Improving the Child Tax Credit for Very Low-Income Families

Robert Greenstein, Elaine Maag, Chye-Ching Huang, Emily Horton, and Chloe Cho

April 2018
The ideas in this paper were shaped by discussions within the Partnership but do not necessarily represent the views of all members.

The authors would like to thank Gregory Acs, N. Gregory Mankiw, Nisha G. Patel, Matt Rogers, Jon Schwabish, and Roberton Williams, who reviewed and provided feedback on drafts, and Elena Ramirez and Philip Stallworth, who analyzed proposals with the Tax Policy Center microsimulation model.

Responsibility for any errors lies with the authors alone.

ABOUT THE US PARTNERSHIP ON MOBILITY FROM POVERTY

With funding from the Bill & Melinda Gates Foundation, the Urban Institute is supporting the US Partnership on Mobility from Poverty. Led by chair David Ellwood and executive director Nisha Patel, the Partnership consists of 24 leading voices representing academia, practice, the faith community, philanthropy, and the private sector.

The Partnership’s definition of mobility has three core principles: economic success, power and autonomy, and being valued in community. Our collective aspiration is that all people achieve a reasonable standard of living with the dignity that comes from having power over their lives and being engaged in and valued by their community.
Executive Summary

Young children (under age 6) experience the highest rates of poverty of any age group and are particularly vulnerable to poverty’s lasting effects. The child tax credit (CTC) provides a $2,000 per child credit for children under age 17 (along with a credit of up to $500 per dependent 17 and older). However, the design of the credit is such that children in the poorest families receive much less than this because their parents’ earnings are too low to qualify for the full credit or, in some cases, to qualify for any credit at all.

We propose restructuring the component of the CTC designated for children under age 17 to allow the children of very low-income working parents to receive at least some benefit and to allow substantially more children in low-income working families to receive the full credit. For families with young children, we further propose phasing the credit in more rapidly as earnings increase so more benefits can flow to children in the poorest working families. This restructuring can be achieved with three relatively straightforward and modest changes to the current CTC, all of which would be relatively inexpensive and would avoid significant new administrative costs. First, for all families, we propose phasing in the credit beginning with the first dollar earned rather than only after a family earns $2,500 as is the case currently. Second, we propose allowing the full $2,000 per child to be refunded rather than limiting the refundable portion to $1,400 per child as is the case currently. Third, for families with young children, we propose phasing in the credit at a rate of 50 cents per dollar earned rather than today’s rate of 15 cents per dollar. Combined, these policy revisions would reduce by nearly two-thirds the number of children under age 17 who are fully or partially excluded from the CTC because their families’ earnings are too low to qualify for the full $2,000 per child.¹ This proposal would increase CTC benefits by approximately $12 billion a year.

A more expansive option that builds upon this base proposal by extending the full $2,000 CTC to all young children in low-income families, regardless of parental earnings, would provide a more robust foundation of support and build on the CTC’s current success at a modestly larger cost, an additional $2 billion a year. This could also be a step toward ultimately extending the full CTC to all low-income children, including those age 6 and over.
Impact on Three Dimensions of Mobility
The Partnership’s definition of mobility has three core principles: economic success, power and autonomy, and being valued in community.

**Investment:** Restructuring the child tax credit by phasing in the credit beginning with the first dollar earned, allowing the full $2,000 per child to be refunded, and, for families with children under age 6, phasing the credit in at a rate of 50 cents per dollar earned, would increase benefits by approximately $12 billion a year. A more expansive option that also extends the full $2,000 CTC to all young children in low-income families, regardless of parental earnings, would cost an additional $2 billion per year.

**Impact:**
- **Economic Success:** Low-income working families with eligible children will benefit from higher tax credits; many more such families, especially families with children under age 6, will receive the full CTC rather than a partial one. This boost in the CTC may lead to higher post-tax incomes, reduced poverty and poverty-related stress, improved health status, better school readiness and cognitive outcomes, and greater economic security for these children as adults.
- **Power and Autonomy:** Participants may affirm their identities as workers and feel that they’ve earned their rewards. Parents will be able to better provide for their children and will determine how best the additional income should be used. Greater resources may reduce household financial stress and free up “bandwidth” for parenting, household financial planning, and other tasks where poverty exacts a tax on executive function. In turn, parents may feel more capable. The lump sum nature of the tax refund may also allow families allocate it to savings or other purposes that can improve long-term mobility.
- **Being Valued in Community:** Tax credits can impart a sense of dignity that “enhances feelings of citizenship and social inclusion.”

---

How the Child Tax Credit Excludes the Lowest Earners

Children growing up in poor families should have the opportunity to have healthy childhoods, do well in school, and succeed as adults. We all have a stake in these children having the resources they need so they can flourish and contribute to our communities and our economy.

One effective tool for helping children in poverty succeed is the federal child tax credit (CTC), which provides many working parents an annual tax credit of up to $2,000 per child under age 17 in 2018 (up from $1,000 per child in 2017). Parents can use the credit to offset federal income taxes, and those who qualify for the credit but don't earn enough to owe federal income taxes can receive a partial credit of 15 cents for every dollar earned above $2,500 as a tax refund. The “refundable” portion of the credit cannot exceed $1,400 per child under 17. Dependents age 17 and older can qualify for a smaller credit of up to $500, which is not refundable and can only be used to offset taxes.2 For higher-income families, the credit is reduced by 5 percent of adjusted gross income over $200,000 for single parents and over $400,000 for married couples.3

The Urban-Brookings Tax Policy Center (TPC) estimates that the credit—including both the longstanding child tax credit for children under age 17 and the new nonrefundable component of the credit for dependents age 17 and older that the 2017 tax law created—will deliver $128 billion in benefits to 48 million families with children, reaching just over 90 percent of all families with children, in 2018.4 This analysis focuses on the $2,000 per-child component of the credit for children under age 17.

