

**UNDERSTANDING HOW THE EXPANDED CHILD TAX CREDIT REDUCED POVERTY
AND HARDSHIP IN 2021**

**Statement of
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**before the
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* The views expressed are my own and should not be attributed to the Urban Institute, its trustees, or its funders.

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Chairman LaHood, Ranking Member Davis, and members of the subcommittee, thank you for the invitation to share insights from my research and the research of others on poverty, recent policies that have reduced poverty, and how investing in children, particularly those in families with low incomes can improve both near- and long-term outcomes for children.

I am a senior fellow in the Urban Institute's Tax Policy Center and a co-director of the Innovations in Cash Assistance for Children initiative. The views expressed in this testimony are my own and should not be attributed to the Urban Institute, its trustees, or its funders.

Introduction

For children to thrive, they need to have their basic needs met. When needs go unmet, children's opportunities are compromised.¹ The Census Bureau estimates that 12.4 percent of children were living below the poverty line in 2022, a tremendous jump from the 5.2 percent of children living in poverty in 2021.² Researchers estimate rates of child poverty in 2022 would have been higher, at 15.2 percent, absent the Child Tax Credit.³

The jump in child poverty from 2021 to 2022 was largely driven not by changes in economics or demographics, but by the expiration of policies enacted in the American Rescue Plan Act. In other words, increased child poverty was a policy choice. During 2021, the federal government adopted a robust set of economic supports that dramatically decreased poverty, including an expansion of the Child Tax Credit. When the Child Tax Credit expansion expired in 2022, the resulting increase in poverty was unprecedented. Never before has so much progress been made to reduce poverty only to have it evaporate after a single year.

The expanded Child Tax Credit was a powerful tool for reducing child poverty because it delivered the full benefit of the credit to families with very low incomes. Under current law, about 19 million children in the lowest income families, representing about one-quarter of all children, are unable to receive the full credit because their parents do not earn enough.⁴ Research prior to the expansion, when the rules were almost identical to the rules today, showed that children left out of the full credit

¹ National Academies of Sciences, Engineering, and Medicine, 2019, *A Roadmap to Reducing Poverty*, Washington, DC: The National Academies Press.

² Emily A. Shrider and John Creamer, 2023, "Poverty in the United States: 2022," Current Population Reports, 60-280, Washington, DC: US Census Bureau, <https://www.census.gov/content/dam/Census/library/publications/2023/demo/p60-280.pdf>. The Census Bureau estimated that in 2022, 11.5 percent of people in the US were in poverty using the official poverty measure. Children experience much higher rates of poverty than others: 15 percent of children were in poverty in 2022. The official poverty measure does not account for assistance delivered through the tax code.

³ Anastasia Koutavas, Christopher Yera, Sophie Collyer, Megan Curran, David Harris, and Christopher Wimer, 2023, "What Would 2022 Child Poverty Rates Have Looked Like if an Expanded Child Tax Credit Had Still Been in Place?" New York: Center on Poverty and Social Policy at Columbia University.

⁴ Tax Policy Center Table T22-0123, <https://www.taxpolicycenter.org/model-estimates/children-and-other-dependents-receipt-child-tax-credit-and-other-dependent-tax>.

were disproportionately Black and Hispanic,⁵ reflecting longstanding inequities in the labor market. In 2022, over one-third of children living in rural America were left out of the full Child Tax Credit, a rate much higher than the one-quarter of urban children who did not receive the full benefit from the credit.⁶

Besides substantially reducing child poverty, the expanded Child Tax Credit coincided with a drop in reports of hardship. Parents receiving the expanded credit also reported making additional investments in their children. I am going to describe the costs associated with failing to invest in children, the 2021 expansion of the Child Tax Credit, and the changes in well-being families experienced during 2021—many of which were reversed in 2022 following the expiration of the expanded credit.

Benefits of Investing in Children

The federal government invests in children in myriad ways.⁷ Among the most substantial investments are refundable tax credits, including the Child Tax Credit and the Earned Income Tax Credit. These credits, though critical for many children, are not as effective as they could be for the very lowest income families. For example, research suggests that the Earned Income Tax Credit reduces income inequality between Black and White households at the 25th and 50th income percentiles, but there is no demonstrated improvement in income inequality among Black and White households at the 10th income percentile (Hardy, Hokayem, and Ziliak 2022).

Prior to the temporary expansion of the Child Tax Credit in 2021, it was reformed as part of the Tax Cuts and Jobs Act of 2017. Since the Tax Cuts and Jobs Act was enacted, the Child Tax Credit has delivered a benefit to about 90 percent of families with children.⁸ Left out are children in families with very low incomes who do not meet the minimum earnings requirement, children whose adult parents or guardians do not meet the relationship or residency tests required to receive the credit, children who are ages 17 and up, and children who live in families with very high incomes. The benefits from the credit are not equal. On average, middle- and high-income families with children receive more from the Child Tax Credit than those with low incomes.⁹

The failure to invest adequately in children with low incomes is costly to the US and to the affected individuals. Researchers estimate that child poverty costs the US between \$500 billion and \$1.03 trillion annually. The largest cost is reduced productivity later in life. Children experiencing

⁵ Jacob Goldin and Katherine Micheltore, 2021, “Who Benefits from the Child Tax Credit?” SSRN, <https://doi.org/10.2139/ssrn.3708961>; Sophie Collyer, Jill Gandhi, Irwin Garfinkel, Schuyler Ross, Jane Waldfogel, and Christopher Wimer, 2022, “The Effects of the 2021 Monthly Child Tax Credit on Child and Family Well-being: Evidence from New York City,” *Socius*, 8, <https://doi.org/10.1177/23780231221141165>.

