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ANTI-POVERTY AND FAMILY SUPPORT PROVISIONS IN THE TAX CODE

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ANTI-POVERTY AND FAMILY SUPPORT PROVISIONS IN THE TAX CODE

WEDNESDAY, JUNE 14, 2023

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:05 a.m., in Room SD–215, Dirksen Senate Office Building, Hon. Ron Wyden (chairman of the committee) presiding.

Present: Senators Menendez, Cardin, Brown, Bennet, Casey, Warner, Whitehouse, Hassan, Cortez Masto, Warren, Crapo, Grassley, Thune, Lankford, Young, Barrasso, Johnson, Tillis, and Blackburn.

Also present: Democratic staff: Grace Enda, Tax Policy Advisor; Rachael Kauss, Senior Tax Policy Advisor; Sarah Schaefer, Chief Tax Advisor; Joshua Sheinkman, Staff Director; and Tiffany Smith, Deputy Staff Director and Chief Counsel. Republican staff: Gregg Richard, Staff Director; and Don Snyder, Senior Tax Counsel.

OPENING STATEMENT OF HON. RON WYDEN, A U.S. SENATOR FROM OREGON, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. The Finance Committee will come to order. Today, the committee meets to talk about tax policy that helps children and families climb the economic ladder to economic security. There are a lot of policy issues here. In my view, it comes down to one basic proposition.

Congress has a proven strategy for lifting millions of American kids out of poverty and ensuring their families have a stronger opportunity to get ahead. So, the question really becomes, are you willing to act on it? And in my view, that ought to be an easy call.

The reality is, helping more Americans get ahead and encouraging people to work are not mutually exclusive. These are priorities that go hand in hand. We are going to hear that today.

Now a little bit of recent history. In 2021, as part of the American Rescue Plan, Democrats in Congress passed landmark expansions of significant sources of financial help for low-income families. The Child Tax Credit got the biggest expansion. Previously, it was worth $2,000 per child each year, and lower-income families who needed more help actually got less than higher-income families.

After the expansion, the Child Tax Credit gave families $3,600 for each child up to age 5, and $3,000 up to age 17. For the first time, Democrats made it fully refundable. And what that means—in a way that is not Washington word salad—it means the lowest-income taxpayers get the full value of the credit. No more discriminating against the most vulnerable people.

Democrats also modernized the system to pay out much of the credit in monthly installments rather than all at once during the tax filing season. That gave families a more reliable boost to their monthly take-home pay. The American Rescue Plan also expanded the Earned Income Tax Credit to encourage even more people to work. It boosted the tax credit for child and dependent care.

Let's talk for a second about the effect of the expansion. According to researchers at Columbia University, expanding the Child Tax Credit lifted 3.7 million American kids out of poverty. Child hunger fell by nearly a quarter. Other research shows that when families escape poverty, kids are healthier, they do better in school, and their earnings are higher as adults.

A couple of stories from Oregon. A single mother in Myrtle Creek wrote that she was finally able to save up enough to move her three kids out of a rundown apartment into a better home. A single mom in Portland wrote that she was relieved to be able to cover the bills and actually would be in a position to have a little bit of a nice Christmas with the kids. Another mom in Eugene, who lives with extended family, wrote that she was finally able to save up for a place where she and her son could live on their own.

Millions of Americans had stories like this. The fact is, for the first time in a long time, they felt some real financial relief. Unfortunately, these landmark enhancements to the tax code expired at the end of 2021.

Congress has not been able to agree on it. In fact, a couple of times, I just went to the floor of the United States Senate and asked unanimous consent to extend it as we go forward with longer-term kind of efforts. We were not able to get that done, and we are just going to continue to push to keep kids out of poverty and help families get ahead.

Today, I especially want to thank my colleagues, Senator Brown and Senator Bennet. They have been real champs—along with Senator Casey, who is also a member of this committee—of tax policy supporting kids and families. Today, they are introducing the Working Families Tax Relief Act, and I am pleased to be one of their cosponsors.

It would make the 2021 expansions to the Child Tax Credit and the Earned Income Tax Credit permanent. Today, there are 19 million kids whose families do not get the full Child Tax Credit, and they are disproportionately Black and Latino families. Under the Brown-Bennet proposal, those families would no longer get shortchanged.

So their legislation—and I see Senator Casey has arrived. He has also been a great champ of kids. These three Senators are offering ideas consistently that are pro-family and pro-opportunity, and I very much appreciate that. I think it ought to be of interest to a lot of Senators.

Now, sometimes we hear from folks on the other side of the aisle that these kinds of initiatives discourage work. That claim just does not get reliable research backing it up. Hundreds of economists have looked into this issue in the last 4 years. The Federal Reserve recently did.

The overwhelming majority of experts agree that the Child Tax Credit expansion did not hurt employment in any meaningful way. In fact, in some cases it actually helped more parents enter the labor force, because it helped them pay for essentials—essentials like child care and transportation—that are absolutely key to being able to hold a job.

In July 2021, when the first payments under the expanded Child Tax Credit went out, the unemployment rate was 5.4 percent. In December of that year, after six monthly payments had gone out, the unemployment rate was 3.9 percent. So it is pretty hard to see how you make a case that the Child Tax Credit is keeping people out of the workforce. It was certainly not the case in 2021.

And I think there is something of a double standard at the heart of what has been a Republican argument, that the tax system being less generous to low-income Americans encourages work and productivity. Why doesn't the same logic apply to the wealthy? The reality is that all Americans want to work hard and provide for families. That is part of what makes our country and our economy dynamic.

This Republican double standard that punishes low-income Americans and favors the folks at the top, the wealthy, in the long run, in my view, just limits opportunity, makes it harder for lots of people to get ahead. So I think this is an issue that ought to have bipartisan support for a change, one that gives everybody in America the chance to get ahead.

We have lots to discuss today. We look forward to our questions.

Senator Crapo?

[The prepared statement of Chairman Wyden appears in the appendix.]

OPENING STATEMENT OF HON. MIKE CRAPO, A U.S. SENATOR FROM IDAHO

Senator CRAPO. Thank you very much, Mr. Chairman.

Today we focus on anti-poverty and family support provisions of the tax code. It is important to have a conversation about existing provisions, what has worked in the past, and what more can be done.

If there is one message to distill today, it is that if America is serious about reducing poverty and supporting families, work works. Without work, there is no chance society will achieve either aim. Successes here will be grounded in those from the past.

In 1996, I joined a bipartisan, bicameral group of colleagues, including some in this room today, in voting to pass the welfare reform bill. In the decades since, this landmark legislation's reforms have led to undeniable intergenerational success.

One of the welfare reform's key changes was to replace an ineffective cash handout system with one focused on incentivizing work, job training, and self-sufficiency. One of our witnesses, Bruce Meyer, has written extensively about the lessons of welfare reform and parallels for today. Another, Grant Collins, has extensive practical experience with pro-work, anti-poverty interventions.

The decisive transformational results of welfare reform speak for themselves, including marked increases in work and earnings for single mothers, almost doubling for some cohorts; sharp poverty reductions, with consumption poverty declining by more than 70 percent since 1996 to just 3.7 percent in 2018; and broad declines in benefit dependence, including a fivefold reduction in those needing temporary assistance.

As President Biden—who, as a Senator, voted in favor of this welfare reform—said at that time, “I think everyone here believes that work should be the premise of our welfare system.” Not surprisingly, recent polling from May shows that nearly two-thirds of Americans support work requirements for recipients of government benefits.

Welfare reform proves that we can exercise common sense and be compassionate and fiscally responsible all at the same time. These lessons were applied, for example, when Republicans first proposed the Child Tax Credit in the Contract with America, and were retained when they enacted the credit in 1997, expanded it in 2001 and in 2009, and doubled it in the momentous 2017 tax reform bill.

In 2017, Republicans also doubled the standard deduction, lowered tax rates for the hundreds of millions of lower- and middle-income Americans, and stretched those lower rates further through expanded tax brackets. All of these changes put money back into the pockets of working families, and it is no surprise that after the bill’s enactment, Americans’ disposable personal income jumped nearly 87 percent in the first quarter of 2018 over the last quarter of 2017.

I look forward to hearing more from today’s witnesses on the key lessons learned from these successes in reducing poverty and supporting working families. In recent years, some have seemed to have forgotten what previously worked, and have pushed for changes to government assistance that appear to be generous, but in the end will certainly not solve poverty or even just child poverty.

The direct cost for these ideas is enormous. Indirectly, data show that they actually become an impediment to intergenerational growth and upward mobility. Just this past February, for example, results of a cash allowance program being piloted in Spain have arrived. The program has already had sizeable and adverse employment effects, with aid recipients being 20 percent less likely to work, and families receiving benefits 14 percent less likely to have any family member working.

As another example, in October 2022, the nonpartisan JCT evaluated Democrats’ partisan, temporary changes to the Child Tax Credit, and they reached two critical conclusions. First, they estimated a staggering cost to continue them, more than $1.2 trillion in the budget window, to say nothing of years beyond. Second, they confirmed that the provision disincentivizes work, with a “dynamic” cost estimate factoring in work and growth that approached $1.4 trillion—more than its headline estimate.

Evidence is sometimes worked to manufacture contrary conclusions. But Professor Meyer and Mr. Collins will tell us that an honest accounting of the data is clear. Unconditional, direct transfer policies simply do not achieve their aim of actually reducing poverty and dependency, even if they are called a tax credit.

There are many thoughtful, compassionate, and prudent ideas worth considering to ensure that our social safety net is strong for those who need it the most. What makes no sense is to undo the good that has already been done through harmful policies, whether in the name of equity, morality, or anything else.

Progress requires building upon yesterday's gains, not tearing them down.

Thank you, Mr. Chairman.

[The prepared statement of Senator Crapo appears in the appendix.]

The CHAIRMAN. I thank my colleague.

And I started smiling last night when I realized that we would have a Matsui in the house today, and Amy Matsui is the director of income security and senior counsel at the National Women's Law Center. She works on a broad range of economic issues, where she is an advocate for low- and moderate-income people. She is also the daughter-in-law of two people who have been very, very special in the Wyden household: the Congresswoman, Doris Matsui—you're the daughter-in-law, I believe—and the late Congressman Bob Matsui. I think some of my colleagues remember.

There have been in public service few advocates for public service that resemble what Bob Matsui has done over the years to advocate for low-income people. He has just been remarkable, remarkable in what he did for our country, as a member of the Ways and Means Committee.

We will continue to miss his service, and we so appreciate having Ms. Matsui here today. And it helps us remember the contributions of the late Bob Matsui, recognize what Doris has done in the House, and we are just thrilled to have you. And I think advocating for low-income people just runs in the Matsui DNA. We thank you for it.

Senator Brown is going to introduce our next witness, Melissa Lester.

Senator BROWN. Thank you, Mr. Chairman, Ranking Member Crapo, and I echo—the chair is always kind and generous towards people, and I had great admiration for both Matsuis. I knew Bob intimately, working on different parts of trade agreements, and we just had such respect for him. So, thank you.

As we listened to my friend Senator Crapo talk about work and the importance of work, something I wanted to point out is, in the first 29 months of the Biden administration, more jobs have been created in this country than any 4-year period in American history, any 4-year presidency term in American history, and I think that is important to remember.

Thanks for holding today's hearing, and I appreciate that, Mr. Chairman. I am honored to introduce Melissa Lester from Galloway, OH. She is here with us to share what the expansion of the Child Tax Credit meant to her and her family a couple of years ago.

I would point out that, as a graduate of Mansfield Senior High School, she was a graduate of our archrival Marion Harding High

School, named after one of Ohio's many, many Presidents, Warren Harding, who grew up not too far from where she grew up.

She is a licensed social worker. She is a public servant. She and her partner live outside Columbus. They have two daughters: Olivia, who is three, and Emma, who is one. Like so many Americans, Ms. Lester knows firsthand that raising children is work. Our tax code should reflect that. We will hear from Ms. Lester about her experience as a working mother, all the costs that come with raising children that just keep coming and coming and coming, something she has to look forward to, and we need to help.

The expanded Child Tax Credit has helped her family afford the essentials: child care, infant formula, clothes for growing daughters. It gave them the peace of mind when it came to spending a little on gifts for holidays and birthdays. She and her partner both work full-time, in addition to the full-time work as parents.

Like so many Americans, this hard work does not pay off like it should. The end of the expanded Child Tax Credit has made it much harder for them to keep up with the rising cost of living and added to the already immense mental load of raising a family that millions of families' face.

Her story is a story of so many in our country. That is why bringing back this tax cut, the largest tax cut for working families ever, is so essential. Data shows, as the chairman said, the expanded Child Tax Credit meant more money in the pockets of 90 percent of Ohio families and dramatically reduced poverty.

That is why today, as the chairman said, along with Senator Bennet, Senator Wyden, Senators Cortez Masto, Casey, Stabenow, all of them are cosponsors—we are introducing our Working Families Tax Relief Act to make the CTC expansion permanent.

Thank you for your willingness, Ms. Lester, to share your story of the real parents behind these numbers, the story of so many families, with the committee today. I look forward to working with you, working with this committee. I may have to leave before your testimony, but I will be back to ask questions in about an hour or so.

Thank you very much, Mr. Chairman. Thank you for allowing me to do this.

The CHAIRMAN. I thank my colleague.

Ms. Lester, you should know that Senator Brown persistently speaks up for the Child Tax Credit, and we are glad he does, and we are glad to have you.

Our next witness will be Bruce Meyer, the McCormick Foundation Professor at the University of Chicago Harris School of Public Policy. He has been teaching there since 2004.

The fourth witness, Grant Collins, is the president of Fedcap, a nonprofit group. He leads the group's efforts on workforce development and a variety of employment service contracts, which he is part of through governments in the Northeast and Mid-Atlantic States, as well as the UK and Canada. We welcome you.

Thanks to all our witnesses. What is customary is that your prepared statements will be automatically put in the record. So, if you want to take a few minutes to summarize. And again, Ms. Matsui, seeing you at the witness table, I just remember Bob being on Ways and Means and I was on Commerce, and he would just walk up to me and say, "Here is what we need to do," and I said, "Tell me what to do."

Thank you. Glad you are here.

STATEMENT OF AMY K. MATSUI, DIRECTOR OF INCOME SECURITY AND SENIOR COUNSEL, NATIONAL WOMEN'S LAW CENTER, WASHINGTON, DC

Ms. MATSUI. Thank you very much, Senator, for that warm welcome on behalf of myself and my family. Chairman Wyden, Ranking Member Crapo, and members of the committee, thank you for the opportunity to testify today.

My testimony will address how refundable tax credits reduce poverty and support families. Refundable tax credits like the Earned Income Tax Credit and the Child Tax Credit have a long track record of boosting families' incomes, thereby narrowing wage disparities, reducing poverty, and supporting family well-being.

These credits especially benefit households headed by women, households of color, and families with low incomes, helping to mitigate the harsh economic effects of gender and racial discrimination; stagnant wages; and rising costs for food, housing, and child care.

The additional income provided by these credits improves children's health, educational outcomes, and future earnings. Their benefits are especially important for young children and Black and Latinx children. The American Rescue Plan Act made temporary expansions to the CTC, the EITC for low-paid workers not claiming children, and the Child and Dependent Care Credit.

These expansions helped millions of families put food on the table, keep a roof over their heads, and afford child care in 2021 and early 2022. For example, families used their advance CTC payments to buy groceries, catch up on bills, and pay for necessities like rent and clothing for their children.

In addition to meeting basic needs, families said they used their payments for things like back-to-school supplies, tutoring or enrichment activities for their children, and saving for emergencies. Many families reported that the payments enabled them to work more hours by allowing them to pay for child care and transportation costs, reduced their financial stress, and made it easier to budget month to month.

Families eligible for the CTC reported they were less likely to resort to payday loans or selling blood plasma to pay their bills. The CTC in particular dramatically reduced poverty rates for children, especially Black and Latinx children.

Child poverty dropped nearly 30 percent during the months that families received the advance payments. Overall, the three expanded credits boosted nearly 9.7 million people out of Supplemental Poverty Measure poverty in 2021, including nearly 2.9 million adult women and over 4.9 million children.

In short, the 2021 expansions to the CTC, EITC, and CDCC worked. They helped families afford the basics, build a financial cushion, and make the decisions that worked best for their families. They improved families' lives in myriad and tangible ways, and slashed poverty rates.

Notwithstanding these impacts, the ARPA's expansions were allowed to expire in December 2021. The impact on women and families was immediate and severe, with increases in poverty, food insecurity, and families reporting more difficulty meeting their basic expenses in early 2022 and beyond.

This reflects the fact that, while the recession is officially over, the pandemic laid bare and exacerbated existing inequalities. Moreover, the recovery has been uneven for many women, households of color, and families with low incomes, many of whom are experiencing lingering health and economic effects from the pandemic.

The ARPA's expansions through refundable tax credits were a powerful and effective tool to fight poverty and bolster families' finances during the pandemic. But families continue to need expanded, refundable tax credits now and going forward because women and families of color continue to face deep inequities in our economy, made deeper still by the pandemic.

Restoring the American Rescue Plan Act's expansions to the Child Tax Credit, Earned Income Tax Credit, and Child and Dependent Care Credit would help support the children and families who need it the most, which then benefits our communities and our economy as a whole.

Thank you for the opportunity to testify today, and I look forward to answering your questions.

[The prepared statement of Ms. Matsui appears in the appendix.]

The CHAIRMAN. Thank you very much, Ms. Matsui.

Ms. Lester?

STATEMENT OF MELISSA LESTER, RESIDENT, GALLOWAY, OH

Ms. LESTER. Thank you for the chance to testify here today. My name is Melissa Lester. I am from Columbus, OH. I live in a section called Galloway. I am the mom of two girls: Olivia, 3, and Emma, 1. I am also a licensed social worker working for the State of Ohio for over 8 years now, and I am a very proud member of MomsRising.

I am here to talk about the Child Tax Credit, which was a godsend for my family. Even with two working parents, making ends meet is a real struggle for us. The child care has long been our biggest expense. The cost is astronomical.

Every family I know struggles to pay for child care. Even before our second child was born, we were paying considerably more for child care than our mortgage. Today with two little ones, child care costs us $2,504 per month. Our family's child care costs more than a 1-year tuition at the Ohio State University, and the cost just keeps rising.

I see child care as a crisis in this country. There are fewer licensed programs. As expensive as our center is, the program is not everything that I would like. Staff turnover is high, but wait lists and costs at higher-rated centers make it impossible to leave. One center told us that it would be 14 months before our second daughter could have a spot there.

Moms like me face impossible choices. Do I keep my job and leave my children in a program that is not all that it could be, or do I leave the workforce entirely, risking hardships for my family? In 2021, a lot of those problems fell away and life became much more manageable when we were receiving the monthly Child Tax Credit payments for our oldest daughter.

The $300 monthly checks were an enormous help. We used them to cover basic needs, and they gave us a little bit of breathing room. Each month, I was able to use the payments to help with various things like my daughter's second birthday party and holiday gifts. And when we took our first-ever family vacation to Kitty Hawk, I was able to use the $300 towards some of those expenses.

It helped relieve the constant stress over finances, and it was an amazing relief. We were even able to save a little in anticipation of the birth of our second daughter, since much of my maternity leave was unpaid. But then Congress ended those payments for us. They ended when prices began to skyrocket.

My family struggled terribly with the formula shortage. It is not possible to budget when you have to buy whatever formula you can find, whatever the cost. I keep all my first daughter's clothes, toys, and furniture for her baby sister to help cut expenses. I fear a very modest vacation is completely out of reach. Even though my family is considered middle class by government standards, growing up I did not experience family vacations. I came from a working, low-middle-class family, and I want better for my children.

Continuing the expanded Child Tax Credit and the Child and Dependent Care Credit helped my family so much. The current credit amounts to a few hundred dollars, when we spend thousands on care. We need more family-friendly policies. My employer's maternity benefits are grossly inadequate.

By the birth of my second daughter, I had long drained all my paid leave, mostly due to COVID-related child-care closures. The first 2 weeks following my delivery, I received no income, and then I received 4 weeks of pay at 70 percent. The next 6 weeks were unpaid. As we all know, bills do not stop with a birth; they multiply. I am still making payments for my second delivery a year later.

I firmly believe that our failure to adopt family-friendly policies hurts families and hurts our country. The Child Tax Credit expansion was a glimmer of hope. It made moms like me feel like maybe, just maybe, it is possible for things to get better.

If the child care tax payments were reinstated, it would be huge for parents. It would give us just a little bit of space in our budgets so that we can breathe. Data shows that the expanded tax credit dramatically reduced child poverty. I do not understand why Congress let it end. Certainly, they were not looking out for families.

Hardworking families like mine should matter to all of you. We need family-friendly policies like the expanded Child Tax Credit; affordable, quality child care; and paid leave, and we need them now.

Thank you.

[The prepared statement of Ms. Lester appears in the appendix.]

The CHAIRMAN. Thank you very much, Ms. Lester. And you are certainly introducing the Finance Committee to the human face of what this is all about, and we very much appreciate your testimony.

Dr. Meyer?

STATEMENT OF BRUCE D. MEYER, Ph.D., McCORMICK FOUNDATION PROFESSOR, HARRIS SCHOOL OF PUBLIC POLICY, UNIVERSITY OF CHICAGO, CHICAGO, IL; AND NONRESIDENT FELLOW, AMERICAN ENTERPRISE INSTITUTE, WASHINGTON, DC

Dr. MEYER. Chairman Wyden, Ranking Member Crapo, and distinguished members of the committee, thank you for the opportunity to testify. While I am testifying for the Republican minority, I am not partisan. My approach is to see what the facts say. I was pleased when President Clinton used my research and when he signed bipartisan legislation to convert a broken welfare system into one that promoted work, reduced poverty, and encouraged two-parent families.

Congress is now considering changes that would reverse these reforms. A Child Tax Credit paid to those who do not work is a child allowance, essentially a cash welfare program administered by the IRS, rather than a credit against taxes conditioned on work and paying taxes.

Such a credit is likely to reverse past progress on work, poverty, and family formation, and today I will argue that the case for a child allowance has been based on faulty evidence. In my view, the best evidence on the likely effects of proposed tax and benefit changes comes from large, similar historical changes affecting the same group.

In the 1990s, we restricted access to cash welfare, made it work-focused, and expanded the EITC and CTC. Research has identified at least three significant impacts of these changes. Employment sharply rose in the 1990s, while it was relatively stable before and after, as shown in Figure 1 of my testimony.

What single mothers could afford in terms of housing, food, clothing, and other goods, their consumption rose sharply. It rose for low-educated single mothers over time, in absolute terms, and relative to more educated women, those without children and married mothers. Even those with the fewest resources fared better.

The decline in poverty for single mothers due to their increased connection to work is one of the most pronounced successes in poverty reduction over the last 50 years. We learned in the 1990s that more people could work than many thought possible.

Furthermore, the share of children with a single parent stabilized and then started to fall after welfare reform, reversing the more than 30-year trend. While the causal evidence here is not definitive, the time pattern is strongly suggestive. Given the much worse outcomes on average in single-parent families, this may be the biggest issue of the day.

By decreasing the return to work by eliminating the CTC work subsidy and providing widely available, unconditional cash aid, the proposed replacement of the CTC with a child allowance would discourage work. As I detail in my written testimony, the real level of payments to the nonworking would be much greater from the child allowance and would be available to a much larger group of recipients than under the former AFDC program.

The change to a child allowance could be expected to reverse most or all of the employment and poverty gains in the 1990s. Not everyone should be expected to work, but targeted benefits are the answer. We have 1.9 million people still on TANF, 8.5 million receiving SSI, and over 41 million receiving the less well-targeted SNAP benefits.

I would also like to emphasize that the case for a child allowance has been based on faulty evidence. Much work has pointed to a National Academy of Sciences report that predicted minimal employment effects from the policy change. However, that report omitted the effects on employment and poverty of eliminating the work incentives of the CTC, even though the report concluded that there would be a large employment response from expanding the EITC for the same population.

Relying on values of the responsiveness to taxes used by the NAS, CBO, and in academic surveys, I have estimated that the decreased return to work from replacing the CTC with the child allowance would lead about 800,000 single mothers and nearly 1.5 million working parents in total to stop working. Just these corrections would eliminate much of the child allowance poverty reduction.

Furthermore, evidence from the COVID years' advance CTC is not likely to be a reliable guide to long-term effects. The Census Bureau's estimate of poverty reduction is overstated because of the methods used to calculate poverty. The evidence of other changes in well-being is mixed, though on net does show improvements.

This result is expected when you spend an additional $100 billion a year, but the money is poorly targeted. Such funds might be better spent improving administration of existing programs that performed poorly in the pandemic.

I conclude by emphasizing that a child allowance has been oversold. We are in danger of discouraging work as we did with AFDC, which is not a long-run solution to poverty, and we risk encouraging the formation of family units that cannot support their children.

Thank you, and I welcome your questions.

[The prepared statement of Dr. Meyer appears in the appendix.]

The CHAIRMAN. Doctor, thank you.

Mr. Collins, welcome.

STATEMENT OF GRANT COLLINS, SENIOR VICE PRESIDENT FOR WORKFORCE DEVELOPMENT AND PRESIDENT, FEDCAP, INC., NEW YORK, NY

Mr. COLLINS. Thank you, Chairman Wyden, Ranking Member Crapo, and distinguished members of the Senate Finance Committee, for inviting me to testify on anti-poverty and family support provisions in the tax code. I lead workforce development for the Fedcap Group, a for-impact 501(c)(3) dedicated to improving the economic well-being of those with barriers to work.

I wish to offer insights from my current role and my former role as Deputy Director of the Office of Family Assistance, the Federal agency that oversees the Temporary Assistance for Needy Families program. Earlier this year, I appeared before the House Committee on Ways and Means to testify on restoring the work requirement to lift Americans out of poverty.

Among my recommendations, I testified that TANF maintenance-of-effort spending can be more directly tied to strategies that reward work and job retention. Work and wages are critical to families and children, and are a step towards reducing intergenerational poverty.

Bipartisan welfare reform has been successful in improving incomes and reducing poverty through work. The Earned Income Tax Credit, or EITC, is one such work-focused incentive designed to assist workers with limited means. Those who work are able to boost their income through the credit. Thirty-one States currently offer a State or local EITC. Added to the Federal EITC, State and local credits serve as important tools to further reward work and improve real-life chances for children and parents.

A National Institutes of Health report in March of 2022 detailed the following: multiple studies have investigated the impacts of the income supplements like the EITC for family well-being. Higher disbursements from the EITC have been linked to improved child achievement; increased likelihood of college enrollment; positive effects on adults', particularly mothers', physical and mental health; and receipt of the EITC during childhood has sustained, positive effects on long-term educational attainment and economic outcomes.

The EITC has been associated with increased workforce participation of single mothers. I would like to share several examples of States that used TANF funds to provide State EITC. In Louisiana, a strategic collaboration among government agencies following Hurricane Katrina resulted in over $8 million in EITC payments and nearly another $3 million in Child Tax Credits.

Our success was due to an intensive and effective EITC campaign aimed at reaching the many displaced residents, some of whom were plunged into poverty due to job and other losses following the hurricane. While at HHS, we continued our State efforts to drive higher uptake rates for those employed to help more enter and sustain work. We supported local efforts like the one in Benton Harbor, MI, where locals went door to door to raise awareness about EITC, and increased the uptake rate for TANF adults from 48 percent to 84 percent.

More recently, States have chosen to implement additional credits or tax relief to eligible low-income families during times of extra hardship, such as many working families experienced as a result of the COVID–19 pandemic.

In New York State for example, in 2021 the State enacted a relief package to provide an additional average of $270 per recipient. These efforts were paired with free tax preparation services to ensure that those who were eligible obtained the credits at no additional cost.

In my role at the Fedcap Group, we have demonstrated that it is possible to remove barriers to employment for people who have not had a clear path, including people with physical or intellectual disabilities, people with mental health issues or who are in recovery from substance use disorders, and people with previous justice system involvement.

Over the past decade, we have placed almost 170,000 people in jobs, affording them the dignity that only work provides. When government supports hardworking Americans through the tax code by rewarding work for lower-income earners that can help springboard them out of poverty, the individuals, their communities, and our Nation benefit.

Thank you, Chairman Wyden, Ranking Member Crapo, and distinguished members of the Senate Finance Committee, for the opportunity to testify. I look forward to answering any questions you might have.

[The prepared statement of Mr. Collins appears in the appendix.]

The CHAIRMAN. Thank you, Mr. Collins.

And let us get at this issue right out of the gate, that somehow the Child Tax Credit is discouraging work. Because I think encouraging work and giving families an opportunity to get ahead, they are not mutually exclusive. They go hand in hand. And I really appreciate your coming, Ms. Lester, because you are the face of a lot of families in Columbus, OH. And as we have been talking about, some of my Republican colleagues believe, for example, that people would stop working if the expanded Child Tax Credit were to become permanent.

