US PARTNERSHIP ON MOBILITY FROM POVERTY

Strengthening the Child Tax Credit

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All children should have the opportunity to have healthy childhoods, do well in school, and succeed as adults. 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.

The Problem

The effects of childhood poverty can last a lifetime. Income supports such as the CTC help, but with its current structure, many families who could most benefit do not receive the full credit.

- Children growing up in poverty are more likely to experience toxic stress, or levels of stress so high and persistent they can create biochemical responses that affect brain development.
- Young children tend to experience higher poverty rates than older children or adults. The positive effects of investing in low-income children are clearest for the youngest and poorest children.

27 million children live in low-income families that are not receiving the full CTC 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 CTC for children under age 17 (or, in some cases, to qualify for any credit at all).

The Solution

The nation's poorest, most vulnerable children should not be locked out of receiving the full benefit of tax credits intended to help families offset the costs of raising children.

We propose three straightforward and modest changes to the current CTC for children under age 17; these would be relatively inexpensive and avoid any significant new administrative costs.

PROPOSAL 1

- For all families, phase in the credit beginning with the first dollar earned rather than after a family earns $2,500.
- Allow the full $2,000 per child to be refunded rather than the current $1,400 cap.
- For families with children under age 6, phase in the credit at a rate of 50 cents per dollar earned rather than the current rate of 15 cents.

These policy revisions would reduce the number of children under age 17 who are fully or partially excluded from the CTC for children under age 17 by more than 17 million (nearly two-thirds) and increase CTC benefits by approximately $12 billion a year.

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 age 17 living in families receiving the full credit for children under age 17 by more than 19 million and cost the federal government an additional $2 billion per year.

WHAT PHILANTHROPY CAN DO

Philanthropy can educate policymakers and the public both about the growing body of research on the immediate and long-term benefits of enhancing income for young children in poverty and about the CTC's current structure, which excludes many of these children.

WHAT GOVERNMENT CAN DO

Several federal policymakers have crafted proposals in recent years to strengthen the CTC. Some would make it fully refundable rather than structuring it to phase in with earnings. Proposal 1 would be an incremental step toward these more ambitious proposals, and it is a step that could be taken immediately.

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 earned income tax credit.

Policymakers could also protect and strengthen other federal and state investments in programs that bolster the income of low-income families with young children. Additional mechanisms to increase the incomes of these families could also be tested. Such demonstrations should be conducted in both rural and urban communities.

WHAT DOES "MOBILITY" FROM POVERTY MEAN?

The US Partnership on Mobility from Poverty's definition of mobility has three core principles: economic success, power and autonomy, and being valued in community. These principles drive five mutually reinforcing strategies:

- Change the narrative
- Create access to good jobs
- Ensure zip code is not destiny
- Provide support that empowers
- Transform data use

Strengthening the child tax credit is part of the strategy to provide support that empowers.

HOW STRENGTHENING THE CHILD TAX CREDIT CAN IMPROVE MOBILITY

- **Economic success:** A boost in the CTC may increase post-tax incomes, reduce poverty, improve health, improve school readiness and cognition, and increase children's economic security.
- **Power and autonomy:** Parents will be able to better provide for their children and will determine how best the additional income should be used.
- **Being valued in community:** Tax credits can impart a sense of dignity that supports feelings of citizenship and social inclusion.

This brief summarizes the paper *Improving the Child Tax Credit for Very Low–Income Families*. The paper lists sources for the research summarized here.

With funding from the Bill & Melinda Gates Foundation, the Urban Institute is supporting the US Partnership on Mobility from Poverty, 24 leading voices representing academia, practice, the faith community, philanthropy, and the private sector. The views expressed here are those of the authors and do not necessarily represent the views of all Partnership members.