

**TO:** Nancy Pelosi, Speaker of the House of Representatives

**FROM:** Domestic Team 10

**SUBJECT:** The Child Tax Credit (expanded under the American Rescue Plan) should be extended with specific changes to increase the viability of its passage through the Senate

**DATE:** 30 March 2022

### ***Problem and Context***

Child poverty in the United States is an urgent problem and is worsening due to the impact of the coronavirus pandemic. The Center on Poverty and Social Policy estimates that the national child poverty rate was as high as 14.3% in February of 2021<sup>1</sup>. To combat this issue, the White House sought to expand the pre-existing Child Tax Credit (CTC) under the American Rescue Plan (ARP), offering families \$3,600 for children up to 6 years of age and \$3000 for older children<sup>2</sup>. The expanded CTC counted 17-year-olds as eligible, and it allowed families to receive partial monthly installments from July to December, rather than an annual total sum<sup>3</sup>. Its full refundability also expanded the credit's outreach, providing access to parents who previously made too little to qualify, the majority being Black and Hispanic. As a result, the child poverty rate saw a 30% reduction by November 2021<sup>2</sup>.

Despite the policy's success, efforts to extend the expanded CTC have stalled in the Senate due to political resistance<sup>4</sup>. Opponents have speculated that those who receive benefits every month are discouraged to find work, and additional critiques have been aimed at the ability for high-earning families to receive the money<sup>2</sup>. As the poverty crisis only continues to escalate, the failure to extend the updated CTC has been attributed as a cause of the monthly poverty rate jumping from 12.5% in December to 14.7% in January<sup>1</sup>. As a result, it is more necessary than ever for our lawmakers to extend the ARP CTC. **For an expanded Child Tax Credit to have political viability, we propose the following:**

**I. Authorize an extension that includes advanced monthly payments, payments for children up to 17 years of age, and the increased distributed maximum amount**

**We propose an extension of the CTC that maintains its primary attributes: monthly advanced payments, the increased qualifying age for children to 17, and the increased maximum payment amounts.** Maintaining the ARP's expanded benefits of \$3,000 per child aged 7-17 and \$3,600 per child aged 6 and under is necessary as it proved to be financial lifelines for millions of families during the pandemic. Studies have found that the increased payments and monthly installments allowed families to spend the extra money on vital needs; 91% spent it on items like food, rent, clothes, and bills<sup>5</sup>. Advance payments under the ARP CTC also reduced family food insufficiency by 26%<sup>5</sup>. Continually, estimates across all income groups show that families tend to spend the most on children ages 15-17<sup>6</sup>. Consequently, for struggling families, it is important to count 17-year-olds as eligible.

## **II. Lower phaseout threshold to \$67,000**

Before the expanded CTC, \$117.5 billion was paid out to 48 million households in 2020<sup>7</sup>. Around 40% of that money went to households with incomes above \$100,000, while a mere 15% went to households with incomes under \$30,000<sup>7</sup>. **Phasing out credit beginning at \$67,000 (the median household income in 2020)<sup>8</sup> for single parents and \$141,000 (the 80th percentile of household income in 2020) for married couples, will ensure that the enhanced CTC is targeted towards those that need it the most.** While lower than the ARP CTC, this change is still higher than the permanent law. This adjustment would aim to continue the reduction of child poverty catalyzed by the ARP while lowering the overall cost of an expanded CTC.

## **III. Make half of each payment available regardless of earnings with full refundability**

While maintaining the maximum credit amount, **we propose making the first half fully available regardless of income, phasing in the second half starting at earnings, and eliminating the cap on refundability.** It is vital that unemployed parents are able to receive some assistance, while those that do work have the ability to claim the maximum credit amount. Additionally, maintaining the full refundability provision from the ARP CTC will ensure that even lowest-income families, which are disproportionately Black and Latino, can receive the full benefit. The ARP's expansion to families of low or no-income covered an additional 23 million children of color, which advanced racial equity, helped families get back to work, and lifted children out of poverty<sup>9</sup>.