That is really one of the key issues in this debate right now. So, a couple of questions for you to start us off. When you were receiving monthly Child Tax Credit payments in 2021, did leaving your job because of those payments—did that ever cross your mind?

Ms. LESTER. No, absolutely not. It never crossed my mind. In fact, I would never see that as an option. In 2020, or late 2019 I should say, my partner actually was laid off. In much of 2020, he was unemployed. So in 2021, when we were receiving those payments, his employment to me was still unstable, working a job not in his field and then taking a contract job.

So to me, I was the person working with the most secure, permanent employment, and with that comes benefits like health care that my children are on. There are other benefits with my employer that cannot be replaced by a few thousand dollars. A few thousand dollars of course helps us make ends meet, helps us pay for child care to go to work, but it certainly is not going to replace someone's income, in my opinion.

The CHAIRMAN. Okay. So let me kind of maybe put a little bit of a finer point on it. You have two kids under six. So, under the bill that I am pleased to be cosponsoring with my colleagues, you would get an additional $7,200 per year. Is that enough money for you to quit your job and still pay all of the bills while managing the expenses of raising a family?

Ms. LESTER. I do not believe so at all. I do not think that would cover much of anything if I just quit my job and we went to a one-income household; no.

The CHAIRMAN. I hope my colleagues have kind of picked up on Ms. Lester's point, because this is right at the heart of the debate. What we want to do is, we want to encourage work in this country. Your Senator always talks about the dignity of work. At the same time, we want to give people a chance to get ahead, and I think that is what the Child Tax Credit has really been all about.

Now, Ms. Matsui, I think it would be good to transition to you, because Ms. Lester has kind of given us an example of what things are like in Columbus, OH, and I think that mirrors what a lot of other people have said. But you have done a lot of research, and I think you have an assessment of this, of what the 2021 effort meant in terms of being fully refundable, the extra Child Tax Credit for work, and why full refundability is so important.

Ms. MATSUI. Thank you, Senator. With respect, most of the studies that were conducted of the 2021 expanded credits showed no impact on work, no discernible decline in employment, and in fact, that is consistent with findings that a study that the National Women's Law Center and a number of other organizations conducted with researchers from Berkeley through the IGS polling firm, where parents said in that in fact, many of them were able to work more hours because they were able to afford child care and transportation.

So, the bulk of the research certainly shows that in 2021, there was not an impact on employment. The Child Tax Credit payments did not cause parents to work less.

The CHAIRMAN. And given what you found in light of this evidence, it strikes me as not making much sense that you have a tax credit designed to support kids that leaves the lowest-income kids out. Do you share that view?

Ms. MATSUI. Thank you, Senator. So in fact, as you know, 19 million children right now live in families whose incomes are too low to fully benefit from the Child Tax Credit. Those are families that are disproportionately children of color.

So these are children who do not have access to the benefits of the Child Tax Credit, where their family income increases, their families are better able to provide them with food and more nutritious food, and they can have the basics and what they need to support their healthy development and their well-being.

The CHAIRMAN. Great; thank you.

Senator Crapo?

Senator CRAPO. Well, thank you very much. And I would like to go to Dr. Meyer and Dr. Collins with the very question that Senator Wyden has just raised, because it seems to me we are having the same debate we had back in 1996, as to whether or not we should have work incentivized in our welfare programs, or whether we should just revert to cash payments to those who need assistance.

Dr. Meyer and Mr. Collins, what do you say about this argument that the ARPA Child Tax Credit changes had no impact at all on work or reducing poverty and that we should stop focusing on the need for work in our efforts to try to help those who need the assistance?

Dr. MEYER. Do you want me to just start?

Senator CRAPO. Sure.

Dr. MEYER. So first, I want to emphasize that I am in favor of the Child Tax Credit. The current Child Tax Credit incentivizes work. The proposal in Build Back Better and what was implemented in ARPA would discourage work, because it would eliminate the existing CTC and replace it essentially with cash welfare paid out by the IRS.

So, what the evidence from the last year says, I do not think is that informative because there were so many other policies that were implemented during the pandemic, and because it was temporary, and I do not think it was particularly well understood.

I do not think it was even well understood by the authors of the two most well-known studies, I think, looking at the effects of the ARPA changes on work, because they got the timing wrong. The incentives to work changed when the bill was passed, not when the payments actually went out, because it was the elimination of the incentives under the old CTC, or the current one that we now have, that was the change in the return to work, because it is not when you get the payments that matters; it is when the change in the incentive to work happens because, for example, we know that most people get the payments the following year. But the incentive to work occurs in the tax year where you are incentivized.

Senator CRAPO. Thank you.

Mr. Collins? Let's leave the rest of the time then for Mr. Collins.

Mr. COLLINS. Sure. So, I am just thinking of all of the reasons why people work. Some of it has to do with money, obviously, but there are many reasons people work. Facing down lower-wage jobs, people do it because there are benefits that go beyond that.

The employed lifestyle is a better one. There is a brighter future when you are working. You are more employable when you are employed. We have been able to teach that. People who work have higher self-esteem, and they are eligible for a range of transitional benefits.

But rewarding that with an earnings boost from something like the EITC can create momentum, and it literally changed a generation, and we should build on that.

Senator CRAPO. Well, thank you. And I think, just to put a fine point on this discussion, again a lot of the argument is well, changing to a cash payment welfare system is not going to stop people from working. It is not going to be a disincentive to work.

Like I said, we had this debate back when President Clinton signed the bill that many of us in this room voted for, that did implement this. And then, when the Child Tax Credit was created, it incentivized work and was connected to work. The legislation we are now discussing is going to disconnect, again, these efforts at helping those who are in need the most from the work incentives.

Could you just—either one of you—just indicate, didn't the system work and work wonderfully, the one that President Clinton signed into law that most of us voted for and that we have followed in the concept as we established the CTC?

Dr. MEYER. The increases in employment of single mothers during the 1990s were historic. We saw about 1.2 million single mothers join the workforce who had not been working, and their employment was relatively stable before and after. So it is clear it was the changes in welfare through PRWOA and the expansions of the EITC that did it.

Senator CRAPO. Thank you.

The CHAIRMAN. I thank my colleague. The only thing I would say, and then we will go to Senator Stabenow, is the Clinton proposal was 30 years ago. And so, in 2021, what we saw was very contemporary, contemporaneous evidence that this does not discourage work, and that is why Ms. Lester's answer was——

Senator CRAPO. Mr. Chairman, that was also as a result of the pandemic, and it was an entirely different circumstance.

The CHAIRMAN. I believe we are going to have plenty to talk about, but as somebody who participated in both of them, I thought 1996 was something that should be tested, and I think 2021 proved to be a big win, and we will continue to have this debate.

Senator Stabenow?

Senator STABENOW. Well, thank you very much, Mr. Chairman, Ranking Member, and thanks to all of you. This is such an important discussion. What I find interesting, having been involved in these debates over the years, both in the House and the Senate, is that there is a very different view about how to stimulate the economy and create work.

And one, which has been talked about and done over and over again, is trickle-down economics: tax cuts in the 2000s, two different tax cuts, a $2-trillion Trump tax cut, always going to the wealthy, well-connected at the top. And then we are told, "Do not worry. We will stimulate that, and then it will trickle down to everybody else," and people in Michigan are still waiting.

I mean, it just has never, never worked. So now we are trying something different under this administration, which is actually investing in people, investing in America, rebuilding America, bringing jobs home. We are seeing 13 million—13 million—jobs created in less than 2½ years by investing in people, in America, in creating jobs, and creating opportunity for people.

So to me, we have this debate over and over and over again, and in fact it is starting again, because the U.S. House, which was just complaining about deficits and bringing us to the verge of a default for our country, has now put in a new tax bill that, if it would be permanently voted in and put into law, would be another trillion dollars in deficits.

And so, it is always about, whatever the problem, a tax cut will solve it—whatever. But not for everybody. Not for the poor, not for working families, not for working moms. Only for those at the top, and then we hold our breath and hope that it trickles down.

And so, I think it is time really to debunk that, and even when we talk about work—of course we all support work—of course, this is about creating opportunity and lifting people up in the middle class. But I also see different ways of looking at it.

My friend Senator Grassley, who has led us on the Agriculture Committee, will say, if you are going to get a government payment, a farm payment, you should be actively engaged in the farm. And yet, we have Republican colleagues who have not supported that for years and years and years. And so, this is really about who we are trying to lift up, in my opinion, and where our priorities are.

And so, I would just say I am a proud sponsor of the Working Families Tax Relief Act. I cannot imagine how we can argue with the results that, in only 1 year, we cut child poverty in half. We cut food insecurity by 24 percent, lifted 3.7 million kids out of poverty. Why in the world wouldn't we want to continue that?

And so, let me ask a little bit more in terms of questions, after sharing my opinion now. But, Ms. Matsui, you have talked about what this means to families. Ms. Lester, you have talked about what this means for you. But, Ms. Matsui, if you could talk a little bit more about the estimated impacts if, in fact, we did permanently reinstate this policy that had such a shockingly positive result for millions of families the year that we did it.

Ms. MATSUI. Thank you for the question, Senator. So, most estimates for making the expansions to the Child Tax Credit permanent estimate that there would be a reduction in child poverty of up to 40 percent, and this, as you know, is really extraordinary. The costs of child poverty for our country, for our society, for our economy, are astronomical, and finding ways to intervene and prevent children from experiencing this level of poverty and the impacts on their development and education, have long-term benefits for ourselves, for our society, and for our economy at large.

So, making these investments, and indeed, the weight of the studies that have examined this are not showing negative effects on employment—less than 1 percent of parents—for making the credit permanent. When compared to the long-term, lifelong benefits of boosting children out of poverty, those impacts simply do not counterbalance them.

Senator STABENOW. Thank you.

I have heard so many stories from Michigan parents about the benefits of the Child Tax Credit, but the number one thing that I have heard over and over again is, it helped me pay for child care so I could either keep my job, or I was able to go back to work for my family because I was able to address child care.

I think when you look at the Census data, it shows that about a quarter of families with young children use their Child Tax Credit payments to cover child care, a precondition to work. And, since we have not addressed child care here in Congress in any meaningful way, this is the one way that we have been able to address this.

So just quickly, Ms. Lester, you indicated that was important for you. And would you indicate that this would be significant for you, to be able to support your child-care costs?

Ms. LESTER. Absolutely. I mean, child-care costs are my family's biggest expense. With two children under six and child care right now for this year, we are estimated to spend almost 30,000 of our own dollars on child care. I think it is really unrealistic for the regular family to sustain that for years and years, and this will be the first year.

Yes, I am definitely concerned about how we will continue to maintain this. So, family-friendly policies do help families to reduce these costs when they do not qualify for any other State government assistance.

Senator STABENOW. Thank you.

The CHAIRMAN. Despite my agreeing with you and Senator Stabenow so much, Ms. Lester, I have to go on to Senator Grassley.

Senator GRASSLEY. Thank you, Mr. Chairman.

Like Senator Crapo, I want to remind everybody about Republicans' history in the support of families and also fighting poverty, and doing it by rewarding work.

Do not forget the Earned Income Tax Credit was signed into law by President Ford. The Child Tax Credit grew out of a Republican 1994 Contract with America. It was enacted in 1997 on a bipartisan basis—a Republican Congress and a Democratic President. Since its enactment, Republicans have taken a lead in improving the credit as an anti-poverty tool.

In 2001, as then-chairman of the Senate Finance Committee, I worked with the Republicans and Democrats, increasing the credit from $500 to $1,000. Moreover, we made the Child Tax Credit refundable, to help offset the burden of payroll taxes on the working poor. This made low-income working families eligible to receive a tax refund, even if they owed no income tax, even though they paid the payroll tax. In 2017, Republicans again doubled the credit, and they increased the amount that those who work but pay no income tax can receive as a tax refund. In order to benefit, a tax filer would have to earn income of just $2,500.

As you earn more, a larger share of the credit becomes refundable, partially offsetting payroll taxes. Keep in mind the Child Tax Credit was enacted on the basis of the 1996 welfare reform that linked Federal assistance to work or skill development through education and job training. The Child Tax Credit has complemented welfare reform by providing assistance to parents transitioning from welfare to work.

Unfortunately, members of the other party seek to turn a broadly popular, bipartisan pro-work tax incentive into a government assistance program akin to the old pre-1996 welfare program. Their proposal eliminates any earned income requirement. It fails to provide any developmental or educational assistance, which are available to families as alternative work under the 1996 reform law.

In other words, their proposals fail to provide tools intended to help struggling parents get back on their feet and tackle the root cause of intergenerational poverty. I fully support lending a hand to families in need of support—and that is like what I hear a lot of people of both political parties say—by providing a hand up, not a handout.

So my question goes to Dr. Meyer. Your research suggests Democrats' workless Child Tax Credit proposal would do nothing to reduce deep child poverty. Can you elaborate on what you mean by "deep child poverty," and what role does work promotion play, or why does it play a very key role in alleviating this deep poverty?

Dr. MEYER. Sure. Thank you for the question, Senator Grassley. So, what we analyzed was the effect of the ARPA Child Tax Credit, accounting for the reduction in work using estimates of the responsiveness to work from the Congressional Budget Office, the National Academy of Sciences, and academic surveys. And we found that the reduction in work induced by getting rid of the work incentives that are part of the CTC and replacing them with cash welfare, as you said, would mean that there would be no reduction in the number of people below half the poverty line.

That is what is often thought of as deep poverty, and many people are most concerned about the number of people that have income that low.

Senator GRASSLEY. Mr. Collins, based on your experience, why is work promotion and skill development so important to fight against intergenerational poverty?

Mr. COLLINS. Thank you, Senator. As I mentioned before, there are at least six reasons that we know, that we teach, that we see happen when people go to work. Work provides a dignity that only work can provide actually. It is one of the first opportunities where someone outside the home has said, "Yes, we are going to take a chance on you."

So there is a lot of esteem-building. It is a better lifestyle. People are more employable when employed, and it teaches the importance of work for young people as well. Rewarding it with a boost in earnings, the momentum created can change a generation. We have seen those outcomes since the beginning of the TANF program, and they continue to this day.

So, when you attach the supplement to work, it has a cascading number of benefits that go beyond the cash incentive.

The CHAIRMAN. Thank you, Mr. Collins.

Next is Senator Cardin.

Senator CARDIN. Thank you, Mr. Chairman, and I very much appreciate you holding this hearing on anti-poverty and family support provisions in the tax code. I recall very vividly when we were debating the enhanced Child Tax Credits, the predictions that were made on lifting families out of poverty.

I remember Senator Bennet going over those numbers with us, as to the impact this would have if we enhanced the Child Tax Credits. We then did it, and the numbers paralleled what the predictions were. We accomplished what we wanted to, lifting families out of poverty.

So I think the case is pretty clear, the impact of reinstating the enhanced Child Tax Credits. I am proud of what we have done in Maryland, Mr. Chairman. Governor Moore signed into law the Family Prosperity Act in the State of Maryland, recognizing that there was going to be a reduction in Child Tax Credits here at the national level.

The State of Maryland stepped up for its citizens and passed enhanced Child Tax Credits and Earned Income Tax Credits for Marylanders, and that is now the law in our State. Our Governor recognized the benefits of these programs on fighting poverty, and I would hope that we would do the same.

Ms. Matsui, I want to ask you a question in regards to money being left on the table. I think the most recent survey shows that as much as 20 percent of those eligible for the Earned Income Tax Credit are not seeking the Earned Income Tax Credit.

What can we do to make sure that those who are entitled to benefits understand that they are entitled to these benefits and have the help they need in order to receive those benefits and are not priced out of the market because of the cost of obtaining those benefits?

Ms. MATSUI. Senator, thank you for that question. And it is a very important point, that refundable tax credits like the EITC for eligible families—there is kind of a cost of accessing them. Families need to file their tax return every year in order to claim those credits, and for families who are intimidated by the tax system, who have language access issues or kind of simply are confronted with the pile of paperwork that it takes to file one's tax return, many of them would like assistance in doing so.

Unfortunately, for programs like the Volunteer Income Tax Assistance program, or VITA, community tax preparation, there is limited funding, there is limited access in communities. So expanding programs like VITA to make sure that low- and moderate-income families have no-cost expert assistance in filing their tax returns would help boost the number of families who are able to access benefits.

In addition, for those families who use paid tax preparers, if there is regulation of those preparers to make sure that they are correctly preparing those returns, that would also help families who are eligible for the EITC and other tax credits.

Senator CARDIN. And the VITA program traditionally has been supported, bipartisan, in this committee. It is an area that we need to pay more attention to, because it has become more challenging for lower-income families to be able to get the benefits that they are otherwise entitled do. I know the chairman strongly agrees with you on paid preparers. I do also.

We now have gone several years without the IRS having the authority to do what they should be doing, and properly regulating paid preparers. That would certainly help modest-income families. Then we have the IRS helping with Direct File, which is a policy that we are looking at today, that would perhaps provide some assistance to lower-income families to be able to get this.

But I just find that we need to be able to find creative ways to help organizations in the community to have the credibility with lower-income taxpayers, to be able to get the information and services that they need in order to provide the help for people to get the benefits they are entitled to.

So, I hope that we will look for creative ways, working with you, in order to do this. Yes, let us deal with paid preparers. Let us deal with the VITA program. But let us look at other ways that we can get reliable information out that can be acted on in a cost-efficient way, so that taxpayers can get the benefits that they are entitled to, because just too much money has been left on the table.

Mr. Chairman, it is sort of an anomaly. Those who are at the highest end are not paying their fair share of taxes; those at the lower end are not getting their fair share of tax breaks.

The CHAIRMAN. DBA the double standard. No question about it. Next is—let's see. Senator Bennet is next.

Senator BENNET. Thank you. Thanks, Mr. Chairman. I appreciate it.

I just wanted to say a few words about this. First of all, I want to thank my colleague, Senator Brown, for his partnership on this, and the chairman for your partnership with the rest of the Democrats on the committee.

I would say, with respect to my Republican colleagues—and I do have a lot of respect for them—I want to say that they have played a role that has been important over the years in the Child Tax Credit and in the Earned Income Tax Credit. Something I like about both of these programs is that they do not require you to add an additional bureaucrat to the Federal Government to administer them.

I really like that as a Democrat, and I do think there has been leadership here. I feel like that leadership has come at a very high cost sometimes, which has been the reduction of taxes for the wealthiest people in this country, at a time when our income inequality is as great as it has been since the 1920s, when we have a terrible lack of economic mobility.

You know, I would rather be funding the Child Tax Credit and funding the Earned Income Tax Credit than borrowing money from workers, police officers, firefighters in America, just so we can give another tax cut to the wealthiest people in America, who do not need it.

I do not think the American people support that. I do not think they want us to do that anymore, and the reason why is that, in their lives, it is not 1996 anymore. We have had 50 years of trickle-down economics in this country, in this beautiful and great country of ours. And in this country, that has caused us to have one of the highest rates of income inequality in the industrialized world. The work this committee has done has caused us to have some of the lowest economic mobility of any industrialized country in the world.

As a former urban school superintendent—it has created a tragedy for the United States, which is that we have almost the highest rate of childhood poverty in the industrialized world. That is what we are facing, and our parents are having to spend $30,000 just to pay for child care.

And Dr. Meyer is living in an imaginary world, in my view, with all respect, where people are working two and three jobs, whose kids are in the Denver public schools, my old district, and somehow, they have time to figure out when this committee passes an increase in the Child Tax Credit, and that is going to cause them to stop working months before they get the check.

That is not reality. The reality is a world where parents are scraping by. Every single month they cannot afford the rent in this savage economy. They cannot afford to pay for food. They cannot afford to pay for child care. It is tragic. They cannot afford to work in America, because it is so expensive to pay for child care, unlike in other countries in the world, because their health care is not protected. And that is why Sherrod Brown and I did what we did with the Child Tax Credit, and I will say, Mr. Chairman, I would like to add for the record the Irvine study, the Columbia study, the Urban Institute study——

The CHAIRMAN. Without objection, so ordered.

[The studies appear in the appendix beginning on p. 43.]

Senator BENNET [continuing]. Just so my colleagues know that Dr. Meyer's position is not the majority position. The majority position is, this worked. We showed that America does not have to accept as a permanent state of our economy or a permanent state of our democracy, this level of childhood poverty.

We should end childhood poverty in America. That is what I believe. Why does the richest country in the world have one of the highest poverty rates in the world? Why do we have an education system—tragic—that does not have quality preschool, that does not have quality K–12? And higher education is so expensive, and that education system where colleagues of mine say, "Well, do not do anything on the Child Tax Credit, but provide the education"—that education system is actually reinforcing the income inequality we have.

A world where Ms. Lester has to come here and say to this committee, "No, I am not going to make the economically idiotic, irrational decision of giving up my job, where I have to pay 30,000 bucks for child care, for an additional, incremental $300 a month," which lifted 50 percent of the poorer kids out of poverty in this country.

And I want to finish; my time is up. But let's talk about the 19 million kids we have left out because we did not extend this credit. Ninety-five percent of those families of that 19 million, the poorest kids in America, are working, are living with a retired relative, are living in a household where somebody has a disability, or whose kids are under the age of two.

So what I would beg and say to my colleagues is, "Let's work together on this. Let's build on the success that we have. Let's accept that the majority of the studies are right and Dr. Meyer might actually be wrong, because he probably is. And let's commit together to end childhood poverty in America and create an economy that when it grows finally—as it has not for the last 50 years—but when it grows in America, that it grows for everybody, not just the people at the very top, and that this country can stand for both freedom and for opportunity." That is what we have to do in this country.

The CHAIRMAN. We have to move on, in spite of the fact that the chairman of this committee agrees with so much of what Senator Bennet has to say, and that last point is everything. We've got to give everybody in America a chance to get ahead.

Senator Johnson?

Senator JOHNSON. Thank you, Mr. Chairman.

I apologize for not having a big chart that you can really look at. But I am going to start here. This goes back to 1940. The data on poverty really starts in 1959, when the poverty rate was 22 percent. You can see how precipitously it was dropping, because we had strong economic times, right?

The red line is out-of-wedlock birth rates. Here is the rest of history. So, the black line delineates the war on poverty, where we spent, depending on whether you want to use inflated dollars, $15 to $25 trillion on the war on poverty.

I look at this and I—you know, again the chart. Poverty rates pretty well flatlined somewhere between 11 and 15 percent. Out-of-wedlock birth rates have gone down societally in excess of 40 percent. I think two-parent families generally have less likelihood to be in poverty.

Ms. Matsui, can you explain this historical trend, and what does this tell you?

Ms. MATSUI. So, Senator, one of things about poverty in America is that it also reflects the lack of societal investments. We do not have a child-care system that is available and affordable for most families. We failed to make those investments over time, so we have a fragile child-care system. We have child-care workers who are not paid enough. We have families who cannot afford it. That's one example.

Senator JOHNSON. Let me—again, I am trying to relate the poverty rates and out-of-wedlock birth rates, the rise in single-parent families. You know, when I grew up, women did not have to work, and a single working family member could support an entire family.

Ms. MATSUI. And, Senator, with respect, if wages were increased and the supports to allow people to enter the workforce and take care of their families and engage in the paid workforce, that would probably be more prevalent as well.

Senator JOHNSON. Dr. Meyer, can you speak to what this chart tells you?

Dr. MEYER. I find it troubling. I think the rise in single-parent families is one of the more problematic trends that we have seen over the last 50 years. I am encouraged that the share of children living with two parents stabilized in the 1990s and has actually risen a bit recently. I think we are headed in the right direction. I am concerned that current policy proposals could head us in the wrong direction.

Senator JOHNSON. Yes. I look at a chart like this and, as regrettable as it is because we all want to reduce poverty, I would say the war on poverty did not work, I mean in general. I mean, it certainly did not work to the extent that we wanted it to. I mean, would you agree with that?

Dr. MEYER. Well, on this issue I think that much of the war on poverty actually did succeed, but not without costs. Parts of the package were encouraging people to not work and urging single parenthood.

Senator JOHNSON. What about keeping fathers out of the home? And again, this is 60 years' worth of history, and I know there have been a lot of changes—I mean, the most recent one that we are debating here today. But to what extent do we still have programs that keep fathers out of the home and actually disincentivize two-parent families?

Dr. MEYER. There certainly are marriage penalties in the tax system, and we still do not do all that we could to encourage two-parent families.

Senator JOHNSON. So again, I think one of the solutions is, we need to encourage two-parent families. We need to incentivize that. In a budget hearing—this is quite honestly years ago; this is off the top of my head—we had somebody in charge of welfare in the State of Pennsylvania, and we were talking about the welfare cliff.

I think back then it was something like a single mom could work and make up to $30,000, but then because of reduction in benefits, she would have to actually make more than $65,000 before she would get $1 more in disposable income. I do not think that is a fluke. I mean, that happens. Each State is different, and every circumstance is different.

Can you speak to that in terms of the problem that we have created in terms of just not having a decent ramp as we incentivize work, and then there are just no incentives. You can work hard and have to make another $30,000–$35,000 before you can put another buck in your pocket.

Dr. MEYER. Well, the current CTC does reduce the disincentives to work. It encourages low-income individuals to work, because it increases. The benefits increase with additional work, and that would be eliminated under proposals that are being suggested here.

Senator JOHNSON. Okay.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank my colleague.

Let's see. Senator Thune, you are next.

Senator THUNE. Thank you, Mr. Chairman. Let me also thank the witnesses for being here today, as we examine ways in which the tax code can continue benefiting American families.

The Tax Cuts and Jobs Act that Republicans enacted in 2017 nearly doubled the standard deduction and reduced tax rates for individuals in every tax bracket. This has not only helped American families keep more of their hard-earned dollars, but also helped businesses grow and raise wages. And ultimately these provisions, partnered with other changes in the tax code like expanding the reach of the Child Tax Credit, helped the unemployment rate fall to a 50-year low and the poverty rate fall to the lowest level ever recorded.

So, Professor Meyer, could you just briefly speak to what Tax Cuts and Jobs Act provisions you believe were the most effective in boosting employment and reducing poverty levels across the Nation, whether it be the reduced rates, expanded CTC, or other provisions?

Dr. MEYER. The Tax Cuts and Jobs Act certainly incentivized work by those with low incomes. There are a couple of studies that have looked at the work responsiveness to the work incentives built into the Tax Cuts and Jobs Act on CTC, and they found substantial responsiveness of employment to the increased return to work that is generated by that tax credit.

Senator THUNE. But again, to the point, if you had to prioritize what is the most effective mechanism in boosting employment and reducing poverty rates, CTC as opposed to the reduction in rates across the board——

Dr. MEYER. Well, the rates are fairly low at the bottom. I think the first bracket is 10 percent.

Senator THUNE. Right.

Dr. MEYER. But the incentives provided by the EITC and the CTC are really substantial. For a parent, a single parent with two children, the combined effect of the EITC and CTC is about $9,000. So it essentially converts a $10-an-hour job into a $14.50 job, really quite a big increase in incentive to work, and that has had a substantial effect on inducing people to work and also just increasing incomes at the bottom at the same time as encouraging work.

Senator THUNE. So let me just follow up on that. Having said that, do you believe there are further changes that could encourage CTC beneficiaries to enter the workforce, given the positive impact it has as an incentive to work?

Dr. MEYER. Well, one thing I might point to is that the Tax Cuts and Jobs Act's increases in the CTC are set to expire in 2025. I would favor extending those, and that is something that would encourage work and transfer income to those at the bottom at the same time.

Senator THUNE. So, in your testimony, you discuss a little bit the adverse effects that changes to the CTC in the American Rescue Plan seem to have on workforce participation. Would you expand on that analysis, and specifically highlight what adverse effects to workforce participation you would expect to see if these changes to CTC that were made through the American Rescue Plan were reinstated?

Dr. MEYER. Sure; thank you, Senator. If you compare the benefits that someone not working would receive through the combination of the ARPA CTC and SNAP, it exceeds in most States—and States that constitute 63 percent of the population—what was paid under the old AFDC system plus the Food Stamps benefits of that era.

That is not including the current TANF benefits and expanded SSI that we are seeing. So the benefits for the nonworking would be quite a bit greater on average, really in almost all areas of the country, than we had under the AFDC program that people rejected as discouraging work.

Senator THUNE. All right; thank you.

Mr. Chairman, my time has expired. I would like to ask some of the other panelists some questions. Perhaps I will submit those for the record.

Thank you.

The CHAIRMAN. Very good. Thank you, Senator Thune.

Senator Casey is next.

Senator CASEY. Mr. Chairman, thanks very much for the hearing, and I want to start by thanking Senator Brown, Senator Bennet, and Senator Wyden, our chair, for leading the effort to include in the American Rescue Plan the enhanced version, the much better version I would argue, of the Child Tax Credit. It would not have happened without their leadership, and I want to thank our witnesses for being here today to highlight it and to make it real for people.

