25 Years of Progress for Children

The Child Tax Credit, Its History and Track Record, and What Congress Should Do Now

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CLASP
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Introduction

Thank you, Chairman Bennet, Ranking Member Thune, and members of the subcommittee. My name is Indivar Dutta-Gupta, and I am the President and Executive Director of the Center for Law and Social Policy (CLASP). CLASP is a national, nonpartisan nonprofit utilizing research and analysis to advance effective policy solutions that disrupt structural and systemic racism and sexism and remove barriers blocking people from economic security and opportunity, in turn building a more prosperous country for all of us.

I'm honored to submit this written testimony on the extraordinary bipartisan history and even more extraordinary quarter-century track record of the Child Tax Credit (CTC). My own history working on the CTC dates to 2006, when I was a research assistant at the Center for American Progress, developing policies to reduce poverty in the United States, including a more inclusive CTC. From 2007 through 2010, I worked on a bipartisan basis to reduce the discrimination in the tax credit against people with limited incomes as Professional Staff on the Ways and Means Committee. We succeeded in shrinking the amount of family earnings ignored from around $11,000 a year to $3,000 a year, avoiding a worsening situation as more and more children who would benefit the most would otherwise be excluded from the credit. Subsequently, I worked at the Center on Budget and Policy Priorities—and later at the Georgetown Center on Poverty and Inequality—to push for a truly inclusive, more adequate, and more effective CTC that would help families raise children in developmentally desirable environments. The enhanced CTC in 2021 marked the high-water mark for these collective and often bipartisan efforts.

This testimony highlights the CTC's role in reducing poverty and expanding opportunity, as well as raising living standards over time by growing our economy. I also focus my testimony on the history of bipartisan support for the CTC and how and why Congress should improve the credit. First, I start with some context-setting, explaining just how harmful child poverty—even defined narrowly as simply having very low childhood income—is.

The High Cost of Child Poverty

Mounting research makes clear that childhood poverty harms children and society overall.

Child Poverty's Effects on Children

Poverty is bad for all children and particularly bad for the youngest children. Children who experience poverty are far more likely than their peers to fail to finish high school, become parents as teens, and experience poverty as adults.[1] The time around the birth of a child is frequently the point at which parental income is at a nadir,[2] meaning that the youngest children are most likely to live in poverty, at a time that is critical for their development.

Poverty affects children through direct material hardships such as food insecurity and hunger, inadequate clothing or diapers, lack of health care, living in overcrowded or substandard housing, or being homeless. But poverty also harms children by imposing high levels of stress on their parents, which impairs their capacity to give their children the care and attention any child needs to thrive.[3] The harsh realities of today's low-wage labor market—with the norm being little paid time off and unpredictable and unstable schedules—ratchet up the stress and make it harder for parents to fulfill their dual roles as wage-earners and caregivers.[4] Children's needs themselves are a major source of motivation for parents, as well as sometimes a cause for economic vulnerability and stress. As a result, parents facing poverty, however loving and dedicated, often struggle to meet their children's needs.

A number of studies have attempted to identify the effect of income, independent of the many other family and neighborhood factors, on child well-being and future outcomes. A few representative findings include:

- Researchers were able to track 16,000 boys into adulthood whose mothers applied for cash support from the Mothers' Pension program between 1911 and 1930 due to the loss or disability of their breadwinning father. Compared to the children whose mothers' applications were rejected, male children whose mothers received assistance lived one year longer, obtained one-third more years of schooling, were less likely to be underweight, and had higher income in adulthood.[5]
- A study of variation in pandemic-era stimulus and CTC payments found that each additional $100 in unconditional transfers a family received while a mother was pregnant reduced the prevalence of low birthweight by 2 to 3 percent. Low birthweight in turn has strong predictive power for adverse health outcomes throughout childhood and into adulthood.[6]
- A study taking into account that families with babies born in December receive an additional year of child-related tax benefits compared to families with babies born in January found that a $1,000 tax transfer to low-income families results in 2.6 percent fewer referrals to child protective services through age 2 and 7.9 percent fewer days spent in foster care.[7]
- A randomized study of a cash transfer program for low-income mothers of infants in four geographically diverse metro areas found impacts on the children's brain wave patterns associated with higher language, cognitive, and social-emotional scores in older children.[8]
- Educationally, each $1,000 in combined EITC and CTC federal tax credits increases a child's test scores by 6 to 9 percent of a standard deviation, with higher effects seen in math scores.[9] Similar results, along with impacts on mental and physical health, are found in a study of Canadian child benefits that were overwhelmingly unconditional.[10]