Under current law, approximately 27 million children under age 17 live in families without enough earnings to qualify for the full child tax credit or, in some cases, to qualify for any credit at all. (An additional 3 million children under 17 live in families that receive the full $2,000-per-child credit for those children but also include at least one dependent age 17 or older who does not receive the full $500 nonrefundable credit for such individuals.) Consider, for example, a single mother with a toddler son and a 7-year-old daughter. Assuming she works 20 hours a week for the federal minimum wage of $7.25 an hour, she earns approximately $7,250 annually and thus receives a CTC of $712, less than one-fifth of the $4,000 maximum credit for which a family with two children can qualify (figure 1). To qualify for the maximum credit, she would need to earn at least $30,000.

This mother would receive $1,400 per child as a refundable credit once her earnings reached about $21,200, but because the remaining portion of the credit can only be used to offset income taxes, she would need to earn an additional $8,800 to receive the maximum credit of $2,000 per child—more than twice what
a full-time, minimum-wage job pays. Moreover, children in homes in which the parent or parents don’t have a job or earn no more than $2,500 are entirely excluded from the CTC.

The nation’s poorest, most vulnerable children should not be locked out of receiving the full benefit of tax credits intended to help working families with the costs of raising children, especially when research strongly indicates that even relatively modest increases in family income, particularly for children in the poorest families, can lead to better outcomes in health and education and can have lasting positive effects on economic mobility and opportunity.

We propose restructuring the component of the CTC designated for children under 17 to allow very low-income working parents to benefit from the credit at least to some degree, and to harmonize benefits between the refundable and nonrefundable portions of the credit. For families with young children, we further propose phasing the credit in more rapidly as earnings increase so that more benefits can flow to children in the poorest working families. This restructuring can be achieved with three relatively straightforward and modest changes to the current CTC, all of which would be relatively inexpensive and would avoid any significant new administrative costs. First, for all families, we propose phasing in the credit beginning with the first dollar earned, rather than only after a family earns $2,500. Second, we propose not limiting the refundable portion to $1,400, but instead allowing the full $2,000 per child to be refunded. Third, for families with young children (under age 6), we propose phasing in the credit at a rate of 50 cents per dollar earned rather than today’s rate of 15 cents per dollar. Combined, these policy revisions would reduce by nearly two-thirds the number of children under age 17 who are fully or partially excluded from the CTC because their families’ incomes are too low to qualify for the full $2,000 credit.5

Similar proposals have been made in Congress by members of both parties. Senators Marco Rubio and Mike Lee have offered proposals that include the first two of our recommendations, while various Democratic members of Congress, including Representative Rosa DeLauro and Senators Michael Bennet and Sherrod Brown, have offered proposals similar to our third recommendation. Improving the CTC for low-income families, with a stronger credit for low-income families with young children, would also be a significant step toward the ultimate goal of allowing all low-income families with children to access the full benefits of the CTC, regardless of earnings (sometimes referred to as “full refundability”).

The CTC and the earned income tax credit (EITC) combined lift more people out of poverty than any other federal government program outside Social Security. The proposal would lift 1.2 million additional people out of poverty, including 400,000 young children, and raise many times that number of people closer to the poverty line. Over half the benefits of this proposal would flow to working families in the bottom one-fifth of the income distribution. The proposal would provide an additional boost to families with young children at a critical time for children’s intellectual and physical development. A more expansive option that builds upon this base proposal by extending the full $2,000 CTC to all young children in low-income families,
regardless of parental earnings, would provide a more robust foundation of support and build on the CTC’s current success at a modestly larger cost. A majority of all US children living in poverty would benefit from the core proposal, while three-fourths of all poor children would benefit from the more expansive option.

**FIGURE 1**

**Child Tax Credit at Various Income Levels, 2018**

*Head of household, two children*


Notes: Assumes all income comes from earnings. Calculations for minimum-wage workers are based on the federal minimum wage of $7.25 per hour.
The Case for Increasing the CTC for Young Children in Poverty

Children growing up in poverty should have the opportunity to have healthy childhoods, do well in school, and succeed as adults. Ensuring children have the resources they need now can help them flourish and contribute to our communities and our economy later. Leaving the very poorest children out of the CTC goes against a substantial body of research that concludes that increasing the incomes of low-income children can deliver significant benefits to children’s economic mobility and opportunity later in life. Indeed, even relatively modest improvements in family income for young children in families in poverty can make lasting differences in health, education, and employment as children age.