But I can just speak from the perspective of Pennsylvania, in the context of where we have been as a Nation for the last 40 years. In my view, we have had 40 years—most of the time, with very rare exception—with a tax code being rigged over and over again for the wealthiest Americans and the most powerful corporations in the world.

It seems like every time the Congress had a chance to choose families raising children over very wealthy families or large multinational corporations, the Congress has chosen the latter. The only time in a substantial way that the Congress chose to help, through the tax code, families raising children was in the American Rescue Plan.

And as Senator Bennet said, it worked. All the evidence shows that, and I will go through some of that data in a moment. But I think the most compelling testimony for me is—as someone who represents a large State, a very diverse State, a State that has 67 counties, 48 are rural counties—that the Child Tax Credit substantially, and in some cases disproportionately, benefited those families living in rural communities with about, on average, $440 a month.

When I listened to my constituents, here is what I heard. I met with two mothers in the Lehigh Valley on the eastern border of our State, two moms both testifying to me about what the Child Tax Credit meant to them in 2021. In addition to the purchase of food, which we heard over and over again—and all the data shows that—that is what most families are using it for: food and rent and basic necessities.

Ms. Lester, you said in your testimony, "We used it to cover basic needs." That is what I heard in Pennsylvania. But here is another example. Those two mothers I met in Lehigh Valley said they were able to use a part of the Child Tax Credit that they got to enroll their children in school activities they could never afford otherwise.

Just imagine what that means in the life of a child, if they cannot join a club that would benefit them somewhere down the road, to fulfill their dreams, whether it is athletics or some other school activity—totally foreclosed if the families cannot afford that.

But, Ms. Lester, you personify what a lot of our constituents have told us. You said the Child Tax Credit "was a godsend for my family." And again, you said that it covered, helped you cover basic needs. "It gave us a bit of breathing room," you said, and you went on to say towards the end of your testimony, "It makes moms like me feel like maybe, just maybe, it is possible for things to get better."

So the question we have to ask ourselves is, why the hell would we not do this again, if it worked so well on the macro level in terms of reducing child poverty? No action by the Congress in 75 years probably has reduced child poverty more than this one did.

Why would we not do it again? And as Senator Bennet challenged us, why do we have to accept the fact that we have a high child poverty rate, to say the most powerful country in the world can do nothing about that? This is one thing we can do in a very direct, immediate, and substantial way to reduce child poverty.

So, I will submit some questions for the record, especially about the other tax credit. Ms. Matsui, when you spoke and testified in your written testimony with regard to not just the Child Tax Credit, which—so we can explain it to people, because it gets confusing around here—helps families raise their children.

The other tax credit, of course, is the Child and Dependent Care Credit, which is specifically designed to help families pay for child care itself and other support. But I will submit questions for the record, Mr. Chairman.

But we need to do this again, to take action to dramatically reduce child poverty in America. We can do it, and we proved it in 2021.

Thanks, Mr. Chairman.

The CHAIRMAN. I thank my colleague, and I am going to recognize the Senator from Nevada in just a second. But I just want to take note that Senator Casey, and a number of our colleagues, have been talking about the issue of tax fairness throughout this morning's discussion.

I just want the record to show that we have, through our investigators, been able to show that in today's tax system—and it is legal—it is possible for billionaires to pay little or no income taxes for years on end. Firefighters, teachers, nurses have to pay with every single paycheck. But a lot of billionaires do not have to, and it certainly is part of the debate we are highlighting today about giving everybody a chance to get ahead in America, which means everybody is going to have to pay their fair share. Paying your fair share is not something that is going to make you less successful. I appreciate my colleague's point.

The Senator from Nevada.

Senator CORTEZ MASTO. Thank you, Mr. Chairman, and thank you for the panelists. I had to step out to attend a briefing, a classified briefing, but I went through the materials. And this is such an important issue, and I thank you, because we need to weed through the truth and the facts and the impacts to our families, and those that are misinformation out there.

By the way, I just have to mention, because this is a conversation I have in my State all the time. Some of my colleagues on the other side of the aisle are concerned about—and they call it "welfare to families" when we give them tax credits to try to support and lift up their families and themselves.

But when they want to give tax credits to the very wealthy, as well as those big corporations, it is not corporate welfare then. It is something else, and so this always astounds me, when we are actually talking about lifting up our families and pulling children out of poverty and helping one generation to succeed beyond to the next generation, right?

Ms. Lester, it is just what you said. As a young girl, you did not have the opportunities, and you want to give these opportunities to your family, and you want to be a part of that workforce. And by the way, as a social worker, thank you.

We need you. We need social workers and more of you, and I do not think it is inappropriate to help you succeed and to help you with your family so you can achieve that next rung, whatever that looks like for you and your family.

So let me jump back here, Ms. Matsui. Many of my colleagues on the other side of the aisle compare a fully refundable tax credit to the Aid to Families with Dependent Children program. That was eliminated in 1996. The program was widely believed to have discouraged work, but the comparison to the 2021 CTC rings hollow.

Let me—the AFDC program was designed in a way such that each dollar you earned in the workforce often directly corresponded to one less dollar in benefits. This was essentially a 100-percent tax rate on working, right, and so, can you talk to me? This is simply not the case with the refundable tax credit.

So, Ms. Matsui, do you agree there is a difference between the two, and why is the Child Tax Credit—why is that important? How does this benefit and support so many children and families?

Ms. MATSUI. Thank you for the question Senator, and I think you raised one very important distinction between the AFDC program, which no longer exists, and the Child Tax Credit, and that is, if someone is working and receiving the Child Tax Credit, they do not receive less.

So they can continue to work, they can increase their incomes and increase the family budget and what is available for resources for their family. So, to my mind, that is a very important distinction to make.

I think the other point just to make is that, using the word "welfare" when there are clear policy distinctions between the Child Tax Credit and the AFDC program is simply an attempt to kind of demonize the Child Tax Credit and giving families support to raise their children, to make sure that children are not experiencing the deleterious effects of poverty.

Senator CORTEZ MASTO. Thank you.

And then, let me follow up on this. In 2016, Canada replaced a patchwork of their Federal child benefits with a new Canada Child Benefit. It is a flat monthly payment made to families to help with the cost of raising children under 18.

A 2021 study of that, of the CCB, found no evidence it caused less work among single parents. In fact, many industrialized countries have generous family benefits and higher labor force participation rates than the U.S.

So, Ms. Matsui, would you talk a little bit about how common child and family benefits are around the world, and what the impact is of those policies on those families?

Ms. MATSUI. Thank you for the question, Senator. There are over 100 nations around the world that provide some kind of child benefit, and 23 of those are comprehensive, generous child allowances that are given in large part without regard to parental income.

The evidence has shown that those programs have a significant impact in reducing poverty. The Canada benefit that you mentioned has shown increases also in test scores, in maternal health, and also improvement in physical health outcomes. So the evidence from programs that provide child allowances around the world shows that they do reduce poverty significantly.

Senator CORTEZ MASTO. Thank you.

And then, Ms. Lester—and you have already touched on this—but the Child Tax Credit and the support provided to you and your family, is that incentivizing you to stay home and not work?

Ms. LESTER. No, of course not.

Senator CORTEZ MASTO. And I kind of find this offensive for so many families and individuals, that because they are just seeking assistance, whether it is with child care or help with that step up in a child tax benefit that, by the way, large corporations get——

Ms. LESTER. Right.

Senator CORTEZ MASTO [continuing]. That somehow it is demonizing all families and individuals that no, they are just taking advantage of the system and they just want to sit home and do nothing and get money from the Federal Government. Is that true? Do you see that happening in your community or in your family?

Ms. LESTER. I can see that happening in just the societal sphere, yes. I can see people trying to demonize families wanting family-friendly policies. But as we have discussed, most other industrialized countries have policies that are family friendly, and because of that, they have better quality of life.

Senator CORTEZ MASTO. Thank you. Thank you. I know my time is up.

Thank you, Mr. Chairman.

The CHAIRMAN. My colleague asked very good questions, and one of the areas, I would say to my friend from Nevada, that we got into that highlights your point, is the reason people do want and need to keep working is because of these crushing child-care bills. These child-care bills, the $30,000, are clearly just devastating to people.

Senator Brown?

Senator BROWN. Thank you very much, Mr. Chairman. Again, thanks for holding this hearing. Thanks to Senators Whitehouse and Cortez Masto and Warren and the chair for their work on this and their cosponsorship of our bill today.

I was sitting on the Senate floor with Senator Casey on March 6, 2021, and I remember turning to him and saying, "This is the best day of my career," because it is the day that we passed the expanded Child Tax Credit—unfortunately, on a party-line vote, by one vote.

But we passed it, and what Ms. Lester said in her opening statement, and the difference it made in her life, was the whole reason that we were all so excited about it, and the reason we should renew it.

I remember after that day—we passed it March 6th—the President signed it maybe March 20th; I am not sure. I remember I called Secretary Yellen the next day and asked her to call the IRS Commissioner, who was a Trump appointee but a true public servant, and she called him; I called him. That was in March of 2021.

By July, checks had gone out to the families of 60 million children, including Ms. Lester—2 million children of families in Ohio. We know what parents face today, as she said so well in her testimony. Everywhere it seems people are getting squeezed. This tax cut provided a little bit of relief. That is why we are introducing the bill today, again with Senators Bennet and Wyden and Warren and Whitehouse.

Ms. Lester, I want to ask you a question. We have heard a lot about 1996 today, perhaps tiresomely, but let us talk about life for parents in 2023.

How did the predictability of knowing that you would receive your tax credit every month help give you peace of mind and allow you to plan for your family's budget?

Ms. LESTER. Like I had mentioned, it helped cover costs that come up every month. There are always going to be birthdays, holidays, gifts to buy, parties—children, you know, love parties.

There is always that, and then children always need clothes and shoes. I used a lot of that money towards that. I mean, kids grow out of clothes very fast, and Ohio you know is a four-season State. So at minimum, I have to buy clothes every season. Same thing with shoes every season.

Even when you are shopping at places like Target and Walmart, the costs add up very quickly. You know, I would say on average I spend well over $100—when I had just one child, well over a $100 per month just on clothing and shoes alone.

Senator BROWN. Thank you. And I have never heard us called a four-season State. I have lived there my entire life, but I know what you mean, and it really is, so thank you for that. I am glad to hear a little more about Olivia and Emma.

You talked about your childhood 30–40 miles away from where you live now in Marion, and tell us how you think that expansion, restarting the expansion, would make their lives just a little bit better, which will affect their future lives?

Ms. LESTER. It would help their parents cover child-care costs and be able to have money for other things, other necessities in life. Right now, our entire focus is just on paying child care, and then everything else is kind of next.

And I think if we were not spending as much money towards child care in the future, I think about how much help could I give them with college? Because I worked my way through college on my own, and was a first-generation college student and the first woman in my family to go to college and also to get a graduate degree.

I want that to be possible for them. I want them to go as far as they want to go or even further, and I would like to be able to help them as my family was not able to help me.

Senator BROWN. Thank you.

Ms. LESTER. Yes, thank you.

Senator BROWN. I have heard, I mean, I have heard today—sorry I had to be out of this committee. I had to do something on the rail safety issue in eastern Ohio that you know about in our State. But I have heard—and I have heard it for years, and Chair Wyden has heard it—that you know, this $300 a person, $300 a child if the child is under six, $250 a child from 7 to 18, that it makes people lazy, that they will quit working.

So let me ask you this question. I mean, it is kind of a stupid question, but it just sort of answers—if Congress decided to restart the CTC expansion, would you quit your job?

Ms. LESTER. No.

Senator BROWN. Okay. I think if I ask all of the parents of the 2 million children in Ohio that question, it would be such a minuscule number of people who would say, "Yes, I would quit my job." Because, I mean parents are working hard. They are working hard with their kids, they are working hard in the workplace.

You know, we have seen the rich get richer in this country. We have seen moderate-income—I mean, I know I heard you say maybe middle-class for you, working-class, however you think of yourself that way—struggling, working hard, putting a lot of hours in, not getting ahead.

This gives people—as I said, that was the proudest day of my career, the day we passed that, because I knew enough people—we had not met before today—but I knew enough people in my State and my neighbors and others. It will make their lives easier, better, more productive, and especially give their kids a launch that we do not do well enough in this country.

So, thank you, and Ms. Matsui, thank you too. Thank you, Mr. Chairman.

The CHAIRMAN. I thank you. We already talked about the Brown doctrine of the dignity of work, so we appreciate it.

Senator Warren, you are next.

Senator WARREN. Thank you, Mr. Chairman.

So the tax code is a powerfully important policy tool. It raises the revenue that we need to fund investments in hospitals and bridges and clean air. It determines whether or not the wealthiest must pay their fair share for these investments, and the tax code itself is a social insurance system that helps struggling families.

So today I want to talk about two ways to make our tax system fairer: restoring the expanded Child Tax Credit or CTC, and making it easier for families to actually claim that credit. For decades, the CTC has helped families with the cost of raising children, and during the pandemic—as many of my colleagues have talked about—Democrats expanded the CTC to make it more generous and to ensure that the poorest families would get a check from the IRS when the CTC exceeded the amount that they owed in taxes.

So, Ms. Lester, thank you for joining us today. I know you have talked with a lot of people. But I just want to understand. You are an Ohio-based mom, right, with two daughters? How old are your girls?

Ms. LESTER. Yes. My oldest is 3½, Olivia, and then the youngest just turned one, and her name is Emma.

Senator WARREN. Ah, great names. What a blessing. Can you just say a word about how the Child Tax Credit has made a difference in their lives?

Ms. LESTER. I received it just for Olivia, but it definitely did help us cover a lot of different costs. I had given an example of, I took my first-ever family vacation, you know? That helped towards the cost of that. I wanted my daughter to see the ocean. I would love her to experience things that I never got to experience growing up, and I think that travel and experiencing different cultures is part of that, to expand her horizons.

Senator WARREN. That is great. Now the expanded Child Tax Credit lifted nearly 3 million children out of poverty, and it slashed the child poverty rate almost in half—the largest single-year decline on record. We need to restore the expanded Child Tax Credit and make it available again to mixed-status families.

But we also need to make it easier and less expensive for families to file their taxes in order to claim it. So, Ms. Lester, let me ask you. How did you file your taxes, including the claim for the CTC? Did you have to pay money to file your taxes?

Ms. LESTER. Yes. I use an online software program. It is called TaxAct. It is like TurboTax. I have been using that for well over a decade.

Senator WARREN. Do you remember what you paid for it?

Ms. LESTER. This past year, yes. I had to pay like about $45 for Federal then $45 for State. I tried to file the State myself, so that it is free, but something went wrong this year, and so I had to pay.

Senator WARREN. Okay, so 90 bucks in order to get your Child Tax Credit. You know, this is all too common. The TaxAct is actually part of a public-private partnership called Free File, which was supposed to allow 70 percent of taxpayers to file for free. But it in fact only serves only about 2 percent of filers.

Instead, the average individual—you are at least below average on this, when the average individual spends about $140 to file their taxes. Now, those prices help the likes of TaxAct and Intuit and these other for-profit outfits, but they are also a big reason that over 10 million low-income Americans do not claim the hundreds of dollars in tax benefits that they are legally entitled to every year, including the CTC and the EITC.

Our current tax filing system is not working, and that is why just last month the IRS announced that it will be launching a new tool next year that will allow taxpayers to file for free directly with the IRS.

Ms. Lester, I want to ask: if the IRS were offering a free tool that you could use easily and securely to file your taxes, would you be interested in using it?

Ms. LESTER. Yes, I would probably feel a little more comfortable in using their program than a for-profit company. That is the reason why I have stayed with the one for so long, the concerns of security.

Senator WARREN. Yes, yes, good. And of course, you save yourself some money there.

Ms. LESTER. Right; right.

Senator WARREN. So, along with announcing the Direct File pilot for next year, the IRS released a report, which clearly showed that taxpayers want a direct filing tool, and that the IRS is able to provide one. So it is great news that the IRS is acting.

Congress needs to step up too. We should restore the expanded CTC and fully fund the IRS so that it can keep providing and improving services like Direct File to ensure that American families get the refunds they are owed. That is the kind of tax reform that American families deserve.

Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. I am going to go to Senator Tillis in just a quick second. I want people to note, this is a very important exchange between you, Ms. Lester, and Senator Warren, what we have been talking about since 2011, when I introduced Free File with Senator Dan Coats, a Republican.

This is again, Ms. Matsui, back almost in yesteryear. Dan Coats, Republican of Indiana, joined me in it, and the only thing I want to add to the record is what Senator Warren is talking about, and I have been talking about: it is a purely voluntary idea.

So, when we get this done—and we are going to stay at it until we do—it would be presented to you, Ms. Lester, as something if you chose to, you could do it. No government initiative is going to require you to do anything, and I think your exchange with Senator Warren was very important.

Senator Tillis?

Senator TILLIS. Thank you, Mr. Chairman. Thank you all for being here.

I do want to go back to what I think some of the main drivers were for the Child Tax Credit in the American Rescue Plan. If you remember, we were in the midst of the pandemic. A lot of people were talking about how we needed to provide relief to families.

Keep in mind we had school closures, we had day care availability, we had a lot of stressors that suddenly made people who were employed think what was going to cost them less: stay employed or go home and take care of their children. We were trying to find a way to make the numbers work. The Congress was trying to find a way to make the numbers work.

I voted against the American Rescue Plan and stand by that decision, not purely because of the CTC, because I do not think we are getting this right. Do we need a Child Tax Credit? Yes. How do we go about implementing it? Do we need to provide assistance to families with children? Yes. Do we need it through the Child Tax Credit? Questionable in my mind.

You know, the Child Tax Credit was temporary in the American Rescue Plan, and it was truly incentivized to keep people at work. Now we are declaring it to be highly successful with about 5 months of data.

I mean, would anybody looking at that program now think that we have sufficient information, Dr. Meyers, sufficient information to draw a conclusion it is a highly successful program and we should just reauthorize it?

Dr. MEYER. I do not think so. When we looked at welfare reform back in the 1990s, there was a huge amount of high-quality research that preceded it. We are not seeing that kind of research effort to investigate the effects of the American Rescue Plan Act.

Senator TILLIS. Yes. I think fundamentally—and if you disagree, say so. I think we should have programs that give parents the flexibility they need to raise their children, to develop their work skills, and hopefully be able to get to work.

What is wrong with a policy that tries to incent a positive outcome, which is ultimately to be independent of any government assistance? What is wrong with that sort of mindset when we go in and try to figure out what a Child Tax Credit policy should look like, or other government support systems?

Dr. MEYER. I do not think that there is anything wrong with that at all. The problem I see with replacing the CTC with a child allowance is that it is universal, and it is not targeted to those who really need assistance.

Senator TILLIS. Right.

Dr. MEYER. It is just going to everyone.

Senator TILLIS. I am sure we are going to have more discussions about this as it is set to expire. But the only relevant experience I have in this space is when I was Speaker in the House. Back during the Obama administration, we had a 10.4-percent unemployment rate in North Carolina, fourth highest in the Nation.

President Obama offered every State the opportunity to extend unemployment by another 26 weeks. The State of North Carolina, as a result of a decision I made and the Senate majority leader, took a pass on $750 million in additional unemployment benefits.

We had an unemployment insurance fund that was nearly insolvent. We implemented policies that reduced the forward benefit on people prospectively who were unemployed by 25 percent to put it in line with the regional average.

We reduced the duration to the prevailing rate of unemployment, so if we were in high states of unemployment, you got 13 weeks. If we were in high states or low states—high states, you got more. Now everybody said that was horrible, it was draconian, it was going to destroy families. The only thing that happened over 6 quarters is that we went from 10.4-percent unemployment to 6.4-percent unemployment, with no measurable increase in social services safety net funding for the State.

I for one think we got it right, and I for one think we should get this right. It is not about whether or not it should exist; it is who should be qualified for it and what expectations should we have for working families with respect to getting on track, to getting a job, and reducing their dependence on government.

And if we have that discussion, they can count me in. But just a simple straight reauthorization of the CTC, I do not think serves the best interest of the very people that we are trying to help.

Thank you, Mr. Chair.

Senator CRAPO [presiding]. Thank you.

Senator Young?

Senator YOUNG. Thank you, Mr. Chair. I want to thank our witnesses for being here today. I really appreciate it. As we discuss family support provisions in the tax code, it is important to remember there are several provisions in the tax code that may not get mentioned today, but have a substantial impact on working families, and the populations we are focusing on here.

In fact, just last week, Chairman Wyden, Ranking Member Crapo, Senator Cardin, and I hosted a joint roundtable of the Senate Finance Committee and the Small Business Committee to discuss how the tax code's complexity impacts small businesses. Each participant at that roundtable expressed support for restoration of full and immediate expensing under section 174.

This is something I have been advocating for through my American Innovation and Jobs Act with Senator Hassan. What I found striking was the testimony from the small business owner roundtable participants about what they would do with those tax savings.

They would hire more employees and provide additional compensation or bonuses to existing employees. They would offer educational incentives and scholarships, and provide enhanced health care and other benefits. These employees they were talking about supporting were not highly compensated executives. They were average Americans who were working to provide for their families and support their communities.

It was a helpful reminder that supporting our small businesses translates into supporting America's working families. In addition to ensuring we have quality jobs available for working families, we also want to make sure those families have safe and affordable housing near those jobs.

I am proud to work with Senator Cantwell on the Affordable Housing Credit Improvement Act, to build upon the successes of the Low-Income Housing Tax Credit or LIHTC program. This bill directly supports working families by facilitating the construction of much-needed affordable rental housing stock.

Additionally, I am pleased to be working with Senator Cardin this Congress on the Neighborhood Homes Investment Act, which would use the tax code to promote home rehabilitation and ownership among low- and middle-income families in distressed neighborhoods.

While the tax credit programs we are discussing today are an important component of our tax code's support for working families, they are certainly not the end of this story. I encourage my colleagues to support these other legislative initiatives and the great potential they offer for strengthening America's families in the future.

Professor Meyer, in your written testimony you point out that the National Academy of Sciences conducted a study that modeled the income and poverty effects of policies similar to the CTC. But when they directly modeled the impacts of replacing the CTC with a child allowance, they failed to incorporate changes in employment, even though they incorporated changes in employment when analyzing other tax credits.

Can you please share why you believe employment effects were specifically excluded in the modeling of the child allowance?

Dr. MEYER. Thank you for the question, Senator. The report is quite peculiar. This was a very influential report that the President, and much of the research on the effects of the CTC, has cited. In the report, it says that you do not need to worry about the return to work when there is not an existing CTC.

But it then indicates that the calculations done in the report are with the 2015 tax law baseline, and then redone with the second set of estimates using a post-TCJA baseline. In neither case, though, does this report incorporate the effect of changing the return to work.

It does include this return when it examines expanding the EITC as an option, but never when it is cutting the CTC by replacing it with a child allowance, *i.e.,* a CTC for those who do not work. If we were to apply their methods evenly across the tax credits, we would find the larger employment response then in the estimates that we provided, that had a very substantial 1.5-million-person decline in work from the ARPA CTC.

Senator YOUNG. This seems like, certainly, an oversight at best, but a weakness in the data, which will need to be remedied. And in the interim, I think we are all going to have to just do our best based on some of the historical analogs we can think of.

Based on your understanding of the CTC and the proposed child allowance, do you believe replacing the CTC with an allowance would have an impact on employment?

Dr. MEYER. Yes, substantially. I do think that the best analog is to look at what happened when we reformed welfare and saw an unprecedented increase in employment following it in the 1990s.

Senator YOUNG. Thank you, Doctor.

Senator CRAPO. Thank you.

Senator Blackburn?

Senator BLACKBURN. Thank you, Mr. Chairman, and I am so pleased that we are doing this hearing today, and I appreciate hearing each of your opening statements and the approach that you bring. There are so many public and private organizations along with our Federal, our State, and our local governments that are working to help people climb out of poverty and helping them to build sustainable economic success.

In Tennessee at one point, we had done a Tennessee women's economic council to focus on the issue specifically with women and working moms. We did that because Tennessee is no stranger to the impact of poverty, and in 2021, 14 percent of the households, which is over 380,000 households, were considered to be at or below the poverty line.

That is the impact it has in our State, and of that number, just under 80,000 of those were female-led households. So thankfully, Tennessee is seeing our numbers trend downward. People are being lifted out of poverty. We are fortunate that companies are choosing to move to Tennessee, and they are bringing well-paying jobs.

But even with all of this, poverty continues to be a significant issue that we are working toward reducing. I think it does take our different government entities and our community partners to do a good job of moving this forward.

Dr. Meyer, I want to come to you. I appreciated your opening statement, and your referencing the work you did with President Clinton as you worked on the welfare-to-work programs. You highlight your and many academics' concerns with eliminating the work requirements for these incentive programs.

Specifically, you mention that this could lead to a reversal of much of the progress that was made since the '90s under the bipartisan welfare reform. So I would love for you to just talk a little bit more in depth about how unconditional cash transfers impact the long-term economic stability of recipients.

Dr. MEYER. Thank you for the question. We saw with welfare reform, when we moved to a system that rewarded work, that there was a substantial decrease in poverty for single mothers. And unlike the changes in poverty over time for other groups, it was due to increased work rather than increased government benefits.

Senator BLACKBURN. Let me ask you also, I had looked at an article you did in 2019, "The Use and Misuse of Income Data and Extreme Poverty in the United States." So how can the U.S. Government better work with the public and private sectors to account for real income, and that real valuation, to ensure that the funds are being targeted where they are most needed?

Dr. MEYER. So, I appreciate that question. It is one of the biggest issues with moving from something like the current system to a system where you are paying benefits to just everyone. In that case then, you do not have the interaction of social services in figuring out what is the best benefit for people, whether it is money or it is job training or it is some kind of——

Senator BLACKBURN. So, having caseworkers that tailor the benefit to the need?

Dr. MEYER. Yes.

Senator BLACKBURN. Mr. Collins, I would love to have you weigh in on that.

Mr. COLLINS. Sure. I think it is very important that the committee knows there is a lot of work that is going on, on the ground right now. That is sort of what my organization does. We have, basically, a seven-point strategy for when individuals come in through case management. We ask them what type of job they want. We look at their family size. We do an EITC calculation right up front that spurs their ability to think about what that job looks like.

We have, basically, a seven-point strategy. So, we will talk to you about that job choice at the next meeting, and many programs these days support people through work through 365 days. So, we will have that conversation at 30 days, 90 days, 180 days, 365 days. And most importantly, we will invite them in for a free tax preparation opportunity during tax season.

It takes all of that to make sure that everybody who is eligible actually receives the credits that they are due for their work.

Senator BLACKBURN. That's excellent.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank my colleague.

Senator Carper is next.

Senator CARPER. Thanks, Mr. Chairman. Welcome one and all. I had a chance to meet you. I had to run off and chair another hearing, so I am glad you are still here, and thank you for your testimony today.

I have a couple of questions. One deals with targeting the Child Tax Credit to help those most in need, and I will just get right to that one. One important principle that I try to follow when considering policies like the Child Tax Credit is to ensure that benefits are targeted to those most in need. I think that is a view that is shared by most, if not all, of my colleagues.

Unfortunately, the Child Tax Credit as it currently exists does not reflect this principle, and today I am told a married couple earning up to $400,000 per year is able to receive the full benefit of the Child Tax Credit. At the same time, a married couple at the lowest end of the income spectrum is only eligible for a portion of that credit.

Question—and this would be for Ms. Matsui and Ms. Lester—but how can policymakers better target the Child Tax Credit to support those most in need, instead of benefiting upper-income families, all while reducing the cost of the credit to the Federal Government? Please, Ms. Matsui.

Ms. MATSUI. Senator, thank you for the question. I think one of the most important ways to make the Child Tax Credit accessible to those who need it the most is to remove the earned income requirement, which limits and boxes out at this moment 19 million children under the age of 17 in households that do not earn enough to be able to claim the full credit.

In addition, the provision from the 2017 tax law that made children with ITINs ineligible to be claimed for the Child Tax Credit is another policy that locks families out of the benefits of the Child Tax Credit, and is another way that we could improve it, so that the families most in need receive it.

Senator CARPER. Okay, great. Thank you.

Ms. Lester, the same question. How can policymakers like us better target the Child Tax Credit to support those most in need, instead of benefiting in no small part upper-income families, all while reducing the cost of the credit to the Federal Government?

Ms. LESTER. I think you basically have to spend money to save money sometimes, and that is going to be through the family-friendly policies, which are going to help the average family such as myself, a two-income working household. We need better policies to be able to continue to work.

It is not sustainable to continue to pay almost $30,000 for child care so that I can go to work. I mean, that is most people's yearly income, so they cannot maintain that.

Senator CARPER. Okay, thank you.

