes Receive Smaller Child Tax Credit Than Families With Higher Incomes



Note: Chart presents Child Tax Credit amount for a family with two children under current law (2023).  
Source: CBPP calculations

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## What the Rescue Plan Did

The Rescue Plan made three major structural, but temporary, changes to the Child Tax Credit:

- 1) It made the full Child Tax Credit available to children in families with low incomes, so that they received the same credit amount as children in families with higher incomes.
- 2) It raised the maximum amount of the credit from \$2,000 per child to \$3,600 for young children (up to age 5) and to \$3,000 for older children (aged 6-17). This maximum credit increase phased out for married couples with incomes over \$150,000 and head of household filers, which includes most single parents, with incomes over \$112,500.<sup>9</sup>
- 3) It provided the credit to families on a monthly basis, making it easier for families to use to meet their ongoing expenses throughout the year.

Full Credit,” CBPP, updated December 7, 2022, <https://www.cbpp.org/research/federal-tax/year-end-tax-policy-priority-expand-the-child-tax-credit-for-the-19-million>.

<sup>9</sup> The Rescue Plan also allowed families to claim their 17-year-old children for the credit for the first time. All changes were made for one year, 2021.

The results were striking. The expanded credit contributed to a record low child poverty rate in 2021. And by lifting larger shares of Black and Latine children above the poverty line, the expansion narrowed differences between their very high child poverty rates and the lower (although still too high) rates among white children.<sup>10</sup> Research has confirmed that most families with low incomes used the credit to meet basic family expenses, including food and housing, to pay for child care, and to make other important investments in their children.<sup>11</sup>

Policymakers allowed the expansion to expire at the end of 2021. The poverty rate for children more than doubled in 2022, reflecting the expiration of pandemic relief programs including the expanded Child Tax Credit. If the Rescue Plan's Child Tax Credit expansion had been in place in 2022, about 3 million more children would have been kept out of poverty and the child poverty rate would have stood at about 8.5 percent, rather than 12.4 percent.<sup>12</sup>

Ultimately, returning to the Rescue Plan's Child Tax Credit structure should be a top tax policy goal; but more modest expansions can go a long way toward reversing the spike in poverty among children.

## **Some Proposed Expansions Would Do Little for the Children Who Need It Most**

While the increase in the maximum credit amount was the most obvious change to the Child Tax Credit under the Rescue Plan, the change in the credit's underlying structure — providing the same credit to low-income families as those with higher incomes — was essential in driving down poverty.

This is particularly important to understand when evaluating proposals to raise the maximum credit (or to index the maximum credit to inflation). Absent other design improvements, raising the maximum amount, even to \$3,000, \$4,000, or \$5,000, would do little or nothing where it matters most. Yet it would give benefits to families with higher incomes, at a sizable cost.<sup>13</sup> Such proposals would:

- Do little to reduce child poverty.<sup>14</sup>

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<sup>10</sup> In 2021, the child poverty rate reached a record low of 5.2 percent. We estimate that, without the Rescue Plan's expanded credit, the child poverty rate would have been about 8.1 percent in 2021. Chuck Marr *et al.*, "Policymakers Should Expand Child Tax Credit in Year-End Legislation to Fight Child Poverty," CBPP, updated October 20, 2022, <https://www.cbpp.org/research/federal-tax/policymakers-should-expand-child-tax-credit-in-year-end-legislation-to-fight>.

<sup>11</sup> Jake Schild *et al.*, "Effects of the Expanded Child Tax Credit on Household Spending: Estimates Based on U.S. Consumer Expenditure Survey Data," National Bureau of Economic Research Working Paper 31412, June 2023, <https://www.nber.org/papers/w31412>.

<sup>12</sup> Parrott, *op. cit.*; CBPP analysis of the U.S. Census Bureau's March 2023 Current Population Survey.

<sup>13</sup> The proposal recently introduced by House Republicans, led by Rep. John James, would provide the larger maximum credit amount to families earning up to \$200,000 and \$400,000, for single and married parents respectively. Reignite Hope Act of 2023, H.R.4520, <https://www.congress.gov/bill/118th-congress/house-bill/4520>.

<sup>14</sup> For example, raising the maximum credit to \$4,500 for children up to age 5 and \$3,500 for children aged 6-16 with no other design changes would lift only about 200,000 children above the poverty line in 2023, based on our projections.

