The American Rescue Plan's Child Tax Credit:

Advancing Equity and Laying the Foundation for a Child Allowance

March 2021

The American Rescue Plan Act of 2021 includes a historic one-year expansion of the Child Tax Credit (CTC), providing much-needed support to families with children.

Even when the economy is strong, too many families struggle with the costs of raising children.[1] The coronavirus pandemic has hit families with children particularly hard, as millions have had to juggle work and caregiving and had difficulty putting food on the table, paying for rent, and covering the costs of other basic necessities.[2] The American Rescue Plan (ARP) significantly expands the existing Child Tax Credit, making it fully available to families with the lowest incomes for the first time, raising the benefit levels to $3,600 for children up to age six and $3,000 for children ages six to 17, and making it available to families via advanced payments that will start as early as July 2021.

If this expanded CTC reaches all children who need it, it has the potential to advance racial equity and promote child and family well-being. The Center on Poverty and Social Policy estimates that the CTC expansion will cut child poverty overall by almost 45 percent and cut Black child poverty by 52 percent, Hispanic child poverty by 45 percent, Native American child poverty by 62 percent, Asian American and Pacific Islander child poverty by 37 percent, and White child poverty by 39 percent.[3]

Providing a guaranteed minimum income to families not only helps them cover the costs of basic necessities, but it can reduce stress for parents and caregivers and give them the breathing room they need so that they can make decisions that make the most sense for their families. Ultimately, children will be better off, as decades of research has shown how increasing families' incomes improves children's health, educational attainment, and employment over the long run.[4]

In the months ahead, the administration should take steps to ensure that this expanded benefit reaches the children who need it most, including children in Black, Latinx, Indigenous, and immigrant communities who are too often excluded from the supports and services they need. Meanwhile, Congress should take steps to improve the design and structure of the policy and make it permanent—

so that families will have the regular support they need moving forward, and all children will have the opportunity to grow healthy and strong and pursue their goals.

The Child Tax Credit Expansions Under the American Rescue Plan

The American Rescue Plan (ARP) includes significant improvements to the CTC so that it provides more support to the families who need it most and will help them meet the regular costs of raising children. These improvements, if implemented well, will advance economic and racial equity. Specifically, the ARP:

Boosts the credit to $3,600 per child ages zero to five, $3,000 per child over age six. The ARP creates a more generous CTC for low- and moderate-income families, while maintaining the existing CTC for upper income families. For low- and moderate-income families, the benefit is increased to $3,600 per child ages 0-5, and $3,000 per child ages 6-17. The increased benefit begins to phase out for heads of households making more than $112,500 and married couples making more than $150,000. It then decreases until it equals the pre-ARP maximum credit of $2,000 per child. The credit then remains at its pre-ARP level until families' income exceeds $200,000 for heads of household and $400,000 for married couples, at which point it begins to phase out entirely.

Ensures families with no or low incomes are fully eligible for the credit. Under the ARP, families with no or low income are eligible for the full $3,600/$3,000 credit. This is a significant improvement to the structure of the CTC, which previously phased in as income increased, and was only partially refundable. Approximately 27 million children, including half of Black and Latinx children, did not receive the full credit because their families' incomes were too low.[5] Under the ARP all of these children are now eligible to receive the full CTC.

Makes half of the credit available this year via periodic payments, helping families meet the regular costs of raising children. While previously the CTC was only available to families as a one-time refund on their taxes, the ARP requires the IRS to pay out half of families' expected CTC via periodic payments between July and December 2021. These payments may come as frequently as monthly. For example, for a family with two children, ages 3 and 8, who qualify for the full credit, they should receive a total credit of $6,600 ($3,600+$3,000). They will receive $3,300 ($6,600/2) via periodic payments in the second half of 2021, and the remainder as

	Child Tax Credit, Current Law (2020)	Child Tax Credit, American Rescue Plan (2021)
Benefit for families with no income	$0	$3,600 per child ages 0-5 $3,000 per child ages 6-17
Maximum benefit	$2,000 per child ages 0-16	$3,600 per child ages 0-5 $3,000 per child ages 6-17
Income at which maximum benefit phases out	$200,000 heads of household $400,000 married couples	$112,500 heads of household $150,000 married couples
Frequency	Once a year	Periodic payments, which may start as early as July 2021

*The Current Law CTC has a minimum earnings requirement of $2,500. Families are eligible for a refund of 15% of their earnings in excess of $2,500, up to $1,400, which is the maximum amount that can be refunded. Under the ARP there is no minimum earnings requirement and the CTC is fully refundable, so families with no earnings receive the maximum benefit.

a lump-sum at tax time.[6] Receiving the CTC via periodic payments will help ensure families can rely on it to meet the everyday expenses they incur over the course of the year, and it will help mitigate the month-to-month income volatility that so many families experience, and that Black and Latinx families and low-paid workers disproportionately experience.