Increasing Incomes in Early Years Benefits Children’s Health and Education

Studies analyzing data as far back as the early 1900s have found significant benefits of increased income to disadvantaged children. For example, a recent study found that children in families who received monthly cash assistance from the Mothers’ Pensions program as early as the 1910s and 1920s experienced better nutrition, more education, and higher adult income than peers whose mothers applied for benefits but were not accepted. The children whose families participated in the program were only half as likely to be underweight, more likely to finish high school, had 13 percent higher adult incomes on average, and lived one year longer.6

Another recent study confirms that assistance with basic needs in the first several years of life can lead to meaningful improvements in children’s health. Analysis of the early years of the Food Stamp Program (now called the Supplemental Nutrition Assistance Program) before it was available in every US county shows that disadvantaged children who grew up in counties with access to food stamps experienced significant reductions in adulthood in metabolic syndrome—a cluster of conditions including obesity, diabetes, and heart disease—compared with similar children who lacked access to food stamps. The improvements were greatest for children who gained access to food stamp assistance over the first five years of life. The study also found evidence that access to food stamps in early and later childhood raised children’s high school graduation rate 18 percentage points, and for girls, improved a combined measure of adult outcomes such as having a high school education, being employed, and not being on food stamps.7
Likewise, studies of the 1990s expansion of the EITC showed that infants born into families with the largest increases in EITC benefits had the greatest improvements in birth weight,\(^8\) an important factor predicting improved future health. Larger EITCs have both short- and long-term effects on low-income children’s educational attainment, not only improving test scores in the year the family received the EITC but also increasing the likelihood the children will graduate high school and attend college.\(^9\) Other demonstrations have similarly found that increasing family incomes for young children (ages 2 to 5) boosted later academic achievement,\(^10\) while an income boost of $3,000 in a given year has been shown to produce academic gains equivalent to about two months of extra schooling, as measured by standardized test scores.\(^11\)

Other research indicates that low-income children who, at age 5, experienced an increase in family income of $3,000, including income from refundable tax credits, earned an average of 17 percent more as adults and worked 135 hours more annually than similar children whose families’ incomes did not increase.\(^12\)

The bulk of the evidence supports the conclusion that additional income through public economic-security programs can play a strong role in helping low-income children, though the evidence is not uniform. Two studies, one involving the Seattle and Denver income maintenance experiments in the late 1960s and early 1970s and one involving housing vouchers in Chicago in 1997, did not find broad improvements for people in the experiment. The former study found no long-term impact on earnings for participating children, though that intervention directed most of its added income to families well above the federal poverty level.\(^13\) Research suggests that income support is likely to have considerably larger impacts when it is targeted on protecting children against poverty, particularly deep poverty. The Chicago-based study reported mixed results, finding no general pattern of improvement across a list of child outcomes including health, but some positive impacts on young boys’ test scores and older girls’ math scores.\(^14\)

### Raising the Incomes of the Poorest Children Produces the Largest Impact

Research consistently shows that income matters most for the poorest children. One study found, for example, that the EITC’s effect in increasing children’s math and reading test scores was almost three times larger for children in the bottom 25 percent of the income distribution—in other words, the poorest children—than for those in families further up the income spectrum.\(^15\) “There is very strong evidence that increases in income have a bigger impact on outcomes for those at the lower end of the income distribution,” a systematic review of the research literature on the effects of income during childhood concluded. All 13
relevant studies the researchers examined supported this finding.\textsuperscript{16} Many studies also find stronger impacts for children of color and disadvantaged children.

These findings support the view of many experts that the adverse effects of poverty on children are most pronounced for children who live below half of the federal poverty level.\textsuperscript{17} Two leading, complementary theories in the literature suggest income supports are of particular importance for this group of children, who have greater needs for and sensitivity to income change. One pathway through which income can affect children’s outcomes is “through changes in family functioning and parenting practices.” For example, studies show that financial burdens can add to parental stress or mental instability, which, in turn, negatively affects parenting behavior and the relationship between parents and their children.\textsuperscript{18} Another pathway highlights the importance of investments. Additional income can help parents provide more resources, ranging from “essential goods” (such as food and housing) to books and other learning materials to their children. Either way, income supports would have “more effect in families close to the breadline”—those who face the greatest financial stress and have difficulties meeting fundamental needs.\textsuperscript{19}

Focus on Youngest Children in Poverty

The poorest, youngest children warrant particular attention. Young children tend to experience higher poverty rates than older children or adults in any age group (figure 2). Child care costs can be especially high for these children, who require much parental investment in both time and attention. But parents with young children tend to have lower earnings and less savings than those with older children, often because they are just starting out in their careers. In 2015, median hourly wages for parents whose youngest child was under age 6 were 20 percent lower than for parents whose youngest child was between the ages of 14 and 17. Yet public investment in families focuses to a greater degree on school-age children and remains relatively low for children under age 6. That same year, per child public spending for children between ages 3 and 5 was 27 percent below the average across all child ages and 63 percent below that for children between ages 6 and 11.\textsuperscript{20}
Investing in Young Low-Income Children Can Have Lifetime Benefits

Investing in young low-income children makes sense not only because families with young children are more likely to be poor than other families but also because the positive effects of investing in low-income children are clearest for the youngest and poorest children. There is “reliable evidence involving thousands of families in multiple studies demonstrating that ‘making work pay’ [by supplementing low earnings] causes improvements in young children’s school performance.”

Several studies suggest that the positive benefits of investing in young children are similar for the first six years of a child’s life. For example, one study of 14 welfare-to-work programs found that programs that boosted family income positively affected children’s academic achievement throughout the first six years of life, with benefits being virtually the same for very young children under age 3 and for those ages 3 to 5. In another study on the effect of the timing of increased incomes on children’s results on intelligence tests, researchers concluded that “the effect of income at age 2 was quite similar to that found at ages 3 and 5.”

These findings support the argument that a CTC expansion for young children should target those under age 6, as opposed to more narrowly focusing on a younger group such as those under age 3.

