

Expanded Child Tax Credit Proposal Critical for Families with the Lowest Incomes

The COVID-19 public health crisis has dramatically increased the financial hardships that many families are facing as economic and food insecurity rates have skyrocketed from already high levels. Lawmakers have an opportunity to implement anti-poverty measures that will support children during the pandemic and in the years to come. Investing in a monthly benefit for families with children would slash child poverty rates **by 45 percent** and improve health and education outcomes for children and families, **especially those** who are Black, Latino, and Asian.

Under the American Rescue Plan, President Biden proposed expanding the existing child tax credit (CTC) to make it fully refundable, increasing the benefits families receive, and allowing families to receive increments of the benefit monthly. How such a child allowance policy is drafted and implemented will determine whether families with the lowest incomes can access the monthly benefit and whether the program will promote racial justice. Based on CLASP's 2020 **Principles for Federal Tax Policy**, we have identified the following critical components of an expanded CTC. Lawmakers should ensure that:

- The expanded CTC is fully refundable to support children in families with the lowest incomes
- All children, including those in Puerto Rico and in immigrant and mixed-status families, have access to the expanded CTC
- The expanded CTC includes "safe harbors" to ensure families are not punished for accidental overpayments or changes in their family situation
- The payments are protected from garnishment and interception so they benefit the children they're intended for, not creditors
- The IRS coordinates with other agencies to enroll recipients of other public benefit programs even if they don't file federal income taxes
- The expanded CTC should supplement, not supplant, other supports for families, such as direct funding for child care

The Expanded CTC Must be Available to All Families with Low Incomes

While the CTC is supposed to help families with the costs of raising children, those who need help most don't get it under current law. An estimated **one-third** of children don't receive the full CTC because their families earn too little, and over half of Black and Latino children are in families that earn too little to receive the full benefit. CTC benefits should be fully refundable to ensure families with little to no earnings can still receive the monthly benefits. Under current law, the CTC is only available to families with at least \$2,500 in income.

Children in immigrant families and Puerto Rican families should have access to the expanded CTC benefits.

The 2017 Tax Cuts and Jobs Act restricted CTC eligibility to children with Social Security numbers. An estimated **one million children** who don't have Social Security numbers are excluded from this support. Over **2 million** U.S. citizen and documented immigrant children were denied access to the stimulus payments because of their parents' immigration status. Children in Puerto Rico should also have equal access to the CTC. But under current law, Americans living in Puerto Rico only qualify for the CTC if they have three or more children, and generally they receive a lower benefit than families on the mainland. Children need food and shelter, regardless of their immigration status and where they live.

Families Should be Protected from Increased Financial Hardship

Providing the CTC as a monthly payment is an important way to help families meet their ongoing basic needs. But if the expanded CTC benefit is provided to families based on their income and tax status from the prior tax year, without a strong "safe harbor" provision they will face owing large sums to the IRS based on changing circumstances from year to year. The requirement to pay the government money the family has already spent could force families with low incomes into a financial spiral and make them worse off than they were without the credit.

By protecting the expanded CTC payments against garnishment and interception, policymakers can ensure the money goes to the children it is intended for, not to creditors. The payment should not be used to offset tax liability that families may owe.

Increase Access to the CTC by Tying Enrollment with Other Public Benefit Programs

The families with the lowest incomes are not required to file federal tax returns, and some of them missed out on timely receipt of the stimulus payments as a result. To ensure all eligible children receive the benefit, lawmakers should include language to allow the IRS to coordinate with the Social Security Administration (SSA) and other state public benefit granting agencies to identify families who are already receiving benefits and aren't required to file taxes so they can receive their benefits quickly with as little administrative burden as possible. This could also accelerate enrollment of newborns, many of whom are covered by Medicaid.

CTC Expansion: One of Many Investments Children Need

Investing in an expanded CTC benefit should not replace additional funding in child care and investments in other public benefit programs that support children, like cash and food assistance for families.

Addressing the urgent needs of the child care crisis and rebuilding an equitable system that works for families, children, and workers requires significant direct public investment through relief funds and mandatory child care spending.

The Child and Dependent Care Tax Credit (CDCTC) should also be expanded and made fully refundable. But the CTC and the CDCTC are two separate tax credits that provide different forms of financial support to families with children. Improvements to the CDCTC should be *in addition* to increased direct spending on child care *and* an expanded CTC, not in place of it.