My second question is for Mr. Collins. Good morning—good afternoon. It has been a full day so far, but a question, if I could, on the Earned Income Tax Credit and workforce participation.

As I travel around the State of Delaware, about 100 miles from north to south, about 50 miles from east to west—we have a million people. But I regularly do what we call customer calls. I visit businesses large and small, I have visited schools and hospitals, all kinds of entities, nonprofits.

But when I do these customer calls throughout our State, I find out how they are doing, and I ask those folks whom we are visiting, I say, “How are we doing, the congressional delegation? How are we doing? How is the Federal Government doing? How is the State government doing?”

And I ask, “How can we help? What can we do to help?” And a common refrain that I hear from many, many employers is that they are struggling to find workers, people who come to work, show up regularly, do a job, get trained, and make a contribution.

While we are fortunate to have a low unemployment rate—I think it is hovering around 3.5 percent—we got good news today on the inflation side. It continues to subside. I think we are looking now at an annual rate of down to about 4 percent. We had 340,000 new jobs that were created last month. The unemployment rate is still, I think, about the lowest it has been in a long, long time.

But we still have a tough time encouraging people to enter the workforce following the pandemic. Fortunately, the Earned Income Tax Credit is a proven bipartisan tool to tackle this challenge and bring people back into the workforce. My question for you, Mr. Collins, is, how does the EITC incentivize people to work, and how can greater workforce participation uplift families and communities?

Mr. COLLINS. Thank you, Senator. How does it incentivize? Long research and history have proven that it has done that since the mid-’90s. Attaching it to work has actually worked out very well. So work, in fact, does work when it comes to the EITC.

To expand it, I think in the situation that you just mentioned in Delaware, it would be very interesting to see if employers would embrace actually doing EITC awareness campaigns, so that they can find more individuals who would be interested in working at their particular facilities.

This is the work of some of the programs that we have done across the country, and some of the actual programs are done by the Office of Family Assistance, for example, in Waco, TX.

Senator CARPER. All right; thank you for that.

Mr. Chairman, this may already have come up, but you and I served, Mr. Chairman, with Bob Matsui and later on with his widow, and I know we have here with us today their daughter-in-law. I had a chance to meet with you earlier just to convey our best to your mother-in-law and your family. We appreciate very much having known them and served with them.

The CHAIRMAN. The bouquets have been flowing to Ms. Matsui, because we all have so appreciated the family’s advocacy, particularly for low-income folks on the issues that we are talking about. That is what Bob championed during his service.

Okay. Thank you, Senator Carper.

Senator Menendez?

Senator MENENDEZ. Thank you, Mr. Chairman.

I am proud to have voted for the American Rescue Plan, which provided a historic increase to the Child Tax Credit. By boosting the credit to $3,600 for infants and toddlers, and $3,000 for children, and paying those credits on a monthly basis, child poverty decreased by 30 percent in 2021.

In the same year, food insecurity decreased by 24 percent, the equivalent to 2 million fewer children going hungry. For parents with a newborn at home and a toddler in day care, that was $600 a month that helped pay for diapers, for baby formula, for child care. And for children between 6 and 17 years of age, the $250 monthly payment went towards new clothes, maybe a laptop for school, the money needed to join an extracurricular activity.

Unfortunately, this critical lifeline ended for hardworking families across the Nation at the end of 2021. So, Ms. Lester, can you talk about how the enhanced Child Tax Credit impacted your day-to-day life and what has changed since its expiration?

Ms. LESTER. Yes, thank you. As I have said before, it helped us pay for basic needs monthly that come up. Bills come up monthly, not just once a year. You know, we pay for clothes, shoes. We have paid for extracurricular activities as well.

Since it has gone and now I have a second child, our expenses have just doubled and with less help that we can count on. That has caused me to run through savings and kind of run out of resources.

That is why after this year, I do wonder how we will continue on this kind of rate of continuing to pay the astronomical child-care bill that we have, with the little assistance that we get. Because right now, with the Child and Dependent Care Credit, we hardly receive anything.

I think it just amounts to literally a few dollars for us, and I was not aware of that before I had children. I believed that were tax incentives for people that self-paid for day care, that there was a little more help than there is in reality.

The expanded one from 2021, we qualified for, and that particular year when we filed for it, I believe that the only refund we had received was from that credit, or we would have received nothing or would have possibly owed.

Senator MENENDEZ. Thank you, thank you. Let us stay on child care for a moment. Child care is about being able to be free to go to work. We talk about the ability to work. Child care is a big part of that, as well as formation of the child. The Child and Dependent Care Credit is, I think, critical in making child care more accessible for working and middle-class families.

The American Rescue Plan took the long overdue step of boosting the credit from $3,000 to $8,000, but that was only temporary. So, Ms. Matsui, what are the economic benefits that families and the economy stand to gain if the Federal Government made critical investments in child care?

Ms. MATSUI. Thank you for the question, Senator. As you are well aware, child care is incredibly important to sustain the employment, of keeping women in the paid workforce, for supporting families, and also to help child-care workers, who are among some of the most poorly paid workers in our country but do this essential work.

The way that the American Rescue Plan expanded the Child and Dependent Care Credit, primarily by making it refundable, made that credit available to low- and moderate-income families. Because under current law, families who do not have sufficient tax liability cannot get any benefit from it at all. It is only a nonrefundable credit that wipes away tax liability.

And so, only a very small fraction of its benefits goes to low- and moderate-income families. So especially—and as you noted, the size of the credit does not come close to matching the cost of child care that families are experiencing every month.

So you know, if the Child and Dependent Care Credit's expansions were restored, along with kind of the robust systemic investments in child care to make the system stronger and support providers, child-care workers, and families overall, it would make it easier for parents to go to work. It would make the workforce more stable for employers, and that would boost our economic growth overall.

Senator MENENDEZ. Yes. I mean if we—I hear a lot of my colleagues talk about the value of work and rewarding work. Well, you've got to be able to get to work, and child care is an important part of that.

One last question, if I may. You know, the Tax Cuts and Jobs Act of 2017 added nearly $2 trillion to the annual deficit over 10 years. But one of the cruelest provisions in the law was excluding the Child Tax Credit for certain taxpaying families because of their immigration status. Isn't the theory, Ms. Matsui, behind the Child Tax Credit applicable to both ITIN filers and filers with a Social Security number? Basically, that proposition being that taxpayers should be able—and I underline—taxpayers should be able to keep a portion of the potential taxes owed and use that money on their children.

Ms. MATSUI. Senator, I agree completely with you. Children of the ITINs need support in the same way that children with Social Security numbers do. The benefits of the Child Tax Credit are denied to a significant number of children just because of that tax number status.

Many of them are Dreamers. So I think having the Child Tax Credit to be able to be claimed for children with the ITINs is an important equity issue. It is an important economic issue, and it addresses the need of children so that all of us have access to supports and the ability to succeed in our economy.

Senator MENENDEZ. Well, I appreciate that.

Mr. Chairman, if we are talking about families who are paying taxes to the Federal Government, we will never be able to fully solve the issue of child poverty until ITIN filers also have the ability to access this essential tax credit. So I appreciate you holding this hearing.

The CHAIRMAN. The gentleman's points are spot-on, and I share your view.

All right. I thank our panel. It has been a long morning. Just a couple of thoughts.

I think in a sense, going 2½ hours in, we have kind of come full circle, you know. Ms. Lester, you highlighted it: encouraging work and helping families get ahead. Those two things are not mutually exclusive. You can do both, and you just drove that point home and gave us firsthand experience about it.

I also want to put this tax fairness issue in some context, and I have talked to my colleagues about this often. Many people who receive the Child Tax Credit pay Federal taxes with every paycheck.

What we have also learned in recent years is that it is possible for billionaires to pay little or no taxes for years on end by in effect calling in their accountant and saying, “Just make sure I do not get any income this year. I will live off my borrowings this year, and I will not pay taxes this year.” So, if ever there was a double standard, as we walk out of this room, I think that little snapshot really highlights it.

I have introduced a proposal to address that. The President has as well. You all have given us more reasons to take it up, and it also comes in the context of another point that was important today, which is that 19 million children are in families ineligible for the full Child Tax Credit, and I think Ms. Matsui and others have made that point. The Brown-Bennet bill would fix that, while expanding incentives to work with the Earned Income Tax Credit.

So, there is a lot do here, and I am also very glad, Ms. Lester, for the discussion about Free File because, you know, for the life of me—when you look all over the western industrialized world, their governments do what I just described in your conversation with Senator Warren. They just say, look, this can be a voluntary thing. But if you want us to do it, particularly for wage earners, you and teachers and firefighters and nurses, the government has pretty much got your information. So I think we’ve got to join the rest of the western industrialized world.

The immediate work of business, and I am glad to be part of it, is to support the Brown-Bennet bill that is going to give families a little bit of a fair shake in the days ahead when they are dealing with those crushing child-care costs that you were talking about, Ms. Lester.

And I thank Senator Crapo. We are going to look at these issues and see where the possibilities are for bringing the committee together, and you all have helped us get firsthand information.

And with that, the Finance Committee will be adjourned.

[Whereupon, at 12:29 p.m., the hearing was concluded.]

APPENDIX

Additional Material Submitted for the Record

Submitted by Hon. Michael F. Bennet, a U.S. Senator From Colorado

TAX POLICY CENTER

URBAN INSTITUTE AND BROOKINGS INSTITUTION

CHILD TAX CREDIT RECIPIENTS EXPERIENCED A LARGER DECLINE IN FOOD INSECURITY AND A SIMILAR CHANGE IN EMPLOYMENT AS NONRECIPIENTS BETWEEN 2020 AND 2021

Michael Karpman, Elaine Maag, Stephen Zuckerman, and Doug Wissoker

May 2022

The American Rescue Plan (ARP) Act of 2021 temporarily increased the amount of the Child Tax Credit (CTC) for most families with children. It also directed the IRS to deliver up to half the credit in advance of the tax filing season in monthly payments from July to December 2021. For the first time in the credit's history, even families with very low incomes were eligible to receive the maximum benefit. The sixth and final monthly advanced payment reached the families of more than 61 million children, representing most children eligible for payments.[1]

The introduction of the advanced CTC payments was associated with a near immediate decline in child poverty and food insufficiency (a measure of whether households did not have enough to eat in the past week) among households with children (Parolin et al. 2021; Shafer et al. 2022).[2] Recent surveys suggest few parents planned to work less because of the credit and that the payments made it easier for some parents to engage in paid work or work more hours (Burnside 2021; Hamilton et al. 2021). Other research found the payments had no immediate effect on reducing employment (Ananat et al. 2021). Researchers have also produced estimates of the effect a permanent expansion of the credit could have on incentives to work; some suggest modest responses that would still result in dramatic reductions in poverty (Bastian 2022) and others suggest larger employment declines (Corinth et al. 2021).

In this brief, we add to the assessment of how the CTC affects employment and material hardship with data from the 2020 and 2021 rounds of the Urban Institute's Well-Being and Basic Needs Survey (WBNS). We estimate changes in material hardship and employment for adults living with children who received advanced CTC payments and compare them with changes for adults with and without children who did not get the payments. The WBNS allows us to follow the same adults

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[1] U.S. Department of the Treasury, "Treasury and IRS Disburse Sixth Monthly Child Tax Credit to Families of 61 Million Children," news release, December 15, 2021, *https://home.treasury.gov/news/press-releases/jy0533.*

[2] Studies of the Child Tax Credit that draw on data from the Census Bureau's Household Pulse Survey have measured food insufficiency. Our analysis instead focuses on food insecurity, which is a broader measure of households' inabilities to acquire adequate food for one or more members at times in the past year because of a lack of resources.

between December 2020 and December 2021, providing insight into how their well-being, work status, and work hours changed after the advanced CTC payments became available in July 2021. Our analysis focuses on adults with annual family incomes in 2020 below 600 percent of the federal poverty level (FPL), about $103,500 for a single person with one child and $157,200 for a family of four. The enhanced CTC amount began phasing out at $112,500 for single parents filing as heads of household and at $150,000 for married couples filing jointly. The regular CTC amount continued to phase out at $200,000 for single parents and $400,000 for married couples. We find the following:

- Between December 2020 and December 2021, adults who received the CTC payments reported a larger decline in household food insecurity than adults who did not receive the payments.
  - Rates of food insecurity (a broad measure of households' inabilities to acquire adequate food over the past year) decreased from 26.1 to 20.0 percent for CTC recipients and from 24.7 to 22.4 percent for nonrecipients. The reduction in food insecurity for CTC recipients was 3.8 percentage points larger than the reduction for nonrecipients. The drop in food insecurity for CTC recipients was 5.0 percentage points larger after accounting for differences in the characteristics of adults in each group.
  - Among CTC recipients, the decline in food insecurity was concentrated among adults with family incomes below 200 percent of FPL; their rate of food insecurity fell from 48.2 to 35.8 percent.
- The change in the employment rate for CTC recipients did not differ from the change for nonrecipients.
  - Among CTC recipients, 70.2 percent were working in December 2020 and 72.6 percent were working in December 2021. Among nonrecipients, 58.1 percent were working in December 2020 and 60.1 percent were working in December 2021.
  - The share of employed adults usually working full time did not change significantly for CTC recipients and nonrecipients during the study period.
- Transitions in employment status and usual weekly hours worked between December 2020 and December 2021 were also similar for CTC recipients and nonrecipients.
  - About 5 percent of adults in both groups were employed in 2020 but not 2021, and 7 percent went from not employed in 2020 to employed in 2021.
  - CTC recipients and nonrecipients who were employed in both years reported similar changes in their work hours.

Though this analysis is not designed to identify a causal relationship between the advanced CTC payments and material hardship and employment, the results highlight improvements in food security for payment recipients and show no significant difference in short-term employment changes for recipients relative to nonrecipients. If Congress expands the CTC, further research will be needed to assess changes in these outcomes over a longer period and by gender, marital status, educational attainment, income, and other characteristics that may be related to hardship or employment.

It will also be important to confirm these findings if the CTC is expanded during periods of less economic volatility. The study period occurred during the COVID–19 pandemic and coincided with a rapid labor market recovery in 2021 that followed a sharp recession in 2020, child care and school closures that presented ongoing barriers to work for many parents, high levels of job turnover, two rounds of stimulus payments in the first half of 2021, and rising inflation throughout 2021. These and other factors may have affected material hardship and employment in different ways for families with and without children.

BACKGROUND

The CTC provides a near-universal benefit for families with children. Before the temporary expansion through the ARP in 2021, families could receive a credit of up to $2,000 per child under age 17. The credit could be used to offset taxes owed. If the credit a family qualified for exceeded taxes owed, families could receive up to $1,400 as a tax refund. The refund was limited to 15 percent of earnings above $2,500. Together, these two limitations on the credit amount meant millions of families with low incomes either did not benefit from the credit or received less than

$2,000 per child. This design disproportionately excluded Black and Hispanic/Latinx families from the full credit (Goldin and Michelmore 2020; Greenstein et al. 2018).

The ARP temporarily changed both the maximum credit and how the credit was delivered. Under the ARP, low-income families with children could receive a credit of up to $3,600 per child under age 6 and $3,000 per child ages 6 to 17. The credit was made fully refundable; if the credit exceeded taxes owed, families could receive the entire excess amount as a tax refund. Making the credit fully refundable was the most important change to the CTC for families with very low incomes (Acs and Werner 2021).

Families with low incomes typically receive any CTC they are eligible for as part of their tax refunds after filing tax returns. That means that any CTC they qualified for in 2021 would be paid in 2022. Instead of having to wait to receive the CTC in 2022, most families could receive up to half of the CTC through monthly payments from July to December 2021. The IRS delivered payments automatically to families who appeared eligible for the credit on the basis of information in their 2019 or 2020 tax returns or their claims for an economic impact payment. Families could also claim the CTC via a special IRS web portal.[3] From July to December 2021, the number of children in families receiving the CTC increased from 59 to 61 million, suggesting that though families could opt out of advanced payments starting June 21, few did so.[4] In another analysis, Urban Institute researchers reported that the families most likely to have been left out of advanced payments were those with very low incomes. In many cases, they were likely not required to file tax returns. Reported rates of receipt were lowest amongst Hispanic/Latinx adults and non-Hispanic/Latinx adults who are American Indian/Alaska Native, Native Hawaiian/Pacific Islander, or more than one race (Karpman et al. 2021).

Making the credit fully refundable and delivering the credit as a monthly benefit resulted in near-immediate drops in child poverty and food insufficiency among families with children. Child poverty dropped and remained low through the duration of the payments, but it increased again when the payments stopped in January 2022 (Parolin, Collyer, and Curran 2022). Using data from the U.S. Census Bureau's Household Pulse Survey, researchers estimated that food insufficiency among families with children also declined by nearly 25 percent, and families with very low incomes experienced the largest declines (Parolin, Collyer, and Curran 2022; Shafer et al. 2022).

A debate around the effect of the newly structured CTC on employment also surfaced. One survey suggested that almost 94 percent of parents who expected to receive the CTC planned to work the same amount or more (Hamilton et al. 2021). Those who planned to work less were most likely to be parents of infants and those living with a spouse or partner who said they would use the credit to stay home with children. The researchers concluded that while the credit had a small effect on work, it also allowed parents greater freedom in making child care arrangements. In another survey, about one-quarter of parents reported the CTC monthly payments made it easier for them to engage in paid work (Burnside 2021). This might be because parents used the credit, in some cases, to help pay for child care (Perez-Lopez and Mayol-García 2021). Other studies suggested the credit had no immediate effect on reducing employment (Ananat et al. 2021). Looking longer term, researchers have produced estimates of the effect permanently expanding the credit could have on incentives to work; some suggested modest responses that would still result in dramatic reductions in poverty (Bastian 2022) and others suggested larger employment declines and reduced impacts on poverty (Corinth et al. 2021).

[3] The Treasury Department estimates that it sent advanced CTC payments to 729,000 children because their families had used the IRS nonfiler portal to claim economic impact payments. *See* White House, "Fact Sheet: Biden-Harris Administration Whole-of-Government Efforts to Ensure Child Tax Credit Reaches All Eligible Families," news release, September 15, 2021, *https://www.whitehouse.gov/briefing-room/statements-releases/2021/09/15/fact-sheet-biden-harris-administration-whole-of-government-effort-to-ensure-child-tax-credit-reaches-all-eligible-families/*.

[4] U.S. Department of the Treasury, "Treasury and IRS Disburse Sixth Monthly Child Tax Credit to Families of 61 Million Children"; U.S. Department of the Treasury, "Treasury and IRS Announce Families of Nearly 60 Million Children Receive $15 Billion in First Payments of Expanded and Newly Advanceable Child Tax Credit," news release, July 15, 2021, *https://home.treasury.gov/news/press-releases/Treasury-and-IRS-Announce-Families-of-Nearly-60-Million-Children-Receive-%2415-Billion-Dollars-in-First-Payments-of-Expanded-and-Newly-Advanceable-Child-Tax-Credit;* and "IRS Updated the 2021 Child Tax Credit and Advance Child Tax Credit Frequently Asked Questions," Internal Revenue Service, March 2022, *https://www.irs.gov/pub/taxpros/fs-2022-17.pdf*.

Our analysis adds to the assessment of how the CTC affected employment and material hardship in the short term. By following the same respondents in a nationally representative sample of adults between December 2020 and December 2021, we present new evidence of how these outcomes changed for CTC recipients and nonrecipients after the advanced CTC payments became available.

RESULTS

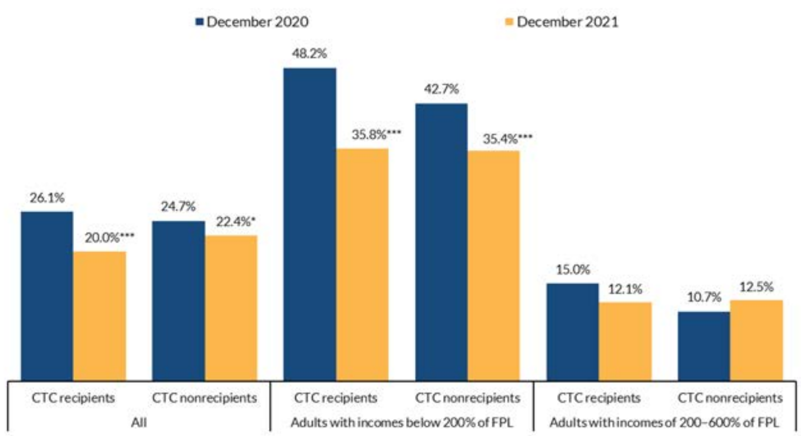
Between December 2020 and December 2021, adults who received the CTC payments reported a larger decline in food insecurity than adults who did not receive the payments.

Over the study period, the share of adults with family incomes below 600 percent of FPL reporting food insecurity declined, and those declines were greatest among adults who reported receiving the advanced CTC payments between July and December 2021. In December 2020, 26.1 percent of adults with children who would later report receiving the advanced CTC payments reported their households had experienced food insecurity in the past 12 months (figure 1). When interviewed again in December 2021, 20.0 percent of these adults reported food insecurity in the past 12 months, a decline of 6.1 percentage points. Adults who did not receive the advanced payments reported about a 2.3 percentage-point decline in food insecurity, from 24.7 percent in 2020 to 22.4 percent in 2021. Appendix table 1 shows a similar pattern in the change in food insecurity for nonrecipients with children and those without children.

FIGURE 1

Household Food Insecurity in the Past 12 Months among Adults Ages 18 to 64 with Incomes below 600 Percent of FPL, December 2020 and December 2021

By receipt of the advanced child tax credit payments and family income



Source: Well-Being and Basic Needs Survey, December 2020 and December 2021.
Notes: FPL is federal poverty level. CTC is child tax credit. Adults who did not receive the CTC include those with and without children under 18 in the household.
*/**/*** Estimate for 2021 differs from estimate for 2020 at the 0.10/0.05/0.01 level, using two-tailed tests.

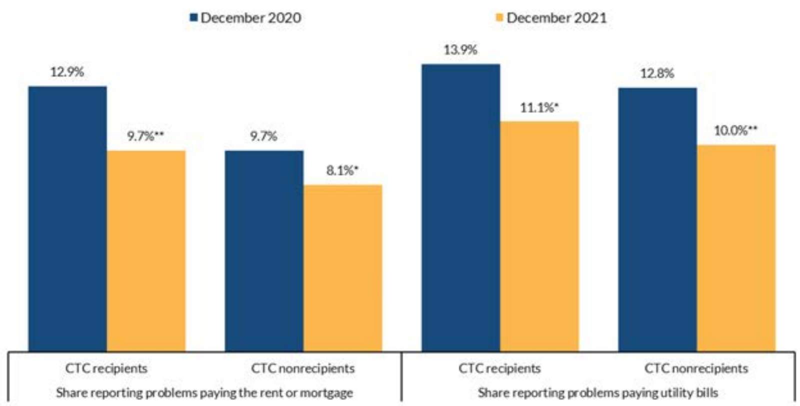
Among CTC recipients, the decline in food insecurity was concentrated among adults with family incomes below 200 percent of FPL in 2020. The share of these adults reporting food insecurity dropped from 48.2 percent in 2020 to 35.8 percent in 2021 (figure 1). Rates of food insecurity also declined among nonrecipients with incomes in this range and did not change significantly among either recipients or nonrecipients with higher incomes.

CTC recipients and nonrecipients also became less likely to have problems paying for housing and utility costs. The share of CTC recipients reporting problems paying the rent or mortgage in the past 12 months declined by about 3.1 percentage points, from 12.9 percent in 2020 to 9.7 percent in 2021, and the share with problems paying utility bills fell 2.8 percentage points, from 13.9 to 11.1 percent (figure 2). Nonrecipients reported the same percentage-point change in utility bill problems as recipients and a slightly smaller reduction in problems paying for housing. As with food insecurity, the decrease in problems paying for housing costs was larger among adults with family incomes below twice the federal poverty level in both groups (data not shown).

FIGURE 2

Problems Paying for Housing Costs in the Past 12 Months among Adults Ages 18 to 64 with Family Incomes below 600 Percent of FPL, December 2020 and December 2021

By receipt of the advanced child tax credit payments

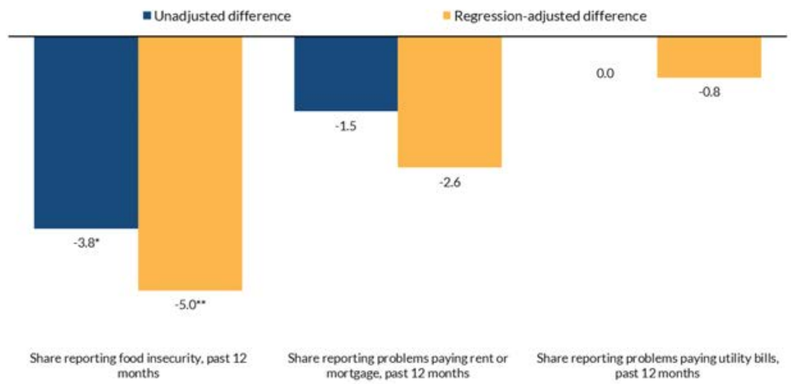


Source: Well-Being and Basic Needs Survey, December 2020 and December 2021.
Notes: FPL is federal poverty level. CTC is child tax credit. Adults who did not receive the CTC include those with and without children under 18 in the household.
*/**/*** Estimate for 2021 differs from estimate for 2020 at the 0.10/0.05/0.01 level, using two-tailed tests.

Some of the differences in changes in hardship may have been affected by differences in the composition of the recipient and nonrecipient groups. Nonrecipients were more likely than recipients to be men, to be older in age, and to have 2020 family incomes below twice the federal poverty level and were less likely to have graduated from college, to be married or living with a partner, and to own their homes (data not shown). Figure 3 compares the changes in measures of material hardship between 2020 and 2021 for CTC recipients and nonrecipients without and with controlling for the composition of these groups. Adults who received the CTC payments reported a reduction in food insecurity 3.8 percentage points larger than the reduction for nonrecipients. When we control for differences in the demographic and socioeconomic characteristics of each group in 2020, the estimated reduction in food insecurity for CTC recipients is 5.0 percentage points larger than that for nonrecipients. This estimate did not change when we also controlled for receipt of other major pandemic assistance, including stimulus checks and unemployment benefits (data not shown). Though the magnitude of the estimated decreases in housing and utility hardship was larger for recipients than for nonrecipients, we did not find statistically significant differences in changes in these measures between groups.

FIGURE 3

Percentage-Point Difference in Changes in Material Hardship for Advanced Child Tax Credit Payment Recipients versus Nonrecipients between December 2020 and December 2021



Source Well-Being and Basic Needs Survey, December 2020 and December 2021.
Notes: Estimates are shown for adults with 2020 family incomes below 600 percent of the federal poverty level. A negative difference in the percentage-point change indicates a larger decline in the outcome between 2020 and 2021 for child tax credit (CTC) payment recipients relative to nonrecipients. See the Data and Methods section for details about the regression-adjusted differences.
*/**/*** Estimated difference in the change for CTC recipients versus nonrecipients differs from zero at the 0.10/0.05/0.01 level, using two-tailed tests.

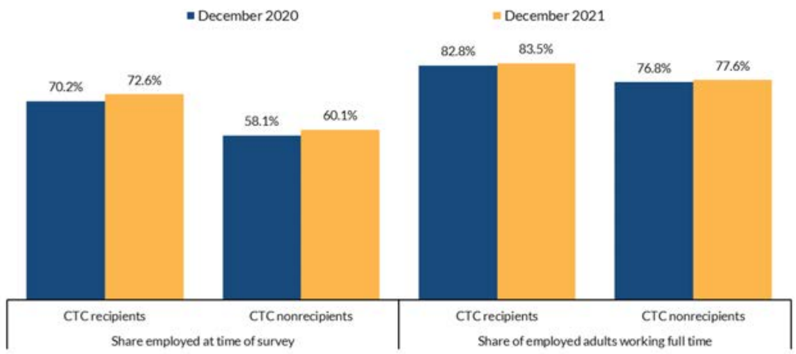
We observed no differences in the change in the employment rate for CTC recipients and nonrecipients.

Researchers and policymakers have expressed concern that removing the CTC's minimum earnings requirement for families with low and moderate incomes will discourage employment. The WBNS data suggest the share of adults employed increased modestly between 2020 and 2021 for both recipients and nonrecipients of the advanced CTC payments. Among recipients, 70.2 percent reported that they were working in December 2020 and 72.6 percent were working in December 2021 (figure 4). These were higher than the employment rates of adults who did not report receiving the advanced payments: 58.1 percent in 2020 and 60.1 percent in 2021. The changes in employment status between 2020 and 2021 for recipients and nonrecipients did not differ significantly with or without accounting for the characteristics of each group. The share of workers reporting full-time work hours also remained steady for each group: 83 to 84 percent of employed CTC recipients reported usually working 35 or more hours per week in each year, compared with 77 to 78 percent of employed nonrecipients.

