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THE CURRENT: How could expanded tax credits reduce child poverty?

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(MUSIC)

PITA: You're listening to The Current, part of the Brookings Podcast Network. I'm your host, Adrianna Pita.

Millions of American families have started receiving payments from a child tax credit that was extended as part of the COVID relief bill passed in March, the American Rescue Plan. The Washington Post has called the new tax break "the biggest anti-poverty program undertaken by the federal government in more than half a century."

With us to explain what this mean for American children and families is Robert Greenstein, a visiting fellow with the Hamilton Project here at Brookings. Bob, thanks so much for talking to us today.

GREENSTEIN: Oh, my pleasure, thank you.

PITA: New monthly payments started rolling out as of July 15. There were, of course, already an existing child tax credit programs and systems, what can you tell us about this expansion that's gone through?

GREENSTEIN: This is a dramatic expansion. So, prior to passage in the American Rescue Plan, the child tax credit was a $2,000 per child annual credit. That went in full to, say, married filers with incomes up to 400,000 a year. But it shut out partially or entirely the lowest-income children in the United States.

The way it worked, if a parent, if a family had less than $2500 a year in earnings, they got nothing. If they had somewhat more than $2500, it phased in very slowly. So, just to give an example, if you made $400,000 a year, you would get $2,000 per child. If you have been unemployed a bunch of the year and part time the rest, and made $4,000 a year, you'd get about $112 per kid. 27 million low-income children – basically the 27 million lowest income children in the United States – got either nothing or a partial credit.

What the American Rescue Plan did was, it made two fundamental changes in the child credit. It raised the credit from $2,000 a year per child to $3,000 per child for children six through 17, making 17-year-olds eligible for the first time. And it raised it from $2000 per kid to $3600 per kid for children under six. That's one part of what it did, increase the amount per kid. Second, and this is the really transformative part, second, it got rid of the multiple restrictions on low-income families at the bottom and the principle was that the children in the poorest families, just like children in middle-income families and children in families making, you know, several hundred thousand a year, the children at the bottom should be fully eligible for the full amount.

So, for the poorest kids we go from being eligible for nothing to either $3000 or $3600 per kid, depending on the child's age. And up until now, the credit is just delivered once a year at tax time. You file your taxes for the previous year by April 15, and the child credit would come as a tax refund check once a year. What is happening now, starting July 15, is the credit goes out in monthly amounts unless a family requests to get the whole thing in a lump sum at the end of the year at tax time. Most are going to go out on a monthly basis. So, if you're a kid 6-17 and the new credit is $3,000, that's $250 a month. If you're a kid under 6, $3600 a year, that's $300 a month.

These amounts will go out each month for the next six months – because there are only six months left in 2021 – and the other half for 2021 will be provided as a tax refund once families file their taxes next spring. But if this continues, the idea is, if this were to continue for more years, then you'd have 12 monthly payments each year, rather than six. The reason they have to do the other half in a lump sum next spring, tight now, is because this is a credit just for 2021. Right now, it's in effect for one year only.

PITA: On the question of child poverty, the U.S. regularly ranks near the bottom of the scale compared to our peers, the other high-income nations. This child tax credit is, as you've mentioned, is being heralded for its potential to really dramatically reduce child poverty. What kind of impact is this expected to have? In terms of you know, it is only good for a year, as you mentioned; talk a little bit about that impact and then also going forward, if it were to be extended, what kind of impact are we looking at?

GREENSTEIN: A few years ago, Congress charged the National Academy of Sciences with coming up with proposals that would achieve a goal of cutting child poverty in the U.S. in half. And the National Academy made the centerpiece of its proposals the child tax credit proposal very much like the one in the American Rescue Plan. Researchers at Columbia University have estimated that this would reduce child poverty by more than 40%, just from these improvements in the child tax credit.

And beyond that, we have growing evidence that providing more adequate income in a manner like this to the poorest kids has enduring benefits. It's linked to improvements in child health, educational attainment, and more. The National Academy of Sciences report outlined the kinds of positive effects it would expect this would have on children's long-term development and their ability to reach their full potential. So, particularly if this occurs on an ongoing basis and isn't just a one-year thing that then disappears, if that's the case, this proposal would result in the most dramatic reduction in child poverty, of probably any single policy enacted in our nation's history.