### ***Political Feasibility***

The first step to feasibly reauthorizing the CTC with necessary changes would be to counter the concerns of its primary Democratic opponent, Senator Joe Manchin. Senator Manchin's primary issues with the expanded CTC are that the income cap is too high and that credit should be restricted to those who work<sup>10</sup>. The former is addressed within our proposal by ensuring that the credit phases out at \$67,000. Senator Manchin's second concern echoes those of other Republican opponents: that the CTC encourages individuals not to work. Research into the expanded CTC's effect's found no evidence that there has been "any sort of disruption to parental employment."<sup>5</sup> However, to alleviate the concerns of those who believe the CTC should be geared towards working families, this proposal requires that the full credit amount only be distributed to earning parents, to avoid disincentivizing work. In this way, the CTC can be successfully expanded with potentially broader congressional approval, while still providing support to the nation's most vulnerable.

### ***Conclusion***

Due to the success of the expanded Child Tax Credit in reducing child poverty, it is necessary for Congress to extend the payments. With the revisions presented in this proposal, the policy can have greater political support and continue to better the lives of families who need it most.

## References

<sup>1</sup> Center on Poverty and Social Policy. “Monthly Poverty Data.” *Center on Poverty and Social Policy*. 2022. <<https://www.povertycenter.columbia.edu/forecasting-monthly-poverty-data>> (30 March 2022).

<sup>2</sup> Casselman, Ben. “Child Tax Credit’s Extra Help Ends, Just as Covid Surges Anew - The New York Times.” *New York Times*. 2022. <<https://www.nytimes.com/2022/01/02/business/economy/child-tax-credit.html>> (30 March 2022).

<sup>3</sup> Teague, Katie. “2022 Child Tax Credit: How Expansion Could Eliminate Poverty for Millions.” 2022. *CNBC*. <<https://www.cnet.com/personal-finance/taxes/bigger-child-tax-credit-could-lift-millions-of-children-out-of-poverty/>> (30 March 2022).

<sup>4</sup> Adamczyk, Alicia. “Joe Manchin reiterates that he won’t support enhanced child tax credit without a work requirement.” *CNBC*. 2022. <<https://www.cnbc.com/2022/01/04/manchin-wont-support-enhanced-child-tax-credit-without-work-requirement.html>> (30 March 2022).

<sup>5</sup> Turner, Cory. “The expanded child tax credit briefly slashed child poverty. Here’s what else it did.” *NPR*. 2022. <<https://www.npr.org/transcripts/1075299510>> (30 March 2022).

<sup>6</sup> Lino, et al. “Expenditures on Children by Families, 2015.” *United States Department of Agriculture*. 2017. <<https://fns-prod.azureedge.us/sites/default/files/resource-files/crc2015-march2017.pdf>> (30 March, 2022).

<sup>7</sup> Wessel, David. “What Is the Child Tax Credit? And How Much of It Is Refundable?” *Brookings*. 2021. <https://www.brookings.edu/blog/up-front/2021/01/22/what-is-the-child-tax-credit-and-how-much-of-it-is-refundable/> (30 March, 2022).

<sup>8</sup> U.S. Census Bureau. “Income and Poverty in the United States: 2020.” : 92. 2020. (30 March, 2022).

<sup>9</sup> Pathak, Arohi. “Making CTC and EITC Expansions Permanent Would Reduce Poverty and Grow the Economy.” *Center for American Progress*. 2021. <<https://www.americanprogress.org/article/making-ctc-eitc-expansions-permanent-reduce-poverty-grow-economy/>> (30 March, 2022).

<sup>10</sup> Pittman, Travis. “Why there’s no monthly child tax credit check coming this week.” *WUSA9*. 2022. <<https://www.abc10.com/article/news/nation-world/child-tax-credit-no-january-payment/507-00d0830e-11c9-4c08-82d0-8a8148b8759b>> (30 March 2022).