Varied and complex reasons likely explain why income increases produce long-term benefits for young low-income children. One may be the influence of adequate family income on brain development in these
children. Poverty in early childhood might be "particularly harmful because the astonishingly rapid development of young children's brains leaves them sensitive (and vulnerable) to environmental conditions" and may also "compromise children's life achievement and employment opportunities." This view is consistent with the research on "toxic stress."

A growing body of evidence indicates that children living in unusually stressful situations may experience chronic stress levels severe enough to damage the developing neural connections in their brains, limiting their learning ability and hurting their prospects to succeed in the long term. These stressful situations include living in dangerous neighborhoods, in families with difficulty putting food on the table or paying the rent, or with parents who cannot cope with the many challenges of their daily lives. Because poor children are more likely to face these stressors, they tend to experience unusually high levels of this toxic stress and stress hormones such as cortisol.25

Neuroscientists have documented that persistently high levels of poverty-related stress can produce biochemical changes that inhibit children's brain development, impeding their ability to succeed in school and develop the social and emotional skills needed to function well as adults. For example, one study documented that for 17-year-olds, the working memory, critical in language and reading acquisition, "deteriorated in direct relation to the number of years the children lived in poverty (from birth through age 13)." Another study reported slower brain growth as shown by magnetic resonance imaging scans among poor children between the ages of 5 months and 4 years.27

Studies using brain scan technology have shown that growing up in poverty can be associated with neurological challenges. One such study reported that low-income children had less gray matter in areas of the brain related to educational functioning, such as the frontal lobe and hippocampus. It also found that slower brain growth could account for about 20 percent of low-income children's deficits in test scores. Poverty and other toxic stressors also can undermine the body's cardiovascular and immune systems, resulting in costly health conditions in adulthood such as diabetes or heart disease. One study concluded that early-onset arthritis, hypertension, and other conditions linked to stress in early childhood may help contribute to the lower work hours and earnings of adults who were raised in poverty.29

These emerging findings from brain science are one reason many researchers regard the first six years of life as a crucial window of development. The early years of life are a "period of both great opportunity and great vulnerability."30 But as noted above, despite this important window of time, children under age 6 have a higher poverty rate than other age groups, and families with young children tend to be poorer than other families.

Taken together, current studies strongly indicate that even relatively modest increases in family income can promote better outcomes for young children living in poverty. In a systematic review of high-quality
("quasi-experimental") studies on the subject, only 5 of 34 studies found no evidence of an income effect on any of the outcomes examined. The authors concluded that methodological problems contributed to the lack of evidence in at least four of those five studies. In social science, individual studies are rarely conclusive by themselves; most have limitations, and this is true both for studies that found positive effects and for the small number of studies that did not. A new study now being launched will attempt to provide more conclusive evidence on these matters by comparing low-income children receiving enhanced income support to a randomly assigned control group and carefully tracking both groups’ outcomes.

But the weight of existing evidence shows that children in poverty whose families received increased income support experienced significant gains in education and health, with the strongest gains for the poorest children. Research is particularly clear about the strong positive effects of additional income for young children, who are undergoing rapid brain development and may be especially vulnerable to the lasting effects of poverty-related stresses. Multiple studies also find positive effects on education or other measures in later childhood, including in the late teens, and signs of subsequent income gains or greater earning power and economic security.

Recognizing this compelling body of research and the current limited level of investment in young children living in poverty, the American Academy of Pediatrics has adopted a formal policy statement urging policymakers to reshape policy and the provision of services in ways that reduce the causes and effects of toxic stress for young low-income children. Increasing the CTC for these children is one way to reduce poverty and potentially reduce one cause of, or mitigate some of the effects of, toxic stress.

Multiple studies have found that income matters for older children as well. The research is not conclusive on when in childhood income matters most and does not suggest reducing income support for older low-income children, which would increase their poverty. Income may play somewhat different roles at different stages of childhood. For example, the youngest children appear to be the most susceptible to poverty’s lasting health effects. College attendance rates among youth, by contrast, seem to be affected somewhat more directly by current income support; for low-income high school seniors, for example, an expanded EITC appears to increase college entry simply by making college more affordable.
The Proposal: Increasing the CTC for Low-Income Families, Especially Those with Young Children

By locking the poorest children out of the full CTC for children under 17 and limiting the maximum credit their families can receive, as is the case under current law, we are failing to capitalize on the strong research base that shows children, especially children in poverty, receive long-lasting benefits with increased family income. The optimal policy would be to make a $2,000 CTC available to all low-income children regardless of how little income a parent may earn. In tax parlance, this means that the credit should be made “fully refundable” so all poor children under age 17 can qualify for the full $2,000 per child credit.

Proposal 1

Enacting a fully refundable CTC for all children does not appear politically feasible now. Accordingly, policymakers should prioritize moving toward this goal by strengthening the CTC for children in low-income working families, with particular emphasis on very poor young children. Specifically, three related CTC improvements would help millions of young children in low-income working families:

- For all families, the CTC should start phasing in with the first dollar of a family’s earnings (rather than waiting to start phasing in until the family has more than $2,500 of earnings, as is done at present).

- For all families, the $1,400 cap on the maximum refundable CTC should be eliminated so the maximum refundable and nonrefundable CTC would both be set at the same level, as they had been before the new tax law.

- To strengthen the credit further for the poorest young children, policymakers should phase in the CTC more quickly for families with children under age 6 so the credit rises by 50 cents per dollar of family earnings, rather than phasing in at just 15 cents per dollar of earnings.