FIGURE 4

Employment Status among Adults Ages 18 to 64 with Family Incomes below 600 Percent of FPL, December 2020 and December 2021

By receipt of the advanced child tax credit payments



Source: Well-Being and Basic Needs Survey, December 2020 and December 2021.
Notes: FPL is federal poverty level. CTC is child tax credit. Full time is defined as usually working 35 or more hours per week across all jobs. Adults who did not receive the CTC include those with and without children under 18 in the household.
*/**/*** Estimate for 2021 differs from estimate for 2020 at the 0.10/0.05/0.01 level, using two-tailed tests.

Transitions in employment status and usual weekly hours worked between December 2020 and December 2021 were similar for CTC recipients and nonrecipients.

Table 1 shows the share of CTC recipients and nonrecipients who changed their employment statuses between December 2020 and December 2021. About two-thirds of CTC recipients and just over half of nonrecipients were employed in both years. In addition, more than one in five recipients and one in three nonrecipients were not employed in either year. Changes in employment status were less common, but about 5 percent of adults in each group transitioned from being employed in December 2020 to not being employed in December 2021. The reverse was true for about 7 percent of adults in each group.

We also examined changes in usual hours worked per week among adults who were employed in both 2020 and 2021 and reported their usual hours in each year. Among both recipients and nonrecipients working in both years, most were working full time (87 to 89 percent in each group and each year), though about 7 percent of recipients and 11 percent of nonrecipients transitioned from full-time to part-time status or vice versa (data not shown). Given how many adults in each group were already working full time, we only observed a limited share of adults reporting changes in the number of hours worked greater than 10 hours per week. Roughly half of CTC recipients and nonrecipients reported the same number of usual hours in 2020 and 2021, and most of the remaining workers reported small changes of fewer than 10 hours per week. About 10 to 12 percent of workers in each group reported working 10 or more additional hours per week in 2021 than in 2020, and 8 to 9 percent of workers in each group reported working at least 10 fewer hours per week in 2021 than in 2020.

Table 1. Employment Transitions Between December 2020 and December 2021 Among Adults Ages 18 to 64 With Family Incomes Below 600 Percent of FPL

By receipt of advanced Child Tax Credit payments

Category	CTC recipients	CTC nonrecipients
Employment status in 2020 and 2021 (%)		
Working in both years	65.2	52.8 ***
Not working in both years	22.5	34.7 ***
Working in 2020, not working in 2021	4.9	5.2
Not working in 2020, working in 2021	7.4	7.3
Change in hours between 2020 and 2021 among those working and reporting usual hours in both years (%)		
Working 10+ hours more per week in 2021	10.1	11.6
Working 1–9 hours more per week in 2021	15.9	14.3
Working same number of hours per week in 2021	52.2	54.7
Working 1–9 hours less per week in 2021	13.5	10.7
Working 10+ hours less per week in 2021	8.4	8.7
Sample size, all adults	840	1,657
Sample size, adults working and reporting usual hours in both years	392	400

Source: Well-Being and Basic Needs Survey, December 2020 and December 2021.
Notes: FPL is federal poverty level. CTC is Child Tax Credit. Adults who did not receive the CTC include those with and without children under 18 in the household.
*/**/*** Estimate for CTC nonrecipients differs from estimate for CTC recipients at the 0.10/0.05/0.01 level, using two-tailed tests.

DISCUSSION

Consistent with other studies, our data show that the advanced CTC payments were associated with a reduction in food insecurity among adults with children who received CTC payments. The reductions were more pronounced among families with the lowest incomes and were larger than reductions in food insecurity experienced by adults who did not receive the advanced CTC payments. This is consistent with estimates based on the Census Bureau's Household Pulse Survey that showed many families used the payments to purchase food, particularly families with the lowest incomes (Karpman et al. 2021).

Not all families eligible for the advanced CTC payments received them. In particular, families with very low incomes who were not required to file tax returns and had not claimed economic impact payments were at elevated risk of not receiving the CTC payments. After controlling for differences in demographic and socioeconomic characteristics, we still found that adults who reported receiving the payments experienced larger drops in food insecurity than adults who did not report receiving them.

Providing the maximum benefit of the CTC to all families delivered additional benefits to families with the lowest incomes, even those who were not employed. Though some worried that doing so would reduce employment, the findings in this analysis do not suggest that is the case—at least in the near term. We find that employment increased between December 2020 and December 2021 among adults who received the advanced payments, and that change was similar to the change in employment among adults who did not receive the payments. The differences in December 2020 and December 2021 were modest. The temporary nature of the payments and the brief and historically unusual period of study do not necessarily imply that employment patterns for recipients and nonrecipients would remain the same over a longer or qualitatively different period or be constant across various demographic subgroups.

CONCLUSION

The expanded CTC was a key policy in the ARP that directed resources to households with children and very low incomes. The credit's maximum benefit was temporarily increased from $2,000 per child under age 17 to $3,600 per child under age 6 and $3,000 per child ages 6 to 17. The entire credit could be received as a refundable tax credit, which meant even families with very low incomes could receive the maximum benefit. Rather than waiting to deliver the credit at tax time, the IRS delivered up to half of the credit in monthly payments from July through December 2021. The payments went to most families with children. Shortly after payments began, a larger share of adults who received the payments reported declines in food insecurity than adults who did not receive the payments.

If the ARP's temporary changes to the CTC were made permanent, it is unclear whether the credit's design would discourage adults from being employed. Some studies have suggested the credits will discourage employment, and other data suggest families will use the credits to pay for child care or other work-related expenses, encouraging work. We found no significant differences in the changes in employment between December 2020 and December 2021 for adults who received the payments and adults who did not receive the payments.

The advanced credits were correlated with an immediate drop in child poverty, which persisted during the entire advanced payment period. If the enhanced CTC payments had continued or were resumed and produced sustained declines in food insecurity, the payments would likely produce long-term benefits for children's health, well-being, and educational outcomes.

APPENDIX. DATA AND METHODS

Data

This brief draws on data from the December 2020 and December 2021 rounds of the Urban Institute's Well-Being and Basic Needs Survey, a nationally representative, Internet-based survey of adults ages 18 to 64 designed to monitor changes in individual and family well-being as policymakers consider changes to federal safety net programs. For each round of the WBNS, we draw a stratified random sample (including a large oversample of adults in households with low incomes) to obtain approximately 7,500 completed interviews with adults from the KnowledgePanel, a probability-based Internet panel maintained by Ipsos that includes households with and without Internet access. The survey completion rates among panel members sampled for the WBNS were 52 percent in 2020 and 54 percent in 2021. Survey weights adjust for unequal selection probabilities and are poststratified to the characteristics of nonelderly adults based on benchmarks from the Current Population Survey Annual Social and Economic Supplement and the American Community Survey. Participants can complete the survey in English or Spanish. For further information about the survey design and content, see Karpman, Zuckerman, and Gonzalez (2018).[5]

Because samples for each round of the WBNS are drawn from the same online research panel, members of the panel may participate in multiple rounds of the survey; the typical rate of overlap across 2 consecutive years of data collection is about 30 percent in each core survey sample. In the 2021 round of the survey, we augmented the overlap between the 2020 and 2021 samples by conducting an additional oversample of adults with children who participated in 2020, increasing the rate of overlap to about 40 percent in each year.

Overall, we interviewed 3,277 respondents who participated in both the 2020 and 2021 rounds of the survey, including 1,531 adults who reported living with children under 18 in 2020 and 1,746 who did not report living with children under 18. Participants in this two-period longitudinal sample answered the same questions on material hardship and employment in both December 2020 and December 2021. The 2021 survey also asked adults living with children whether they received the advanced CTC payments, allowing us to examine outcomes for recipients and nonrecipients before and after the IRS issued advanced monthly payments.

Sample Weights

To reduce the effects of differential attrition and nonresponse, we reweighted the longitudinal sample to reflect the baseline characteristics of adults who participated in the full 2020 core sample. We implemented this reweighting approach within four groups on the basis of whether adults lived with children in the household and reported an annual family income above or below 150 percent of FPL in 2020. We used the same measures we use in the poststratification weighting of the full WBNS: age, gender, race and ethnicity, educational attainment, census region, residence in an urban or rural area, homeownership status, family income as a percentage of FPL, primary language, household Internet access, and family composition.

[5] The 2020 and 2021 WBNS instruments are available at *https://www.urban.org/policy-centers/health-policy-center/projects/well-being-and-basic-needs-survey.*

The weights also account for differential nonresponse to the 2021 survey associated with the adults' 2020 material hardship and employment outcomes. Research conducted in 2020 using the Urban Institute's Coronavirus Tracking Survey found that people experiencing economic hardship in the early months of the pandemic were less likely to respond to future waves of the survey (Karpman, Zuckerman, and Kenney 2020). To mitigate nonresponse bias in estimated changes between 2020 and 2021, we adjusted the weights so that the distribution of 2020 hardship and employment outcomes in the longitudinal sample are more aligned with those reported for the full 2020 sample.

Analytic Sample

We focus on three groups: (1) adults living with children under 18 in 2020 who reported receiving the advanced CTC payments in 2021, (2) adults living with children under 18 in 2020 who did not report receiving the payments in 2021, and (3) adults who did not live with children in 2020 or 2021 and were ineligible to receive the CTC payments.[6] This brief refers to the first group as CTC recipients and the second and third groups as CTC nonrecipients.

We excluded from our analysis respondents with missing data on the number or age of children in their households in 2020 or 2021. We also excluded respondents living with children under 18 in 2020 but not 2021 and respondents not living with children in 2020 but living with children in 2021. Sensitivity analyses indicated these exclusions had little effect on the results (see below).

Our analysis focuses on adults with annual family incomes below 600 percent of FPL in 2020, which was about $103,500 for a single person with one child and $157,200 for a family of four. The expanded CTC amount began phasing out at $112,500 for single parents filing taxes as heads of household and $150,000 for married couples filing taxes jointly. Our final analytic sample includes 840 adults with children who reported receiving the CTC, 394 adults with children who did not report receiving the CTC, and 1,263 adults without children who did not receive the CTC.

Key Measures

We focus on three measures of material hardship that reflect difficulty meeting regular expenses for housing, utilities, and food in the past 12 months: household food insecurity, problems paying the rent or mortgage, and problems paying utility bills. Household food insecurity estimates are based on responses to the six-item short form of the US Department of Agriculture's Household Food Security Survey Module (USDA 2012).[7] Food insecurity is a broad measure of households' inabilities to acquire adequate food for one or more members at times in the past year because of a lack of resources. It differs from the measure of food insufficiency used in the Census Bureau's Household Pulse Survey, which measures whether households sometimes or often did not have enough to eat in the past seven days.[8] Estimates of problems paying the rent or mortgage are based on respondents reporting their households did not pay the full amount of the rent or mortgage or were late with a payment because their households could not afford to pay. Problems paying utility bills are defined on the basis of whether the respondent's household was unable to pay the full amount of the gas, oil, or electricity bills.

We also examine changes in work status at the time of the survey and usual weekly hours worked among respondents who were employed in each survey round. Work

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[6] The 2021 WBNS asked some adults without children whether they received the advanced CTC payments because they reported having children under 18 who live outside their households. Our analysis only included adults without children who did not receive the CTC, and we excluded one respondent living without children in their household in 2020 and 2021 who reported receiving the CTC for children outside their household.

[7] Affirmative responses to the six-item short form of the US Department of Agriculture's Household Food Security Survey Module include reporting that it was often or sometimes true that the food the household bought just didn't last, and the household didn't have money to get more; it was often or sometimes true that the household could not afford to eat balanced meals; adults in the household ever cut the size of meals or skipped meals because there was not enough money for food; meals were cut or skipped almost every month or some months but not every month; the respondent ate less than they felt they should because there wasn't enough money for food; and the respondent was ever hungry but didn't eat because there wasn't enough money for food. Respondents with two to four affirmative responses are defined as having low household food security, and respondents with five to six affirmative responses are defined as having very low household food security. These groups are jointly defined as being food insecure.

[8] "Food Security in the U.S.: Measurement," U.S. Department of Agriculture, accessed April 7, 2022, *https://www.ers.usda.gov/topics/food-nutrition-assistance/food-security-in-the-u-s/measurement/*.

status estimates are based on a question asking respondents if they are currently working for pay or self-employed. Employed respondents are asked how many hours per week they usually work at their main job and any other jobs. Respondents who report their hours vary are asked if they usually work 35 hours or more per week across all of their jobs. Our analysis focuses on the overall change in employment rates, transitions in employment status (*e.g.,* the share moving from employed to not employed and vice versa), and usual weekly work hours (*e.g.,* the share of respondents working in both years experiencing increases, decreases, or no change in hours worked) between December 2020 and December 2021. Our analysis of transitions in the number of hours worked per week only focuses on employed adults who did not report their usual weekly work hours varied in one or both years.

We assess CTC receipt on the basis of responses to the following question, which we adapted from the Census Bureau's Household Pulse Survey: "In the last 6 months, that is, since July 2021, did you or someone in your household receive one or more monthly Child Tax Credit payments? You may have received the payments as a paper check or as a direct deposit to your bank account."

Analysis

We compare changes in material hardship and employment among adults living with children who received the CTC payments with changes for the full group of CTC nonrecipients (*i.e.,* with and without children). Appendix table 1 also shows the results for nonrecipients by the presence of children in the household.

We estimate both unadjusted and regression-adjusted differences in the changes in hardship and employment outcomes between the two groups. The regression adjustment accounts for differences in the 2020 characteristics of CTC recipients and nonrecipients. We control for the measures used to reweight the sample described above. This adjustment ensures estimated differences in the changes in well-being and work between 2020 and 2021 do not reflect differences in observed baseline characteristics that may be correlated with those outcomes (*e.g.,* a stronger labor market recovery for certain educational attainment groups). We also estimated differences controlling for the receipt of pandemic stimulus checks and unemployment insurance benefits, but this had little effect on the results.

We assessed the results' sensitivity to the exclusion or inclusion of certain groups, such as imputing receipt and nonreceipt of the advanced payments to all excluded adults living with children in 2020 but not 2021; including responses to the CTC questions of excluded adults living with children in 2021 but not 2020; excluding adults living with children in both years who did not know or did not answer whether they received the advanced payments, or imputing receipt on the basis of having filed a tax return or received a stimulus check; and excluding nonparents from the groups of recipients and nonrecipients with children. Though the estimated changes in material hardship and employment varied slightly across these sensitivity tests, the basic patterns remained the same.

Table 1. Material Hardship and Employment Status Among Adults Ages 18 to 64 With Family Incomes Below 600 Percent of FPL, December 2020 and December 2021

By receipt of the advanced Child Tax Credit payments

Category	2020 (%)	2021 (%)	Percentage-point change, 2020–2021
CTC recipients			
Food insecurity, past 12 months	26.1	20.0	−6.1
Problems paying rent or mortgage, past 12 months	12.9	9.7	−3.1
Problems paying utility bills, past 12 months	13.9	11.1	−2.8
Employed at time of survey	70.2	72.6	2.4
Full-time hours, if employed	82.8	83.5	0.8
CTC nonrecipients with children			
Food insecurity, past 12 months	29.2	26.5	−2.7
Problems paying rent or mortgage, past 12 months	14.6	12.9	−1.7
Problems paying utility bills, past 12 months	20.1	16.2	−3.9

Table 1. Material Hardship and Employment Status Among Adults Ages 18 to 64 With Family Incomes Below 600 Percent of FPL, December 2020 and December 2021—Continued

By receipt of the advanced Child Tax Credit payments

Category	2020 (%)	2021 (%)	Percentage-point change, 2020–2021
Employed at time of survey	57.0	59.3	2.3
Full-time hours, if employed	78.7	76.7	−2.0
CTC nonrecipients without children			
Food insecurity, past 12 months	23.3	21.2	−2.1
Problems paying rent or mortgage, past 12 months	8.2	6.6	−1.6
Problems paying utility bills, past 12 months	10.6	8.2	−2.4
Employed at time of survey	58.4	60.3	2.0
Full-time hours, if employed	76.3	77.9	1.7

Source: Well-Being and Basic Needs Survey, December 2020 and December 2021.
Notes: FPL is federal poverty level. CTC is Child Tax Credit. Full time is defined as usually working 35 or more hours per week across all jobs.

Limitations

This analysis has several limitations. First, estimated differences in the changes in well-being and work outcomes between CTC payment recipients and nonrecipients do not represent causal effects of the CTC on material hardship or employment. Though the ARP established near-universal eligibility for the expanded CTC up to the income threshold at which the increased benefit amount phased out, not all eligible families with children received payments. In particular, receipt was lowest among families with low incomes who were not required to file tax returns in previous years, and we do not control for unobserved differences between nonfilers who claimed the credit through the IRS portal and those who did not. We also do not observe prepandemic differences in well-being and employment for recipients and nonrecipients before 2020.

The sample weights likely mitigate but do not eliminate panel attrition and nonresponse error. Approximately 19 percent of participants in the December 2020 WBNS were no longer members of the panel in December 2021. The survey completion rate among the remaining 2020 participants sampled in 2021 was 72 percent. The 2020 participants who left the panel or did not respond in 2021 had higher rates of material hardship in 2020 than those who completed the 2021 survey. The weights adjust for differential nonresponse based on 2020 outcomes; however, lower response rates among people whose economic situations worsened between 2020 and 2021 could still lead to overestimates of the improvement in material hardship.

Our analysis did not show evidence of nonresponse bias among 2020 participants who remained on the panel: no correlation exists between household income in 2021 and nonresponse after controlling for the measures used in weighting. In addition, the remaining nonresponse error after reweighting would not necessarily affect the estimated difference in changes in outcomes between CTC recipients and nonrecipients if the error is not correlated with both CTC receipt and the outcomes of interest.

Survey respondents also report CTC receipt with measurement error. Studies have found that people tend to underreport public benefits in surveys (Meyer, Mok, and Sullivan 2009; Wheaton 2008). IRS data on the number of children who received the advanced CTC payments suggest participants in the WBNS and the Census Bureau's Household Pulse Survey underreported receipt of the advanced CTC payments (Karpman et al. 2021; Parolin et al. 2021). However, mistakenly categorizing CTC recipients as nonrecipients would likely cause us to underestimate the change in material hardship for recipients. In addition, some WBNS participants may have reported material hardship in 2021 on the basis of experiences that occurred before the advanced CTC payments became available in July, since they were asked to report hardship for the past 12 months.

Finally, sample size limitations prevent us from detecting small differences in the changes in material hardship and employment for subgroups of CTC recipients and nonrecipients. Estimated differences in the change in food insecurity by CTC receipt appeared to be larger among women, adults who had not attended college, and adults with low incomes, and estimated differences in the change in employment by CTC receipt were generally smaller among these groups. Data sources with larger sample sizes could provide greater insight into how well-being and employment change for different groups of people following the implementation of new child benefits such as the expanded CTC.

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Effects of the 2021 Expanded Child Tax Credit *

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April 4, 2022

Abstract

We examine the effects of the July 2021 expansion of the Child Tax Credit (CTC). We analyze detailed transactions data for 2019 through September 2021, utilizing a difference-in-difference design, and controlling for state-time specific conditions. We find that recipients of expanded CTC monthly payments do not significantly leave the workforce. They increase their total consumption, including increasing spending on groceries, education, and healthcare. Families put more money towards reducing debt, and incur fewer overdraft fees. We find weaker results regarding savings and payments towards debt collection agencies. The consumption effects of the expanded CTC are strongest for families with more children, and for the lowest-income families. Our results provide large-scale empirical evidence on the realized effects of the 2021 changes to the CTC, and suggest that families significantly benefited from the expanded CTC payments, without significant costs to employment.

Keywords: Child Tax Credit, individual taxpayers, tax policy, household finance, employment, consumption, debt, savings, financial distress
JEL Codes: D12, D14, G5, H24, M48

I. Introduction

The Child Tax Credit (CTC) in the United States is a key tax policy lever used to support families with children. The American Rescue Plan Act of 2021, passed in March 2021, made several modifications to the CTC, to expand this support (see *https://www.whitehouse.gov/child-tax-credit/* for the administration's explanation of the expansion). Despite general support for the CTC,[1] the 2021 expanded CTC

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[1] Individuals from both major parties have proposed Child Tax Credit expansions. For example, Senator Mitt Romney proposed The Family Security Act in February of 2021 (*see https://www.romney.senate.gov/sites/default/files/2021-02/family%20security%20act_one%20pager.pdf* for a summary). The American Rescue Plan Act of 2021, primarily supported by Democrats, made several changes and expansions to the Child Tax Credit, including expanding payments

remains controversial, mainly due to potential disincentives to work (see, *e.g.,* Dante and Sheffield, 2021). Congress continues to debate whether to make some of the 2021 changes permanent (see, *e.g.,* Duehren, January 31, 2022).[2] In this study, we examine the realized effects of the 2021 expanded CTC on individual taxpayers' employment, consumption, financial position, and financial distress.

As stated in Yetman and Yetman (2013), "a central issue in tax accounting research is how taxation affects the decisions of businesses and individuals" (p. 1069). Most accounting tax-related research examining individual tax payers is conducted using laboratory experiments, testing the relationship between general features of the tax system (level or change in tax rate, timing, year-end tax position) and tax compliance and household financial decisions such as allocation of retirement account assets (*e.g.,* Falsetta, Rupert, and Wright 2013; Austin, Bobek, and LaMothe 2020; Stinson, Doxey, and Rupert 2021). In contrast, we employ detailed transaction data to examine how individuals respond to a significant change in a specific tax policy.

The American Rescue Plan Act made several changes to the CTC for the second half of 2021. Three of the most notable changes are as follows.[3] First, the legislation increased the amount of the credit from $2,000 per child per year to $3,600 per year for children under age 6 and $3,000 per year for children 6 and over, for families with sufficiently low income (*e.g.,* households making less than $150,000 per year if married filing jointly). Second, the legislation changed the payment schedule such that the credit was paid out through monthly advance payments from July through December of 2021, rather than after the family filed their taxes the following year. Third, the legislation made the tax credit fully refundable, so that even low- or no-income families would receive the full benefit. Previously, the credit could only be used to reduce taxes owed. Thus, families with low or no income did not receive the full benefit.

We provide the first empirical evidence of the realized impacts of the CTC using 1.17 billion transactions from bank and credit card accounts for one million Americans.[4] Our data allow us to examine multiple spending categories (groceries spending for example), as well as details like payments made towards debt, savings, overdraft fees, and payments made to debt collection agencies, indicators for financial distress. In doing so, our study provides evidence on a large set of responses to this important change in tax policy, using newly-available big data to shed light on the impacts of the 2021 CTC expansion.

We utilize a difference-in-differences approach, comparing families who receive monthly CTC payments, identified using transactions with the IRS, with those who do not receive such payments. We examine changes in behavior from April through June 2021, the three months prior to the start of monthly payments, to July through September 2021, the first three months of monthly CTC payments. Focusing on immediate changes in behavior allows us to sharpen the identification of the impact of CTC payments. Moreover, the difference-in-differences design addresses confounding macroeconomic events which affect both CTC recipients and non-recipients.

We take two additional steps to control for factors which might drive differences between recipients and non-recipients. First, we benchmark the same individuals' employment or spending behavior against the same month in 2019 or 2020. This helps to adjust for seasonality in employment and spending which might differ between families with children and individuals or families without children. Second,

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and eligibility. Non-partisan groups have also supported expanding the Child Tax Credit from pre-2021 levels. A report by the National Academies of Sciences, Engineering, and Medicine estimated that monthly payments, similar to the CTC expansion introduced by the American Rescue Plan Act of 2021, would have the largest impact on reducing child poverty in the United States of any of the major proposals examined (National Academies of Sciences, Engineering, and Medicine 2019).

[2] In addition, the Biden administration continues to support making the changes permanent. For example, in a February 2022 speech, Vice President Harris, after describing how the Child Tax Credit could help families, concluded "and that's why the President and I will keep fighting to extend these measures for years to come." The full speech, made at the Child Tax Credit and Earned Income Tax Credit Day of Action, February 8, 2022, can be viewed at *https://youtu.be/pOF7-MB5bLU.*

[3] For a "fact sheet" summarizing the law, *see https://home.treasury.gov/news/featured-stories/fact-sheet-the-american-rescue-plan-will-deliver-immediate-economic-relief-to-families.* For the full text of the law, *see https://www.congress.gov/bill/117th-congress/house-bill/1319?q=%7B%22search%22%3A%22america+rescue+plan%22%7D&r=1.*

[4] Data is described in more detail in Section 2.

we include state-month fixed effects to control for differing economic recoveries and COVID–19 effects across states during 2021.

We separately examine the lower-income recipients of enhanced monthly CTC payments (enhanced recipients) and those higher-income recipients of advance monthly payments who do not receive any increase in the total amount (advance-only recipients). Enhanced recipients receive an increase in total payments ($2,000 to $3,000 or $3,600 per year), while advance-only recipients receive the same level of total Child Tax Credit payments as prior to the changes, with only the timing of those payments being changed.

Our first set of empirical evidence fails to find significant reductions in employment or wages among enhanced recipients of monthly CTC payments. We find a slight increase in employment and wages among advance-only recipients, although the economic magnitude is small, amounting to a 0.5 to 0.6 percentage point rise in employment rate and a 3.5 to 4.5 percentage point rise in wages. This result may be related to CTC payments facilitating the payment of expenses that support work, such as payment of childcare expenses (*e.g.,* Roll, Hamilton, and Chun 2021). In additional analyses, we further subdivide enhanced recipients by income, and find no change in employment among the lowest-income recipients. This evidence speaks to the question of the impact of full refundability on work incentives. We find no measurable reduction in employment or wages among recipients.

In terms of consumption, we find that both groups of CTC recipients significantly increase total consumption. Recipients of enhanced payments spend more in each of the three categories of Groceries, Education, and Healthcare, with increases ranging from 2.6 to 10.2 percentage points. These observed effects are consistent with CTC increasing spending on basic needs which are likely to improve child welfare. Furthermore, we find the increase in total consumption is highest for the lowest-income recipients and those with more children, consistent with CTC expansion having the highest impact on the lowest-income families.

Finally, we find that CTC payments are used to improve families' financial positions. Both groups of CTC recipients increase payments towards debt (loans or mortgages). Enhanced recipients increase their contribution to savings accounts, which is important given that more than half of Americans can't cover emergency expenses with savings (Reinicke 2022). Both groups experience a reduction in financial distress, as measured by overdraft fees. Results are weaker for those in the most extreme financial distress, as proxied by payments to debt collection agencies, with significant reductions relative to 2019 but not relative to 2020.

Our paper presents the first analysis of the *realized* effects of the 2021 modifications to the CTC using transaction data. This allows us to examine outcomes which prior studies have not examined, such as detailed spending categories, savings, debt payments, and overdraft fees. It also potentially provides higher power, as we detect an increase in employment for advance recipients, in contrast to no effects found using survey data (Ananat, Glasner, Hamilton and Parolin 2022). Our evidence complements survey-based evidence in concurrent working papers (*e.g.,* Ananat, Glasner, Hamilton and Parolin 2022; Parolin, Ananat, Collyer, Curran, and Wimer 2021; and Parolin, Collyer, Curran and Wimer 2021). These studies utilize Census data, and find that survey respondents receiving the CTC report decreased perceptions of hardship, relative to non-recipients.[5] However, these studies are constrained by survey data—evidence is based on self-reported recollections, data does not allow for benchmarking the same individual against prior years, and the data contains less detail about spending behavior and financial positions. Census survey data quality also suffered during the pandemic.[6] Our big-data approach thus provides greater detail and new insights relative to the survey evidence, which contributes to the debate about whether to make the CTC expansion permanent.

Our study more broadly contributes to the literature examining individual taxpayers. Prior research in this area has studied how individual tax compliance is af-

[5] Baker, Messacar, and Stabile (2021) use a similar survey-based approach to examine the poverty-reduction and labor-supply effects of a change in Canada's Child Tax Credit policies.

[6] *See https://www.census.gov/data/experimental-data-products/household-pulse-survey.html* for a description of the Census Household Pulse Survey. Because the survey is part of the Census Bureau's Experimental Data Series, one caveat is that it may not meet the normal statistical quality standards of Census Bureau data. Evidence also indicates that ongoing surveys were less accurate during the pandemic, suggesting lower data quality during this time (*see, e.g.,* Schneider, 2022, regarding the Census Bureau's American Community Survey, and Smith and Zhang, 2021, regarding Bureau of Labor Statistics data).

fected by institutional factors such as social norms, enforcement, and tax structure components such as rate and timing (*e.g.,* Davis, Hecht, and Perkins 2003; Austin et al. 2020; De Simone, Lester and Markle 2020). Another theme in this area is to study the influence of individual taxation on individual investments, *e.g.,* contributions to, and asset allocation of, retirement accounts (Falsetta and Tuttle 2003; Falsteta et al. 2013; Stinson et al. 2021). Others have linked personal taxes to corporate policies and financing showing that they are affected by executives' or shareholders' personal tax considerations (Ayers, Lefanowicz, and Robinson 2003, 2004, 2007; Li, Lin, and Robinson 2016; Yost 2018; Armstrong et al. 2019; Hanlon, Verdi, and Yost 2021). By exploiting the change in the CTC, our study examines the effect of the timing and amount of tax credits on taxpayers' financial behaviors and investigates the differential impact on families with different incomes and different numbers of children.

