United States Senate Finance Subcommittee on Taxation and IRS Oversight
"Assessing 25 years of the Child Tax Credit"

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Chairman Bennet, Ranking Member Thune, and distinguished members of the subcommittee, thank you for the opportunity to testify. My name is Katherine Michelmore and I am an associate professor at the Gerald R. Ford School of Public Policy at the University of Michigan. I have dedicated my career to studying low-income families and the role of public policy in mitigating the short- and long-term consequences of growing up poor. The views expressed here are my own and should not be attributed to the University of Michigan as a whole.

My testimony today will provide an overview of the children left out of the Child Tax Credit under current law, as well as the impacts of the historic American Rescue Plan Act (ARPA) reform to the Child Tax Credit (CTC), which temporarily created a near-universal child benefit in the U.S. I will also discuss the enormous long-term societal benefits of making the 2021 reforms permanent.

The current structure of the Child Tax Credit prevents approximately 19 million of the poorest children in the U.S. from receiving the full credit.[1] Excluding the poorest children in the U.S. from the Child Tax Credit goes against the evidence we have about the importance of income for children's future life chances: an extra dollar matters most for children living in the poorest households.

One of the central debates about making the ARPA reforms to the CTC permanent at the end of 2021 was about how the reforms might reduce parents' incentives to work. However, recent evaluations of the ARPA reforms found no evidence that the credit caused parents to work less,[2] with survey evidence suggesting that the credit actually helped some parents work more.[3] More importantly, the ARPA reforms to the CTC contributed to a historic decline in child poverty and also reduced food insecurity and other forms of material hardship.[4] While it is too soon to

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[1] Cox, K., Marr, C., Calame, S., and Hingtgen, S. 2023. "Top Tax Priority: Expanding the Child Tax Credit in Upcoming Economic Legislation". *Center on Budget and Policy Priorities report.*
[2] Ananat, E., Glasner, B., Hamilton, C. and Parolin, Z., 2022. "Effects of the expanded Child Tax Credit on employment outcomes: Evidence from real-world data from April to December 2021." *National Bureau of Economic Research Working Paper No.29823.*
[3] Saving, J. and Zhang, X. 2023. "Did Expanded Child Tax Credit Enable Parents in Financially Vulnerable Households to Work During Pandemic?" *Dallas Federal Reserve* https://www.dallasfed.org/cd/communities/2023/2301 Accessed July 2023.
[4] Creamer, J., Shrider, E.A., Burns, K., & F. Chen 2022. "Poverty in the United States: 2021. Current Population Reports P60-277". Washington DC: United States Census Bureau. www.census.gov/content/dam/Census/library/publications/2022/demo/p60-277.pdf Accessed July 2023. Pilkauskas, N., Michelmore, K., Kovski, N. and Shaefer, H.L., 2022. "The effects of income on the

tell how these reforms will benefit children in the long term, history tells us that the societal benefits are likely to be enormous. Children who receive more income in early childhood through tax credits like the Earned Income Tax Credit (EITC) and other social programs like food stamps go on to have higher test scores in school, have better health outcomes, complete college at higher rates, and have higher earnings in adulthood.[5] They are also less likely to live in poverty and less likely to receive public assistance as adults.[6] In short, the evidence is clear that a permanent expansion of the CTC is likely to pay off several times over, for both the beneficiaries themselves, as well as society at large.

<u>The Current Child Tax Credit Leaves Out 19 million of the Poorest Children in the U.S.</u>

The Child Tax Credit is the single largest federal expenditure program for children in the U.S.[7] Despite its scope, prior to the historic expansion of the CTC as part of the 2021 American Rescue Plan Act, only two-thirds of children in the U.S. were eligible for the full benefit ($2,000 per child under the age of 17).[8] Today, more than one in four children who are not eligible for the full benefit represent the poorest children in the U.S.[9] Nearly all children living in the bottom 10% of the income distribution are not eligible for any CTC benefit (see figure 1).[10] On the other end of the distribution, nearly all children residing in households in the top half of the income distribution are eligible for the full benefit.[11]

Eligibility for the CTC is racially and geographically concentrated. As of 2023, nearly half (46%) of Black and more than one-third (37%) of Hispanic children resided in households that were not

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economic wellbeing of families with low incomes: Evidence from the 2021 expanded Child Tax Credit" *National Bureau of Economic Research Working Paper No.30533.* Parolin, Z., Ananat, E., Collyer, S., Curran, M. and Wimer, C., 2023. "The effects of the monthly and lump-sum Child Tax Credit payments on food and housing hardship". In *AEA Papers and Proceedings* (Vol. 113, pp. 406-412). American Economic Association.

[5] Dahl, G.B. and Lochner, L., 2012. "The impact of family income on child achievement: Evidence from the earned income tax credit". *American Economic Review*, *102*(5), pp.1927-1956. Braga, B., Blavin, F. and Gangopadhyaya, A., 2020. "The long-term effects of childhood exposure to the earned income tax credit on health outcomes". *Journal of Public Economics*, *190*, p.104249. Bastian, J. and Michelmore, K., 2018. "The long-term impact of the earned income tax credit on children's education and employment outcomes". *Journal of Labor Economics*, *36*(4), pp.1127-1163.