Together, these three steps would mean that more than 17 million children under age 17 would be living in families newly eligible for the full child tax credit—nearly two-thirds of the 27 million children under age 17 who currently live in families with incomes too low to receive the full $2,000-per-child component of the
Several million additional children in very low-income working families would become eligible for a new or increased partial credit.

Proposal 2

A more comprehensive reform would build upon proposal 1 by extending the $2,000 CTC to all children under age 6 in low-income families, regardless of parental earnings. This broader expansion would increase the number of children under 17 living in families receiving the full credit for children under 17 by more than 19 million over current law.

These proposals focus on families with young children both because these families are more likely to live in poverty than other families and because research is particularly clear that income boosts can matter substantially when children are very young. Based on prior research, we expect such a proposal would have both immediate and lifelong benefits, boosting incomes and improving health now and improving employment outcomes in the future.

Moreover, the CTC should be increased for poor children of all ages, consistent with evidence indicating that income, such as from the EITC, can deliver large education and other benefits for older children. Ultimately, the CTC should be made “fully refundable” so all children in poverty (including those age 6 and older) can benefit from the full credit regardless of how much income a parent earns.

Cost Estimates and Distribution of Benefits

We estimate that today’s CTC will deliver average annual benefits of more than $130 billion through 2025, with most benefits going to middle-class families. The three related reforms we propose for low-income families—reducing the point at which the credit begins to phase in to the first dollar of earnings, setting the maximum refundable portion of the credit for children under 17 at $2,000, and phasing the credit in at a rate of 50 percent for families with at least one child under age 6—would increase CTC benefits by approximately $12 billion a year. Roughly 70 percent of the benefits of this proposal would go to families with children in the lowest fifth of the income distribution, with incomes averaging $22,540 (figure 3). The average gain for families with children whose CTC would increase would be about $900 a year.

The more expansive option focused on children under age 6 would provide a $2,000 credit to all children under age 6 in low-income families, regardless of parental earnings. This expanded proposal would deliver benefits to substantially more young children, at an additional cost of about $2 billion a year. More
than 70 percent of the benefits from the more expansive proposal would go to families with children in the lowest fifth of the income distribution. Families with children whose CTC would increase would receive an average annual gain of more than $1,000.

FIGURE 3
Average Increase in Child Tax Credit Benefits for Families with Children, 2018

Two reform options, by income quintile

Option 1: Phase CTC in starting with first dollar of earnings for all families with children under 17 and at a 50 percent rate for families with children under age 6.

Option 2: Option 1 plus increase the maximum credit for children under age 6 from $1,000 to $2,000.

Source: Tax Policy Center microsimulation model (version 0217-1).

Poverty-Reduction Impact of Proposal

The CTC, together with the EITC, already plays a large role in reducing poverty (when measured using the Supplemental Poverty Measure, or SPM).39 According to analysis that includes refundable tax credits as resources available to households, the EITC and CTC combined lift more people out of poverty than any other transfer program outside Social Security. Our proposal would not only lift additional people out of poverty but also help the majority of all children living in poverty.40

In all, the more modest proposal would benefit 13.7 million low-income working families in 2018. The proposal would make 10.3 million working families who otherwise would not qualify for the maximum CTC for children under 17 newly eligible for the full credit, including 6.9 million families with children under age 6. About 87 percent of all families with children under age 6 who are currently excluded from the full CTC for children under 17 because of low incomes would become eligible for the $2,000 per-child credit. The proposal would lift 1.2 million people above the federal poverty level, including 400,000 children under age 6, and reduce the severity of poverty for many times that number of people (table 1).
### Table 1
Summary Impact of Proposals

<table>
<thead>
<tr>
<th></th>
<th>Proposal 1</th>
<th>Proposal 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Families benefiting from proposal in 2018</td>
<td>13.7 million</td>
<td>14.1 million</td>
</tr>
<tr>
<td>Newly eligible for the maximum child tax credit for children under age 17</td>
<td>10.3 million</td>
<td>11.3 million</td>
</tr>
<tr>
<td>People lifted out of poverty</td>
<td>1.2 million</td>
<td>1.8 million</td>
</tr>
<tr>
<td>Children under age 6</td>
<td>0.4 million</td>
<td>0.6 million</td>
</tr>
<tr>
<td>Average annual increase in child tax credit benefits</td>
<td>$12 billion</td>
<td>$14 billion</td>
</tr>
</tbody>
</table>

**Sources:** CBPP based on TPC, March 2017 CPS, and 2016 SPM.

The proposals would provide income boosts to many families of color, who are disproportionately excluded from receiving the full or any CTC. We estimate that under current law, African American and Latino families constitute 10 percent and 18 percent, respectively, of families who will receive the full CTC, but 22 percent and 32 percent of families with incomes too low to qualify for the full credit for children under 17. This distribution is troubling given that 2.5 million African American and Latino children under the age of 6 live in poverty, with 700,000 in deep poverty. Roughly half of these fully or partially excluded families have at least one child under age 6. Research indicates that these families would be among those who would benefit most from the income support the CTC provides, but they currently do not receive the full credit.

The more modest proposal that increases the CTC for children in low-income working families and further expands the CTC for the poorest young children in these families would reduce inequities by making more families of color eligible for a greater CTC. Of the 13.7 million working families who would benefit in 2018, about 20 percent would be African American and 35 percent would be Latino. The proposal would also benefit 490,000 Asian and 150,000 Native American working families (see appendix). White families would remain the largest group helped.

Of the 1.2 million people lifted out of poverty by the more modest proposal, almost two-thirds would be African-American or Latino, while nearly one-third would be non-Hispanic whites. The additional income the proposal would provide would lift a total of 400,000 poor children under age 6 above the poverty level.