Family income during the prenatal period and early childhood is particularly critical to healthy development and positive outcomes in later life and may have a larger impact on long-term outcomes than income later in life.[11] Holding all else equal, for families with early childhood (prenatal to age 5) incomes below $25,000, a $3,000 annual boost to family income during that period is associated with a 17 percent increase in adult earnings when that child grows up.[12]

The 2019 National Academies of Sciences, Engineering, and Medicine (National Academies) report on Child Poverty comprehensively reviewed the literature on the causal impact of poverty and found:

> *"The weight of the causal evidence indicates that income poverty itself causes negative child outcomes, especially when it begins in early childhood and/or persists throughout a large share of a child's life. Many programs that alleviate poverty either directly, by providing income transfers, or indirectly, by providing food, housing, or medical care, have been shown to improve child well-being."*[13]

Child Poverty's Effects on Society

But the impact of child poverty is not limited to individuals. The consequences of poverty as experienced in this country impose significant costs on society as a whole through a few major mechanisms:

- lost worker productivity and earnings;
- greater morbidity and mortality, which can be especially costly in a country with extraordinarily high health care costs and spending; and
- increased law enforcement and prison and jail costs, due to policymakers' decisions to pursue a path of mass criminalization and mass incarceration.

The evidence of societal costs is particularly strong for child poverty, which lowers tax revenues and increases public spending unnecessarily, in turn hindering our nation's economic prosperity and potential.[14] One estimate finds societal costs of child poverty to be approximately 5.4 percent of GDP in 2015.[15]

History of the Child Tax Credit, 1991-2020

The policy origin of the United States Child Tax Credit dates to at least 1991, and the credit has changed on numerous occasions on a bipartisan basis since its original enactment in 1997, generally becoming more inclusive and generous over time.

1991 – National Commission on Children

The Child Tax Credit was first proposed in the March 1991 report of the Congressionally established National Commission on Children, a bipartisan body whose 34 members were appointed by President Ronald Reagan (in 1987) and both houses of Congress. The commission unanimously recommended a $1,000 per child refundable credit that would be indexed for inflation (i.e., approximately $2,250 in today's dollars), noting that the United States is "the only Western industrialized nation that does not have a child allowance policy or some other universal public benefit for families raising children."[16] The Commission noted that the federal personal exemption for dependent children does not meet the goal of assisting families with the cost of raising children "because it has declined in value over the past four decades, because it is not available to families that do not pay federal income tax, and because it provides a greater benefit to families with higher earnings."[17]

1991-1996 – Legislative Momentum

The idea of a child tax credit was embraced by both Democrats and Republicans. In 1994, the Contract with America, the Republican Party's legislative agenda championed by Newt Gingrich, included a $500-a-year child tax credit.[18] In the 104th Congress, two Republican-led bills also included this provision in the American Dream Restoration Act and the Tax Fairness and Deficit Reduction Act, the latter of which passed in the House.[19] President Clinton also put out his own proposal on what the child tax credit could look like with the Middle-Class Bill of Rights Tax Relief Act of 1995, as did other Democrats including then-Senator Tom Daschle and Rep. Charles Rangel with their own proposals.[20]

1997 – Initial Enactment

The CTC was first enacted as part of the Taxpayer Relief Act of 1997, with large margins of bipartisan support (92-8 in the Senate and 389-43 in the House).[21] However, the CTC as enacted fell well short of the Commission's recommendations. In particular, the credit was worth only $400 (rising to $500 in 1999) and, it was mostly non-refundable,[*] meaning that it excluded those who would most benefit. For

[*] The only families who could get a refundable credit were those with more than two children and whose payroll taxes exceeded their earned income tax credit.

example, a minimum wage earner working full time would have earned $10,300, below the filing threshold, and therefore would not have benefited at all. The credit also began to phase out starting at $75,000 in adjusted gross income for heads of household filers and $110,000 for married joint filers. Neither the amount of the credit nor the phaseout thresholds were indexed for growth in prices or living standards.