[6] Hoynes, H., Schanzenbach, D.W. and Almond, D., 2016. "Long-run impacts of childhood access to the safety net". *American Economic Review*, *106*(4), pp.903-934. McInnis, N., Michelmore, K., and Pilkauskas, N. 2023. "The Intergenerational Transmission of Poverty and Public Assistance: Evidence from the Earned Income Tax Credit". *NBER working paper No. 31429.*

[7] Throughout, I use the term "child tax credit" to include both the CTC and the additional child tax credit (ACTC), which represents the refundable portion of the CTC, established in 2001.

[8] Collyer, Sophie; Harris, David; Wimer, Christopher. "Left Behind: The One-Third of Children in Families Who Earn Too Little to Get the Full Child Tax Credit". *Columbia University Center on Poverty and Social Policy Brief.*

[9] Cox, K., Marr, C., Calame, S., and Hingtgen, S. 2023. "Top Tax Priority: Expanding the Child Tax Credit in Upcoming Economic Legislation". *Center on Budget and Policy Priorities report.*

[10] Goldin, J. and Michelmore, K., 2020. "Who benefits from the child tax credit?" *National Bureau of Economic Research working paper No. 27940.*

[11] Goldin, J. and Michelmore, K., 2020. "Who benefits from the child tax credit?" *National Bureau of Economic Research working paper No. 27940.*

eligible for the full credit, compared to just 17% of White children.[12] Children living in rural areas are also less likely to receive the full benefit compared to children living in metro areas. More than 40% of children living in rural areas are not eligible for the full benefit because they live in households that do not have sufficient earnings.[13]

The minimum earnings requirements, along with the phase-in structure and partial refundability of the CTC account for why many children residing in low-income households are not eligible for the full credit. To provide a few concrete examples, a single-earner family with two children working full-time, year round at the federal minimum wage would not be eligible for the full CTC. Such a family would need to earn more than $30,000 per year to qualify for the full benefit, which is well above the official poverty threshold, and more than twice the earnings of someone working full-time, year round at the federal minimum wage.[14]

In contrast, under current law, a married couple with annual earnings of $400,000 would qualify for the full, $2,000 per-child benefit. In fact, nearly all children residing in households in the top half of the income distribution are eligible for the full benefit, while more than a quarter of the poorest children in the U.S. are not eligible in 2023.[15]

Historical CTC reforms have consistently expanded eligibility

The CTC was originally structured to provide tax relief to middle income tax filers and the distribution of benefits reflected this intention: historically, about 80% of CTC dollars went to families with income in the middle three income quintiles, with the remaining 20% split evenly between households in the top and bottom quintiles.[16] Because the credit was initially non-refundable, historically most low-income households were not eligible for any benefit. Similarly, the credit began phasing out at $75,000 for unmarried filers and $110,000 for married filers (not indexed to inflation), resulting in few benefits for children residing in households in the top income quintile.

The credit has been expanded several times in the more than 20 years since its inception.

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[12] Cox, K.; Marr, C.; Calame, S.; and Hingtgen, S. 2023. "Top Tax Priority: Expanding the Child Tax Credit in the Upcoming Economic Legislation." *Center on Budget and Policy Priorities Report.* https://www.cbpp.org/research/federal-tax/top-tax-priority-expanding-the-child-tax-credit-in-upcoming-economic

[13] Collyer, Sophie; Harris, David; Wimer, Christopher. "Left Behind: The One-Third of Children in Families Who Earn Too Little to Get the Full Child Tax Credit". *Columbia University Center on Poverty and Social Policy Brief.*

[14] According to the Census, the official poverty threshold for a single adult and two children was $23,578 in 2022. A full-time, year-round worker earning the federal minimum wage would earn approximately $15,500 in 2023 (assuming 2,000 annual work hours).

[15] Marr, Cox, Calame, Hingtgen, Fenton, and Sherman. 2022. "Year-End Tax Policy Priority: Expand the Child Tax Credit for the 19 Million Children who Receive Less than the Full Credit". *Center on Budget and Policy Priorities Brief.*

[16] Maag, Rennane, and Steuerle. 2010. "A Reference Manual for Child Tax Benefits." *Urban Institute Report.*

In 2001, as part of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) reform, the per-child CTC benefit increased from $500 to $1,000 and the credit was made partially refundable by the creation of the Additional Child Tax Credit (ACTC). Because the 2001 reform did not make the CTC fully refundable and included a $10,000[17] minimum earnings threshold, the CTC continued to exclude the vast majority of low-income households.[18] At the time, the non-partisan Joint Committee on Taxation (JCT) estimated that EGTRRA reforms to the CTC would cost about $25 billion each year for the first ten years.[19] An analysis by the Urban Institute estimated that just 6% of that benefit went to families with income below the poverty line, while nearly half went to households with income above 300% of the federal poverty line.[20]