Single mothers constitute slightly more than half the households that are excluded from the full CTC due to low earnings while representing less than 15 percent of those receiving the full credit. This proposal would help 6.7 million single mothers make ends meet and raise their children in 2018. In all, it would lift 600,000 women and girls above the federal poverty level (out of the 1.2 million people overall who would be lifted out of poverty), including approximately 200,000 young girls under age 6 (table 2).
TABLE 2
Impact of Proposals on Women and Girls

<table>
<thead>
<tr>
<th>Proposal 1</th>
<th>Proposal 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single-mother families benefiting from proposal in 2018</td>
<td>6.7 million</td>
</tr>
<tr>
<td>Newly eligible for the maximum child tax credit</td>
<td>4.5 million</td>
</tr>
<tr>
<td>Women and girls lifted above the poverty level</td>
<td>0.6 million</td>
</tr>
<tr>
<td>Girls under age 6</td>
<td>0.2 million</td>
</tr>
</tbody>
</table>

Sources: CBPP based on TPC, March 2017 CPS, and 2016 SPM.

Benefit of Using the Tax System to Support Low-Income Families

Although various tools can be used to support low-income families, the tax system offers several unique benefits. For starters, expanding the CTC would have minimal additional administrative costs (to either the Internal Revenue Service or the taxpayer), regardless of whether the expansion is modest or more far reaching. Most people who would benefit already file an annual tax return, and the Internal Revenue Service already processes that return. Additionally, ethnographic research finds that by using the tax system to deliver this part of the safety net, these credits impart a sense of dignity that “enhances feelings of citizenship and social inclusion.”

Another benefit of the CTC is that it provides income that can be spent as the recipient sees most appropriate. This discretionary power gives families the autonomy to determine the best uses of the credit for their circumstances. Survey data show that recipients use the refunds for various types of purchases that they consider critical to their families. For example, a small study of families that received the EITC found that families spent roughly half of their refunds on current consumption, such as groceries and child expenses. They spent the other half paying off past-due bills and debt and on “asset-building,” such as savings, education, or home ownership and home repairs. Uses of the refunds can be as varied as purchasing school supplies, fixing a broken car or leaking roof, paying a rental deposit, or purchasing food at bulk on discount to save on grocery expenses. Some research also indicates that the lump sum delivery of the CTC, like the EITC and other tax refunds, is an aspect of the credit that makes it more likely than smaller amounts received more regularly to be invested in ways that encourage opportunity and mobility.
Moving Forward

Next Steps for Federal Policymakers

The CTC already distributes substantial benefits to families with children. Unfortunately, as currently designed, the credit partially or fully leaves out children in the most vulnerable families. Federal tax policy is often made incrementally, and presenting lawmakers with options to move the credit forward can be an important way to build toward a fully refundable credit that could benefit all low- and middle-income children.

Several federal policymakers have crafted various proposals in recent years to strengthen the CTC. Some proposals would substantially expand the credit for families with young children, including very poor young children in families that lack earnings, and effectively make the credit a form of children’s allowance for young children. (To do that, the credit would ultimately need to become fully refundable rather than to phase in with a family’s earnings.) The main proposal discussed here could be an incremental step toward these more ambitious proposals, and it is a step that could be taken now.

Next Steps for State Policymakers

States could also build on these efforts by implementing a state-level credit based on the federal CTC, as 29 states and the District of Columbia now do with the EITC. A few states offer supplemental CTCs already; for example, eligible New York residents can claim a refundable credit of either 33 percent of their federal CTC amount or $100 per child, whichever is higher. More states could follow suit and target their credits to poor families with young children. (The percentage of the federal credit that a state’s credit would equal might be set at a higher level for these families, or a fixed dollar amount could be provided for very poor children whose families qualify for only a minimal or no federal CTC.)

In addition, policymakers can protect and strengthen other federal and state investments in programs that bolster the income of low-income families with young children. This proposal focuses on the CTC, a key mechanism for investing in low-income children. Research shows that a variety of safety-net programs that increase the resources available to low-income families, including the EITC and the Supplemental Nutrition Assistance Program (formerly known as the food stamp program), can produce long-lasting gains for children in those families.
Demonstration projects, including some now under way or soon to be launched, could provide additional evidence of the benefits of providing adequate incomes for young low-income children and add to the substantial body of existing research. Additional mechanisms to increase the incomes of low-income families with young children could also be tested. Such demonstrations should be conducted in both rural and urban communities, as poverty can be prevalent in both.

Next Steps for Philanthropy

Philanthropy can play an active and important role in educating policymakers and the public about the growing body of research on both the immediate and the long-term benefits of enhancing income for poor young children—and about the fact that the CTC’s current structure leaves out many of these children.
Appendix: Impact by Race and Ethnicity

The terms used in appendix tables A.1 and A.2 are defined as follows:

- *Latino/Hispanic* includes people self-identifying as Spanish, Hispanic, or Latino, regardless of race.
- *White* includes people self-identifying as white only.
- *African American* includes people self-identifying as black only.
- *Asian* includes people self-identifying as Asian only.
- *Native American* includes people self-identifying as American Indian or Alaskan Native only.
- *Others* include Hawaiian or Pacific Islanders and all other multiracial people.
- *Families* are categorized based on the racial and ethnic identification of the head of household or, in other words, the person claiming the credit.

