



Now Is the Time To Permanently Expand the Child Tax Credit and Earned Income Tax Credit

By Areeba Haider and Galen Hendricks | May 21, 2021

For decades, the American economic system and other institutions meant to support economic mobility have largely failed the tens of millions of people in the country who experience poverty every year—and the U.S. tax code is no exception. Many aspects of the current tax code perpetuate structural sexism and racism, and even provisions intended to support low-income people and families exclude the poorest and most vulnerable.¹ However, the Biden administration’s American Rescue Plan, the \$1.9 trillion stimulus package centered on broad emergency relief in response to the coronavirus pandemic, makes important temporary changes to the child tax credit (CTC) and earned income tax credit (EITC) that begin to solve this problem. But in order for those changes to have a long-term impact and better support families with children and low-wage workers, they must be made permanent.²

The American Rescue Plan temporarily expands the CTC, extending it in full to low- and middle-income families and paying out the credit periodically instead of as a single lump sum. Specifically, the bill:

- Makes the credit fully refundable for 2021, so that families receive the full amount even if they do not have federal income tax liability—as most low-income families with children do not
- Increases the amount of the credit from \$2,000 to \$3,600 for children ages 5 and under
- Increases the amount of the credit from \$2,000 to \$3,000 for children ages 6 to 16 and extends the \$3,000 credit to 17-year-olds
- Limits the expansion for higher-income families by phasing out the additional \$1,000 (and \$1,600 for young children) for incomes higher than \$112,500 for heads of households, such as single parents, and household incomes above \$150,000 for married couples with children. The law does not change the phaseout of the preexisting \$2,000-per-child CTC, which begins above \$200,000 of income for single adults and \$400,000 for married couples.

- Provides for the advance payment of the CTC on a periodic basis. Families will receive half of their CTC for 2021 in monthly installments beginning in July,³ with the rest disbursed at tax time early next year. Parents will receive monthly payments of \$300 per month for young children and \$250 for older children from July through December, with the remaining \$1,800 for young children and \$1,500 for older children disbursed early next year.
- Allows families in Puerto Rico to claim the fully refundable, expanded CTC from the IRS and provides funding for other U.S. territories to disburse CTCs through their tax codes

The bill also expands the EITC for workers without qualifying children. Under previous law, these workers received only a very small EITC that phased out at very low income levels, and both younger and older workers were ineligible. The American Rescue Plan expands the EITC by doing the following:

- Increases the maximum value of the credit from \$543 to \$1,502
- Raises the income limit from \$15,980 per year for single filers and \$21,920 for married filers to \$21,427 per year for single filers and \$27,367 per year for married filers
- Expands the eligible age range for recipients, allowing younger workers ages 19 to 24 as well as workers who are 65 and older to claim the credit

The American Rescue Plan's CTC and EITC expansions are only in effect through 2021. However, this legislation lays the groundwork for Congress to make permanent, transformative changes, including a permanent child allowance. If Congress acts later this year to extend the CTC or make it permanent, the monthly payments of the credit could continue past December 2021 and provide needed support to workers and their families.

The child allowance

Child benefits or allowances are universal, or near universal, regular cash payments given by the government to families with children. Families use the payments to cover the additional costs connected with raising children; they can support child development, improve outcomes for children and families, and significantly reduce child poverty. While the newly expanded CTC is the closest the United States has gotten to a child allowance policy, peer nations have implemented similar policies with great results, including countries such as Canada, Australia, Ireland, and the United Kingdom.⁴

The American Rescue Plan also breaks ground on the administrative infrastructure for delivering a monthly payment. Specifically, the new law directs the IRS to create an online portal for families to update their information, ensuring that they receive the periodic payments to which they are entitled or can choose to opt out. Importantly, the IRS has said that if families want to receive monthly payments starting in July of this year, they must file a tax return for 2020.⁵