Overall, an analysis by the Urban Institute estimated that just over half (57%) of all children in the U.S. were eligible for the full credit in the years following the EGTRRA reform (see figure 2; number of children presented in table 1). Fourteen percent of children were completely ineligible because their family earnings were too low, and an additional 15% were eligible for a partial credit, for a total of 29% of children in low-income households who were not eligible for the full benefit. At the upper end of the income distribution, 7% of children were eligible for a partial credit and 7% were completely ineligible because their family earnings were too high.[21]

In 2009, the CTC was expanded again as part of the American Recovery and Reinvestment Act (ARRA). This reform primarily reduced the minimum earnings threshold to qualify for a partial credit from $10,000 to $3,000. Following this reform, estimates suggest that about 62% of all children under the age of 17 were eligible for the full benefit (see figure 2). The poorest 20% of children resided in households that did not qualify for the full credit because of insufficient earnings (down from nearly 30% in 2005), and 18% of children resided in households with income too high to qualify for the full credit (up from 14% in 2005).[22]

The next major reform to the CTC occurred in 2017 as part of the Tax Cuts and Jobs Act (TCJA). The TCJA doubled the size of the credit to $2,000 per child and greatly extended the upper income range to qualify for a full benefit, increasing the phase-out threshold from $75,000 for unmarried filers to $200,000, and increasing the threshold for married filers from $110,000 to

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[17] Indexed to inflation beginning in 2002.
[18] Burman, Maag, Rohaly 2002. “The Effect of the 2001 Tax Cut on Low- and Middle-Income Families with Children.” *Urban Institute Report.*
[19] Joint Committee on Taxation. 2001.“Estimated Budget Effects of the Conference Agreement for H.R. 1836.” JCX-51-01, May 26.
[20] Burman, Maag, Rohaly 2002. “The Effect of the 2001 Tax Cut on Low- and Middle-Income Families with Children.” *Urban Institute Report.*
[21] Burman, Leonard and Wheaton, Laura. 2005. “Who Gets the Child Tax Credit?” *Tax Notes.*
[22] More children became partially or completely ineligible at the top of the income distribution because the phase-out thresholds are not indexed to inflation, thus more children live in households with incomes above $75,000 (unmarried) and $110,000 (married). Harris, David. 2012. “The Child Tax Credit: How the United States Underinvests in its Youngest Children in Cash Assistance and How Changes to the Child Tax Credit Could Help”. *Columbia University dissertation.*

$400,000. This reform primarily benefited households in the top income quintile, resulting in all but the richest 2% of children qualifying for the full benefit.[23]

At the other end of the income distribution, the TCJA also slightly benefited some low-income households since the minimum earnings threshold was reduced from $3,000 to $2,500 and the refundable portion of the credit (the ACTC) was expanded to $1,400 in 2018 (and indexed to inflation). Somewhat counterintuitively, because the total CTC benefit increased from $1,000 to $2,000 per child without a change in the phase-in rate of the credit, the share of children too poor to receive the full credit grew from 20% in 2011 to 34% in 2019 (see figure 2). This is because the value of the credit is calculated as a percentage of income above $2,500 (and subject to having at least $600 of tax liability per child to be eligible for the full credit in 2019); thus to reach the full $2,000 per-child benefit under the TCJA in 2019, a family with two children would have to earn approximately $36,500 per year, while under the previous law in 2017, they only needed to earn approximately $16,350 to be eligible for the then-maximum benefit of $1,000 per child.[24]

As a result, the poorest one-third of children were living in households that were not eligible for the full credit in 2019, while at the top of the income distribution, all but the richest 2% of children qualified for a full benefit (down from 18% in 2011).[25] These changes meant that more families with children were receiving the full credit than ever, but this was entirely a result of expanding the credit to high-income families while the share of low- and moderate-income families receiving the full credit fell.

<u>The 2021 American Rescue Plan Act (APRA) Reform Dramatically Expanded Eligibility</u>

The 2021 ARPA reform to the CTC (hereafter referred to as the ARPA CTC) marked a critical moment in CTC legislative history, transforming the benefit into something akin to a universal child allowance. The reform contained several key elements: the benefit was increased from $2,000 per child to $3,000 per child aged 6-17 and $3,600 for children under the age of 6, the credit was made fully refundable and the minimum earnings threshold and phase-in range were eliminated, and half of the benefit was distributed monthly in the latter half of 2021 ($250 per child aged 6-17; $300 per child under the age of 6).

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[23] Collyer, Sophie; Harris, David; Wimer, Christopher. “Left Behind: The One-Third of Children in Families Who Earn Too Little to Get the Full Child Tax Credit”. *Columbia University Center on Poverty and Social Policy Brief.* Goldin, J. and Michelmore, K., 2020. “Who benefits from the child tax credit?” *National Bureau of Economic Research Working Paper No.27940.*
[24] Author’s calculations using the National Bureau of Economic Research’s TAXSIM v35 for tax years 2017 and 2019 for a married filer with two children.
[25] Collyer, Sophie; Harris, David; Wimer, Christopher. “Left Behind: The One-Third of Children in Families Who Earn Too Little to Get the Full Child Tax Credit”. *Columbia University Center on Poverty and Social Policy Brief.* Goldin, J. and Michelmore, K., 2020. “Who benefits from the child tax credit?” *National Bureau of Economic Research Working Paper No.27940.*