⁶ Collyer et al., “The Effects of the 2021 Monthly Child Tax Credit on Child and Family Well-being.”

⁷ Cary Lou, Heather Hahn, Elaine Maag, Hannah Daly, Michelle Casas, and C. Eugene Steuerle, 2022, “Kids’ Share 2022: Report on Federal Expenditures on Children Through 2021 and Future Projections,” Washington, DC: Urban Institute.

⁸ Tax Policy Center, Table T22-0242.

⁹ Tax Policy Center, Table T22-0242.

poverty tend to earn less and pay less in taxes as adults, and they are more likely to require public supports later in life.¹⁰

Growing up in poverty is correlated with a host of negative outcomes. These start early in life with reduced cognitive development.¹¹ Children living in poverty start school less prepared to succeed and experience reduced academic achievement and skill development.¹² They are less likely to graduate from high school or college and have lower paying and less stable jobs later in life.¹³ Long-term, on average, they face substantially reduced earnings and poor health outcomes, likely related to inadequate access to medical care.¹⁴

Policy choices can disrupt this cycle, as they did in 2021 when the Child Tax Credit was expanded and reduced child poverty to never before recorded lows.

Temporary Expansion of the Child Tax Credit

In 2021, children in families with very low incomes became eligible for the full benefit from the Child Tax Credit. Most children in families with low- and moderate-incomes became eligible for larger benefits.¹⁵ Specifically, the maximum value of the Child Tax Credit increased from \$2,000 per child under age 17 to \$3,600 per child under age 6 and \$3,000 per child ages 6 through 17. This meant that average benefits for the lowest income children matched those of their middle-income peers, unlike today when children in the lowest income families receive the lowest average benefits, as was the case before the temporary expansion.¹⁶ Although federal government spending on all children still represents a small share of the total federal budget, it reached a new high in 2021, driven by the temporary expansion to the Child Tax Credit.¹⁷

¹⁰ Elaine Maag, Cary Lou, Michelle Casas, Hannah Daly, Gabriella Garriga, and Lillian Hunter, 2023, "The Return on Investing in Children," Washington, DC: Urban Institute, <https://www.taxpolicycenter.org/publications/return-investing-children>.

¹¹ Neil Damron, 2015, "Poverty Fact Sheet: Brain Drain: A Child's Brain on Poverty," Madison, WI: Institute for Research on Poverty and Morgridge Center for Public Service.

¹² Vonnie C. McLoyd, 1998, "Socioeconomic Disadvantage and Child Development," *American Psychologist* 53 (2): 185–204, <https://doi.org/10.1037/0003-066X.53.2.185>; Caroline Ratcliffe, 2015, *Child Poverty and Adult Success*, Washington, DC: Urban Institute.

¹³ Michael McLaughlin and Mark R. Rank, 2018, "Estimating the Cost of Childhood Poverty in the United States," *Social Work Research* 42 (2): 73–83.

¹⁴ Adam Schickedanz, Peter G. Szilagyi, and Benard Dreyer, 2021, "Child Poverty and Health in the United States: Introduction and Executive Summary," *Academic Pediatrics* 21 (8): S81–5, <https://doi.org/10.1016/j.acap.2021.09.003>.

¹⁵ Tax Policy Center, Table T22-0148.

¹⁶ Tax Policy Center Table T22-0242.

¹⁷ Lou et al., "Kids' Share 2022."

Impact of the Child Tax Credit

Early effects of the Child Tax Credit have been well documented by numerous researchers at many institutions—and the evidence is mounting.¹⁸

As already noted, the expanded Child Tax Credit played a substantial role in reducing child poverty. Researchers also documented a reduction in food insecurity. Families that received the advanced payments of the Child tax Credit, which delivered a pro rata share of the credit from July 2021 through December 2021, reported larger declines in food insecurity than those who did not receive the benefit.¹⁹ Households with children, particularly Black and Latino families, typically experience food hardship at much higher levels than other families. The expanded Child Tax Credit payments correlated with a steep drop in food hardship for all households with children.²⁰ The initial payments led to a 25 percent decline in food insufficiency among low-income Black, Hispanic, and White children.²¹ During the time of the advanced Child Tax Credit payments, families reported not only having enough to eat, but were more likely to report eating healthier, balanced meals relative to those who did not receive the payments.²²

After the payments expired, families reported once again having trouble purchasing food.²³ Food insufficiency spiked by 25 percent as low-income families with children once again struggled the most to afford enough food²⁴.