Finally, our study contributes to recent literature that examines the usefulness of alternative big data sources to decision-makers. For example, Zhu (2019) shows that the sale of consumer transactions and satellite images data to investment professionals increases price informativeness. Gutiérrez et al. (2020) show that investors react positively to the firm investment in human capital measured by the changes in the daily number of job postings made by a firm. These studies show how the proliferation of alternative big data sources can inform investors' decision-making. Our study shows that the use of consumer transaction data can inform policymakers and regulators. The use of this alternative big data allows for analysis of policy effects in real time on a large sample of individuals, without the potential biases and costs that exist with survey evidence.

Our study faces several limitations. First, we require users to have an active bank account from April 2019 through September 2021. This ensures high-quality data, and allows us to benchmark 2021 spending against 2020 and 2019. However, this means that we do not include unbanked individuals and families in our analyses. According to estimates from the FDIC, 5.4% of Americans were unbanked in 2019.[7] Thus, future work that focuses on the unbanked will be important to complement the results of our study. Second, we only study short-term effects to the CTC changes in this paper.

Section 2 describes the data. Section 3 explains the methodology used in this study. Section 4 presents the empirical findings. Finally, Section 5 concludes.

II. Data and Summary Statistics

Our data is obtained from a proprietary data vendor which collects all transactions from bank accounts and credit cards from several partner financial institutions. The data is de-identified to protect the privacy of individual users, but bank accounts and credit cards belonging to the same user are linked by a unique user ID.[8] This allows us to track the transactions by one user across multiple financial institutions and accounts.[9]

For each transaction, either in bank accounts or credit card accounts, we observe the time, amount, direction (*i.e.,* debit transactions, meaning money flowing out of the account, or credit transitions, meaning money flowing into the account), the transaction counterparty, as well as a description of the transaction, after masking sensitive/personal information. We observe descriptions for the receipt of CTC payments from the IRS, allowing us to clearly identify CTC recipients.

Table 1 describes the sample selection process. We start with users with sufficient consistency of spending data. This restriction ensures that our sample includes individuals for which we capture a large portion of their overall income and spending, as estimated using the data. The database contains 13,409,164 unique users that meet this requirement. We restrict to a random 1 million users given the large num-

[7] *See https://www.fdic.gov/analysis/household-survey/index.html,* updated December 17, 2021.

[8] The data vendor, Envestnet | Yodlee, provides the following disclosure regarding their data security and privacy practices. "Envestnet® | Yodlee® follows leading industry practices for data security and privacy. Our data contains no personal identifiers including but not limited to age, gender, ethnicity, address, and healthcare records. For our data analytics offerings, Envestnet | Yodlee imposes measures to protect consumers' identities, such as prohibiting users from attempting to re-identify any consumer from the data. Importantly, Envestnet | Yodlee does not sell data that identifies consumers."

[9] One limitation is that we cannot link users in the same family (*i.e.,* bank and credit accounts under the name of different family members are treated as independent observations). We identify the tax payer/recipient as the CTC recipient from within each family, and focus on changes in their behavior.

ber of transactions per user, to reduce the computational burden. We exclude a small number of users who receive CTC payments that are not multiples of the typical per-child amounts (*e.g.,* not multiples of $166, $167, $250 or $300).[10] Our primary data restriction, to allow us to benchmark spending to prior year spending, is that we require the user to have an active bank account from April 2019 through September 2021. Finally, we require non-missing state location and income class information. This results in a sample of 365,363 individuals. Of these, 59,214, 16.2% of the sample, receive enhanced CTC payments (enhanced recipients), and 24,310, 6.7% of the sample, receive advance, but not increased, CTC payments (advance-only recipients). The remaining 281,839, 77.1% of the sample, do not receive payments. We use this last group as a control group with which to compare CTC recipients.

Our final sample captures a wide distribution of individuals around the country. Figure 1 displays the geographic distribution of recipients. By number of observations, our sample is more heavily concentrated in high-population states.[11] The percentage of observations in each state which receive CTC payments shows a slightly different distribution, roughly consistent with fertility rates by state.[12] Thus, the geographic distribution of our sample is representative of the US population and the distribution of households with children.

To address our research questions of the impact of the CTC expansion on individuals, we examine several variables that proxy for employment, consumption, financial position, and financial distress. Summary statistics are provided in Table 2. First, for employment, we examine an indicator for whether the individual is employed, *Employed.* The average values of this indicator show that 43.5%, 50.6%, and 39.2% of enhanced recipients, advance-only recipients, and non-recipients, respectively, are employed in any given month on average. These numbers are lower than Bureau of Labor Statistics employment numbers as we measure employment and wages based upon bank and credit account information. Thus, we miss employees who are paid using checks, cash, and people who are self-employed. In part for this reason, we benchmark each individual's employment, *e.g.,* whether they earned income or wages via bank deposit, against whether the same individual was employed in a similar way in the same month in 2019 or 2020. *Employed_Adj19 (Employed_Adj20)* is defined as *Employed* for the given month, minus the value of *Employed* for the same month in 2019 (2020). These values are more similar across the three groups, ranging from 1.1% to 1.6%. We also examine the natural log of monthly wages (salary payments), benchmarked against 2019 and 2020, *Lnwage_Adj19* and *Lnwage_Adj20.* Wages show an average increase, with positive means for all three groups, consistent with inflation and increases in average wages over this period *(https://www.bls.gov/news.release/empsit.t19.htm).* For all other variables, we similarly examine both the value benchmarked against 2019 and the value benchmarked against 2020.

Second, to understand how families use CTC payments, we quantify and compare individuals' consumption. We first examine total consumption, which we define as total monthly spending, excluding transactions that are made in the following categories: Loans, Mortgages, Credit Card Payments, Savings, Retirement Contributions, Securities Trades, and Transfers. In light of the primary purpose of CTC reform, we also examine spending in each of the three categories of Groceries, Education, and Healthcare. These are presumably less discretionary and more likely to related to childcare. After benchmarking consumption against 2019 and 2020, we find that all users generally increase their consumption in 2021. The average values of all six adjusted variables are positive. Enhanced recipients seem to enjoy more growth in consumption than the other two groups, especially when benchmarked against 2019.

Third, we examine if families use CTC payments to adjust their financial positions. In particular, we focus on two aspects: paying down debt and increasing

[10] By restricting to multiples of $166, $167, $250 and $300, we exclude families with income which falls into the two phase-out ranges—the phase-down between $250/$300 to $166/$167, and the phase-out from $166/$167 to $0. However, this provides three clean subsamples to examine—lower-income recipients of expanded $250/$300 payments, higher-income recipients of $166/$167 payments, and non-recipients who do not have children. Our data includes very few individuals with incomes above $400,000, which are included in our non-recipient sample.

[11] *See https://www.census.gov/library/visualizations/interactive/2020-population-and-housing-state-data.html* for Census data on the population by state, as of the 2020 Census, for comparison.

[12] *See, e.g., https://www.cnn.com/2019/01/10/health/us-fertility-rate-replacement-cdc-study/index.html,* accessed 12/9/2021.

amounts put into savings accounts. For the former, we aggregate individuals' payments towards Loans and Mortgage.[13] For the latter, we identify money transferred from the current bank account to savings accounts (categorized as "Savings" in the database) and aggregate it by month.[14] The summary statistics show that both enhanced and advance-only CTC recipients pay down more debt and deposit more money into savings accounts than in prior years, more so than non-recipients.

Lastly, to understand the overall impact of the CTC reform on families' (by extension, children's) financial condition, we examine two proxies for financial distress. One is overdraft or non-sufficient fee charges on bank accounts.[15] Roughly speaking, when one initiates a transaction that costs more money than what is available in the bank account, it will result in an overdraft fee charge if the transaction goes through or a non-sufficient fee charge if the transaction is denied. The presence of these charges is an indicator that the individual is having difficulty managing their finances, as they do not have sufficient funds to cover the transaction. For our purpose, we do not differentiate these two charges and use overdraft hereafter for brevity. During our sample period, 8.5% of users have at least one overdraft charge and the average number of overdraft charges is 0.06 per month. Benchmarking against 2019 and 2020, overdraft frequencies decrease. The second proxy is payments to debt collection agencies. Creditors often hire debt collection agencies to collect money from delinquent borrowers. In other words, when we observe that a user makes a payment to a debt collection agency, we can infer that they have recently defaulted on a loan, which suggests a financial hardship.[16] We identify the top 20 consumer debt collection agencies and aggregate the monthly payments to these agencies as our second proxy.[17] Such transactions are relatively rare. Only 0.8% of users make a payment to a debt collection agency during our sample period.[18] Benchmarked against 2020 or 2019, we observe a slight decrease in debt collection payments, especially among enhanced recipients.

III. Empirical Methodology

For all variables of interest, we first present plots for their average over the three months before and after the start of monthly CTC payments. These plots convey descriptively how employment, spending, and financial situations have changed relative to 2019 and 2020 for the groups in question. We then conduct regression analyses to estimate whether enhanced/advance CTC payments have a significant impact on the variables in question. To do so, we utilize a difference in differences specification with fixed effects. We estimate two difference-in-difference models,

$$Outcome_{i,s,t} = Post_t * CTC_i + User\_FE_i + State\_Month_{s,t} + \epsilon_{i,s,t} \qquad (1)$$

$$Outcome_{i,s,t} = Post_t * Advance\_Only\_CTC_i + Post_t * Enhanced\_CTC_i + User\_FE_i + State\_Month_{s,t} + \epsilon_{i,s,t} \qquad (2)$$

where CTC_i is an indicator which takes the value of one if the individual receives a monthly CTC payment in 2021, and $Post_t$ is an indicator which takes the value of one for the months after the start of monthly CTC payments. Model (1) is the

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[13] In untabulated robustness checks, we also include debit transactions under the category of "Credit card payments" into the computation of total debt payments and find similar results. We do not include credit card payments in the main measure for payments towards reducing debt as credit card payments are highly related to the spending on credit cards (*i.e.,* consumption) in the previous month.

[14] In untabulated robustness checks, we also include debit transactions under the category of "Retirement contributions" as part of savings and find similar results.

[15] We identify these two charges based on transaction description using regular expression matching with key words such as "insufficient funds," "overdraft," "OD CHG," and "OD FEE."

[16] We acknowledge that this measure has several limitations. First of all, we do not observe people in extreme hardship such that they cannot afford to make any payments to debt collection agencies after defaulting on a loan. Second, as there is not a specific category for debt collection agencies, we focus on the 20 largest agencies and likely miss some people who are dealt with by smaller agencies.

[17] We include debt collection agencies listed at *https://nexacollect.com/research/large-collection-agency/.*

[18] Due to its infrequency, we do not winsorize debt collection payments while all other continuous variables are winsorized at 1% and 99%.

baseline model which examines the outcomes of interest for CTC recipients before and after the receipt of monthly payments, relative to non-recipients during the same period. In Model (2), we differentiate lower-income families which receive enhanced CTC payments of $250 or $300 per child *(Enhanced_CTC)*, from higher-income families which receive advance, but not expanded, payments of $166 or $167 per child *(Advance_Only_CTC)*. The variables of interest are the interaction terms *Post*CTC* in Model (1) and *Post*Enhanced_CTC* and *Post*Advance_Only_CTC* in Model (2). This coefficient is the difference-in-differences estimate of the CTC reform impact. In both models, we include state-month fixed effects to control for state-specific economic conditions. We include user fixed effects to control for user-specific changes in behavior in 2021 which do not vary with respect to enhanced/advance CTC payments. State-month fixed effects absorb the standalone term of *Post* and user fixed effects absorb the standalone terms of CTC indicators.

IV. Results

In this section, we present results for employment, consumption, financial position, and financial distress. Finally, we present cross-sectional analyses partitioned on the number of children and prior income level.

4.1. Employment

Figure 2 displays plots for *Employed_Adj19, Employed_Adj20, Lnwage_Adj19,* and *Lnwage_Adj20.* While there is some decrease in employment and wages in the second half of the sample period, the patterns appear similar for all three groups. Advance-only recipients have the highest rates of employment and wages of the three groups. Overall, there is no clear indication of an employment effect from the descriptive plots.

Table 3 presents the results of the difference-in-differences regressions. We find significantly higher rates of employment for advance-only CTC recipients after the July payments begin, both relative to 2019 and 2020, but find no significant differences for enhanced CTC recipients. Similarly, advance recipients experience a statistically significant increase in wages relative to non-recipients, while enhanced recipients experience no significant change. The increase in employment and wages for advance payment recipients is also economically significant. Wages increase by an incremental 4.5% (3.5%) relative to 2019 (2020) compared to non-recipients.

This evidence speaks to an existing disagreement on the potential employment impacts of CTC expansion, based on simulation forecasting approaches. National Academy of Sciences (2019) forecast a minimal employment effect for a similar policy, with only 150,000 individuals leaving the workforce. In contrast, Corinth, Meyer, Stadnicki, and Wu (2021) forecast over 1.5 million parents leaving the workforce. We find that the realized impact of the 2021 expansion is an insignificant change, or even increase, in employment.

4.2. Consumption

Figure 3 presents the average monthly total consumption for each of the three groups over the 6 months surrounding the start of monthly CTC payments, adjusted for the same individuals' consumption in 2020 and 2019. There is a high level of adjusted consumption in April and May 2021, likely related to American Rescue Plan Act "Economic Impact Payments," direct payments to all individuals, which were sent out starting March 2021.[19] The gaps between the groups appear to shift after monthly CTC payments begin. Prior to the start of monthly CTC payments, non-recipients consume as much or more than recipients. In contrast, after payments begin, enhanced recipients consume more.

Table 4 presents results for the difference-in-difference analyses. Columns 1 and 2 present results for total consumption and show that total consumption increases significantly for both advance-only and enhanced CTC recipients, relative to both 2019 and 2020. For example, families receiving enhanced CTC payments increase their total consumption by 5.6% more relative to 2019 than non-recipients do, and 9.3% more relative to 2020, controlling for overall state-time specific patterns in spending. Columns 3 through 8 present results for three categories of consumption that are particularly relevant to child welfare—groceries, education, and healthcare. In all cases, enhanced recipients significantly increase their consumption relative to both 2019 and 2020. Enhanced recipients increase Grocery, Education, and Health-

[19] *See,* for example, Baker et al. 2020 and Li et al. 2021, for examinations of the impacts of earlier COVID relief payments, and *https://www.irs.gov/coronavirus/economic-impact-payments* for payment details.

care spending by 4.9%, 7.7%, and 3.3% (10.2%, 2.6%, and 3.1%) more than non-recipients, relative to 2019 (2020). Advance-only recipients also spend more on groceries relative to both 2019 and 2020. Spending on education and healthcare is higher relative to 2019 but not relative to 2020 for this group of higher-income families, however.

4.3. Financial Position

Raising families out of debt is a potentially important component of raising children out of poverty. We examine whether enhanced or advance-only recipients increase their payments towards reducing debt, and/or increase savings. Figure 4 presents summary statistics for debt payments and money put towards savings, relative to 2019 and 2020, for each of the three groups we examine. Payments towards reducing debt and towards saving appear to be higher in 2021 relative to prior years for CTC recipients than for non-recipients, in general. However, the gap between recipients and non-recipients appears larger for debt payments after monthly CTC payments begin. The pattern for savings is unclear—with the gap appearing larger relative to 2019 but smaller relative to 2020.

Table 5 presents the results of difference-in-difference analyses. Both enhanced and advance-only recipients increase payments towards debt relative to prior years. The increases in payments towards debt range from 2.4% to 5.0% relative to non-recipients, compared to 2019 and 2020. However, results are mixed for savings—advance-only recipients increase the amount put towards savings relative to 2019 by 1.1%, but do not increase relative to 2020. Enhanced recipients increase relative to 2019 and marginally significantly towards 2020, with magnitudes less than 1%. Overall, the CTC expansion appears to support families in paying off debt, but we do not find consistent evidence that it supports additional savings.

4.4. Financial Distress

An alternative measure of financial position at the low end is financial distress. Are families struggling to manage their expenses, or are they in extreme debt and unable to pay the bills? To gauge this, we examine overdraft fees and payments to debt collection agencies, indicators that the individual is in financial distress. Figure 5 displays such fees and payments over the six months surrounding the start of payments, for each of the three groups we examine. While all three groups experience a decrease in overdraft fees starting in July 2021, relative to prior years, it is unclear whether recipients experience a differential effect. Similarly, the relative patterns in payments to debt collection agencies are unclear.

Table 6 presents the results of the difference-in-differences analyses. Both enhanced and advance-only recipients experience a drop in overdraft fees relative to 2019 and 2020, in comparison to non-recipients. The coefficients range from -0.2% to -0.5%, and are statistically significant at the 1% level. Results for debt collection agency payments are more mixed, with significant drops for both groups relative to 2019, but no change relative to 2020. Overall, we find evidence that CTC payments are associated with reduced financial distress as measured by overdraft fees, however, we fail to find evidence that it significantly reduces default, as measured by debt collection agency payments.

4.5. Number of Children

In additional analyses, we examine the employment and total consumption effects of the 2021 CTC expansion separately for families with one to two children, and families with greater than two children. The results are presented in Table 7. Results for employment and wage effects are similar across families of different sizes. Enhanced CTC recipients neither increase nor decrease employment and wages. Advance-only recipients significantly increase employment and wages if they have one or two children, with weaker evidence of an increase if they have three or more children.

Total consumption increases significantly for enhanced recipients with either one or two children or three or more children. The magnitudes of the consumption increases are significantly higher for larger families. We find mixed evidence of the consumption effect for advance-only recipients with one or two children, depending on whether consumption is benchmarked to 2019 or 2020. However larger families receiving advance-only payments appear to increase consumption.

Overall, we again fail to find a drop in employment when partitioning on family size. Consistent with consumption effects being driven by CTC payments, families with more children increase consumption more than smaller families.

4.6. Income Level

Finally, we examine employment and consumption effects for subsets of enhanced recipients, based on income. In particular, lower income enhanced recipients are of interest for two reasons. First, from a poverty-reduction perspective, these are the families which policymakers hope to most strongly impact. Second, many of the questions surrounding refundability focus on this subset of the population and whether their willingness to work will be affected. For this analysis, we exclude advance-only recipients, as they have relatively higher income (*i.e.,* families with annual income of $200,000 or above). Instead, we focus on recipients of the enhanced $250 or $300 per child payments and compare them to non-recipients. We add an indicator for lower-income individuals based on their income class during the pre-period (income class below sample median, *i.e.,* income below $75,000 per year), and interact this with *Post*Enhanced_CTC.*[20] The coefficient on this interaction term measures the incremental effect of the 2021 CTC expansion on the lower-income enhanced recipients relative to moderate-income enhanced recipients.

Results are presented in Table 8. We find no consistently significant difference in employment and wage effects for lower-income enhanced recipients, compared to moderate-income enhanced recipients. The coefficient on the interaction term is positive and significant for employment and wages, relative to 2019, but is insignificant relative to 2020.

We find a positive and statistically significant incremental effect for consumption, relative to both 2019 and 2020. The lower-income CTC recipients increase their consumption by a larger portion than more moderate-income recipients of enhanced CTC payments. While moderate-income recipients increase consumption by 4.7% and 5.7% relative to 2019 and 2020, compared to non-recipients, lower-income recipients increase consumption by an additional 2.8% and 11.8%, relative to 2019 and 2020, respectively.

In untabulated analyses we further examine recipients earning below $45,000 a year, and find an even larger consumption increment. Families earning more than $45,000 per year increase consumption by 4.9% and 7.7%, while those with incomes below $45,000 increase consumption by an additional 8.0% and 19.1%.

V. Conclusion

We examine several potential impacts of the CTC expansion which occurred as part of The American Rescue Plan Act of 2021. We find no significant decrease in employment among recipients of the enhanced payments. In fact, we find evidence of either no change, or even an increase, in employment and wages among lower-income recipients relative to moderate-income recipients, with neither group decreasing employment. This speaks to the policy-relevant question of whether expanded CTC payments with full refundability will cause lower-income individuals to leave the workforce. Our analysis shows no such effect.

Consistent with the goals of the 2021 CTC reform to support families, we find that families receiving CTC payments increase total consumption, particularly on groceries, education, and healthcare. Such consumption effects are significantly higher for families with more children or lower income. Moreover, CTC recipients are able to pay down debt and reduce overdraft fees, indicating a relaxation of financial constraints. Recipients of enhanced CTC payments are also able to contribute slightly more to savings accounts. We find weaker evidence for payments to debt collection agencies, with improvements versus 2019, but not versus 2020. Overall, we find evidence consistent with the CTC expansion achieving its intended goal of supporting families during this period.

Analyzing the transactions of a large sample of Americans, we provide evidence on the realized effects of the 2021 CTC expansion, which can inform the continuing debate surrounding the CTC. While we lack data on unbanked individuals, our data covers a broad cross-section of American individuals and families, both geographically and in terms of income. Our data and analyses provide insight into the effects on many of the families that the CTC aims to support.

More broadly, our study contributes to several areas of research. Our study takes a unique big-data approach to examining individual taxation effects and household responses to monetary and fiscal stimulus policies. This approach is relevant for research in multiple fields, including economics, finance, and accounting.

[20] Income classes are computed based on individuals' wage income, deposits, spending, etc.

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Appendix A. Variable Definitions

Variable	Definition
Employed	Dummy variable, equal to one if there is cash inflow to the bank account from transactions in the category of "Salary/Regular Income" during the month.
Employed_Adj[X]	Employed, adjusted by its value in the same month of 2019 [X=19, hereinafter] or 2020 [X=20, hereinafter].
LnWage_Adj[X]	Natural logarithm of one plus salary income (identified by credit transactions in the categories of "Salary/Regular Income"), adjusted by its value in the same month of year X.
LnTot_Cons[X]	Natural logarithm of one plus total consumption (identified by debit transactions in the categories other than "Loans," "Mortgages," "Credit Card Payments," "Savings," "Retirement Contributions," "Securities Trades," "Transfers"), adjusted by its value in the same month of year X.
LnGroceries_Adj[X]	Natural logarithm of one plus spendings on groceries (identified by debit transactions in the category of "Groceries"), adjusted by its value in the same month of year X.
LnEducation_Adj[X]	Natural logarithm of one plus education spending (identified by debit transactions in the category of "Education"), adjusted by its value in the same month of year X.
LnHealthcare_Adj[X]	Natural logarithm of one plus healthcare spending (identified by debit transactions in the category of "HealthCare/Medical"), adjusted by its value in the same month of year X.
LnDebt_Adj[X]	Natural logarithm of one plus debt payments (identified by debit transactions in the category of "Loans" and "Mortgages"), adjusted by its value in the same month of year X.

Appendix A. Variable Definitions—Continued

Variable	Definition
LnSaving_Adj[X]	Natural logarithm of one plus monthly saving (identified by debit transactions in the category of "Savings"), adjusted by its value in the same month of year X.
LnOverdraft_Adj[X]	Natural logarithm of one plus the number of overdraft/non-sufficient charges to the bank account, adjusted by its value in the same month of year X.
DCA_Adj[X]	Dummy indicator of the existence of payments to debt collection agencies, adjusted by its value in the same month of year X.
Children	Number of children, inferred from the dollar amount of monthly CTC payments.

Figure 1. Geographic distribution

The figure below plots the geographic distributions of CTC recipients. Specifically, we first plot the distribution for our two treatment groups in our sample, i.e., enhanced CTC recipients (receiving $300 or $250 or its multiples) and advance-only CTC recipients (receiving $166 or $167 or its multiples), separately. The last chart plots the percentage of sample CTC recipients across states.

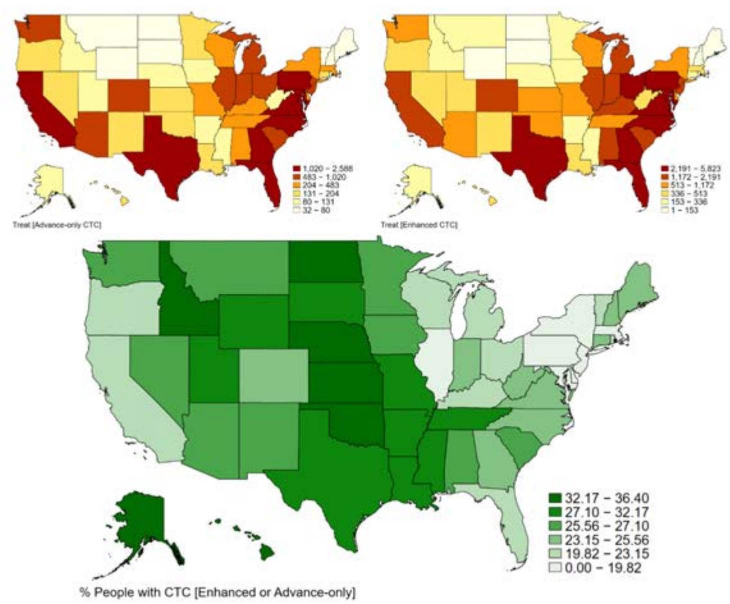

Figure 2. CTC expansion and employment

This figure plots the average adjusted employment and wages (benchmarked against 2019 and 2020) for recipients of enhanced CTC, advance-only CTC, and non-recipients from 2021 April to 2021 September, respectively.

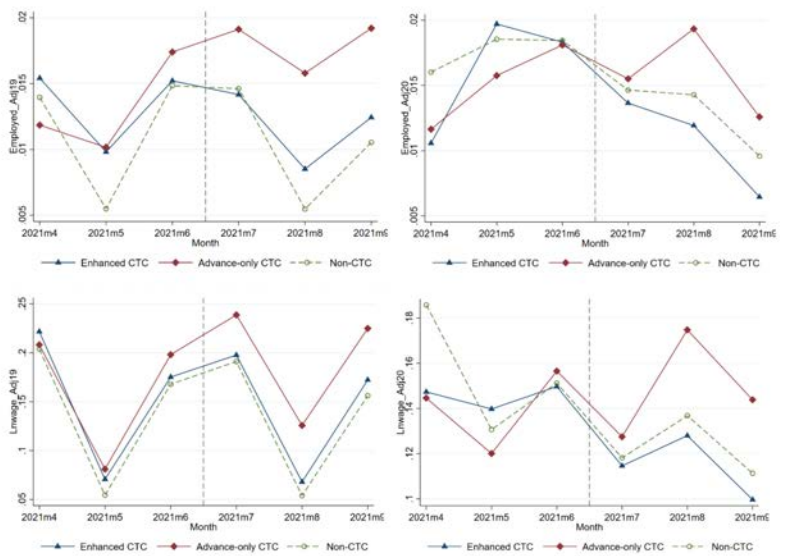

Figure 3. CTC expansion and consumption

This figure plots the average adjusted total consumption (benchmarked against 2019 and 2020) for recipients of enhanced CTC, advance-only CTC, and non-recipients from 2021 April to 2021 September, respectively. Please refer to Appendix A for detailed variable definitions.

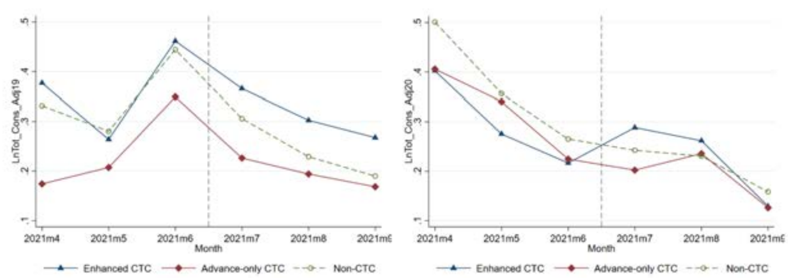

Figure 4. CTC expansion and financial position

This figure plots the financial position for recipients of enhanced CTC, advance-only CTC, and non-recipients from 2021 April to 2021 September. We proxy for financial position by payments towards reducing debt and money put towards savings, benchmarked against 2019 and 2020. Please refer to Appendix A for detailed variable definitions.