Eligibility was based on IRS estimates of the number of qualifying children and income using prior year tax returns.[26] The remaining half of the credit was distributed when families filed their taxes in 2022.[27]

The ARPA reform essentially turned the CTC into a near-universal child allowance, with estimates suggesting that approximately 90% of all children in the U.S. were eligible for the full benefit.[28] The IRS reported that the monthly credits were distributed to 61 million children in the latter half of 2021 and that 98% of payments were made accurately.[29] An estimated 95% of families who benefited from making the credit fully refundable fall into one or more of the following categories: the parent or caretaker is working or worked in the previous two years, is ill or disabled, is elderly, or has a child under the age of 2.[30]

<u>The ARPA CTC dramatically reduced child poverty and other hardships</u>

The growing body of evidence on the impact of the 2021 ARPA reforms to the CTC covers a range of outcomes such as consumption and expenditures, child poverty, and material hardships (e.g. food insecurity).[31] The vast majority of evidence suggests that the ARPA CTC had a real, positive impact on the well-being of families, particularly low-income, working families.

Expenditures

Consumer credit data from JP Morgan Chase suggest that families spent a large portion of their monthly credits within one week of receiving the payments. Overall, about 40% of CTC payments were spent within the first week, rising to 80% among low-income, low-liquidity households.[32] Only a small fraction of CTC payments went towards savings, particularly for low-income households. This suggests that the CTC payments, in addition to providing much

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[26] In cases where households did not file 2020 tax returns, 2019 returns were used. The IRS also set up an online portal for families to provide information regarding their eligibility for those without a record of tax filing in 2019 or 2020 or for those with changes to their income or living arrangements.
[27] Families who did not receive advance monthly payments could claim the full amount upon filing their 2021 taxes. The reform also increased the upper age limit from 16 to 17 years old.
[28] Tax Policy Center 2021. “T21-0045 – Tax Benefit of the Child Tax Credit, by Expanded Cash Income Percentile 2021”. Washington DC. www.taxpolicycenter.org/model-estimates/tax-benefits-provisions-affecting-children-march-2021/t21-0045-tax-benefit-child-tax
[29] U.S. Department of Treasury. “Treasury and IRS Disburse Sixth Monthly Child Tax Credit to Families of 61 Million Children”. https://home.treasury.gov/news/press-releases/jy0533 Accessed July 2023.
[30] Sherman, A., Marr, C., and Hingtgen, S. 2021. “Earnings Requirement would Undermine Child Tax Credit’s Poverty-Reducing Impact While Doing Virtually Nothing to Boost Parents’ Employment.” *CBPP Policy Brief.*
[31] For an extensive discussion of the research on the impacts of the ARPA CTC as of November, 2022, see Curran, M. 2022. “Research Roundup of the Expanded Child Tax Credit: One Year On”. *Poverty and Social Policy Report.*
[32] JP Morgan Chase & Co. “How Families Used the Advanced Child Tax Credit”. https://www.jpmorganchase.com/institute/research/household-income-spending/how-families-used-advanced-CTC

needed financial relief to low-income families, could generate positive, macroeconomic growth.[33]

Survey evidence suggests that families spent their benefits primarily on basic needs such as food and housing, as well as child-related items, and paying down debt. For instance, a recent National Bureau of Economic Research (NBER) working paper estimated that households spent approximately $75 of every $100 CTC payment, with the largest spending going towards food ($28), housing ($31), and child-related expenses ($15).[34]

Low-income households in particular reported using the credit to purchase food and pay past-due bills and reduce other forms of debt.[35] There is no evidence that families increased spending on items like alcohol or tobacco.[36]

Poverty and Material Hardship

The Census Bureau estimates that the 2021 CTC contributed to a decline in child poverty by more than 4 percentage points in 2021, keeping nearly 3 million children out of poverty, as measured by the Supplemental Poverty Measure (SPM). The CTC expansion alone kept 2.1 million of those children out of poverty in 2021.[37] Following the expiration of the monthly payments in 2022, estimates suggested that 3.7 million more children were living below the monthly poverty line in February 2022.[38]

Other measures of material deprivation also improved during the months that the expanded CTC was in place. Material hardships, including food insecurity and housing hardships declined substantially, primarily in low-income households.[39]