These changes represent a win for anti-poverty advocates, who have long recognized that the CTC was not working for the poorest children. The EITC structure actually taxed low-wage workers without qualifying children below the federal poverty line, forcing them even deeper into poverty.⁶ President Joe Biden's recently released American Families Plan recognizes this problem as well, calling on Congress to permanently expand the EITC and make permanent a critical component of the CTC expansion. It also extends other parts of the temporary CTC—namely, the increased credit amounts—through 2025.⁷ Many members of Congress, including the chairs of the House and Senate tax committees, have said that they want to make all of the CTC changes permanent in legislation this year.⁸

The case for permanence

Even prior to the onset of the COVID-19 pandemic, there was a serious need to reform the CTC and EITC to better serve low-income people and their families. In 2019, 34 million adults and 10.5 million children were living below the federal poverty line—an outdated measure that severely undercounts financial need in the country.⁹ By more comprehensive measures of economic deprivation, 42 percent of U.S. households were living in difficult financial circumstances in 2018, according to the latest data.¹⁰

Despite such clear need, both the EITC and CTC have excluded millions of low-income people through their design.

Prior to the temporary CTC expansion under the American Rescue Plan, the credit was not fully refundable; at most, \$1,400 of the \$2,000 intended for each child could actually be paid to a family if it exceeded their tax liability.¹¹ Additionally, the value of the credit was tied to earnings, phasing in when household annual income surpassed \$2,500—meaning that if a family's earnings were not high enough, they would receive less than \$1,400 per child, with some receiving a far lower payment or even nothing.¹² Those restrictions intentionally leave out the poorest children from gaining the benefits of the full credit and result in the very lowest-income families receiving no credit at all. The majority of children in families in the bottom 10 percent of the income distribution were completely unable to claim the credit, and the majority of children in the bottom 30 percent were only eligible for a partial credit.¹³ Because of these restrictions, 70 percent of

children in families headed by solo, female parents or guardians were ineligible for the full credit, a disparity in part driven by structural sexism that fuels the gender pay gap and lowers the earnings of women and mothers, particularly women and mothers of color.¹⁴

This program design also creates dramatic disparities for children across racial demographics. Black and Hispanic children—who are already more likely to experience poverty because of the ways racism, sexism, and other forms of structural marginalization manifest in economic and social policy—are also less likely to receive the full credit amount compared with white children.¹⁵ More than half of Black, non-Hispanic children and Hispanic children are ineligible for the full credit because their household incomes are too low, compared with 23 percent of white children.¹⁶ The Biden administration’s American Families Plan fixes this fundamental flaw and makes full refundability of the CTC permanent.¹⁷

Similarly, the combination of the EITC’s age restrictions, phase-in structure intended to incentivize work, phase-out structure that begins even when earnings are below the federal poverty line, and low benefit amounts for workers without qualifying children can exclude millions of people living under or near the poverty line.¹⁸ In fact, the EITC’s usual low maximum credit amount for workers without qualifying children—just \$543 for the entire year—rarely offsets the combined income and payroll taxes paid by low-wage workers. The limited EITC, then, actually contributes to the ways that millions of workers are pushed into poverty.¹⁹ And while EITC benefits for those without qualifying children are sometimes referred to as the “childless EITC” as shorthand, the individuals affected include an estimated 780,000 parents whose children do not live with them for enough time to qualify them for larger EITC amounts, even if they still provide them with financial support.²⁰

The expansion will help workers and children for whom the pandemic has exacerbated financial need

The expansion of the EITC and CTC particularly targets demographics that have been most severely affected by the pandemic, including children, low-wage workers, young adults, and people of color.

It is well-established that low-wage workers—who are disproportionately women and people of color—have experienced the brunt of the pain of the pandemic economy.²¹ This is in part due to the ways that systemic racism, sexism, and other forms of marginalization have concentrated workers with the least economic and political power into sectors where jobs are underpaid and undervalued. However, a study from the Bureau of Labor Statistics finds that the concentration of low-wage workers in “low-wage” sectors does not entirely explain the disparities: Across a

larger variety of industries, the most poorly compensated workers have suffered disproportionately.²² That same study found that low-wage workers who remained employed during the pandemic also experienced an increased probability of working part time for economic reasons, further limiting their earnings.