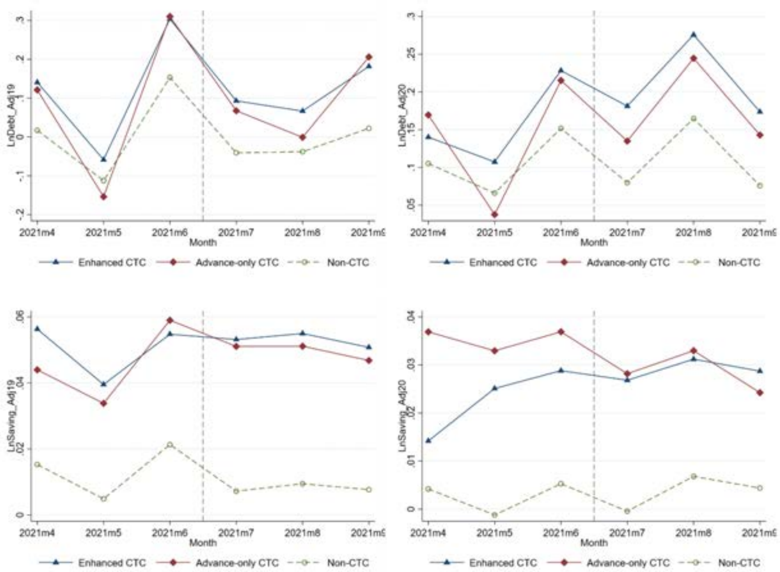

Figure 5. CTC expansion and financial distress

This figure plots the financial health for recipients of enhanced CTC, advance-only CTC, and non-recipients from 2021 April to 2021 September. We proxy for financial health by overdraft charges and payments to debt collection agencies, benchmarked against 2019 and 2020. Please refer to Appendix A for detailed variable definitions.

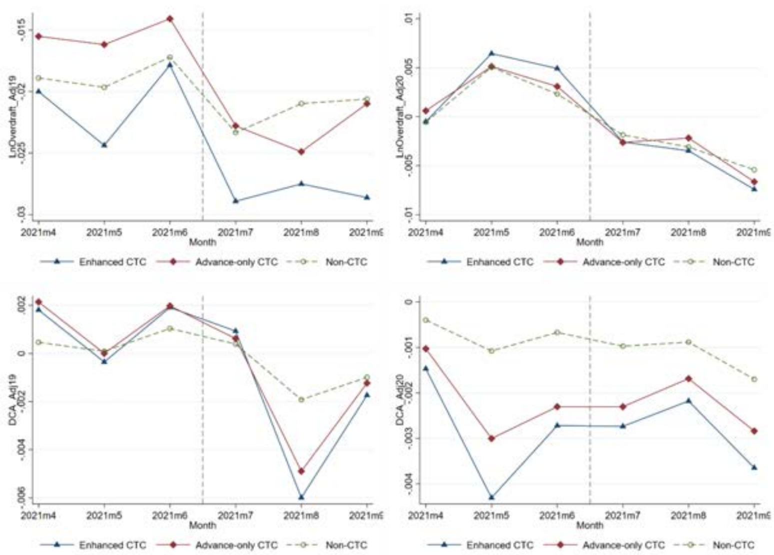

Table 1. Sample Construction

This table describes the sample construction process. We start with a random one million unique users with sufficiently high data quality. We then exclude users with irregular CTC payments. We further require users to have data throughout 2019 April and 2021 September and non-missing demographic data (geographic location and income class).

Sample Filtering	# Total User	# User [Enhanced CTC]	# User [Advance Only CTC]	# Control users
Random users with sufficiently high data quality	1,000,000			
Exclude users with abnormal CTC payments	986,556	65,009	27,393	894,154
Requiring account history throughout 2019 Apr–2021 Sep	400,747	62,110	26,382	312,255
Requiring non-missing state and income information	365,363	59,214	24,310	281,839

Table 2. Summary Statistics

This table reports the mean and standard deviation of selected key variables for enhanced recipients, advance-only recipients, and non-recipients, respectively. The sample includes six months for each user, April 2021 through September 2021. We have 355,284 user-month observations for enhanced recipients, 145,860 observations for advance-only recipients, and 1,691,034 observations for non-recipients. We winsorize all continuous variables at 1% and 99% except *DCA_Adj19* and *DCA_Adj20* due to its infrequency. Please refer to Appendix A for detailed variable definitions.

	Enhanced CTC		**Advance-only CTC**		**Non-CTC**	
	Mean	**S.D.**	**Mean**	**S.D.**	**Mean**	**S.D.**
Employed	0.435	0.496	0.506	0.500	0.392	0.488
Employed_Adj19	0.013	0.485	0.016	0.471	0.011	0.483
Employed_Adj20	0.013	0.420	0.015	0.404	0.015	0.419
Lnwage_Adj19	0.151	3.653	0.179	3.642	0.138	3.601
Lnwage_Adj20	0.130	3.114	0.145	3.041	0.139	3.082
LnTot_Cons19	0.340	1.562	0.220	1.408	0.297	1.767
LnTot_Cons20	0.262	1.351	0.256	1.311	0.292	1.610
LnGroceries_Adj19	0.140	2.081	0.061	2.088	0.100	2.353
LnGroceries_Adj20	0.155	1.921	0.165	1.949	0.150	2.215
LnEducation_Adj19	0.046	1.810	0.005	2.175	−0.031	1.436
LnEducation_Adj20	0.139	1.611	0.210	1.888	0.028	1.279
LnHealthcare_Adj19	0.192	2.546	0.144	2.502	0.101	2.470
LnHealthcare_Adj20	0.255	2.451	0.336	2.403	0.207	2.368
LnDebt_Adj19	0.121	3.284	0.092	3.174	0.000	3.106
LnDebt_Adj20	0.184	2.914	0.157	2.811	0.107	2.692
LnSaving_Adj19	0.052	0.928	0.048	0.972	0.011	0.845
LnSaving_Adj20	0.026	0.729	0.032	0.761	0.003	0.664
Lnoverdraft_Adj19	−0.025	0.221	−0.019	0.191	−0.020	0.209
Lnoverdraft_Adj20	0.000	0.149	0.000	0.126	−0.001	0.145
DCA_Adj19	−0.001	0.104	0.000	0.094	0.000	0.073
DCA_Adj20	−0.003	0.097	−0.002	0.088	−0.001	0.068
Children	1.772	0.996	2.435	0.822		

Table 3. CTC Expansion and Employment

This table reports the impact of CTC reform on employment. The sample is a balanced panel of 2,192,178 user-month observations for 365,363 unique users from 2021 April to 2021 September. Using a difference-in-difference specification, we compare CTC recipients to non-recipients during the 6 months centered around the first CTC payments under American Rescue Plan Act. We further separate enhanced recipients *(Enhanced_CTC)* from advance-only recipients *(Advance_Only_CTC)*. The dependent variables in Columns 1–4 are measured by whether a user is employed or not, adjusted by its value in the same month of 2019 *(Employed_Adj19)* or 2020 *(Employed_Adj20)*. The dependent variables in Columns 5–8 are measured by the natural logarithm of one plus salary/regular income, adjusted by its value in the same month of 2019 *(LnWage_Adj19)* or 2020 *(LnWage_Adj20)*. Please refer to Appendix A for detailed variable definitions. Robust standard errors clustered by state-month are reported in parentheses. ***, **, and * stand for statistical significance at the 1%, 5%, and 10% level, respectively.

VARIABLES	Employed_Adj19		Employed_Adj20		LnWage_Adj19		LnWage_Adj20	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Post*CTC	0.002		0.001		0.013*		0.008	
	(0.001)		(0.001)		(0.008)		(0.008)	
Post*Advance_Only_CTC		0.006***		0.005**		0.045***		0.035***
		(0.002)		(0.002)		(0.012)		(0.013)
Post*Enhanced_CTC		−0.000		−0.001		0.001		−0.003
		(0.001)		(0.001)		(0.008)		(0.009)
State-Month FE	Y	Y	Y	Y	Y	Y	Y	Y
User FE	Y	Y	Y	Y	Y	Y	Y	Y
Observations	2,192,178	2,192,178	2,192,178	2,192,178	2,192,178	2,192,178	2,192,178	2,192,178
Adj R2	0.659	0.659	0.534	0.534	0.710	0.710	0.589	0.589

Table 4. CTC Expansion and Consumption

This table reports the impact of CTC reform on total consumption, as well as specific spending on groceries, education, and healthcare The sample is a balanced panel of 2,192,178 user-month observations for 365,363 unique users from 2021 April to 2021 September. Using a difference-in-difference specification, we compare enhanced recipients *(Enhanced_CTC)* and advance-only recipients *(Advance_Only_CTC)* to non-recipients during the 6 months centered around the first CTC payments under American Rescue Plan Act. The dependent variables are natural logarithm of one plus total consumption, specific spending on groceries, education, or healthcare, adjusted by its value in the same month of 2019 or 2020, as indicated in the table header. Please refer to Appendix A for detailed variable definitions. Robust standard errors clustered by state-month are reported in parentheses. ***, **, and * stand for statistical significance at the 1%, 5%, and 10% level, respectively.

VARIABLES	(1) LnTot_Cons_Adj19	(2) LnTot_Cons_Adj20	(3) LnGroceries_Adj19	(4) LnGroceries_Adj20	(5) LnEducation_Adj19	(6) LnEducation_Adj20	(7) LnHealthcare_Adj19	(8) LnHealthcare_Adj20
Post*Advance_Only_CTC	0.062***	0.034***	0.049***	0.079***	0.136***	0.019	0.053***	0.015
	(0.008)	(0.009)	(0.010)	(0.011)	(0.014)	(0.016)	(0.012)	(0.013)
Post*Enhanced_CTC	0.056***	0.093***	0.049***	0.102***	0.077***	0.026***	0.033***	0.031***
	(0.007)	(0.009)	(0.006)	(0.009)	(0.008)	(0.009)	(0.008)	(0.009)
State-Month FE	Y	Y	Y	Y	Y	Y	Y	Y
User FE	Y	Y	Y	Y	Y	Y	Y	Y
Observations	2,192,178	2,192,178	2,192,178	2,192,178	2,192,178	2,192,178	2,192,178	2,192,178
Adj R2	0.552	0.459	0.474	0.360	0.278	0.202	0.273	0.198

Table 5. CTC Expansion and Financial Position

This table reports the impact of CTC reform on financial position as measured by payments towards reducing debt and money put towards savings. The sample is a balanced panel of 2,192,178 user-month observations for 365,363 unique users from 2021 April to 2021 September. Using a difference-in-difference specification, we compare enhanced recipients *(Enhanced_CTC)* and advance-only recipients *(Advance_Only_CTC)* to non-recipients during the 6 months centered around the first CTC payments under American Rescue Plan Act. The dependent variables in Columns 1–2 (3–4) are measured by natural logarithm of one plus monthly debt payments (money transferred into saving accounts or retirement accounts), adjusted by its value in the same month of 2019 or 2020. Please refer to Appendix A for detailed variable definitions. Robust standard errors clustered by state-month are reported in parentheses. ***, **, and * stand for statistical significance at the 1%, 5%, and 10% level, respectively.

VARIABLES	(1) LnDebt_Adj19	(2) LnDebt_Adj20	(3) LnSaving_Adj19	(4) LnSaving_Adj20
Post*Advance_Only_CTC	0.037**	0.030***	0.011***	−0.008
	(0.016)	(0.011)	(0.004)	(0.005)
Post*Enhanced_CTC	0.024**	0.050***	0.009***	0.006*
	(0.009)	(0.008)	(0.002)	(0.003)
State-Month FE	Y	Y	Y	Y
User FE	Y	Y	Y	Y
Observations	2,192,178	2,192,178	2,192,178	2,192,178
Adjusted R-squared	0.622	0.478	0.506	0.382

Table 6. CTC Expansion and Financial Distress

This table reports the impact of CTC reform on financial health proxied by overdraft charges and payments to debt collection agencies. The sample is a balanced panel of 2,192,178 user-month observations for 365,363 unique users from 2021 April to 2021 September. Using a difference-in-difference specification, we compare enhanced recipients *(Enhanced_CTC)* and advance only recipients *(Advance_Only_CTC)* to non-recipients during the 6 months centered around the first CTC payments under American Rescue Plan Act. The dependent variables in Columns 1–2 (3–4) are measured by natural logarithm of one plus the number of overdraft charges (a dummy indicator for payments to debt collection agencies), adjusted by its value in the same month of 2019 or 2020. Please refer to Appendix A for detailed variable definitions. Robust standard errors clustered by state-month are reported in parentheses. ***, **, and * stand for statistical significance at the 1%, 5%, and 10% level, respectively.

VARIABLES	(1) LnOverdraft_Adj19	(2) LnOverdraft_Adj20	(3) DCA_Adj19	(4) DCA_Adj20
Post*Advance_Only_CTC	−0.005***	−0.002***	−0.002***	0.000
	(0.001)	(0.001)	(0.000)	(0.000)
Post*Enhanced_CTC	−0.005***	−0.003***	−0.002***	0.000
	(0.001)	(0.001)	(0.000)	(0.000)
State-Month FE	Y	Y	Y	Y
User FE	Y	Y	Y	Y
Observations	2,192,178	2,192,178	2,192,178	2,192,178
Adjusted R-squared	0.280	0.129	0.476	0.426

Table 7. Cross-Sectional Analysis: Number of Children

This table reports the differential impacts of the 2021 CTC reform by number of children. The sample is a balanced monthly panel for 365,363 unique users from 2021 April to 2021 September. Using a difference-in-difference specification, we compare enhanced recipients *(Enhanced_CTC)* and advance-only recipients *(Advance_Only_CTC)* to non-recipients during the 6 months centered around the first CTC payments under American Rescue Plan Act. Among CTC recipients, we differentiate enhanced recipients with 1 or 2 children *(Enhanced_CTC [1 or 2 Children])*, more than 2 children *(Enhanced_CTC [>2 Children])*, advance-only recipients with 1 or 2 children *(Advance_Only_CTC [1 or 2 Children])*, or more than 2 children *(Advance_Only_CTC [>2 Children])*. The dependent variables in adjusted employment, adjusted wages, and adjusted total consumption, as indicated in the table header. Please refer to Appendix A for detailed variable definitions. Robust standard errors clustered by state-month are reported in parentheses. ***, **, and * stand for statistical significance at the 1%, 5%, and 10% level, respectively.

VARIABLES	(1) Employed_Adj19	(2) Employed_Adj20	(3) LnWage_Adj19	(4) LnWage_Adj20	(5) LnTot_Cons_Adj19	(6) LnTot_Cons_Adj20
Post*Advance_Only_CTC [1 or 2 Children]	0.008***	0.007***	0.051***	0.045**	0.046***	−0.070***
	(0.002)	(0.003)	(0.017)	(0.018)	(0.016)	(0.015)
Post*Enhanced_CTC [1 or 2 Children]	−0.001	−0.001	−0.000	−0.004	0.047***	0.079***
	(0.001)	(0.001)	(0.009)	(0.009)	(0.006)	(0.009)
Post*Advance_Only_CTC [>2 Children]	0.006**	0.003	0.041**	0.028*	0.072***	0.097***
	(0.002)	(0.002)	(0.017)	(0.015)	(0.008)	(0.010)
Post*Enhanced_CTC [>2 Children]	0.001	−0.000	0.004	0.002	0.084***	0.140***
	(0.002)	(0.002)	(0.012)	(0.014)	(0.012)	(0.013)
State-Month FE	Y	Y	Y	Y	Y	Y
User FE	Y	Y	Y	Y	Y	Y
Observations	2,192,178	2,192,178	2,192,178	2,192,178	2,192,178	2,192,178
Adjusted R-squared	0.659	0.534	0.710	0.589	0.552	0.459

Table 8. Cross-Sectional Analysis: Income

This table reports the differential impacts of the 2021 CTC reform by prior income level. The sample is a balanced monthly panel for 341,053 unique users (59,214 enhanced recipients and 281,839 non-recipients) from 2021 April to 2021 September. The dependent variables in adjusted employment, adjusted wages, and adjusted total consumption, as indicated in the table header. The variable of interest is the interaction of *Post*Enhanced_CTC*Low_Income* where Post indicates the post period of CTC reform, *Enhanced_CTC* indicates enhanced recipients, and *Low_Income* indicates the average income class during 2021 January to 2021 March is below or equal to the sample median ($75,000). Please refer to Appendix A for detailed variable definitions. Robust standard errors clustered by state-month are reported in parentheses. ***, **, and * stand for statistical significance at the 1%, 5%, and 10% level, respectively.

VARIABLES	(1) Employed_Adj19	(2) Employed_Adj20	(3) LnWage_Adj19	(4) LnWage_Adj20	(5) LnTot_Cons_Adj19	(6) LnTot_Cons_Adj20
Post*Enhanced_CTC	−0.002	−0.002	−0.010	−0.011	0.047***	0.057***
	(0.001)	(0.001)	(0.008)	(0.010)	(0.009)	(0.011)
Post*Enhanced_CTC*Low_Income	0.005**	0.002	0.034**	0.029	0.028**	0.118***
	(0.002)	(0.003)	(0.014)	(0.018)	(0.013)	(0.013)
State-Month FE	Y	Y	Y	Y	Y	Y
User FE	Y	Y	Y	Y	Y	Y
Observations	2,046,318	2,046,318	2,046,318	2,046,318	2,046,318	2,046,318
Adjusted R-squared	0.659	0.535	0.709	0.589	0.556	0.465

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ABSTRACT

The transformation of the Child Tax Credit (CTC) into a more generous, inclusive monthly payment marks a historic (temporary) shift in U.S. treatment of low-income families. To investigate the initial impact of these payments, we apply a series of difference-in-difference estimates using Census Household Pulse Survey microdata collected from April 14 through August 16, 2021. Our findings offer three primary conclusions regarding the initial effects of the monthly CTC. First, payments strongly reduced food insufficiency: the initial payments led to a 7.5 percentage point (25 percent) decline in food insufficiency among low-income households with children. Second, the effects on food insufficiency are concentrated among families with 2019 pre-tax incomes below $35,000, and the CTC strongly reduces food insufficiency among low-income Black, Latino, and White families alike. Third, increasing the CTC coverage rate would be required in order for material hardship to be reduced further. Self-reports suggest the lowest-income households were less likely than higher-income families to receive the first CTC payments. As more children receive the benefit in future months, material hardship may decline further. Even with imperfect coverage, however, our findings suggest that the first CTC payments were largely effective at reducing food insufficiency among low-income families with children.

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A data appendix is available at *http://www.nber.org/data-appendix/w29285.*

INTRODUCTION

In March 2021, the United States (U.S.) Congress passed the American Rescue Plan (ARP), which included a large expansion of the Child Tax Credit (CTC). The ARP increased the benefit values of the CTC, removed the earnings requirement and made the benefit fully refundable, and shifted the distribution schedule from a once-per-year payment of the CTC to monthly payments. The first monthly payment was distributed to families of 59.3 million children in July 2021, while the second payment reached 60.9 million children in August 2021 (U.S. Department of Treasury, 2021a). The CTC expansion marks a notable shift in the American welfare state's treatment of low-income families; however, the program is implemented only for 1 year and, in the absence of Congressional renewal, will expire in 2022. As such, timely and reliable evidence is critical for informing policymakers, researchers, and the public of the CTC's short-term consequences. This study investigates the effects of the expanded CTC on material hardship among families with children in the initial weeks after the first CTC payment.

A large body of research shows that children who grow up in families with higher incomes perform better across a host of measures of both short- and long-term development and well-being (Brooks-Gunn and Duncan, 1997; Chaudry and Wimer, 2016). And a smaller but growing body of literature attempts to understand whether these relationships are causal, given the fact that lower- and higher-income families may differ on numerous fronts besides income alone. Most of these studies use so-called "natural experiments," which attempt to identify quasi-random variation in income to see whether that exogenous change predicts changes in important child outcomes. This growing literature is so far consistent in finding that enhanced incomes and reduced poverty causally impact children's short- and long-term development and well-being (Duncan, Morris and Rodrigues, 2011; Wimer and Wolf, 2020; Garfinkel et al., 2021).

There are two primary channels through which increases in income are thought to impact children's outcomes (NAS, 2019). The *family stress* channel posits that the absence of resources increases stress, which compromises healthy parenting and other family relationships, resulting in worse child outcomes. The *family resources* channel posits that increased income allows parents to purchase or invest in various things that enhance child development and well-being (*e.g.,* books, toys, enriching activities, academic supports, safer neighborhoods, etc.). Each channel assumes that an increase in income would change aspects of the home environment in the shorter term, and that these effects would accumulate over time into more positive child outcomes.

This study seeks to add to this burgeoning literature by looking at the short-term impacts of the CTC, which now extends income support to children historically left out of the full benefit of the credit (Collyer, Harris and Wimer, 2019; Goldin and Michelmore 2020). We apply difference-in-difference estimates to take advantage of (1) the fact that effects of the policy differ between households with children and those without, and (2) that households with children benefit differentially based on the ages of their children, number of children, and pre-reform income levels.

The Expanded Child Tax Credit

Since the mid-1990s, the American welfare state has relied more on in-kind transfers, such as benefits from the Supplemental Nutrition Assistance Program (SNAP), and work-conditional transfers, such as benefits from the Earned Income Tax Credit (EITC), relative to cash-based income support (Bauer et al., 2018; Hoynes, 2019; Pac et al., 2017). As a result, share of children in families with very little cash income has grown (Shaefer and Edin, 2013). The lack of cash-based assistance and the comparatively high rate of child poverty sets the U.S. apart from other high-income countries, most of which have some form of child allowance (Curran, 2015; Garfinkel et al., 2016; Shaefer et al., 2018). The expansion of the CTC thus represents a historic deviation from the direction of the U.S. welfare state throughout the past 3 decades.

Prior to the expanded CTC, tax filers could receive a maximum CTC of $2,000 per child per year, but it was not fully refundable.[1] One in three children did not receive the full benefit value because their families did not earn enough to qualify. Children with single parents, those in rural areas, Black and Latino children, and those in larger families were disproportionally ineligible for the full credit (Curran and Collyer, 2020; Collyer, Harris, and Wimer, 2019). Following similar parameters to the American Family Act (a bill first introduced in both the Senate and House of Representatives in 2017 and reintroduced in 2019), the ARP has temporarily transformed the CTC into a nearly-universal child allowance for 2021.[2] Specifically, the ARP includes three fundamental changes to the CTC. First, it makes the CTC available to almost all children, including those in families with the lowest incomes previously excluded, by removing the earnings requirement and making the credit fully refundable. Second, it raises the maximum annual credit amounts to $3,000 for children ages 6–17 and $3,600 for children under age 6. Third, beginning mid-July 2021, it delivers the credit in monthly installments of up to $250 per older child or up to $300 per younger child, for a period of 6 months.[3]

One challenge facing the introduction of the expanded CTC is that not all eligible children automatically receive the payments. Families who did not file taxes in the prior year, presumably due to having an income below the tax-filing threshold, generally must register with the Internal Revenue Service (IRS) in order to receive benefits. Several estimates suggest that the total number of children in eligible tax units is around 64 to 67 million children (Parolin et al., 2021b), more than the 60.9 million to whom the IRS distributed CTC payments to in August 2021. Put differently, the first payments did not reach all eligible families. As we discuss in our *Data and Methods* section, we take several steps to account for the imperfect coverage of the initial CTC payment when evaluating the policy's effects on hardship.

Despite the challenge in reaching full coverage, early research suggests the expanded CTC has potential to generate large reductions in child poverty (Center on Poverty and Social Policy, 2021; Marr et al., 2021; Acs and Werner, 2021; Parolin et al., 2021a; Wheaton et al., 2021) and may contribute to reductions in economic hardship (Perez-Lopez, 2021). Thus far, however, it remains unclear whether the expanded CTC has plausibly causal effects. This study investigates that possibility, using household data released in the initial weeks following the first CTC payment, to assess the policy's effects on material hardship among families with children.

DATA AND METHODS

Data Source: This study uses data from the Census Household Pulse Survey (Pulse). The U.S. Census Bureau introduced the Pulse in April 2020 to begin collecting up-to-date and nationally-representative information on the social and economic well-being of households across the U.S. The Census Bureau randomly selects addresses to participate in the Pulse, then sends either an email or a text message to the contact information associated with the household. The message prompts the recipient to participate in a 20-minute online survey asking questions related to education, employment, food security, housing, and more. The data have been used to track trends in material hardship, subjective wellbeing, and other social and economic indicators throughout the pandemic (Bauer et al., 2020; Bitler et al., 2020; Morales et al., 2020; Schanzenbach and Pitts, 2020; Ziliak, 2021; Cai et al., 2020, Twenge and Joiner, 2020). Our particular focus in this analysis centers on the hard-

[1] *See* additional information on the history of the Child Tax Credit, *see* Crandall-Hollick (2021), Crandall-Hollick (2018), and Garfinkel et al. (2016).

[2] The expansion to the CTC in the ARP mirrors the proposed reforms in the American Family Act (AFA) with one exception: in the AFA, the credit would begin to phase out for heads of household with earnings above $120,000 or and joint filers with Adjusted Gross Incomes (AGI) over $180,000. In the ARP, the credit begins to phase out for families with AGIs above $112,500 or $150,000 per year, depending on filing status, but it only phases out until matching the credit values that a family would receive under prior law. This alteration was made because the Biden administration committed to not raising taxes for those with incomes below $400,000 per year.

[3] Because the payments began halfway through the year, families will receive half of the full amount of their credit in 2021 and the remainder when they file taxes in 2022.

ship data, but there is potential to use the Pulse data to explore the relationship between the CTC monthly payments and subjective well-being (see Appendix E).

We use Pulse data collected between April 14, 2021 (3 months before the start of the monthly CTC) through August 16, 2021 (waves 28–35). The first payment of the expanded CTC was delivered to recipients on July 15, 2021, which falls prior to the beginning of Wave 34 of the Pulse (which spans July 21 to August 2, 2021). The second payment was delivered on August 13, 2021. Our total sample size is 411,613 respondents.

One limitation of the Pulse is that is conducted online-only (often sent via text message with a link to complete a survey online), which may exclude segments of the population who lack reliable Internet connection. We provide descriptive statistics on the respondents in Appendix I. The descriptive statistics show that the Pulse sample closely mirrors population estimates from the U.S. Current Population Survey.

Sample Criteria: We exclude all households in the Pulse who have imputed values of number of children in the household, as error in the imputed values could bias our estimates. In our sample, 1.3 percent of all responses featured imputed values of the number of children. Given that the expanded CTC should benefit lower-income households more so than higher-income households, we restrict our primary estimates to households with a 2019 pre-tax income of under $35,000 ("low-income families"). In subsequent estimates, however, we also display results when assessing the effect of the CTC on all households under $25,000 and at different income bins up to $200,000 in 2019 pre-tax income. We also display subgroup analyses to estimate the effects of the CTC by race and ethnicity.

Receipt of the CTC: As noted, the first two payments of the CTC did not reach all children in eligible families. Though the Department of Treasury reports that 60.9 million children (around 83 percent of all children) received the second payment, the Pulse includes its own question of whether the household received a CTC payment (U.S. Department of Treasury, 2021a). We thus begin our Findings section with a descriptive portrait of coverage rates as reported in the Pulse.

Indicators of Material Hardship: Table 1 presents our primary measures of material hardship. Our material hardship indicators include household food insufficiency, difficulty with expenses, and not being caught up on rent or mortgage payments. We operationalize each of these indicators as a binary variable using the criteria described in the right-most column of Table 1. In a parallel exercise, we explore early indications of the relationship between the new CTC monthly payment and three measures of subjective well-being, including confidence in paying the rent/mortgage, frequent anxiety, and frequent worrying. These results are included in Appendix E; as the monthly CTC payments continue and more data becomes available, this represents an area for continued investigation. In general, however, we would expect measures of subjective well-being to be more sensitive to continued receipt of monthly payments than to just the initial payments.

Table 1: Overview of Primary Hardship Indicators

Type	Prompt	Qualifying Responses
Household food insufficiency.	In the last 7 days, which of these statements best describes the food eaten in your household?	*Sometimes* or *often* not enough to eat
Difficulty with expenses	In the last 7 days, how difficult has it been for your household to pay for usual household expenses, including but not limited to food, rent or mortgage, car payments, medical expenses, student loans, and so on?	*Somewhat* or *very* difficult
Not caught up on rent [or mortgage].	Is this household currently caught up on rent [or mortgage] payments?	No

Methods: We estimate difference-in-difference models to assess the effect of the expanded CTC on our outcomes of interest, as defined in Equation (1).

$$y_i = \beta_1 PostCTC_i + \beta_2 Treatment_i + \beta_3 (PostCTC * Treatment)_i + \beta_4 X_i + \varepsilon_i \quad (1)$$

The outcome variable is one of our hardship indicators (separate models for each). *PostCTC* is a binary indicator of whether the time of survey occurred after July 15, 2021, the day on which the expanded CTC was first administered. We specify our treatment variable, *Treatment,* in two separate ways. First, we operationalize a binary treatment indicator measured as whether the household has children (value set to 1) or is childless (value set to 0). Given that our sample is limited to households reporting a 2019 pre-tax income of under $35,000, we assume (but cannot directly test) that the vast majority of households with children in this subsample are eligible to receive the monthly CTC. Childless households, in contrast, do not directly benefit from the reform.