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[33] Sahm, C. 2021. "Model Behavior: A Critical Review of Macroeconomic Models for Guaranteed Income and The Child Tax Credit". New York: The Jain Institute. http://www.jainfamilyinstitute.org/projects/parts/a-critical-review-of-macroeconomic-models-for-guaranteed-income-and-the-child-tax-credit Accessed July 2023.
[34] Schild, Jake; Collyer, Sophie; Garner, Thesia; Kaushal, Neeraj, Lee, Jiwan; Waldfogel, Jane; Wimer, Christopher. 2023. "Effects of the Expanded Child Tax Credit on Household Spending: Estimates Based on U.S. Consumer Expenditure Survey Data". *National Bureau of Economic Research Working paper No. 31412.*
[35] Michelmore, Katherine and Pilkauskas, Natasha. 2023. "The 2021 Child Tax Credit: Who Received it and How Did they Spend it?" *AEA Papers and Proceedings* 113: 413-419.
[36] Schild, Jake; Collyer, Sophie; Garner, Thesia; Kaushal, Neeraj, Lee, Jiwan; Waldfogel, Jane; Wimer, Christopher. 2023. "Effects of the Expanded Child Tax Credit on Household Spending: Estimates Based on U.S. Consumer Expenditure Survey Data". *National Bureau of Economic Research Working paper No. 31412.*
[37] Creamer, J., Shrider, E.A., Burns, K., & F. Chen 2022. "Poverty in the United States: 2021. Current Population Reports P60-277". Washington DC: United States Census Bureau. www.census.gov/content/dam/Census/library/publications/2022/demo/p60-277.pdf Accessed July 2023.
[38] Parolin, Z., Collyer, S., & M. Curran 2022. "Absence of Monthly Child Tax Credit Leads to 3.7 Million More Children in Poverty in January 2022". Poverty & Social Policy Brief, 6(2). New York: Center on Poverty and Social Policy at Columbia University. www.povertycenter.columbia.edu/s/Monthly-poverty-January-CPSP-2022.pdf Accessed July 2022
[39] Pilkauskas, N., Michelmore, K., Kovski, N. and Shaefer, H.L., 2022. "The effects of income on the economic wellbeing of families with low incomes: Evidence from the 2021 expanded Child Tax Credit".

A Columbia University report also found evidence that the monthly payments addressed different forms of hardships than the lump sum payments. They found that the monthly payments reduced food insecurity, while the lump-sum payments reduced housing hardships, measured by inability to pay rent or mortgage.[40] Survey evidence from the Urban Institute suggests that more adults with children preferred the monthly payments over a lump sum (45% vs 27%), and this preference was stronger among lower-income households (54% vs 19%).[41] This work highlights how the monthly benefits helped families meet their more regular needs, while the lump-sum payments helped families catch up on larger expenses.

Children's Outcomes

The literature on the impacts of the ARPA CTC on child outcomes is still in its nascent stages, but early evidence suggests that the CTC reduced child maltreatment in the days following the payments and increased infant birth weight.[42] Both of these outcomes imply longer-term improvements in child outcomes. Higher infant birth weight, for instance, is positively associated with educational attainment and earnings in adulthood.[43]

<u>Concerns about Employment Disincentives Not Substantiated by Empirical Evidence</u>

In the debates surrounding the potential extension of the ARPA reforms at the end of 2021, one of the main concerns was whether making the credit available to families regardless of their employment status would create disincentives for low-income families to work, thus reducing the overall effectiveness of the credit.

The vast majority of the evidence on the impacts of the ARPA reforms found no effect of the credit on employment during the months in which the credit was distributed. Researchers used a variety of methods to try to causally estimate these employment effects. Comparing families with children to families without children in the months prior to and following the monthly CTC distribution in 2021, researchers found no difference in the employment rates of families with children during the months in which the credit was in place, relative to the employment patterns

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National Bureau of Economic Research Working Paper No.30533. Parolin, Z., Ananat, E., Collyer, S., Curran, M. and Wimer, C., 2023. "The effects of the monthly and lump-sum Child Tax Credit payments on food and housing hardship". In *AEA Papers and Proceedings* (Vol. 113, pp. 406-412). American Economic Association.

[40] Parolin, Z., Ananat, E., Collyer, S., Curran, M. and Wimer, C., 2023. "The effects of the monthly and lump-sum Child Tax Credit payments on food and housing hardship". In *AEA Papers and Proceedings* (Vol. 113, pp. 406-412). American Economic Association.

[41] Maag, E. and Karpman, M. 2022. "Many Adults with Lower Income Prefer Monthly Child Tax Credit Payments". *Urban Institute Brief.*

[42] Ruffini, K., 2023. "Does Unconditional Cash during Pregnancy Affect Infant Health?". *Available at SSRN 4404319*. Bullinger, L.R. and Boy, A., 2023. "Association of expanded child tax credit payments with child abuse and neglect emergency department visits". *JAMA network open*, *6*(2), pp.e2255639-e2255639.

[43] Black, S.E., Devereux, P.J. and Salvanes, K.G., 2007. "From the cradle to the labor market? The effect of birth weight on adult outcomes". *The Quarterly Journal of Economics*, *122*(1), pp.409-439.

of families without children over the same time period.[44] Other studies compared the employment patterns of families who received larger CTC benefits relative to those who received smaller benefits, again finding no effect of the payments on employment.[45] Finally, another research team took the approach of comparing the employment patterns of families who received different amounts of CTC benefits relative to their income, finding no impact of receiving a larger credit on employment. These researchers also compared the employment patterns of these families in 2021 to a similar set of families in 2019, finding no evidence that employment rates were systematically lower in 2021, relative to 2019.[46]

It is not clear whether the lack of an effect on employment would persist if the ARPA CTC were made permanent, nor is it clear if parents were even aware of the changes in employment incentives brought on by the ARPA CTC. It might take a few years before parents fully realize how changes in employment impact their eligibility for various credits, thus the longer-term employment effects may differ from short-term responses. Despite these caveats, there is little evidence that the ARPA CTC had any negative impact on parental employment during the months it was distributed. In fact, survey evidence suggests that the ARPA CTC allowed some families to work *more* by allowing them to afford costs associated with work like childcare and transportation.[47]