2001-2004 – First Steps Toward Inclusion

In 2001, the Economic Growth and Tax Relief Reconciliation Act, which passed with a 58-33 Senate vote (46 Republicans and 12 Democrats) and in the House with a 240-154 vote (211 Republicans, 28 Democrats, and 1 Independent),[22] represented one of President George W. Bush's signature legislative achievements. It also made the credit partially refundable – up to 10 percent of income over $10,000 for tax years 2001 to 2004, and 15 percent of taxable income over that threshold starting in 2005.[23]

This schedule was later accelerated by the Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) and the Working Families Tax Relief Act, so that the expansion was fully phased in by 2004.[24] JGTRRA was passed by a vote of 231-200 in the House, with 7 Democratic votes, and 51-49 in the Senate.[25] However, at that point, a single parent with two children would not receive the full value of the CTC until their taxable income reached $23,333—the equivalent of working full-time, every week…in *more than* two *minimum wage jobs* in 2004 (See Figure 1.). The JGTRRA threshold was indexed for inflation and had reached $11,750 by 2007.[26]

When the JGTRRA was signed into law in 2003, it failed to make the CTC more fully refundable. Two Senators—Blanche Lincoln, a Democrat from Arkansas, and Olympia Snowe, a Republican from Maine—led the push for a vote weeks later to expand partial refundability, which had been included in an earlier version of JGTRRA. This bill passed the Senate 94-2.[27] However, the bill that was ultimately enacted—the Working Families Tax Relief Act of 2004—extended the CTC and made changes to the definition of a dependent, but it did not lower the threshold for refundability. The Senate passed the bill in an overwhelmingly bipartisan manner—by a 92-3 vote—and the House passed it by a 339-65 vote.[28]

2007-2015 – Leaps Toward Inclusion

The earnings threshold was finally lowered in response to the 2007-2009 financial crisis. The threshold was reduced first to $8,500 by the Emergency Economic Stabilization Act of 2008 (passed in the Senate 74-25, with 44 Democrats and 30 Republicans, and in the House 263-71, with 172 Democrats and 91 Republicans) and then temporarily to $3,000 by the American Recovery and Reinvestment Act of 2009. The earnings threshold was extended under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 and the American Tax Relief Act of 2012, and finally made $3,000 permanently (with the threshold no longer rising with inflation) by the Protecting Americans from Tax Hikes (PATH) Act of 2015.[29]

2017 – Substantial Expansions for High-Income Households

The Tax Cut and Jobs Act of 2017 (TCJA) made a series of changes to the CTC that mostly benefited middle to upper-income households. It doubled the maximum credit per child to $2,000 and greatly increased the phase-out thresholds, from $75,000 to $200,000 for heads of household and from $110,000 to $200,000 for married joint filers. It modestly reduced the start of the phase-in threshold, from $3,000 to $2,500, but capped the refundable portion of the credit at $1,400. This means that unless families owed at least $600 per child in federal income taxes, they did not receive the full benefit of the credit—both the refundable and nonrefundable portions. (The $1,400 cap is adjusted for inflation and rose to $1,500 for tax year 2021 and $1,600 for tax year 2023.) The Center on Policy and Budget Priorities estimated 19 million children under age 17 in 2019 lived in families that did not earn enough to receive the full credit.[30] In addition, TCJA made more restrictive the identification requirement for children for whom the credit is claimed, requiring a Social Security number—issued before the date of the tax return—for each child.[31]

As a result of the TCJA changes, many low-income families received just $75 extra—resulting from the $500 lowering of the refundability threshold, multiplied by the 15 percent phase-in rate. By contrast, most newly eligible higher-income families received the maximum credit of $2,000 per child.[32]

To limit the scored revenue losses under the TCJA, most of its provisions, including the changes to the CTC, will sunset after 2025. Beginning in 2026, the parameters of the CTC will reset to their previous levels—$1,000 per child through age 16, phasing in at 15 percent after ignoring the first $3,000 of earnings, and beginning to phase out at $75,000 for heads of household and single filers—unless Congress enacts additional legislation to extend these changes.