PITA: You referred to a lot of the pre-existing child tax benefits that have existed. One of the more well-known of these is the earned income tax credit or the EITC. The EITC itself was also adjusted in the American Rescue Plan. Could you describe for us, maybe how the new child tax credit is different from the EITC, and what were some of these additional changes that are going on in the broader realm of tax credits for families with children?

GREENSTEIN: You know the EITC, in my view, like the child tax credit, is really an exemplar of good policy. It effectively is a wage supplement that really helps the working poor, but not just the working poor, up through the lower-middle class. I mean it doesn't – for a married family with two kids, it doesn't phase out entirely until something like $55,000 a year. What it does is, you do have to work to get it, and it phases up with earnings. So if you're a family with two children, the EITC equals 40% of your earnings until you reach the level somewhere up close to $15,000 a year, then it's flat for a while and then it phases out, as I said, somewhere, a bit north of $50,000 a year. It has big anti-poverty effects. Multiple studies by distinguished economists have found that it significantly increases employment and work effort which then has a further poverty-reduction effect.

The EITC has two basic components: one is for families with children – and it's larger for families with two kids than for those with one kid, and larger still for three or more kids. It stops at three or more. And then there is a tiny EITC for workers who aren't raising children at home. And the tiny EITC for those workers is, appropriately, the focus of the American Rescue Plan. For people who remember Ronald Reagan's tax reform act of 1986, it was billed, among other things, as saying, hey if we're not going to have the federal government tax low-wage workers into poverty or deeper into poverty, and it achieved that goal for families with kids but not for single workers. People are astounded to hear that today, in the United States in 2021, we still tax about 6 million low-income workers, most of them single individuals, either into poverty or deeper into poverty, and that's because they have payroll tax taken out of their paycheck, some of them owe a modest amount of income tax, and unlike for families with kids, their EITC is so small it doesn't offset those taxes, so they owe a net tax burden to the federal government, even though, in many cases, they're already living below the poverty line.

What the American Rescue Plan proposal does is it increases the EITC for workers not raising children at home. It roughly triples the maximum benefit about – it would still be far below the EITC for families with children, but more adequate. Right now, literally the EITC we've had until now for workers without children is so small, it has hardly any anti-poverty effect, and it's too small to have a work incentive, pro-employment effect. This proposal really would address that. And it does one other very important thing: under the prior law, you didn't become eligible for the EITC, for workers not raising children, until you reached age 25. We've got all these people age 19 to 24, I mean a lot of them are the delivery people and the frontline workers who have kept all of us safe during the pandemic, but they're shut out of the EITC. So, the American Rescue Plan makes the 19- to 24-year-olds eligible, except for full time students. It roughly triples the EITC and also makes workers over 64 eligible; they're currently intelligible. And so, it would both be more effective in reducing poverty, more effective in supplementing low wages, and in addition to that, more effective in bringing people into the labor force. So, that's also in the American Rescue Plan, as well as the transformational, if I can use that word, expansions of the child tax credit.

PITA: So, there's a lot going on there in both those aspects, but of course the American Rescue Plan was passed as a type of emergency bill. It was a special relief act in a time of a global pandemic and so both of these benefits, as you mentioned, are only good for 2021. Democrats are in favor of making these permanent: the Biden administration included it in its proposed American Families Plan, Senate Democrats have included it in their new $3.5 trillion budget plan that they released this week. What are your recommendations for the future of these programs, and maybe more importantly, how likely do you think it is that either of them will go through?

GREENSTEIN: So, let's talk about the Biden proposal in the American Families Plan, the new Senate Democratic budget plan, and what that would do. So, Biden and Senate Democratic leaders have expressed an aspiration to make both the child tax credit improvements and the EITC improvements in the American Rescue Plan permanent. But because of the cost, that's not really what Biden proposed in the families plan. What he proposed in the families plan I think is very interesting. They divided the EITC and child tax credit improvements into two groups: those that are really critical for the poorest people and the anti-poverty effect and those that are broader, go farther up the income scale, and because they go farther up the income scale are more expensive.