Several studies attempted to model the longer-term employment effects of the ARPA reform using simulations. In my own work on this topic, my colleagues Jacob Goldin, Elaine Maag, and I estimated the long-term costs and benefits of three different potential reforms to the CTC, including the ARPA reform. Our simulations suggested that, under common assumptions about how responsive parental employment is to changes in taxes and income (known as a labor supply elasticity), the predicted decline in parental employment as a result of the ARPA CTC were quite modest (on the order of about 0.3% of the workforce) relative to the direct costs of the program. We also found that the long-term gains in earnings of the children benefiting from these expansions far outweighed the costs associated with a modest decline in parental employment. In particular, using estimates from the broader literature on the impact of exposure to tax credits in childhood on adulthood earnings, we estimated that the long-term gains in

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[44] Ananat, E., Glasner, B., Hamilton, C. and Parolin, Z., 2022. “Effects of the expanded Child Tax Credit on employment outcomes: Evidence from real-world data from April to December 2021” *National Bureau of Economic Research Working Paper No.*29823.

[45] Pilkauskas, N., Michelmore, K., Kovski, N. and Shaefer, H.L., 2022. “The effects of income on the economic wellbeing of families with low incomes: Evidence from the 2021 expanded Child Tax Credit” *National Bureau of Economic Research Working Paper No.30533.*

[46] Enriquez, B., Jones, D. and Tedeschi, E., 2023, May. “Short-Term Labor Supply Response to the Expanded Child Tax Credit”. In *AEA Papers and Proceedings* (Vol. 113, pp. 401-405). 2014 Broadway, Suite 305, Nashville, TN 37203: American Economic Association.

[47] Kaverman, E., Minoff, E., & J. Kashen 2022. “A “Godsend”: How Temporary Investments in the Child Tax Credit and Child Care Impacted Michigan Families”. Washington DC: Center for the Study of Social Policy. https://cssp.org/resource/a-godsend-how-temporary-investments-in-the-child-tax-credit-and-child-care-impacted-michigan-families/

Lens, V., Arriaga, A., Pisciotta, C., Bushman-Copp, L., Spencer, K., & S. Kronenfeld 2022. “Spotlight on the Child Tax Credit: Transforming the Lives of Families”. New York City: Robin Hood Foundation. www.robinhood.org/wp-content/themes/robinhood/images/poverty-tracker/pdfs/POVERTY_TRACKER_REPORT32.pdf earnings offset the direct costs of the ARPA expansion by about 20%.[48] Our calculations did not include an enumeration of other societal benefits of the ARPA expansion such as reducing poverty and public assistance receipt in the long-term, but based on previous studies, these long-term benefits are projected to far outweigh any costs associated with modest declines in parental labor supply in the short-term.[49]

The Joint Committee on Taxation also estimated that the expanded credit would lead to only a modest, 0.2% percent decline in labor supply, which staff of the Ways and Means Committee translated into an even smaller reduction than above.[50] Another analysis conducted by Jacob Bastian, an economist at Rutgers University, estimated a similar, modest decline in labor supply.[51] These three studies used different data and assumptions, but came to similar conclusions about the expected declines in parental labor supply associated with the ARPA reforms to the CTC: declines in parental employment were likely to be quite modest.

Another study led by economists at the University of Chicago estimated a much larger decline in parental labor supply as a result of the ARPA reform, of about 2.6% of working parents.[52] The main discrepancy between this study and the other studies is in the modeling of the responsiveness of parents' employment decisions with respect to the changes in income and marginal tax rates associated with the ARPA reforms. The University of Chicago team relied on estimates based on older data and relied on a much larger labor elasticity for single mothers than typically used in the recent literature.[53] This study also made the seemingly unrealistic assumption that either both parents would choose to remain employed or both parents would choose to drop out of the labor force simultaneously. While modeling joint labor supply decisions is more complicated, a more realistic assumption might be that one parent reduces their labor supply in response to the increased generosity of the credit and changes in marginal tax rates. Based on prior research on how married couples alter their labor supply in response to more generous EITC benefits (which also creates an income effect and a substantial increase in marginal tax rates for secondary workers due to the marriage penalty embedded in the

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[48] Goldin, J., Maag, E. and Michelmore, K., 2022. "Estimating the net fiscal cost of a Child Tax Credit expansion". *Tax Policy and the Economy*, *36*(1), pp.159-195.

[49] Garfinkel, I., Sariscsany, L., Ananat, E., Collyer, S., Hartley, R.P., Wang, B. and Wimer, C., 2022. "The Benefits and Costs of a Child Allowance". *Journal of Benefit-Cost Analysis*, *13*(3), pp.335-362.