Figure 1. Partially Refundable Credit Provides Less Support to Children of Low-Wage Working People

Year	Maximum credit per child	Maximum refundable credit per child	Earnings not counted for refundable credit	Credit received by single mother with 2 kids with a full-time minimum wage job	Credit she receives as share of maximum credit for 2 kids	Number of minimum wage jobs she'd need to work for full credit
1999	$500	-	NA	-	0%	2.1
2004	$1,000	$1,000	$10,000	$45	2%	2.3
2009	$1,000	$1,000	$3,000	$1,725	86%	1.1
2018	$2,000	$1,400	$2,500	$1,800	45%	2.1
2021	$3,000 ($3,600 < 6)	$3,000 ($3,600 < 6)	NA	$6,000 (if kids are >6)	100%	0
2023	$2,000	$1,600	$2,500	$1,800	45%	2

Source: CLASP calculations using IRS data.

2019 – National Academies Roadmap on Reducing Child Poverty

In 2019, the National Academies of Sciences, Engineering, and Medicine released a report on child poverty. The FY2016 Omnibus bill included an amendment proposed by Democratic Representatives Roybal-Allard and Barbara Lee requesting that the National Academies conduct a comprehensive study of child poverty, including the societal impacts (discussed above) and the effectiveness of current efforts to reduce child poverty, and propose recommendations with the goal of reducing the number of U.S. children living in poverty by one-half in 10 years. This amendment was supported by Republican Tom Cole, who was the Chairman of the House Appropriations Labor, Health, and Human Services and

Education Subcommittee at the time, and was passed in the Republican-controlled House and Senate.[33] The report found that while no single policy could achieve this goal, packages of policies could. Two of the proposed packages included a child allowance similar to a fully refundable CTC.[34]

The 2021 Child Tax Credit: Full Refundability's Sizeable Effect on Child Poverty

The American Rescue Plan Act's enhanced Child Tax Credit help slash poverty nearly in half.

How the American Rescue Plan Act Temporarily Expanded the CTC

The American Rescue Plan Act made three changes to the CTC for tax year 2021:[35]

1. the credit became fully refundable, meaning it would be fully available to families without regard to their federal income tax liability, including to families with little to no earnings;
2. the credit increased to $300 per month per child ages 0 through 5 and to $250 per month for children ages 6 through 17, adding eligibility for 17-year-olds for the first time; and
3. the credit would be distributed to families monthly.

Eligible parents received up to half of their 2021 CTC through monthly payments between July and December 2021 and then received the second half of their credit when they filed their tax return in early 2022. Nearly 90 percent of children received the monthly payments automatically, based on information the IRS already had.[36] Families could choose to opt out of receiving the monthly payments and instead get their entire credit as a lump-sum payment amount when they filed their return.

The CTC Expansion's Impacts on Reducing Child Poverty

The temporary expansions to the CTC, similar to the recommendations originally made by the Reagan Commission, dramatically reduced child poverty—especially the credit's full refundability, which is the component of the bill making the credit available to the lowest-income families for the first time. In 2021, the CTC kept 1 million children under the age of 6 out of poverty, and 1.9 million children between the ages of 6 and 17, according to the U.S. Census Bureau.[37] Child poverty rates, as measured by the U.S. Census Bureau's Supplemental Poverty Measure, declined nearly in half (to 5.2 percent) from the previous low (9.7 percent in 2020, driven mainly by the stimulus payments), thanks in large part to the expanded CTC.[38]

The expanded CTC payments, especially the full refundability of the credit, benefited Black and Latinx children. Due to factors such as discrimination and wage gaps in the labor market and structural influencers of family poverty, Black and Latinx kids are often overrepresented among households with lower incomes. Because of this, Black and Latinx kids were more likely to be among the one-third of families who did not receive the full CTC benefit under prior law due to their families earning too little.[39] About 45 percent of Black children and 39 percent of Latinx children did not get the full CTC because their families' incomes were too low to qualify.[40] Making the CTC fully refundable expanded access for Black and Latinx kids, which had huge ramifications for reducing child poverty.