The temporarily expanded EITC newly includes workers ages 19 to 24 and workers 65 and older, ensuring that millions more low-wage workers are able to benefit from the tax credit. Younger workers—defined as those ages 16 to 24—tend to experience persistently higher unemployment and underemployment than workers ages 25 and older, even in tight labor markets.²³ At the height of U.S. job losses in April 2020, workers ages 20 to 24 experienced an unemployment rate of 24 percent.²⁴ And even among younger workers, the demographics suffering disproportionately reveal an all-too-familiar pattern—young workers of color, and Black women especially, are facing serious setbacks in finding employment, even as the economy begins to recover.²⁵ For these workers, the EITC is just one of the many forms of income support necessary to achieve an equitable economic recovery, especially given that the economic fallout of recessions tends to follow young adults throughout their lifetimes, depressing overall earnings and worsening economic outcomes.²⁶

Similarly, expanding the new CTC measures into a permanent child allowance would support families and children who have disproportionately faced economic harm during the pandemic. During the peak of the recession in April 2020, the proportion of children with at least one unemployed parent reached its highest rate in 50 years.²⁷ Between 5 million and 9 million children lived in households where they did not eat enough because their families could not afford food, and 1 in 3 adults in households with children reported difficulty covering usual expenses such as rent, food, and medical costs.²⁸ Additionally, due to systemic racism and marginalization, Black and Latino children were the most likely to experience these harms.²⁹

The economic devastation of the pandemic was not unavoidable. The fragile U.S. safety net—tied to onerous work requirements, designed to be arduous to navigate, and mired in racist and sexist narratives that manufactured stigma against recipients—was ill-prepared to handle an influx of millions of people in need of assistance.³⁰ Now, the COVID-19 pandemic and the resulting recession have exacerbated already painful inequities for low-income people and others from historically marginalized communities. The fallout for those families is likely to last far longer than the temporary tax credit expansion.

Expansions make the economy more resilient to downturns and shocks

A permanent expansion of the EITC and a child allowance would make households more resilient to economic shocks and create a more resilient economy overall. In the near future, the temporary expansions in the American Rescue Plan will provide a much-needed cash infusion for families who are struggling to get by due to the coronavirus pandemic and resulting recession, which will lead to a much quicker recovery. Estimates show that expanding the CTC and EITC are two of the most effective forms of stimulus, providing as much as \$1.50 growth in economic activity for each \$1 spent.³¹ But providing cash assistance to families, particularly in periodic installments throughout the year, would also help smooth volatile incomes, ease financial planning, and make families overall more economically stable, even after the economy rebounds.³² This would in turn dampen the impact of future economic downturns, lift up communities that will continue to feel the impacts of the recession long after the topline numbers return to normal, and lift millions out of poverty.

Permanent CTC and EITC expansions are important public investments

Changes to the CTC and EITC are not just an emergency response to the acute deprivation caused by the COVID-19 pandemic and related recession. Rather, they are an important and long-overdue public investment in children and low-wage workers.

Investments in children—particularly young children under the age of 6—result in incredibly positive benefits for children’s health and well-being, future earnings, and long-term economic mobility. By some estimates, increasing the family income for a child under the age of 5 by just \$3,000 can increase their earnings by nearly 20 percent when they reach adulthood.³³ Income support programs such as the CTC and EITC have also been shown to significantly improve infant and maternal health and children’s performance in school and increase future educational attainment.³⁴ Despite this, total federal spending on children—including both mandatory and discretionary programs—fell by 8.6 percent between FY 2016 and FY 2020.³⁵ Investing in the CTC in its current expanded form—fully refundable, with higher credit amounts included in the temporary extension, and distributed on a monthly basis—would generate around \$800 billion in benefits for society as a whole.³⁶ While the Biden administration’s plan extends the increased credit amount to \$3,600 for children under 6 and to \$3,000 for children ages 6 to 17 through 2025, it is vital that those larger amounts are made permanent. Otherwise, without congressional action, the credit amount will revert to \$1,000 after 2025, greatly diminishing its utility as a public investment and tool for poverty reduction.³⁷

For low-wage workers, poverty is associated with adverse health outcomes, including shorter life expectancy and higher rates of disease, an issue often exacerbated by lack of stable health insurance and access to care.³⁸ Moreover, the psychological burden of experiencing poverty—the anxiety and stress of meeting basic needs, physical and emotional distress of food insecurity and housing instability, the struggle of living paycheck to paycheck—are all connected to increased levels of mental health concerns that greatly affect quality of life.³⁹ Expanding anti-poverty programs such as the EITC that target these workers is an important investment in their well-being.