[50] Fenton, George. 2023. "Gains from Expanded Child Tax Credit Outweigh Overstated Employment Worries". *Center on Budget and Policy Priorities Report.* https://www.cbpp.org/sites/default/files/6-14-23tax.pdf

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benefit structure), declines in married women's labor supply are likely to be small.[54] Men, regardless of marital status, tend to have a fairly inelastic labor supply.[55]

More broadly speaking, the lack of employment effects found so far in response to the ARPA reforms to the CTC are also consistent with the larger literature on the impacts of cash transfers on employment outcomes. Evidence from the Alaska Permanent Fund, for instance, finds no evidence that the annual cash transfers decreased employment among those who received them.[56] Similarly, in Canada, where child benefits are much more generous than the CTC and not contingent on work (though the credits phase out at higher income ranges, which creates both an income and a substitution effect that would predict a decline in employment), there is no evidence that increasing the generosity of child benefits affects parental labor supply.[57]

A Permanent Expansion of the CTC will Likely Generate Enormous Societal Benefits

While to date we can only observe the short-term effects of the ARPA reforms to the CTC, a long literature on the impact of other social safety net programs provides insights into the likely enormous long-term societal benefits of making the ARPA CTC permanent.

A recent study by researchers at Columbia University estimated that the $97 billion spent on the expanded Child Tax Credit could generate $929 billion in long-term societal benefits, a return on investment of more than $9 to $1.[58] These calculations were based on a long line of research that points to the importance of income for children's success in both the short and long term. For instance, we know that children exposed to more generous tax credits through the EITC are less likely to be born low birthweight, have higher test scores, are less likely to have births themselves as teenagers, and go on to attain college degrees at higher rates.[59] These children also grow up to have higher earnings, are less likely to live in poverty, and are less likely to rely on public assistance once they reach adulthood.[60]

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A growing body of evidence points to the importance of interventions that specifically target early childhood, which suggests that providing a more generous child benefit for young children is likely to pay even greater dividends in the long term. Recent evidence demonstrates that children who receive an additional $1,300 in income through tax credits like the EITC and dependent exemption in the first year of life have 1-3% higher earnings in early adulthood.[61] The importance of early childhood interventions for children's long-term success have also been documented in the food stamps, Medicaid, and Head Start literatures.[62] Together, the evidence suggests enormous long-term societal benefits of investing in children today through programs like the ARPA CTC.

Conclusion

The current CTC benefit structure prevents more than one-quarter of the nation's poorest children from receiving the full benefit, while nearly all children in the top half of the income distribution were eligible for the full credit in 2023. Black children, Hispanic children, children living in rural areas, and children from larger families are all more likely to be excluded from the full credit, potentially widening inequalities across these groups.[63] The 2021 reforms to the CTC as part of the American Rescue Plan Act helped contribute to a dramatic decline in child poverty between 2020 and 2021, when the child poverty rate dropped by nearly half.[64] The research to date suggests that the monthly credits also helped families make ends meet, keep food on the table, and purchase enriching items for their children, with no evidence of deleterious effects on parental employment.[65] A permanent expansion of these reforms is likely to pay enormous societal dividends in the long term by reducing child poverty today, leading to better education, health, and employment outcomes tomorrow, thus reducing future societal costs associated with poverty.