CLASP-Ipsos Survey Assessing Impacts of the CTC Expansions for Families

CLASP conducted a survey in collaboration with Ipsos, researchers at the University of California-Berkeley, and other organizations to evaluate the effects of the monthly CTC payments on families' finances and well-being, and to assess tax-filing behavior among parents. The surveys asked a nationally representative sample of over 1,000 parents with low to moderate incomes about how they spent their CTC payments and how the payments impacted the well-being of their families during and after the distribution of the monthly payments.

In the October 2021 survey, parents largely reported spending the monthly payments on bills, food and groceries, and rent and mortgage payments.[41] Parents who received the monthly payments reported that it decreased their financial stress and helped them afford monthly expenses more easily.[42] Nearly 70 percent of survey respondents who received the monthly payments said that the payments made them feel a lot or a little less stressed about money.[43] Some parents also reported that receiving the monthly payments made it easier for them to engage in paid work or to work more hours. About one-quarter of all survey respondents receiving the monthly payments agreed that the payments helped them work. Black respondents were twice as likely to say the monthly payments helped them work compared to white respondents.[44]

Once the monthly payments ended, respondents reported a reversal of these positive trends—they were having a harder time affording essentials, facing food instability, and experiencing more financial stress, according to findings from the subsequent July 2022 survey.[45] Sixty percent of parents who previously received the monthly payments stated it had been more difficult for their family to meet their expenses since the payments stopped.[46] Respondents with lower incomes (incomes of under $50,000) reported having more difficulty affording these expenses than survey respondents with higher incomes (incomes between $50,000 and $74,999, which was the highest income included in the survey sample.) Hispanic respondents said they had more difficulty meeting these expenses compared to white and Black respondents, as did respondents with disabilities compared to respondents without disabilities.[47] Many respondents who had received the monthly payments also said it was harder for their family to afford more or higher-quality food and reported visiting food banks more frequently after the monthly payments stopped. Fifty percent of Hispanic respondents who had received the monthly payments reported being unable to buy quality food and/or visiting a food bank more frequently after the payments ended, compared to 39 percent of white respondents and 34 percent of Black respondents.[48]

CLASP and researchers from the University of California, Berkeley also conducted phone interviews with consenting survey respondents to further discuss how households were faring after the end of the monthly payments, and one parent described how they had changed their food spending patterns to stretch their dollars further after the monthly payments ended: *"I'm buying less expensive food and not as much. Try to keep enough in the house, so there is a decent amount."* During these phone interviews, parents also explained how they could afford enrichment activities for their kids, as well as other treats for their families, when they were receiving the monthly payments. For example, one parent said the monthly payments went toward their son's birthday party—a celebration they had not been able to afford in prior years. Another parent reported being able to afford a musical instrument for their child while receiving the monthly payments, allowing the child to join the school's marching band. Being able to afford these kinds of gifts and experiences for children can have positive emotional effects for both the child and the parent.

Other Research Assessing Impacts on Food Security, Mental Health, and Other Well-Being Measures from the CTC Expansions

Other research studies on the effects of the expanded CTC have found similar findings—the monthly payments supported families and improved their well-being. Studies largely concluded that the monthly

CTC payments went toward basic necessities. About 9 in 10 families with low incomes (incomes of less than $35,000) used their monthly CTC payments for basic household expenses or education, according to an analysis by the Center on Budget and Policy Priorities of Census Bureau data from July, August, and September 2021.[49] The Washington University in St. Louis Social Policy Institute used Census Household Pulse survey data from July and August 2021 to determine the most common way recipients spent CTC payments, and in nearly all states—with the exception of Mississippi—it was to purchase food.[50] Research from the Urban Institute from September 2021 also concluded that food was the most common way that recipients reported spending their monthly CTC payments.[51]

