

## The Progressivity and Science-Based Design of The 2021 Child Tax Credit Expansion

The American Rescue Plan enhanced the Child Tax Credit, increasing the size of the credit and making it fully available to all low-income children. These changes followed the advice of National Academy of Sciences for reducing child poverty and significantly enhanced the progressivity of the Child Tax Credit.

**History of the Child Tax Credit:** The Child Tax Credit was first enacted in 1997. A credit of \$500 per child, it was generally only available to families earning more than \$25,000 per year but less than \$110,000 for married couples. Over the next twenty years, Congress extended the benefit to more low-income families. By the end of the Obama Administration, the credit was increased to \$1,000 per child and the credit was made refundable for families with lower incomes (phasing in at a 15% rate starting at incomes of \$3,000).

**The 2017 Tax Bill:** In 2017, President Trump and congressional Republicans increased the credit's size to \$2,000 and made the full credit available to married couples earning up to \$400,000, expanding the credit to all but the richest 2% of Americans. The 2017 law also lowered the income threshold to \$2,500, while limiting the amount of credit that was refundable. These changes significantly increased the availability and value of the Child Tax Credit for wealthy families, but denied the full benefit of the credit to lower-income households. After passage of the 2017 tax bill, one-third of all children lived with families that did not earn enough to receive the full credit.

**The American Rescue Plan:** The American Rescue Plan enhanced both the value and progressivity of the Child Tax Credit. It increased the maximum value of the credit from \$2,000 per child to \$3,000 per child ages 6-17 (with 17 year olds eligible for the first time) and \$3,600 per child under age 6 and targeted this enhanced Child Tax Credit to the families most in need. It lowered the eligibility for the full credit to \$150,000 for married couples. At the same time, it made the Child Tax Credit fully refundable, ensuring children in all low-income families will receive the full benefit. The Child Tax Credit is also nontaxable income, so it will not impact a family's benefits (e.g. healthcare, nutrition assistance, housing, etc.). Under the ARP, a couple with two children under age 6 and income of \$14,500 (the annual income of full time work at the minimum wage) will receive an additional \$5,400 in child tax credits; in comparison, the same family with income of \$150,000 will receive \$3,200 in additional credits.

**Science-Based Design:** In 2019, the National Academy of Sciences released a landmark report on child poverty in the United States. As a lead author testified, the Academy found that of all the policies reviewed, a Child Tax Credit of "\$3,000 per child per year would produce the largest poverty reduction." The report found overwhelming evidence that expanding the Child Tax Credit would improve children's health, education, and future earnings. At the same time, multiple studies (here and here) find that parents also benefit, spending less on alcohol and tobacco as their financial stress is eased. The design of the enhanced Child Tax Credit ensures that families are not discouraged from working and that they can receive needed help both if their income is low and if they live in communities with high costs of living.