¹⁸ Megan A. Curran, 2022, “Research Roundup of the Expanded Child Tax Credit: One Year On,” Poverty and Social Policy Report, vol 6, no. 9, Center on Poverty and Social Policy, Columbia University. <https://www.povertycenter.columbia.edu/publication/2022/child-tax-credit/research-roundup-one-year-on>

¹⁹ Michael Karpman, Elaine Maag, Stephen Zuckerman, and Douglas A. Wissoker, 2022, “Child Tax Credit Recipients Experienced a Larger Decline in Food Insecurity and a Similar Change in Employment as Nonrecipients Between 2020 and 2021,” Washington, DC: Urban Institute; Daniel Perez-Lopez, 2021, “Household Pulse Survey Collected Responses Just Before and Just After the Arrival of the First CTC Checks,” Washington, DC: Census Bureau, <https://www.census.gov/library/stories/2021/08/economic-hardship-declined-in-households-with-children-as-child-tax-credit-payments-arrived.html>

²⁰ Zippel, Claire, 2021, “After Child Tax Credit Payments Begin, Many More Families Have Enough to Eat”, Washington, DC: Center on Budget and Policy Priorities. <https://www.cbpp.org/blog/after-child-tax-credit-payments-begin-many-more-families-have-enough-to-eat>

²¹ Zachary Parolin, Elizabeth Ananat, Sophie M. Collyer, Megan Curran, and Christopher Wimer, 2021, “The Initial Effects of the Expanded Child Tax Credit on Material Hardship,” NBER Working Paper 29285, Cambridge: National Bureau of Economic Research.

²² Leah Hamilton, Stephen Roll, Mathieu Despard, Elaine Maag, Yung Chun, Laura Brugger, and Michal Grinstein-Weiss, *The Impacts of the 2021 Expanded Child Tax Credit on Family Employment, Nutrition, and Financial Well-being: Findings from the Social Policy Institute’s Child Tax Credit Panel (Wave 2)*, Washington, DC: Brookings Institution, <https://www.brookings.edu/articles/the-impacts-of-the-2021-expanded-child-tax-credit-on-family-employment-nutrition-and-financial-well-being/>.

²³ Ashley Burnside, Bruce Fuller, Elaine Maag, Kathryn Menefee, Brayan Rosa-Rodriguez, and Qifan Zhang, 2023, “National Survey: Families Faced Financial Strain When Expanded CTC Expired.” Washington, DC: Center for Law and Social Policy, <https://www.clasp.org/publications/report/brief/national-survey-families-faced-financial-strain-when-expanded-ctc-expired/>

²⁴ Alison Bovell-Ammon, Nicole C. McCann, Martha Mulugeta, Stephanie Ettinger de Cuba, Julia Raifman, and Paul Shafer, 2022, “Association of the Expiration of the Child Tax Credit Advance Payments with Food Insufficiency in US Households,” *JAMA Open Network*, <https://jamanetwork.com/journals/jamanetworkopen/fullarticle/2797549>.

The expanded Child Tax Credit also corresponded to reductions in financial hardship. Families who received the payments reported declines in credit card debt and a reduced reliance on high-cost financial services (payday loans, pawn shops, selling plasma).²⁵ Among recipients of Supplemental Nutrition Assistance Payments (SNAP), researchers found families were more likely to be able to pay utility bills.²⁶ In New York City, Child Tax Credit recipients reported substantial reductions in financial hardship, measured by whether or not a family ran out of money before the end of the month.²⁷

The expanded Child Tax Credit provided many families an opportunity to invest in their children's futures. Families reported using funds from the credit to pay for tutoring services and extracurricular activities for their children. This was especially true among Black, Hispanic, and other nonwhite households.²⁸ In some cases, families reported using the money to save for college, a pathway to improved economic opportunity.

Conclusion

The expanded Child Tax Credit allowed families to better meet the needs of their children. The credit reduced food insecurity, fostered economic security, and allowed parents to invest in their children. Research shows that investing in children can lead to a lifetime of benefits for both the children and society. The expansion was ultimately a limited experiment in the power of policies to lift up even very low-income children.

For questions, or to request a follow-up discussion based on this response, please contact Sarah Trumble at STrumble@urban.org.

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²⁵ Hamilton et al., *Impacts of the 2021 Expanded Child Tax Credit*.

²⁶ Natasha Pilkauskas, Katherine Michelmore, Nicole Kovski, and H. Luke Shaefer, 2022, "The Effects of Income on the Economic Wellbeing of Families with Low Incomes: Evidence from the 2021 Expanded Child Tax Credit, University of Michigan, https://poverty.umich.edu/files/2022/09/Pilkauskas-et-al_CTC_Econ_wellbeing_Sept2022-1.pdf.

²⁷ Collyer et al., "The Effects of the 2021 Monthly Child Tax Credit on Child and Family Well-being."

²⁸ Jason Jabbari, Cameron Anglum, Stephen Roll, and Leah Hamilton, 2023, "The Child Tax Credit, Education Investments, and the American Dream: A Moderated Medication Analysis," *Socius*, 9, <https://doi.org/10.1177/23780231231181899>; Hamilton et al., *Impacts of the 2021 Expanded Child Tax Credit*.