Research has concluded that monthly payment receipt was tied to declines in food insecurity for families with children. The Census Bureau reported that food insecurity rates among families with children declined coincident with the distribution of the monthly payments in July, compared to food insecurity rates remaining constant during the same period for households without children.[52] The Center on Poverty and Social Policy at Columbia University concluded that monthly payments reduced food insufficiency among families, especially for families with incomes below $35,000. This finding was consistent among Black, Latino, and white families.[53] A survey from the Brookings Institute found that the expanded CTC improved food security and healthy eating habits among households that were eligible for the expanded credit. Eligible households were 1.3 times more likely to increase their fruit consumption, 1.5 times more likely to increase their meat and protein consumption, and 1.4 times more likely to report having an increased ability to afford balanced meals, when compared to households that were not eligible for the expanded credit.[54]

When families can afford essential costs of living like bills, groceries, and rent, this can help reduce financial stress. Improved food stability can also reduce stress for parents and improve their health outcomes, including both physical and mental health. One study found that higher CTC payments correlated with a decreased amount of reported bad mental health days. These effects began three months after the initiation of the monthly payments and went away once the monthly payments ended.[55]

Families who receive SNAP benefits and who use Propel—a financial service application for people with low incomes—reported in a survey how receiving the CTC monthly payments impacted their families. Parents who received the CTC payments in July and August 2021 were more likely to think that they would be able to stay in their housing for the next 30 days, less likely to be evicted, and less likely to report having slept in a shelter in the past 30 days. But despite this, some households still reported their utilities being shut off (13 percent of all households surveyed with children under 18 years old) and paying their September rent late or not at all (50 percent of all households surveyed with children under 18.)[56] Another survey of families receiving the expanded CTC found that eligible households had statistically significant declines in credit card debt when compared to households that were not eligible for the CTC. Eligible households were more likely to reduce their use of high-cost financial services, like payday loans and pawn shops, and to have reduced their rates of selling blood plasma. Eligible households were also more easily able to manage emergency expenses and faced declines in evictions.[57]

Evidence of CTC Expansions' (Lack of) Effects on Work

When the CTC was temporarily expanded to include families with little to no earnings, some lawmakers expressed concern about the effect the policy change would have on labor force participation. Claims about the expanded credit significantly reducing workforce participation go against what numerous research studies have concluded.[58] Studies from the United States and abroad find that a generous child credit has minimal effects on employment. In addition, expanding the CTC has positive benefits to society at large that pay for any small cost of parents dropping their work hours or dropping out of the workforce.

We can evaluate the effects of the expanded CTC on employment behavior partly by evaluating the effects in 2021 when the monthly payments were temporarily distributed to families. According to data from the Bureau of Labor Statistics, employment increased by 1.7 percentage points among both parents and non-parents in 2021, meaning the expanded CTC did not reverse employment participation gains for parents who were eligible to receive the credit.[59] Researchers at the University of Michigan found no evidence of CTC receipt affecting labor force participation, including both full-time and part-time employment, using monthly survey data of households with at least one child under 18 from the Propel application available to SNAP recipients. Specifically, the researchers concluded, "*We find no evidence that the monthly CTC benefits led to a reduction in employment or labor force participation in the six months during which the benefits were distributed.*"[60] Similarly, an analysis by Columbia University researchers of Current Population Survey and Census Pulse data found "small, inconsistently signed and statistically insignificant" impacts on both employment in the prior week and on active participation in the labor force among adults in households with children.[61]

A comprehensive literature review from Megan Curran at the Center on Poverty and Social Policy at Columbia University summarizes the multiple research reports about the expanded CTC and its impacts, including on employment outcomes. That report concluded that the expanded CTC "had no discernable negative effects on parental employment" based on the research evidence currently available.[62]

Parents are unlikely to change their employment status due to receiving just a few extra hundred dollars a month from a monthly CTC. The CTC payment generally does not equate to the revenue of an annual salary and cannot supplant the health care benefits that often come with employment. The option to work fewer hours and provide more child care is especially important for parents of children who have disabilities, which may require more time-intensive care and is often easier for a parent to provide rather than relying on child care facilities.