Different definitions of racial and ethnic categories can change the breakdown substantially. For instance, one might use a more inclusive definition for Native Americans and include people self-identifying as part American Indian or Alaskan Native. Using this definition, we estimate that as many as 430,000 Native American working families would benefit from the more modest proposal.
TABLE A.1
Families with Children under Age 17 Benefiting from Child Tax Credit under Current Law, and Additional Families Benefiting under Proposed Expansions, by Race and Ethnicity, 2018

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>White</th>
<th>African American</th>
<th>Asian</th>
<th>Latino/ Hispanic</th>
<th>Native American</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Under current law</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Families eligible for full CTC</td>
<td>26,200,000</td>
<td>16,260,000</td>
<td>2,770,000</td>
<td>1,930,000</td>
<td>4,690,000</td>
<td>150,000</td>
<td>410,000</td>
</tr>
<tr>
<td>Families with children under 6</td>
<td>12,000,000</td>
<td>7,500,000</td>
<td>1,190,000</td>
<td>890,000</td>
<td>2,170,000</td>
<td>70,000</td>
<td>210,000</td>
</tr>
<tr>
<td>Families with earnings too low for full CTC</td>
<td>15,400,000</td>
<td>6,040,000</td>
<td>3,330,000</td>
<td>510,000</td>
<td>4,940,000</td>
<td>230,000</td>
<td>380,000</td>
</tr>
<tr>
<td>Families with children under 6</td>
<td>8,000,000</td>
<td>3,050,000</td>
<td>1,710,000</td>
<td>220,000</td>
<td>2,580,000</td>
<td>150,000</td>
<td>310,000</td>
</tr>
<tr>
<td><strong>Proposal 1</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Families benefiting</td>
<td>13,700,000</td>
<td>5,150,000</td>
<td>2,760,000</td>
<td>490,000</td>
<td>4,830,000</td>
<td>150,000</td>
<td>330,000</td>
</tr>
<tr>
<td>Families newly eligible for full CTC</td>
<td>10,300,000</td>
<td>3,850,000</td>
<td>1,980,000</td>
<td>350,000</td>
<td>3,790,000</td>
<td>120,000</td>
<td>190,000</td>
</tr>
<tr>
<td>Families with children under 6</td>
<td>6,900,000</td>
<td>2,620,000</td>
<td>1,200,000</td>
<td>210,000</td>
<td>2,490,000</td>
<td>100,000</td>
<td>190,000</td>
</tr>
<tr>
<td><strong>Proposal 2</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Families benefiting</td>
<td>14,100,000</td>
<td>5,300,000</td>
<td>2,850,000</td>
<td>500,000</td>
<td>4,940,000</td>
<td>200,000</td>
<td>340,000</td>
</tr>
<tr>
<td>Families newly eligible for full CTC</td>
<td>11,300,000</td>
<td>4,380,000</td>
<td>2,300,000</td>
<td>400,000</td>
<td>3,800,000</td>
<td>100,000</td>
<td>280,000</td>
</tr>
<tr>
<td>Families with children under 6</td>
<td>7,900,000</td>
<td>3,150,000</td>
<td>1,590,000</td>
<td>200,000</td>
<td>2,510,000</td>
<td>100,000</td>
<td>250,000</td>
</tr>
</tbody>
</table>

Sources: CBPP based on TPC, March 2017 CPS, and 2016 SPM.

Notes: Totals are rounded to the nearest 100,000 and breakdowns to the nearest 10,000. This table includes only families with children under 17 who potentially qualify for the full $2,000 per child CTC. Older children and other dependents who qualify only for the $500 nonrefundable component of the CTC are not included. A family is counted as receiving the full CTC for children under 17 if every child under 17 who is eligible for the $2,000 credit receives a credit of $2,000. (If under current law, a family receives a tax credit of $1,400—the maximum refundable CTC amount—because their earnings are too low to receive the full $2,000, they are counted as not receiving a “full CTC.”)
Notes

1. For the purpose of these estimates, children who live in families that receive the full $2,000 credit per child under age 17 are counted as receiving the full credit (irrespective of whether their family receives the full $500 non-refundable credit per dependent age 17 and older). If children under 17 in families that do not receive the full $500 credit for dependents age 17 and older were counted as not receiving the full credit (even if the children under age 17 in these families do receive the full $2,000 per child), we estimate that 30 million children under 17 would be counted as living in families that don’t receive the full credit under current law due to their low incomes, with 16 million of these children living in families that would become newly eligible for the full credit under proposal 1.

2. The nonrefundable credit also applies to certain noncitizens under age 17 and other dependents over age 16, including elderly parents and others who would have benefited from the personal exemption for dependents. This description is applicable through 2025. After that, certain provisions governing this credit (enacted as part of the 2017 tax law) are scheduled to sunset. At that point, the personal exemption (which in 2017 allowed families to exempt up to $4,150 per person in the tax unit) will return (today, no personal exemption exists), the maximum CTC will be reduced to $1,000 per child under age 17, and the maximum CTC will begin to phase out once income reaches $75,000 (if single) or $110,000 (if married).

3. The CTC was created in 1997 and was not originally refundable (except for a small number of families with three or more children). In 2001, federal lawmakers doubled the maximum CTC from $500 to $1,000 per child and made it partially refundable, with the refundable portion phasing in with earnings above $10,000, roughly the point at which the EITC stopped phasing in for families with at least two children. Congress lowered this threshold in both 2008 and 2009 to $3,000, where it remained through 2017. It is now set at $2,500, where it will remain until 2025. At that point, it will return to $3,000. For ease of exposition, we refer to both the refundable component of the credit, technically known as the “additional child tax credit,” and the nonrefundable portion as the child tax credit.