- Not help any of the 19 million children in low-income families who receive less than the full amount under current law, providing zero increase in the Child Tax Credit for the single parent with a toddler and second grader who earns \$15,000 as a child care provider.<sup>15</sup>

Similarly, the design details of any proposed improvements on the credit's phase-in are important. For example, while it was encouraging to see a group of House Republicans led by Rep. John James of Michigan advance a proposal recently, their proposed design improvements would continue to deny millions of children in families with low incomes the full credit.<sup>16</sup> Their bill would make three structural changes:

- Eliminate the \$1,600 refundability cap;
- Eliminate the \$2,500 income threshold and start the phase-in of the credit as soon as a family has any earnings; and
- Raise the phase-in rate by a tiny amount from 15.0 to 15.3 cents on the dollar.

While positive, these design changes would lift only about 100,000 children above the poverty line, our projections suggest.<sup>17</sup> Eliminating the refundability cap and the \$2,500 income threshold would remove two features that currently keep some families with low incomes from receiving the full credit. The refundability cap, for instance, limits the credit to a smaller \$1,600 maximum for families with incomes up to about \$21,000 (head of household filers) or \$28,000 (married couple filers). However, under Rep. James' proposal, the credit would still phase in slowly as earnings rise, so many children in families with low incomes would continue to receive a partial credit or none at all because their incomes are too low.

Rep. James' bill would combine these modest design changes with a large increase in the maximum Child Tax Credit amount — raising the credit to \$4,500 per child for the children up to age 5 and \$3,500 for children aged 6-17, higher than under the Rescue Plan.<sup>18</sup>

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<sup>15</sup> Without other design improvements, indexing the maximum credit to inflation would also only help children who already receive the maximum credit. That would leave behind the 19 million children who receive less than the full amount under current law and would do little to reduce child poverty.

<sup>16</sup> Senator Rubio and Rep. Hinson introduced a similar proposal, which included the same phase-in improvements and maximum credit increase, along with additional provisions. It would also continue to deny millions of children in families with low incomes the full credit.

<sup>17</sup> This estimate does not reflect the effects of making 17-year-olds eligible for the credit. Projections for 2023 are based on CBPP analysis of U.S. Census Bureau's March 2019 Current Population Survey. We start with data from 2018 because that year's employment rate resembles the employment rate in 2023 more closely than do other recent years. We use 2023 tax parameters; adjust earnings to 2023 dollars by calculating growth in wages and salaries per non-farm job using Bureau of Economic Analysis data on wage and salary growth through 2022, CBO wage and salary projections for 2023, Bureau of Labor Statistics data on nonfarm payroll employment through 2022, and CBO payroll employment projections for 2023; and adjust all other income for changes in the consumer price index through 2022 and CBO projections of inflation in 2023. SNAP benefits, which are factored into the poverty calculation, are adjusted to account for the Thrifty Food Plan re-evaluation in October 2021.

<sup>18</sup> Senator Rubio and Rep. Hinson's bill also makes these changes. Both Republican proposals would also expand the credit to 17-year-olds. H.R. 4520, *op. cit.*

Increasing the credit amount makes this an expensive proposal, but it would reduce poverty *far less* than other expansion options — including much less expensive options — because so many low-income families would be left out of receiving the full credit. Consider:

- This proposal would cost roughly five times as much as making the current \$2,000 per child credit available to all low-income children, while lifting less than half as many children above the poverty line.<sup>19</sup>
- The Rescue Plan’s Child Tax Credit expansion is comparable in cost to this proposal, but if reinstated, it would cut child poverty by *more than four times* as much as Rep. James’ proposal.<sup>20</sup>
- Fewer than 1 in 5 of the 19 million children who currently receive less than the full \$2,000 credit would receive at least \$2,000 per child under this proposal — much less the \$4,500 and \$3,500 maximum amounts for children up to 5 and 6-17, respectively. (See Figure 3.)
- Under this proposal, a family with a toddler and a second grader and \$400,000 in income would receive a \$4,000 credit increase, nearly ten times the size of the \$420 increase that the single parent with two children of the same ages and \$15,000 in earnings would receive.