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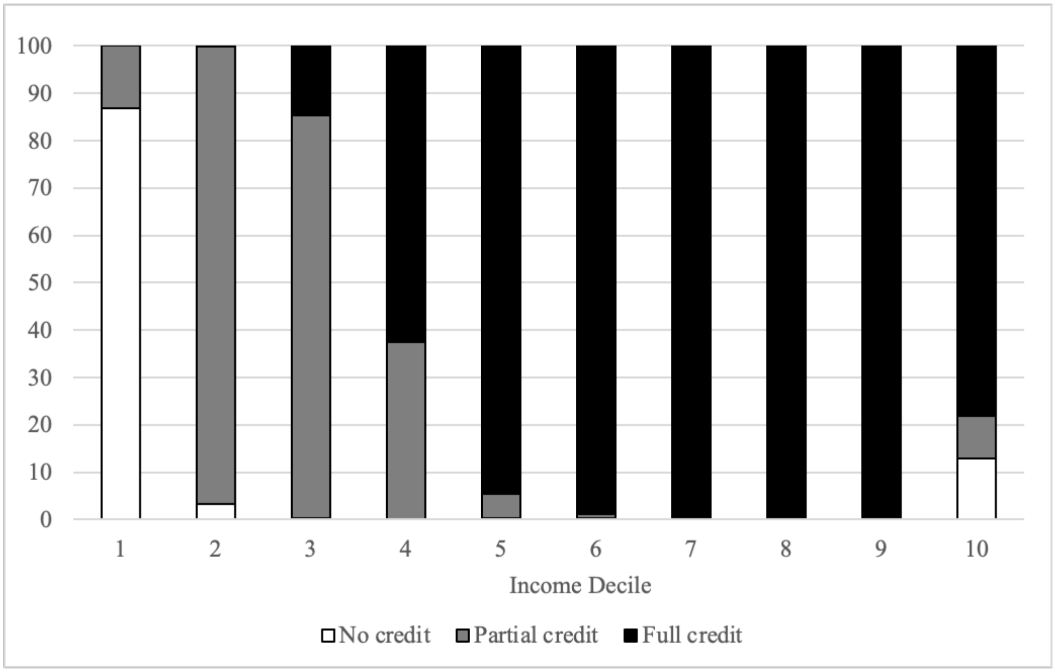
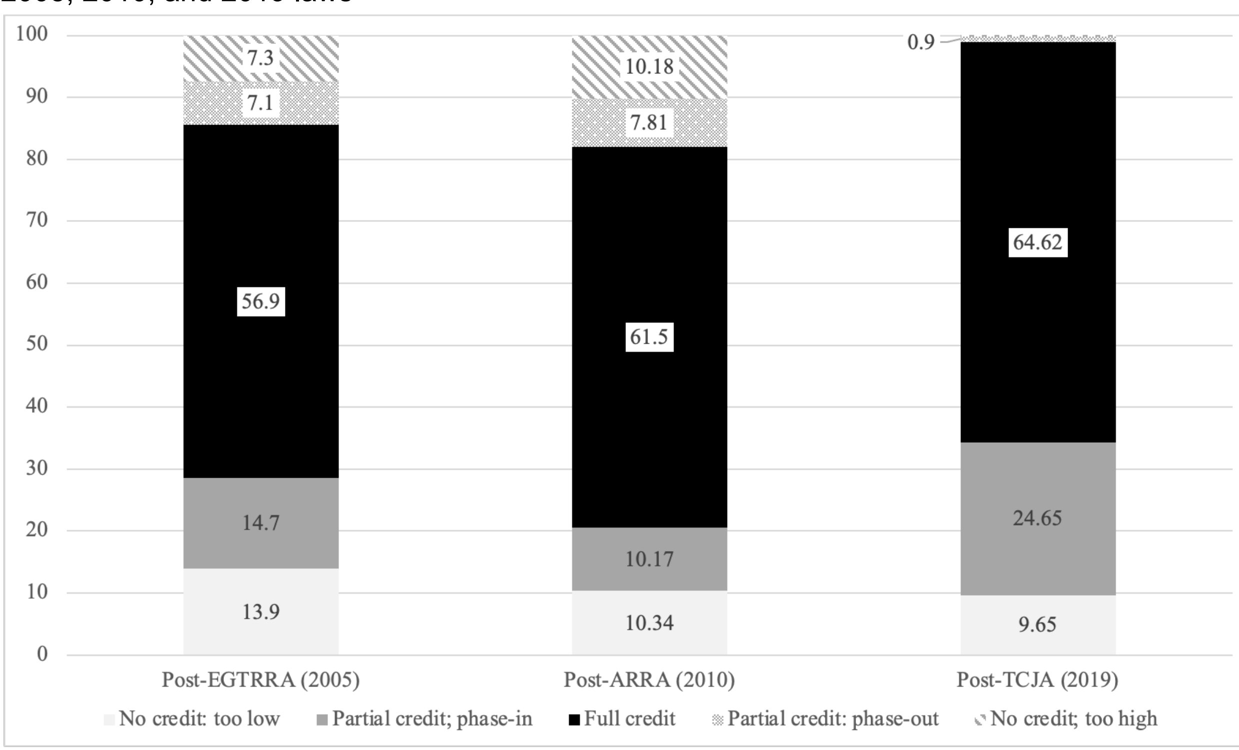
Figure 1: Distribution of CTC Eligibility by Family Income Decile, based on 2019 law



Source: Goldin, J. and Michelmore, K., 2020. "Who benefits from the child tax credit?" *National Bureau of Economic Research Working Paper No. w27940.*

Figure 2. Percent of children under the age of 17 qualifying for the Child Tax Credit, based on 2005, 2010, and 2019 laws



Sources: 2005 estimates come from Burman, Leonard and Wheaton, Laura. 2005. “Who Gets the Child Tax Credit?” *Tax Notes.*; 2010 estimates come from Harris, David. 2012. “The Child Tax Credit: How the United States Underinvests in its Youngest Children in Cash Assistance and How Changes to the Child Tax Credit Could Help”. *Columbia University dissertation.* and 2018 estimates come from Goldin, J. and Michelmore, K., 2020. “Who benefits from the child tax credit?” *National Bureau of Economic Research Working Paper No. w27940.*

Table 1. Number of children under the age of 17 qualifying for the Child Tax Credit, based on 2005, 2010, and 2019 laws

		2005 (post-EGTRRA)	2010 (post-ARRA)	2019 (post-TCJA)
		Number of children (millions)		
Phase-in region	No credit	9.5	7.22	6.68
	Partial credit	10.0	7.10	17.06
	Full credit	38.8	42.92	44.05
Phase-out region	Partial credit	4.9	5.45	0.62
	No credit	5.0	7.10	0.83
Total		68.2	69.79	69.24

Sources: 2005 estimates come from Burman, Leonard and Wheaton, Laura. 2005. “Who Gets the Child Tax Credit?” *Tax Notes.*; 2010 estimates come from Harris, David. 2012. “The Child Tax Credit: How the United States Underinvests in its Youngest Children in Cash Assistance and How Changes to the Child Tax Credit Could Help”. *Columbia University dissertation.* and 2018 estimates come from Goldin, J. and Michelmore, K., 2020. “Who benefits from the child tax credit?” *National Bureau of Economic Research Working Paper No. w27940.*