4. These cost and participation estimates include both the refundable and nonrefundable portions of the CTC, including the $500 nonrefundable credit for dependents over age 16. Not including the $500 nonrefundable component of the credit, the CTC will provide $118 billion in benefits to 41 million families with children under age 17 in 2018. Families with children are tax units that have a dependent child at home or away from home.

5. For the purpose of these estimates, children who live in families that receive the full $2,000 credit per child under age 17 are counted as receiving the full credit (irrespective of whether their family receives the full $500 nonrefundable credit per dependent age 17 and older). If children under age 17 in families that do not receive the full $500 credit for dependents age 17 and older were counted as not receiving the full credit (even if the children under age 17 in these families do receive the full $2,000 per child), we estimate that 30 million children under age 17 would be counted as living in families that don’t receive the full credit under current law due to their low incomes, with 16 million of these children living in families that would become newly eligible for the full credit under proposal 1.


12 Greg J. Duncan, Kathleen M. Ziol-Guest, and Ariel Kalil, “Early-Childhood Poverty and Adult Attainment, Behavior, and Health.” Child Development 81, no. 1 (2010). The 17 percent figure is a revised figure and appears in Duncan and Magnuson, “The Long Reach of Early Childhood Poverty.”

13 David J. Price and Jae Song, “The Long-Term Effects of Cash Assistance,” Job Market Paper, October 2016. The study has other limitations, such as having tracked down only 59 percent of the children and leaving out 18-year-olds, who at the time of the original study were identified as gaining the most in school enrollment.


15 Gordon B. Dahl and Lance Lochner, “The Impact of Family Income on Child Achievement: Evidence from the Earned Income Tax Credit.” American Economic Review 102, no. 5 (2012): 1927–56. The lowest quartile consisted of families earning less than $18,031; the middle two quartiles consisted of families earning between $18,031 and $41,790, and the fourth quartile included families earning more than $41,790. The authors addressed a coding error and revised their findings but found that it did not alter the statistical significance of their findings. See “Correction and Addendum to ‘The Impact of Family Income on Child Achievement: Evidence from the Earned Income Tax Credit,”” March 1, 2016.


19 Cooper and Stewart, Does Money Affect Children’s Outcomes?


31 Cooper and Stewart, Does Money Affect Children’s Outcomes?


34 Numerous studies find income effects during early childhood, but “the evidence is mixed about which stage of childhood is most important. To some extent, income at particular stages seems to be more important for some types of outcomes than others,” according to the London School of Economics researchers’ review (Cooper and Stewart, Does Money Affect Children’s Outcomes? p. 61). Behavior problems, for example, are tied more to later childhood poverty than early childhood poverty in a number of studies. Even for cognitive outcomes, where the linkage to early childhood is quite strong, “there are studies pointing to each stage of childhood as the more important” (Cooper and Stewart, p. 59).

35 Ziol-Guest and colleagues found that “these relationships and particularly arthritis partially account for the associations between early childhood poverty and adult productivity as measured by adult work hours and earnings” (Ziol-Guest, Duncan, Kalil, and Boyce, “Early Childhood Poverty, Immune-Mediated Disease Processes, and Adult Productivity,” p.17289).


37 See footnote 5 for a more detailed explanation of these numbers.

38 After 2025, the CTC is scheduled to revert to its pre-2018 parameters. The maximum credit would drop from $2,000 per child under 17 to $1,000; the $500 nonrefundable credit for dependents who do not qualify for the CTC would be eliminated, and the credit would phase out once income reached $75,000 ($110,000 if married), down from $200,000 ($400,000 if married). It is unclear whether policymakers will extend these provisions beyond 2025; given the uncertainty regarding the CTC after 2025, we do not estimate effects of the CTC—or of our proposals—beyond this date.

39 Unlike the official poverty measure, which counts only cash income, SPM accounts for taxes and noncash benefits.

40 Antipoverty estimates are based on the Center for Budget and Policy Priorities’ analysis of the Census Bureau’s March 2017 CPS and 2016 SPM public use file. Number of families benefiting are from the TPC Microsimulation Model (version 0217-1) and are estimates for 2018. For the methodology used to produce race and ethnic group estimates, see the appendix.


42 See, for instance, Timothy M. Smeeding, Katherine Ross Phillips, and Michael O’Connor, “The EITC: Expectation, Knowledge, Use, and Economic and Social Mobility,” Syracuse University Center for Policy Research, April 2000;


45 For example, Representative DeLauro’s (D-CT) H.R. 821 would phase in the CTC with the first dollar of a family’s earnings and at a faster rate (45 cents per dollar) for all families, increase the maximum per child amount to $3,600 for children under age 6, and index the maximum credits to inflation. Senator Bennet (D-CO) introduced a similar bill, S. 2264, in 2015. Senator Brown (D-OH) has introduced a bill, S. 1371, that would expand both the EITC and CTC and has similar CTC provisions. Senators Baldwin (D-WI) and Booker (D-NJ) have also introduced broader antipoverty legislation, S. 3231, that includes CTC provisions eliminating the earnings threshold and indexing the maximum credit. In addition, Senators Brown (D-OH) and Bennet (D-UT) introduced legislation, S. 2018, that would make the credit fully refundable for all children, regardless of parental earnings, and increase the credit amount to $3,600 per child under age 6 and $3,000 per child ages 6 to 18.