An American Enterprise Institute survey found that 9 in 10 respondents reported that the CTC payments had not affected their employment behavior or the employment of someone in their household. The same percentage of respondents reported in the survey that the CTC payments have helped them work more as those who said it has helped them work less (5 percent), and only 1 percent of respondents said the CTC payments have helped them work not at all.[63]

By contrast, the study that Dr. Kevin Corinth and his colleagues at the University of Chicago published in October 2021—which projected that 1.5 million parents, representing 2.6 percent of all working parents would exit the labor force due to the implementation of a permanent, expanded CTC benefit—is not based on actual data from the CTC expansion but is rather a calculation based on assumed elasticities of labor supply.[64]

This leads to some strange and highly unlikely results: for example, nearly a third of the expected impact under the Chicago study comes from the calculation that about 400,000 parents with earnings of over $50,000 would leave the labor market due to the CTC changes.[65] While we cannot know for certain what will happen under a permanently expanded CTC until the policy is implemented, we can also learn from what has happened in other countries that have implemented permanent child benefits.

Other countries provide child allowance programs for parents with children that are more wide-reaching and that provide a larger benefit than the United States CTC does. Canada, for example, provides families with a credit of about $5,500 per child under the age of 6 and about $4,600 per child ages 6 through 17.[66] This is a permanent program available to families with little to no earnings.

Canada has a higher labor force participation rate than the United States (65.5 percent vs. 62.6 percent), as of May 2023. The differences are even larger among working-age women.[67] Research has confirmed that the introduction of the Canada Child Benefit in 2016 and the expansion of the Canadian Universal Child Care Benefit in 2015 did not impact the labor supply for single or married women.[68] While these two programs are different, and the two countries have varying economic and labor market circumstances, it is still significant that the Canada child allowance program has successfully existed for multiple years—at a larger scale and with a greater benefit level than was offered temporarily in the United States—and has not negatively affected the labor market.

The increased income from the monthly CTC payments even helped some parents work more hours. For example, our CLASP-Ipsos survey found that one-quarter of survey respondents who received the monthly payments reported that receiving the monthly payments helped them to work more hours.[69] During phone interviews, parents said that the monthly payments helped them afford transportation costs, such as a necessary car repair, to get to employment. Payments also helped parents afford child care, which is critical for maintaining employment.[70]

Simply put, working can cost money. Without having the emergency funds to cover an unexpected car repair, workers cannot get to their jobs and maintain their employment. The reliability of the monthly CTC payments provides one critical financial cushion for families to afford these essential costs. Without reliable and sufficient child care, an underfunded resource in our country, many parents are also left without a pathway to maintain employment opportunities. Paid family leave is another critical work support that is too often unavailable to parents as they seek employment while taking care of their families. If lawmakers want to promote work among families, it is essential that they invest in child care and paid family leave, in addition to a fully refundable CTC.

Regardless of any changes in employment that may stem from the permanent distribution of the expanded CTC payments, the purpose of the program is to invest in the next generation of children. Research has repeatedly confirmed the positive impacts on a child's education, health, and long-term economic outcomes when families have additional income during a child's early stages of development.[71] The expanded CTC also reduces child poverty at high rates, which has a large payout for our society overall—more than $9 returned to society for each dollar spent.[72] These positive outcomes are worth any minor cost of the changed employment behavior among a small share of parents.

Next Steps for the Child Tax Credit

At the end of 2025, major provisions of the TCJA, including those that expanded the CTC in 2017, expire. This creates an opportunity to permanently improve the CTC, drawing from the lessons of the 2021 expansion as well as the 25-year record of experimentation and evidence. Of course, Congress need not wait until 2025 to make these improvements.