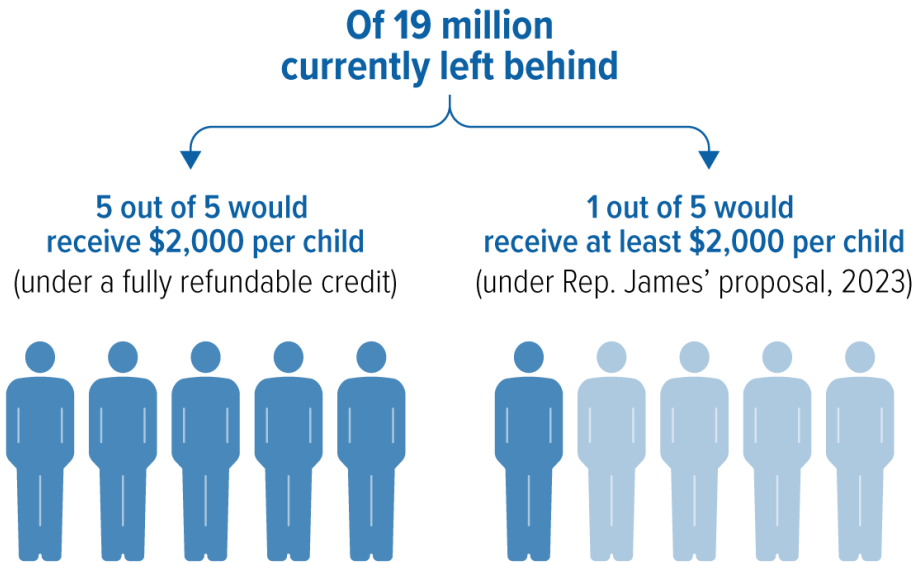
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<sup>19</sup> Our projections for 2023 show that a fully refundable \$2,000 credit would lift roughly 1.5 million children out of poverty, while the Republican proposal would lift only an estimated 700,000 children out of poverty. (The former estimate reflects a fully refundable \$2,000 credit for children up to age 16; the latter estimate reflects the full Republican proposal, which makes 17-year-olds eligible for the credit.) Compared to the phase-in improvements or the maximum credit increase alone, the full Republican proposal would have a larger impact on child poverty due to the interaction of these component parts, but it still would have a much smaller impact than a fully refundable \$2,000 credit. Furthermore, the children lifted above the poverty line by the Republican proposal would largely be those who already receive the full \$2,000 credit under current law or close to it. The Republican proposal would do little for families with the very lowest incomes, lifting fewer than 50,000 children above one-half of the poverty line (“deep poverty”) in 2023. Such deep poverty is particularly troubling given the evidence showing that income during childhood makes a significant difference to children’s later health, academic achievement, earnings, and other outcomes.

<sup>20</sup> The Rescue Plan’s Child Tax Credit expansion would lift roughly 3 million children out of poverty in 2023, based on our projections.

FIGURE 3

## Fully Refundable Child Tax Credit Would Deliver \$2,000 to 19 Million Children Currently Left Behind; Rep. James' Proposal Would Leave Most Behind



Note: "Children left behind" refers to the roughly 19 million children up to age 16 who receive less than the full \$2,000 Child Tax Credit under current law because their families' incomes are too low. "Rep. James' proposal" refers to H.R. 4520.

Source: Tax Policy Center, CBPP analysis of Current Population Survey data

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## Other Changes to the Child Tax Credit Could Make Substantial Progress

The simplest and biggest bang-for-the-buck design change would be to fix the upside-down design of the Child Tax Credit, ensuring that all children in families with low incomes receive the same credit amount as children in families with higher incomes. Making the full current \$2,000 Child Tax Credit available to children in low-income families (often called "fully refundable") would have a modest cost compared to proposals that raise the maximum benefit. In 2023, a fully available \$2,000 credit would:<sup>21</sup>

- Lift an estimated 1.5 million children out of poverty.
- Provide the full \$2,000 to each of the 19 million children who receive less than that today.

<sup>21</sup> In 2021, the Joint Committee on Taxation (JCT) estimated that a fully refundable \$2,000 credit would cost roughly \$12 billion per year through 2025. This is the most recently available estimate, but the estimated cost may change if JCT scores this proposal again. Joint Committee on Taxation, "Estimated Budget Effects of the Revenue Provisions of Title XIII - Committee on Ways and Means, of H.R. 5376, The 'Build Back Better Act,'" JCX-46-21, November 19, 2021, <https://www.jct.gov/publications/2021/jcx-46-21/>.



- Boost income by \$2,125 for the single parent with a toddler and second grader who makes \$15,000.

Full refundability is sound policy and is far less expensive than proposals that do much less to reduce poverty.

There are a range of ideas about how to expand the Child Tax Credit, including ideas that fall short of ensuring all children with low incomes receive the full credit but deliver substantial gains to low-income children. As policymakers evaluate approaches to expanding the Child Tax Credit, they should seek to maximize the number of children with low incomes lifted out of poverty and the number who receive the full credit.