So, what they propose is that the increase per kid in the child credit from $2000 per kid to $3000 or $3600, depending on the children's ages, that would go through 2025. Not because they don't want to make it permanent, but because they felt they couldn't fit the cost and do what was already a four plus trillion dollars package, when you couple it with the American Jobs Plan and so forth. And the reason they picked 2025 is that most of the individual income tax cut provisions the Republicans enacted in 2017 under a Republican Congress and Donald Trump expire at the end of 2025. Republicans are going to want to extend a bunch of those, so the idea was have them expire together to improve the chance of making it work.

However, while I think it is a not unreasonable expectation that you'd have a real shot at making the increase to $3000 and $3600 permanent if you have divided government in 2025 – it was Republicans who raised the credit amount from $500 for each kid to $1000 in 2001 and from $1000 per kid to $2000 in 2017 – on the other hand, there is sadly, in my view, little interest now in Republican ranks in making the child credit fully available to the poorest children. Mitt Romney's for that, but not a lot of other Republicans. And not a lot of interest in the improvement in the earned income tax credit for childless workers. Former House Speaker Paul Ryan championed that, and he couldn't do anything with it because the House Republican caucus didn't agree with him on it. They were uninterested.

Accordingly, the Biden proposal would make permanent the transformational improvements at the bottom of the child credit that make the poor kids eligible in the same way that middle-income kids are, and it would make permanent the EITC improvements for workers not raising children at home. And those two things I think together still cost less than the increase in the credit to $3000 and $3600 for the reason that that goes much farther up the income scale, covers more kids, and therefore costs more. So that's what Biden proposed.

And a number of Democrats on the Hill said, gee we don't think that's good enough, we want to make all of the child tax credit improvements permanent. However, the new Senate Democratic budget plan goes in the opposite direction for the obvious reason that it's a $3.5 trillion plan; it's a little bit smaller. And they have various things like in Medicare that they want to add, so there's less room for everything else. So, what we know is that when the Senate Democrats outlined their plan this week, all that was really said was that some of these expansions in these tax credits would be extended for a somewhat shorter period than Biden proposed in the American Families Plan. We don't have details yet on what that means.

My recommendation would be to be sure to do what Biden proposed in making the full availability of the child tax credit to the poorest children permanent. That's the transformational point. I think, over time, the dollar amount per kid will go up; there is some bipartisan support for that. I think if you did that through 2025 or even 2024 you'd have a pretty good chance. But I really worry that if the part for the children at the bottom isn't made permanent now, and if the EITC childless worker improvement isn't made permanent now, that they will die when their extension – if it's two years, three years, four years – that there's a good chance, in the absence of a Democratic trifecta at the time they are expiring, that they will simply end at that point.

I would note that – and I find a lot of people don't realize this – if you were to increase the child tax credit from its current $2000 per kid to $3000, $3600 without making the changes at the bottom, the child poverty reduction effect would not be small; it would be zero. The lowest-income kids wouldn't get a penny out of them because of the way the limitations at the bottom now work. So, it is critical, if we're serious about reducing child poverty, in my view, it is critical to make that permanent and also important to make the EITC for childless workers permanent.

Now, there's going to be a big competition for resources. You know, when the reconciliation bill, this big bill that they're planning, $3.5 trillion for right now, $3.5 trillion over 10 years – when that bill is developed on Capitol Hill, the Senate Finance and House Ways and Means committees will be front and center. They’re the committees that have jurisdiction over these tax credits, over the tax code, but also over things like Medicare and a number of other areas, and there's going to be an intense competition for resources there. There will be some struggling over how much revenue can you raise, because they're trying to pay for much or all of the package. And so we don't really know what's going to emerge in the competition for resources there, but I certainly hope, and my top recommendation would be to make those two key provisions for low-income children and low-income workers not raising children permanent at this point.

PITA: All right. Bob, thanks so much for talking to us today and explaining this.

GREENSTEIN: Oh, my pleasure, thank you.