The single most important thing for Congress to do in revising the CTC is to make it fully refundable on a permanent basis, as recommended by the 1991 National Commission on Children. The evidence for such an approach is even stronger than it was at that time. In this testimony, I have shared just a small sample of findings from the vast array of rigorous empirical studies demonstrating that providing cash to families with low incomes improves child health, stabilizes their lives, and provides the foundation so that children can thrive. The CTC can only achieve these critical outcomes if it is fully refundable so that it reaches the lowest-income families, who need it the most. It is worth noting that a fully refundable credit is important not just because it reaches the lowest-income families, but because it makes automatic monthly payments feasible, as the total benefit is more predictable. Monthly payments are important for helping families meet ongoing basic needs, like paying rent and preventing material hardship. People will be afraid to accept monthly payments if it puts them at risk of owing money back to the IRS at tax time. A hold-harmless provision that protects people who lose their jobs could reduce this concern, but not completely eliminate it.

A fully refundable credit also allows families who are not otherwise required to file tax returns to claim the credit without income reporting. This is important for ensuring that the benefit actually gets to the families who need it. For people without experience of filing—many of whom have multiple small-dollar sources of income—tax filing can be a significant barrier to claiming credits. Code for America found in a 2022 experiment that of nearly half-a-million clients who used the simplified portal—GetCTC—to claim the child tax credit and were offered the opportunity to also claim the EITC by reporting income data, less than 67,000 started a return claiming the EITC and just 1,019 successfully submitted a return claiming the EITC.[73]

I also urge Congress to improve upon the 2021 CTC in certain respects:

- Make monthly payments available for parents of newborns. The IRS was never able to create a way for people who had babies in 2021 to register for the monthly payments—ultimately, these parents had to claim the credit when they filed their taxes in 2022. Given what we know about the importance of income in the early years, this is deeply problematic. Congress should authorize data sharing between IRS, Social Security, and state Medicaid agencies for the purpose of automatically providing credits to families of infants.
- Examine ways to include children in foster care or otherwise ineligible to be claimed by any taxpayer as a dependent due to their unstable living arrangements. These are some of the most vulnerable children in our society, and it makes no sense for them to be excluded. It is worth noting that the 1991 Commission report that first recommended the creation of a CTC urged that "when children are living apart from their parents, the adults who are primarily responsible for their care, whether members of the extended family or foster parents, should be eligible to collect the refundable child tax credit."[74] Congress should also provide families with protections against owing money due to changing circumstances. Changing custody arrangements mean that children may live part of the year with family members who are ultimately not eligible to claim them as tax dependents; it's important that they not be put at risk of having to repay monthly payments received when the child lived with them.
- Continue to support the IRS in easing the burden of filing for people with low incomes, including continuing work on developing and implementing the pilot for an IRS-run free file site, investing in the Volunteer Income Tax Assistance (VITA) program and other supports that provide free assistance to people filing their taxes, investing instead of depleting funding for the IRS, and

exploring opportunities to make payments automatically, as was done with the stimulus payments and 2021 CTC. It is also critical to address the disproportionate risk of audits for taxpayers with low incomes (especially those claiming the EITC) and taxpayers of color.[75]

Congress should also include all children living in the United States regardless of immigration status.[76] Additionally, children living in Puerto Rico are eligible for the CTC, but their families must file a federal tax return to claim the credit, posing a barrier for families on the island. These changes are necessary for the CTC to achieve its anti-poverty and racial equity goals.

Conclusion

The 1991 National Commission on Children's report was entitled "Beyond Rhetoric." It is way past time to make our support for children more than rhetoric. One evidence-based way to do so is by making a fully refundable CTC permanent. The Census Bureau estimates that the 2021 CTC kept 2.9 million children out of poverty, including 716,000 Black children, 1.2 million Hispanic children, 820,000 white, non-Hispanic children, and 111,000 Asian children.[77] Moreover, as discussed earlier, such an investment would reap social returns that dwarf the initial fiscal cost. We can—and should—be doing this every single year, throughout the business cycle. The right time to have started such an investment would have been no later than 1991 when the bipartisan commission that was established in 1987 by President Reagan and both houses of Congress recommended doing so. This Congress has an opportunity to help guarantee every child a fair chance, starting with a policy that's as proven as it is powerful.

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