Effects of the Expanded Child Tax Credit

Summary of Recent Research

In 2021, the Child Tax Credit (CTC) was temporarily expanded to provide most families—including those with very low or no income—with up to $3,600 per child. Most families received half of the expanded CTC as monthly advance payments during the last six months in 2021 and half as a lump sum in 2022. The program had a profound impact on children and families in the United States, including an unprecedented reduction in the child poverty rate in 2021.

This brief provides a summary of the research findings that have been published since the spring of 2022.

- The expanded CTC substantially reduced child poverty and family economic hardship.
  - In 2021, the year when expanded CTC payments were available, child poverty fell by 46 percent from 2020 levels, from 9.7 to 5.2 percent when taking into account noncash benefits received.\(^1\)
  - Approximately 90 percent of the decline in child poverty was attributable to the expanded CTC.\(^2\)
  - The anti-poverty effects of the expanded CTC were driven by the expansion of eligibility for the full credit to families with little or no income.\(^3\)
  - By the end of 2021, checking account balances among families with low incomes remained 65 percent higher than pre-pandemic levels, with CTC recipient families having higher balances than non-recipients.\(^4\)
  - Low- and moderate-income families who received the CTC kept their savings accounts balances intact through the second half of 2021 despite fast-rising costs.\(^5\)
  - CTC-eligible households nationwide saw declines in credit card debt.\(^6\)
  - CTC recipients were less likely to rely on high-cost financial services (e.g., payday loans, pawn shops, etc.).\(^7\)
  - CTC recipients were able to increase their ‘rainy day’ funds and ability to cover emergency expenses.\(^8\)
  - Families who received the CTC saw a meaningful reduction in eviction.\(^9\)
  - Recipients also saw increased payments toward debt and reductions in overdraft fees.\(^10\)
  - Among low-income SNAP recipients, the average reported monthly payment of $500 reduced the total material hardships families experienced by 17 percent. This was largely driven by reductions in food insufficiency, but there was also “some evidence that the expansions led to reductions in medical hardship, reduced inability to pay utility bills, and reduced the need to rely on friends and family for food.”\(^11\)
• The expanded CTC advanced racial equity.
  o Children who had been disproportionately ‘left behind’ by the credit prior to its expansion—namely, Black and Latino children, young children, and children in single-parent families, rural areas, and larger families—all experienced significant reductions in poverty that also helped close poverty gaps and reduce disparities among groups.12
  o The monthly CTC allowed families of color to make significant investments in their children’s long-term educational outcomes. Black and other non-white households were more likely to use the CTC for childcare and education expenses, including tutoring and extracurricular activities for their children.13
  o Survey data found that a majority of both Hispanic and Black respondents “[felt] like the government cares about their family’s health and wellbeing” and that “the government is responsive to the needs of their community” after receiving monthly CTC payments.14
  o USDA data show that food insecurity declined in 2021 among Black households, although the data do not break down the degree to which the CTC contributed to this decline.15

• The expanded CTC increased family food security.
  o The first round of CTC monthly payments was associated with a 26 percent drop in food insufficiency among households with children nationwide16, and this effect remained in place until the monthly payments stopped.17
  o USDA data show that food insecurity declined between 2020 and 2021 for children, households with children (including those under age 6), Black households, all households with low and moderate incomes below 185 percent of the federal poverty threshold, and households in the South, although the data do not break down the degree to which the CTC contributed to this decline.18
  o CTC recipients experienced deeper reductions in food insecurity between 2020 and 2021 than non-recipients and this effect was particularly concentrated among families with low and moderate incomes below 200 percent of the federal poverty level.19
  o Among a sample of mostly women with children with incomes below $24,000 who receive SNAP, a $500 monthly CTC (akin to a credit value for a two-child family) was associated with a 32 percent decline in food insecurity.20
  o CTC-eligible households experienced changes in their food consumption towards increased healthy eating. They were 1.3 times more likely to eat more fruit, 1.5 times more likely to eat more meat and protein, and 1.4 times more likely to better afford balanced meals, compared to non-eligible counterparts.21
  o Survey data show that by April 2022, almost half of parents could no longer afford enough food for their family.22
  o By July 2022, families with children had food insufficiency rates that were 25 percent higher than the period just after the monthly payments ended.23
  o A July survey showed that food hardship was particularly prevalent among families with income of $25,000 or less, those headed by a parent with less than a bachelor’s degree, and those with Hispanic parents.24
• Families used monthly CTC payments to meet their basic needs.
  