Extends the credit to more children. The ARP extends the CTC to some children whose families were unable to claim the CTC previously, including seventeen-year-olds and children living in Puerto Rico and the territories, who are now eligible for the CTC on similar terms as children living in states.

Implementation of the CTC Expansions Should Advance Equity

To ensure the expanded CTC advances racial equity, reduces poverty, and mitigates income volatility, we must ensure that families who need the benefit most learn of it and fill out any necessary paperwork so that they receive it. Whether this becomes a policy that advances economic and racial equity ultimately hinges on implementation.

The IRS should make it easy and straightforward for families to sign up for the CTC. Families who have filed taxes in 2020 or 2019 will automatically receive the advanced payments of their 2021 CTC when the IRS begins disbursing them. Families with low incomes and no tax liability who have not filed taxes in the last two years will not automatically receive the payments. According to analysis by the People's Policy Project, Black and Latinx children are much more likely than White children to live in a family that did not file taxes in 2019: 15 percent of Black children and 9.2 percent of Latino children lived in a family that did not file taxes, compared to 4.7 percent of White children. Over a third of children living in poverty and more than half of children living in deep poverty lived in a family that did not file taxes.[7] The IRS Commissioner testified before Congress on March 18, 2021 that people who have previously not filed taxes will need to file a tax return to access the advanced credit.[8] If this is the case, and families will not be able to access it by filling-out information online in a non-filer portal as was done with the stimulus payments, then this creates an enormous barrier for non-filers to access the benefit. The IRS should reconsider this decision, and provide an option for families to claim the advanced CTC without filing an entire tax return.

The IRS should implement a robust outreach strategy, partnering with state, local, and community-based agencies to ensure that families not only learn about the new benefit, but actually receive it. The experience to date with stimulus payments makes it clear that many families who have not previously filed taxes will not receive the CTC unless the IRS takes steps to ensure that they

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do. The IRS has some information on non-filers with wage income, and it should conduct direct outreach to those non-filers to prompt them to file their taxes. The IRS should also work directly with state public-benefit granting agencies to share information about the expanded credit and encourage them to work directly with families to help those who are receiving SNAP, TANF, and other public benefits sign up for advanced payments of the CTC.[9] State and local social service agencies could set up information booths in their offices to inform families about the CTC, and connect them to organizations in the community that can walk families through the process of filing their taxes for free, such as Volunteer Income Tax Assistance (VITA) sites, or filling out the information required by a non-filer portal should the IRS create one. Ensuring families file their taxes, or fill out a form in a non-filer portal, will require a massive outreach effort and additional resources for VITA sites and other organizations that provide free qualified tax-help to families.

The IRS should take steps to protect families from having to repay the credit. Because the IRS will be paying out an advance of families' 2021 CTC, and basing those payments on income and household information they have on file from 2020 or 2019, some families may be paid more than they are owed if their income, filing status, or number of children has changed. In cases where the reason for the overpayment is due to their being fewer children in the household, families are held harmless for overpayments, and not required to re-pay the IRS at the end of the year if their incomes fall below certain thresholds. Families who are overpaid because their income or tax filing status changes, however, are not held harmless for overpayments. These families may be confronted with unexpected tax bills, that will cause many significant hardship to pay.

The IRS should take steps to limit the likelihood of overpayments so that families are not confronted with unexpected tax bills in 2022. Specifically, the IRS should send out reminders directly to families to update their household and income information in the online portal that the IRS will be creating for families to report changes. The IRS should also conduct a public campaign to inform families about the ability to update their information, and work with state and local agencies and community-based organizations to spread the word to families. Finally, the IRS should adjust withholding schedules to ensure that families with tax liability withhold the necessary amount from their paychecks to account for the advanced payments of the CTC.