Keys to designing and implementing an effective child allowance

The design of a permanent child allowance and EITC expansion will determine whether the reforms can live up to their promise. Policymakers must ensure that legislation and implementation take into account the following principles:

Focus on simplicity and reduce administrative burdens

The American social safety net is famously difficult to navigate, but any permanent child allowance and EITC expansion must be simple for recipients to access and free of administrative burdens that limit the effectiveness of reforms. Under the program's current iteration, a household must file for taxes to claim the CTC and EITC benefits for which they are eligible. This presents serious challenges.

Families with very low or no incomes, who are newly eligible for the CTC, are generally not required to file federal taxes. Yet they are expected to understand how to receive their benefits and complete complicated, time-consuming paperwork in order to access their money. Even with aggressive outreach, some of these families are likely to miss out. And research shows that the demographic groups most likely to be excluded due to this administrative burden closely mirror the children who were previously excluded by the tax credit's phase-in structure. In 2019, an estimated 5.5 million children lived in households that did not file taxes that year; 1 in 3 children living in households with incomes below the poverty line were also in households that did not file taxes, as were 1 in 2 of children living in “deep” poverty, defined as 50 percent of that threshold. Fifteen percent of Black children, 9.2 percent of Latino children, and 4.7 percent of white children lived in nonfiler households.⁴⁰ In order to truly advance racial equity and economic justice, barriers to claiming benefits for individuals who have not filed tax returns must be addressed, and the burden of administering the benefit must shift to the federal government rather than recipients to the greatest extent possible.

Similarly, expanded eligibility for the EITC does not guarantee expanded access. In tax year 2017, the IRS estimated that only 78 percent of eligible households participated in the EITC.⁴¹ Even for individuals who managed to receive their benefit,

some face an additional hurdle: EITC filers are disproportionately exploited by paid tax preparers who promise to help file their complicated returns in exchange for an average of \$400, a significant amount of the refund.⁴² As discussed below, Congress must substantially expand practical options for people to file taxes for free and address unscrupulous or incompetent tax preparers. A permanent version of these policies must be simple for *all* eligible households to receive, without exorbitant fees and complex, time-consuming paperwork to access money that is rightfully theirs.

Invest in implementation

Shifting the burden of administration to the federal government means investing appropriately in the agencies expected to do that work. While there has been some debate about whether the IRS or the Social Security Administration (SSA) is the federal agency best positioned to administer a child allowance in particular, there is one glaring similarity across both choices: They have been systematically underfunded, and that disinvestment has serious consequences for each agency's administrative capacity.⁴³

The IRS currently handles the monthly disbursement of the temporary CTC expansion enacted in the American Rescue Plan. Although the agency has been tasked with these substantial new responsibilities, its budget has been slashed and its workforce substantially diminished. Measured as a share of total tax collections, the IRS' budget is down by nearly 50 percent since its peak in 1993 and by 40 percent since 2010. As a result, the agency has shed 16 percent of its workforce over the past decade.⁴⁴ In addition to hindering enforcement of the nation's tax laws—which has benefited the wealthy and corporate tax dodgers—the budget cuts have hurt the IRS' ability to provide quality taxpayer service.⁴⁵ For example, the agency is currently answering only 1 of every 50 calls from taxpayers seeking assistance.⁴⁶

The SSA has also faced substantial funding cuts in recent years. Since 2010, its operating budget has fallen by more than 10 percent, and the number of national staff decreased by 12 percent.⁴⁷ The budget cuts have already contributed to increased wait times for Social Security's toll-free phone line, the closure of more than 500 mobile offices and 60 field offices, and other administrative issues that directly affect people's experience interfacing with the agency and receiving their benefits.⁴⁸