  o Total consumption rose relative to previous levels among families who received CTC payments, and specific increases were seen in spending on groceries, education, and healthcare.\textsuperscript{25}
  
  o Families with income below $100,000 were more likely to spend monthly payments on goods and services or to pay down debt than to save it.\textsuperscript{26}
  
  o Food spending was consistently the number one way families with incomes below $150,000 used their CTC.\textsuperscript{27}
  
  o Nearly three-quarters (72 percent) of families with children who reported difficulty with their bills in early 2022 had spent their CTC on housing or utilities in late 2021.\textsuperscript{28}
  
  o Survey data found that 60 percent of parents who received the CTC found it more difficult to meet their monthly expenses after the monthly payments stopped and two-thirds of that group could not afford food or groceries or cover their usual bills.\textsuperscript{29}
  
  o Two-thirds (63 percent) of CTC-eligible families confirm that monthly payments made it easier to budget, compared to the lump-sum annual payment.\textsuperscript{30}
  
  o Preference for monthly payments increased as family incomes decreased, with the greatest preference for regular receipt among families with lower incomes.\textsuperscript{31}
  
  o Monthly CTC payments were spent on smaller, regular expenditures such as food purchases.\textsuperscript{32}
  
  o CTC lump sum payments, on the other hand, were typically used on larger expenses such as paying off debt, including housing arrears.\textsuperscript{33}
  
• A large majority of eligible families were able to access the expanded CTC, but too many were left out.
  
  o During the last six months of 2021, the average number of monthly payments made was 36.1 million, the average number of monthly child beneficiaries was 61.2 million, and the total cost of all six advance payments made was $93.5 billion.\textsuperscript{34}
  
  o According to the GAO, 2.1 million households opted out of monthly payments.\textsuperscript{35}
  
  o Payments were highly accurate. A review by the Taxpayer Inspector General for Tax Administration (TIGTA) found that 98 percent of the first five payments (July through November 2021) were correctly sent—representing 175.6 million payments totaling $75.6 billion.\textsuperscript{36}
  
  o The total number of households with children who did not receive monthly payments is not currently known, but the TIGTA review found that the IRS “did not send 8.3 million payments, totaling about $3.7 billion, to 4.1 million eligible taxpayers,” and further analysis is forthcoming.\textsuperscript{37}
  
  o Survey data found relatively high take-up rates, particularly in November and December of 2021, though some surveys focused on families with lower incomes who were less likely to receive payments automatically based on tax filings. Some topline data were also impacted by parents who reported not receiving the CTC because another parent in a separate household had claimed the credit.\textsuperscript{38-39}
Inequities in monthly payment receipt emerged by “race, ethnicity, nativity, banking status, education level, household employment, marital status, [and] tax filing status.” Latino families continued to be the least likely to report receipt compared to all other racial and ethnic groups.41

Taxpayers faced many barriers to accessing the CTC, including online tools that were initially available only in English, technical difficulties with the IRS portal and identification verification, and lack of trust and familiarity with the IRS.42-43

- The expanded CTC had no negative effect on employment, and a permanent expansion would likely have small employment effects that would be offset by other societal benefits.
  - Researchers have found no evidence to support claims that the CTC negatively affected employment in 2021, using real-world data from Census.44
  - One study found that enhanced CTC payments had no statistically significant impact on rates of employment and wages among those who received those payments.45
  - The Joint Committee on Taxation estimates that permanent expansion would lead to a $113 billion loss of tax revenue due to decreased growth and employment effects, but this analysis does not include the potential fiscal benefits of a permanent expansion in terms of reduced poverty and other improved outcomes.46
  - Estimates indicate that a permanent expansion would cost about $97 billion per year but would generate societal benefits of $929 billion per year.47
  - A permanent expansion of the 2021 CTC could lead up to 411,000 parents to stop working, but that negative effect would be offset by a deep, permanent cut to the child poverty rate.48

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7 Ibid.
8 Ibid.
9 Ibid.


32 Ibid.

33 Ibid.


35 Ibid.


37 Ibid.