The Biden-Harris Administration and Congress Should Work Quickly to Make a More Inclusive Child Allowance Permanent

Families need help with the costs of raising children this year, and every year. As the administration rolls-out this one-year expansion of the CTC, it should work closely with Congress to make a more inclusive child allowance permanent. These principles should inform a permanent child allowance:

All children who need it should be eligible for a child allowance. While the ARP makes the CTC significantly more inclusive, it is still not available to all children who need it. Some immigrant children are excluded from the CTC because President Trump's 2017 Tax Cut and Jobs Act required children have Social Security Numbers in order to qualify, thereby excluding immigrant children with Individual Tax Identification Numbers (ITINs) from the CTC for the first time. All children, including immigrant children with ITINs, must be eligible for a child allowance. In addition, certain children are excluded from the CTC because of the narrow definition of qualifying child in the tax code. Under the tax code, to be eligible for the CTC a child must live with the person claiming the credit for six months of the year or more and have a specific relationship with that tax filer—typically they must be a child, grandchild, sibling, niece or nephew of the tax filer. These rules deny benefits to children whose primary caregivers are more distant relations or fictive kin, as well as those who may change living arrangements frequently or live with their families for less than six months during a given year—as may be the case for children who return from foster care placements or from out-of-home placements in in the juvenile justice system. It is critical that a child allowance be able to reach families involved in intervening systems, as well as others whose living and caregiving arrangements change.

A child allowance should be easy and straightforward for families to access. The CTC

has a complex structure, and it puts the burden on families to produce the necessary documentation to prove their eligibility, and file that information with the IRS. Even with robust outreach, it will be difficult, and in some cases impossible, for the lowest income families to access an expanded CTC—because they cannot track down the necessary documentation, they do not have access to the internet, they are not connected to the appropriate community supports, or for any number of other reasons. For a child allowance to reach the children who need it most and advance equity, the onus should not be on families to prove their eligibility. Rather, the onus should be on government to ensure that families who are eligible get the assistance they need. A child allowance should be delivered automatically to families, requiring little-to-no paperwork.[10] Given that the CTC is almost universal as it is—only one percent of children are in families whose incomes are too high to get any benefit—it would be much simpler to eliminate means testing entirely and make the credit truly universal.[11] Eliminating means testing would also eliminate the need to document income and earnings, and to file regularly with the IRS. Families would then only need to alert the agency of changes to the number of children in their households. A universal child allowance could then be distributed regularly by the IRS or an agency that has more experience distributing monthly benefits to families, like the Social Security Administration.[12] The simpler policy design could advance equity by increasing take-up of the benefit among the children who need it most, and it could be paired with higher marginal tax rates on the wealthiest families to ensure they contribute their fair share.

The pandemic has demonstrated the dire consequences of leaving families on their own to manage the costs of raising children. It is time for a permanent child allowance.

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Endnotes

[1] The U.S. Department of Agriculture estimates that it costs on average $233,610 to raise a child from birth through age 17. Lino, Mark, et al. "Expenditures on Children by Families, 2015." U.S. Department of Agriculture, Revised Marhc 2017. Available at: https://fns-prod.azureedge.net/sites/default/files/crc2015_March2017_0.pdf.

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[3] Center on Poverty and Social Policy at Columbia University. "A Poverty Reduction Analysis of the American Family Act." January 25, 2021. Available at: https://static1.squarespace.com/static/5743308460b5e922a25a6dc7/t/600f2123fdfa730101a4426a/1611604260458/Poverty-Reduction-Analysis-American-Family-Act-CPSP-2020.pdf.

[4] Duncan, Greg and Suzanne Le Menestrel, eds. A Roadmap to Reducing Child Poverty. National Academy of Sciences, Engineering and Medicine, 2019. Available at: https://www.nap.edu/read/25246/chapter/5#74.

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[6] Note: the legislation does not dictate how many payments the IRS must make, or when exactly they must start. It simply says the IRS "shall establish a program for making periodic payments to taxpayers" and that no payments shall be made before July 1, 2021 or after December 31, 2021.
[7] Bruenig, Matt and Paul Elliott Williams. "Who Should Administer a New Child Benefit Program." People's Policy Project, February 15, 2021. Available at: https://www.peoplespolicyproject.org/2021/02/15/who-should-administer-a-new-child-benefit-program/.
[8] See House Ways and Means Committee Subcommittee Hearing, https://www.c-span.org/video/?509965-1/irs-commissioner-rettig-testifies-tax-filing-season&vod&start=917.
[9] See, for example, Newville, David and Annelise Grimm. "More Government Assistance is Coming Soon, But Will It Reach Those Who Need it Most?" Code for America, March 8, 2021. Available at: https://www.codeforamerica.org/news/more-government-assistance-is-coming-soon-but-will-it-reach-those-who-need-it-most.
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[11] Collyer et al., "Left Behind."
[12] Maag, Elaine. "Should IRS or Social Security Administer a Monthly Child Benefit?" Tax Policy Center, February 17, 2021.