Regardless of which agency is tasked with administering the child benefit, delivering the benefit in periodic payments will introduce a host of additional administrative issues, including ensuring that the payments reach all eligible households, reducing the compliance burden, and addressing technical issues such as overpayment. In order to ensure that the agency is able to handle these new tasks, Congress will need to provide a substantial multiyear funding stream to enable the agency to rehire and train staff, update any outdated technology, and improve customer services. Efficient implementation will also require investment in coor-

dinating administrative data across agencies and federal benefits programs, such as the Supplemental Nutrition Assistance Program (SNAP), to support automatic enrollment when possible.

Additionally, a permanent expansion of the CTC and EITC must be paired with robust investments in outreach to ensure that people know about the benefits and actually receive them. These efforts include providing funding for volunteer income tax assistance sites and low-income community tax preparers, community and grassroots organizations that support tax filing, and coordination between federal and state agencies to reach as many eligible families as possible.

Given the failures of the IRS' Free File Program, the agency should develop its own online free filing option.⁴⁹ A simple, accessible, government-operated program would help ensure that low-income people do not need to rely on often expensive private tax preparation, as many currently do to receive their EITC. President Biden's American Family Plan includes a proposal clarifying that the IRS has the authority to regulate paid tax preparers, a proposal that has garnered bipartisan support and was even endorsed by the Trump administration.⁵⁰ A simplified filing tool would also support the millions of families who are newly eligible for the CTC but do not otherwise have an obligation to file federal taxes in claiming their credit.

Center hard-to-reach communities

While there are many steps that Congress and federal agencies can take to simplify filing for EITC and CTC recipients, it is just as important that the permanent design of the credit itself centers communities that are considered "hard to reach."

For example, all families who otherwise meet eligibility requirements should be able to receive the benefit, regardless of their or their children's immigration status. Currently, the EITC is unavailable to individuals without a Social Security number—in fact, for married couples, if one spouse does not have a Social Security number, the entire family is shut out. Additionally, the Trump-era Tax Cuts and Jobs Act amended the CTC to exclude children without a Social Security number, eliminating a crucial support for almost 1 million children in low-income households.⁵¹ Any permanent expansion must include those children and remove barriers for immigrant families.

A permanent child allowance and EITC must also consider rules that maximize flexibility for changing conditions, including minimizing filing burdens, administering the benefit automatically when possible, and ensuring a strong safe harbor for families where changes in family or living circumstances could place them at risk of overpayment.

For recipients experiencing homelessness, individuals without stable housing, and individuals who do not have a bank account, Congress and the U.S. Department of the Treasury should consider expanding the use of Direct Express or other debit card payments that are easy to use. Establishing a low-cost banking system through the U.S. Postal Service would also ensure that the credits are disbursed to eligible individuals who may be un- or underbanked.⁵² These alternative methods of payment can have the added benefit of helping recipients avoid turning to predatory financial services to access their credits.

While the federal government has implemented some changes to increase accessibility—for example, the IRS is building a portal for families to keep information such as their address, bank account, and family circumstances current—it is essential that Congress work to design a permanent credit that will be accessible to all, including individuals living in rural communities without a nearby IRS or SSA office or areas without access to broadband internet. Expanding resources for first-time tax filers and youth formerly in foster care, among others, will also ensure that the benefit reaches the people who need it most.

Conclusion

A guaranteed income for families with children from birth to age 17 and an improved credit for childless workers that includes young workers ages 19 to 24 and workers ages 65 and over are vital public investments in communities that have often been left out of social safety net reforms. These federal investments are also a commitment to the moral truth that the government has a responsibility to support economic security for its residents and ensure that all children thrive. When paired, a permanent child allowance and expanded EITC would have the power to increase the resilience of the economy to negative shocks, significantly improve the social safety net, ensure that the next generation inherits a more just economy, and dramatically decrease poverty in the United States.

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