For our second treatment definition, we estimate models using a continuous measure of treatment intensity to capture the fact that the effects of the CTC are likely to vary by age of the children (as families with children under age 6 receive larger monthly benefit values), the number of children in the home, and the relative value of the new CTC benefits compared to what the family likely received from the CTC prior to the reform. We cannot consistently observe the age of each child in a given household in the Pulse, nor do we have information on pre-reform CTC receipt.[4] Thus, we use data from the 2019 U.S. Current Population Survey to estimate the mean pre- and post-reform benefit values for bins defined by the number of adults in the household (ranging from 1 to 10), the number of children in the household (ranging from 0 to 10), and eight categorical pre-tax income bins (from under $25,000 annually scaling up to more than $200,000 per year). We compute the mean pre-reform refundable CTC benefits as observed for each family unit in the CPS ASEC. We then simulate the *additional* post-reform benefits that each family is eligible for (not yet taking into account imperfect coverage in benefit distribution) using detailed policy rules from the CTC reform as specified in the 2021 American Rescue Plan. We subtract the pre-reform benefit value from the post-reform benefit value to create a "net benefit" indicator for each family unit. We then adjust the net benefit indicator for family size using the modified OECD equivalence scale.[5] Finally, we calculate the weighted mean of the size-adjusted net benefit value for each of the bins defined above. We then import this value into the Pulse, matching on the number of adults, number of children, and 2019 pre-tax income category of the Pulse respondents. We provide more details and descriptive statistics on the indicator in Appendix B.

In a sensitivity test, we also produce an alternative version of our treatment intensity indicator that matches the July 2021 coverage rate of the CTC—59.3 million children—as reported by the U.S. Department of Treasury. Specifically, we scale down coverage from all likely-eligible children to match the reported numbers of children receiving the CTC by state, following the procedure in Parolin, Collyer, Curran, and Wimer (2021b). Within each state, we adjust coverage so that it is the lowest-income tax units who are removed first, representing the fact that lower-income tax units are less likely to have filed taxes in the prior year and, thus, are less likely to receive the benefits automatically (Cox, et al., 2021). In our *Findings* section, we also present observed coverage rates from the Pulse among households with children by income bin; these results corroborate the claim that the lowest-income households with children were less likely to receive the benefit in July 2021. We present the results from our sensitivity tests in Appendix B, but we note that they do not vary meaningfully from the results of our primary analyses.

In Equation (1), we control for the age, sex, and education status of the household head, and we include state fixed effects (captured in vector *X*). In each estimate, β_3 is our primary coefficient of interest, as it informs us, when using the binary treatment indicator, of whether households with children faced a larger (or smaller) difference in the outcome relative to childless households after the introduction of the CTC.

[4] Wave 34 of the Pulse does have binary variables of whether children are under 5 or between 5 to 11. Given that the data are not consistently available throughout the waves included in this analysis, however, we cannot use it in our estimations or creation of the treatment indicators.

[5] The modified OECD scale begins with a value of 1 for a single adult, then adds 0.5 for each child in the home and 0.3 for each additional adult in the home. Alternative family-size adjustments include the square-root equivalence scale or dividing by a family-size-adjusted poverty-threshold, such as that of the U.S. official poverty measure.

While Equation (1) provides us the intent-to-treat effect (or the effect of the treatment on the full treatment group, regardless of whether they report actually receiving the CTC), we also provide estimates of the treatment effect on the treated (or the local average treatment effect). To do so, we estimate two-stage least squares models (2SLS) using the treatment group identifier as an instrumental variable and observed receipt of the treatment as the endogenous variable. When applying our binary treatment, observed receipt of the treatment reflects whether the family reports in the Pulse that it actually received the monthly CTC payment(s). When applying our continuous treatment indicator, the observed treatment in the 2SLS model is the family's projected net benefit increase from the CTC. Because levels of the benefit receipt of the CTC are not directly measured in the Pulse, we apply our projected value of the net CTC benefit based on the family's income, number of children, and number of adults (as defined above) as the observed treatment; however, we convert the projected benefit value to zero for families reporting that they did not receive the CTC payment.

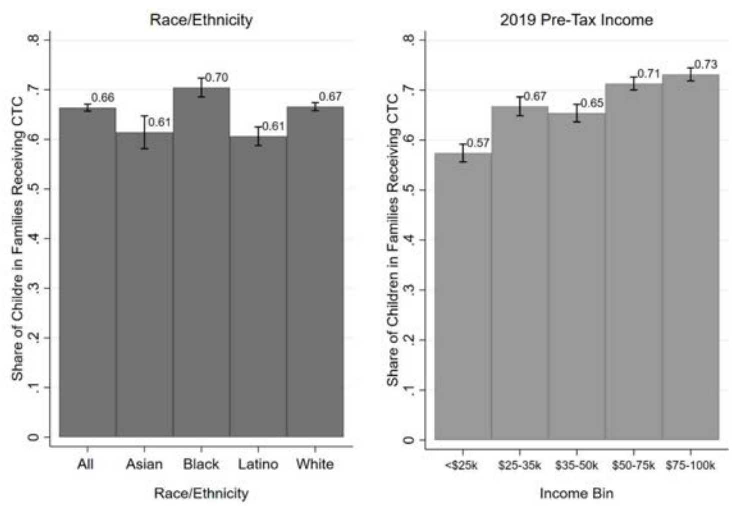
FINDINGS

Our *Findings* section proceeds in three parts. First, we discuss reported receipt of the CTC in the Pulse and compare this to administrative reports from the U.S. Department of Treasury. Second, we present descriptive findings on trends in material hardship. Third, we present the results of our difference-in-differences estimates.

Reported Receipt of the Child Tax Credit

As noted, the U.S. Department of Treasury reports that 59.3 million children received the first CTC payment in July 2021, while 60.9 million received the second payment in August 2021 (U.S. Department of Treasury, 2021a). Estimates from the Pulse, however, suggest that 66 percent of children were in households that report receiving the initial CTC payment. This is equivalent to approximately 48 million children, or 12 million fewer than the IRS reports. The discrepancy could be due a number of factors: sampling bias in the Pulse, benefit underreporting in the Pulse, overestimation of children served from the Department of Treasury, or general measurement error. Regardless of cause, all results should be interpreted with this discrepancy in mind. Moreover, the coverage rate is likely to increase in subsequent months, considering that 1.6 million additional families received the benefit in August relative to July (Department of Treasury, 2021b).

Figure 1: Share of children in families receiving the first or second payment of the Child Tax Credit (self-reported receipt from responses of Census Household Pulse Survey)



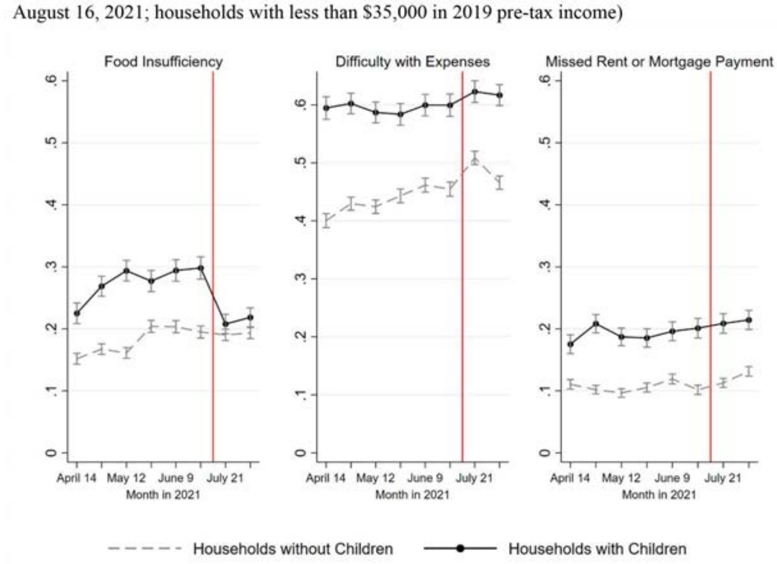
Note: Race and ethnicity refers to that of the household head in which the child lives. Coverage rates are across the entire sample of households with children and are not limited to eligible households, as eligibility cannot be inferred with precision in the Pulse.

Figure 1 breaks down reported CTC receipt rates by race and ethnicity (left panel) and 2019 pre-tax income bin (right panel). As noted, 66 percent of all children are in households that report receipt of the first or second payment of the CTC in the Pulse, including 61 percent of Asian children, 70 percent of Black children, 61 percent of Latino children, and 67 percent of White children. Keep in mind that the sample here is not limited to *eligible* family units, and that not all children in the U.S. are eligible; thus, the reported means should be interpreted as general coverage rates and not take-up among the eligible.

The results by income bin (right panel) suggest that families with children that had 2019 pre-tax incomes below $25,000 are less likely than higher-income families to have received the benefit. According to the Pulse data, just over half (57 percent) of children in families with incomes under $25,000 received the first or second payment. Rates of (self-reported) receipt rise as incomes rise. Among families with earnings between $25,000 to $35,000, more than two-thirds (67 percent) of children received the benefit. Among families with incomes between $75,000 and $100,000, approximately three-quarters (73 percent) of children received the payment.

Given the comparatively low coverage rates among the lowest-income families, it is unlikely that the initial effects of the CTC match the potential effects if coverage were greater, or the future effects assuming that coverage does, indeed, expand. As such, the results below should be interpreted as the immediate effects with imperfect coverage. Presumably, any effects observed in the results below will increase as more families receive the benefit in subsequent months.

Figure 2: Trends in hardship for low-income households with and without children (April 14 to August 16, 2021; households with less than $35,000 in 2019 pre-tax income)



Note: Red vertical line represents the date of the first payment of expanded Child Tax Credit. See Table 1 for definition of each outcome. Sample limited to households with 2019 pre-tax income under $35,000.

Descriptive Findings

Figure 2 presents descriptive trends from April 2021 through August 2021 for each of the outcomes for childless households (dashed gray line) and households with children (solid black line) with 2019 pre-tax incomes below $35,000. The red vertical line in each figure marks the first payment of the expanded CTC.

Food insufficiency (left panel) is consistently higher for low-income households with children relative to low-income childless households for the entire period considered. From April through to the end of June 2021, both groups see slight increases in food hardship, with low-income childless households reaching 19.5 percent in June compared to 29.8 percent for low-income households with children. After the first payment of the CTC, however, food insufficiency remains relatively stable for low-income childless households (around 19 percent), but declines from 29.8 percent to 20.8 percent for households with children in late July 2021. In mid-August, the point estimate rises slightly to 21.8 percent. The change from late-June to mid-August marks an 8 percentage point, or 27 percent, decline in food insufficiency for low-income households with children.

The middle panel shows that low-income households with children tend to face much higher rates of difficulty with expenses relative to childless households (in late June 2021, 59.9 percent to 45.5 percent, respectively). These gaps do not meaningfully change after the first payments of the CTC.

Households with children are also more likely to have missed rent or mortgage payments (right panel) over the entire period considered. As with difficulty in meeting expenses, the gaps in missed rent or mortgage payments do not change notably after the initial CTC payments.

Estimation Results

Table 2 presents the results from our difference-in-differences estimates using our binary treatment (which, as described in the prior section, is set to a value of one for households with children) among our subsample of households with pre-tax income of $35,000 or less in 2019.

Our initial analysis, presented in Columns 1–3 of Table 2, assumes that all households with children under the $35,000 threshold are eligible to receive the CTC (regardless of whether they actually report receiving the benefit). The secondary analysis, presented in Columns 4–6 of Table 2, presents the 2SLS estimates of the treatment effect on the treated (those who report receiving the CTC payments).

Table 2: Difference-in-Differences Estimate of Effect of Expanded CTC on Hardship Among Households With 2019 Total Pre-Tax Income Below $35,000; Binary Treatment

	Intent to Treat Effect			Average Treatment Effect on the Treated		
	1: Food Insufficiency	2: Difficulty w/ Expenses	3: Missed Rent or Mortgage	4: Food Insufficiency	5: Difficulty w/ Expenses	6: Missed Rent or Mortgage
Household with Children	0.06***	0.11***	0.06***	0.06***	0.11***	0.07***
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Post-July 15th	0.01	0.05***	0.02*	0.01	0.05***	0.02*
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Household with Children X Post-July 15th	−0.075***	−0.02	0.00	−0.14***	−0.05	0.01
	(0.02)	(0.02)	(0.01)	(0.03)	(0.03)	(0.03)
Pre-Treatment Mean Among HH w/ Children in Sub-sample	0.276	0.594	0.192	0.276	0.594	0.192
Reported CTC Receipt Among HH w/ Children in Sub-sample	52.7%	52.7%	52.9%	52.7%	52.7%	52.9%
Observations	76,523	76,582	76,085	76,523	76,582	76,085

Note: All models include state fixed effects and control for age, education, and sex of household head. Sample limited to respondents in Pulse reporting 2019 pre-tax income of below $35,000. Treatment effect on the treated measured using two-staged least squares regression with treated respondents (those reporting receipt of CTC) as the endogenous variable and treatment group (low-income households with children) as instrumental variable. Robust standard errors in parentheses. † $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

Consistent with the descriptive trends, our results suggest a significant decline in food insufficiency for households with children relative to childless households pre- versus post-rollout of the monthly CTC (see Column 1). Specifically, the results suggest that the intent-to-treat effect amounts to a 7.5 percentage point decline in food hardship for households with children relative to childless households after the treatment. This is consistent with the descriptive statistics observed before. For context, the effect size is around one-fourth the pre-treatment mean of food insufficiency among households with children in the sample (pre-treatment mean of 27.6 percent). Relative to the rate of food insufficiency in late June (29.8 percent), the effect of the CTC marks a 25 percent decline in this form of hardship.

The effect of the CTC among the treated (families who report receiving the benefit), as shown in Column 4 of Table 2, is a 14-percentage point decline, or around 50 percent of the pre-treatment mean of food insufficiency for households with children in the sample. Put simply, the first two CTC payments are associated with a marked decline in food insufficiency among low-income households with children.

Households with children also appear to experience a small decline in the difficulty with expenses relative to childless households (see Columns 2 and 5 of Table 2); however, the effects are not statistically significant. Moreover, the magnitude of the effect is notably smaller than that of food insufficiency, consistent with the descriptive trends.

Similarly, our results suggest that the CTC does not have immediate effects on missed rent or mortgage payments among low-income households with children. This null effect is perhaps unsurprising given evidence that families receiving the benefit are more likely to have spent their payments on food items (Perez-Lopez, 2021), and that as of this writing our results estimate the effects of the initial CTC payments.

Table 3: Difference-in-Differences Estimate of Effect of an Additional $100 of Expanded CTC on Hardship Among Households With 2019 Total Pre-Tax Income Below $35,000 (continuous measure of treatment intensity)

	Intent to Treat Effect			Average Treatment Effect on the Treated		
	1: Food Insufficiency	2: Difficulty w/ Expenses	3: Missed Rent or Mortgage	4: Food Insufficiency	5: Difficulty w/ Expenses	6: Missed Rent or Mortgage
Net Gain (in $100s) from CTC	0.03***	0.06***	0.04***	0.03***	0.06***	0.04***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Post-July 15th	0.01	0.05***	0.02*	0.01	0.05***	0.02
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Net Gain (in $100s) from CTC X Post-July 15th	−0.04***	−0.01	0.00	−0.06***	−0.01	0.00
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Pre-Treatment Mean Among HH w/ Children in Sub-sample	0.276	0.594	0.192	0.276	0.594	0.192
Reported CTC Receipt Among HH w/ Children in Sub-sample	52.7%	52.7%	52.9%	52.7%	52.7%	52.9%
Observations	75,943	76,004	75,512	75,943	76,004	75,512

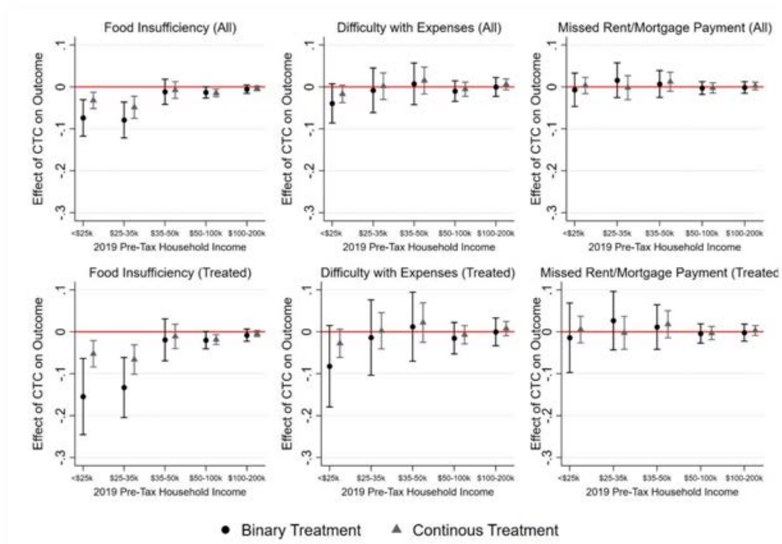
Note: Treatment intensity indicators are divided by 100 for easier interpretation of coefficients. All models include state fixed effects and control for age, education, and sex of household head. Treatment effect on the treated measured using two-staged least squares regression with estimated received benefit value among families reporting receipt of the CTC as the endogenous variable and treatment indicator (potential net benefit value of CTC) as instrumental variable. Sample limited to respondents in Pulse reporting 2019 pre-tax income of below $35,000. Robust standard errors in parentheses. † $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

Table 3 now applies our continuous indicator of treatment intensity for the CTC specifically among households with children. Recall that the treatment intensity indicator captures variation based on pre-tax income and household size (see Appendix B for more details). The findings are consistent with those from Table 2. Looking at food insufficiency, the results suggest that a $100 size-adjusted increase in CTC treatment intensity is associated with a 4-percentage point decline in food insufficiency among families with children (Column 1 of Table 3). The treatment effect on the treated (Column 4 of Table 3) is 6 percentage points. Put differently, a $100 net increase in CTC benefits (adjusted for family size) is associated with a 6-percentage point, or roughly 22 percent, decline in food insufficiency for low-income families with children who report receiving the CTC.

To contextualize this finding, note that a standard monthly benefit payment for a single parent with a 7-year-old child is $250, or $192 after equivalizing for family size. Using the effect magnitude from the treatment effect on the treated estimates, a standard payment for this single parent is thus associated with an 11.5 percentage point (192 * 0.06 /100) reduction in the likelihood of food insufficiency after receiving the initial CTC payments. The estimated reduction effect is, of course, even stronger for families with higher size-adjusted benefit values.

In contrast to the CTC's effects on food insufficiency, however, its effects on difficulty with expenses and missed rent or mortgage payments are again smaller and insignificant (see Columns 2, 3, 5, and 6 of Table 3).

Figure 3: Estimated effect of CTC on outcome by 2019 pre-tax household income cutoff and treatment specification



Note: Y-axis plots coefficients from interaction of treatment indicator and post-treatment period indicator, similar to results from Tables 1 and 2. All models include state fixed effect and age, education, and sex controls. Separate estimates run for each income group displayed on Y-axes.

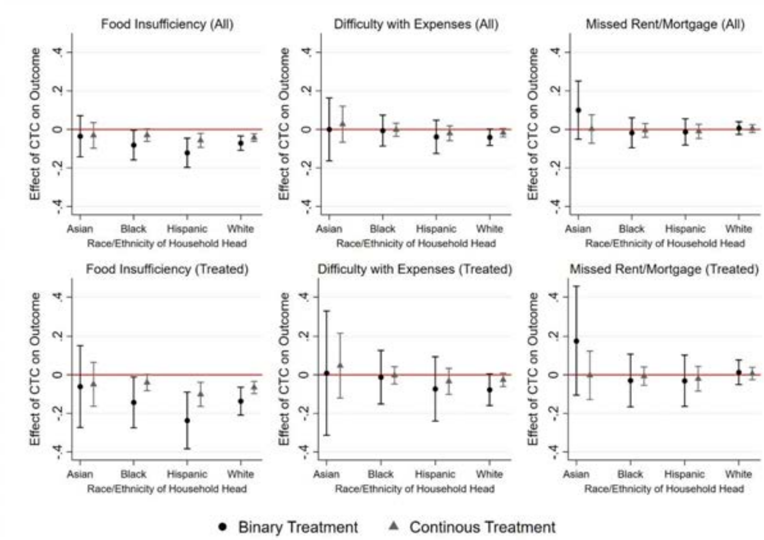
Recall that the sample in our primary analyses was limited to households with 2019 incomes under $35,000. Figure 3 relaxes that condition and instead visualizes the effect of the CTC across the income distribution. Each point in Figure 3 represents the coefficient from the interaction terms for our binary treatment (black circle) and continuous treatment (gray triangle) when including households with 2019 incomes under $25,000, then between $25,000 to $35,000, $35,000 to $50,000, $50,000 to $100,000, and $100,000 to $200,000. The upper row presents the intent-to-treat effects, while the lower row presents the effects among families reporting receipt of the CTC.

The findings, in short, demonstrate that the CTC is particularly effective at reducing food insufficiency for households with children with 2019 pre-tax incomes below $25,000 and between $25,000 to $35,000. At higher income bins, the policy has no statistically significant effect. The results are relatively consistent with examining the effects among the treated. These patterns emphasize that the CTC is particularly effective at reducing food hardship among lower-income families.

The middle and right panels of Figure 3 show the null effects across the income distribution of the initial CTC payments on difficulty with expenses and missed rent or mortgage payments.

Figure 4 presents the results by race and ethnicity. We again limit the sample the household heads of the specified race and ethnicity, and then apply the same treatment conditions as in our primary analysis. The upper-left panel suggests that the intent-to-treat effects of the CTC on food insufficiency are primarily channeled among Black, Hispanic, and White families. Similarly, the lower-left panel finds negative and significant reduction effects among Black, Hispanic, and White families, but not Asian families (though point estimates are negative for Asian families, though not statistically significant). Put differently, low-income Black, Hispanic, and White families alike saw decreases in food hardship as a result of the initial monthly CTC payments.

Figure 4: Estimated effect of CTC on outcome by race and ethnicity and treatment specification



Note: Y-axis plots coefficients from interaction of treatment indicator and post-treatment period indicator, similar to results from Tables 1 and 2. Sample limited to households with 2019 income under $35,000. All models include state fixed effects and age, education, and sex controls. Separate estimates run for each group displayed on Y-axes.

The middle and right panels of Figure 4 again suggest that the first CTC payments did not have notable effects on missed difficulty with expenses or missed rent/mortgage payments.

Sensitivity Tests

A potential threat to our analysis is the effect of seasonality on differential hardship and wellbeing outcomes for households with children relative to childless households. For example, general conditions in July, such as summer vacation for many school-age children, may shape hardship in a way that affects our conclusions. Our read of the evidence suggests that this would bias away from our findings of reduced hardship: prior findings suggest that summer vacations tend to worsen food hardship for households with children, given the absence of school meals (Huang, Barnidge, and Kim, 2015). Nonetheless, to test for the effects of seasonality and to add a placebo test to our analysis, we replicate our results using the same months (April through early August) but using the 2020 version of the Pulse. We designate July 15, 2020, as the timing of our treatment and otherwise apply the same treatment specifications as in our primary analysis. The results, presented in Appendix D, show insignificant effects of either treatment for families of any income level (Figure D1) and for families of any race and ethnicity (Figure D2). These findings rule out that seasonality is driving our findings and strengthen the likelihood that the expanded CTC is, indeed, responsible for the improved economic conditions of households with children after July 15, 2021.

DISCUSSION AND CONCLUSION

The transformation of the Child Tax Credit into a more generous and inclusive monthly payment marks a historic, albeit temporary, shift in the treatment of low-income families with children within the U.S. welfare state. To identify the early impacts of the monthly payments on material hardship, this study applied a series of difference-in-differences estimates using microdata from the Census Household Pulse Survey (Pulse). The findings represent only the initial effects of the first two CTC payments; thus, they should not be interpreted as the final effects of the CTC, particularly given that coverage of the program will likely expand in subsequent months. Nonetheless, our findings from the initial payments lead to three primary conclusions.

First, we find that the initial CTC payments strongly reduced food insufficiency among low-income families with children. Specifically, we found that the initial CTC payments are associated with a 7.5 percentage point (25 percent) decline in food insufficiency. The effect size increases to 14 percentage points (around 50 percent) when evaluating the effect of the CTC on the families who report receiving the payments. Estimates from our treatment intensity indicator suggest that a $100 increase in size-adjusted CTC benefits is associated with a 6-percentage point, or roughly 22 percent, decline in food insufficiency among families receiving the benefit. These changes mark substantial declines in food hardship. As a result, the share of all low-income families with children (regardless of whether they received the first CTC payments) experiencing food insufficiency dropped from 29.8 percent just before the first CTC payment to 20.8 percent after the first payments. For all households with children (regardless of income), the rate of food insufficiency fell from 13.4 percent to 9.4 percent. The first CTC payments did not appear to reduce the share of families who missed a rent or mortgage payment. This is perhaps unsurprising: rent arrears make up a much larger sum than the typical monthly CTC payment (Aurand and Threet, 2021), and most families receiving the CTC payment report spending the benefits on food items (Perez-Lopez, 2021).

Second, we find the effects of the CTC on food insufficiency are concentrated among families with 2019 pre-tax incomes below $35,000; perhaps unsurprisingly, the first payments had little effect on food insufficiency among higher-income groups, as these income groups are less likely to face hardship in the first place. Moreover, the effects on food insufficiency are broadly consistent across low-income White, Black, and Hispanic families with children.

We also find that increasing the coverage rate of the CTC would be necessary for material hardship to be further reduced. Though the Department of Treasury reports that around 83 percent of children in the U.S. received the second CTC payment, self-reported receipt from the Pulse is closer to two-thirds of all children (U.S. Department of Treasury, 2021a). Notably, the lowest-income families in the Pulse (those reporting 2019 pre-tax incomes of under $25,000) report the lowest receipt rate of the CTC. This aligns with concerns that children in households who have not filed recent federal taxes—including those in families with very low incomes, disconnected from work or public supports, and/or other challenges—are at greatest risk of missing out on the initial rounds of monthly payments (Cox et al., 2021). We acknowledge, however, that the number of children reached by the monthly payments is likely to increase with time. Consider that between July and August 2021, the number of children receiving the CTC increased by 1.6 million (U.S. Department of Treasury,

Given the likelihood of rising coverage rates in the future, we anticipate that the results in the present analysis provide only a preview of the potential consequences of the CTC expansion. As more children receive the benefit in future months, food hardship, and perhaps other forms of material hardship, may decline further. From the present analysis, we nonetheless conclude that the first payments of the CTC were largely effective at reducing food insufficiency among low-income families with children.

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Prepared Statement of Grant Collins, Senior Vice President for Workforce Development and President, Fedcap, Inc.

Thank you, Chairman Wyden, Ranking Member Crapo, and distinguished members of the Senate Finance Committee, for inviting me to testify on anti-poverty and family support provisions in the tax code.

I lead workforce development for The Fedcap Group, a nonprofit organization dedicated to improving the economic well-being of those with barriers to employment. I wish to offer insights from my current role and my former role as the Deputy Director of the Office of Family Assistance (OFA), the Federal agency that oversees the Temporary Assistance for Needy Families (TANF) program. Earlier this year, I appeared before the House Committee on Ways and Means where I discussed some of the current loopholes that impact that program, and I provided some recommendations on how we can address the needs of those with real barriers and needs for assistance. Specifically, I testified that TANF Maintenance of Effort (MOE) spending can be more directly tied to efforts that reward work and retention. (Source: Grant-Collins-Written-Testimony7.pdf, *http://waysandmeans.house.gov/wp-content/uploads/2023/03/GRANT-COLLINS-WRITTEN-TESTIMONY7.pdf*)

Work and wages are critical to families and children and are a step toward reducing intergenerational poverty. Bipartisan welfare reform has been successful in improving incomes and reducing poverty through work.

The Earned Income Tax Credit, or EITC, is one such work-focused incentive designed to assist workers with very limited means. As the largest Federal aid program targeted to the working poor, EITC encourages people to work without disincentivizing them by taking away portions of their wages or reducing their benefit.

Thirty-one (31) States currently offer a State or local EIC, with varying degrees of refundable credits. (Source: States and Local Governments with Earned Income Tax Credit, Internal Revenue Service, *https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/states-and-local-governments-with-earned-income-tax-credit.*) Added to the Federal EITC, State and local credits serve as an important tool to further reward work and improve real life chances for parents and children in the process.

A National Institute's of Health report on the EITC in March of 2022 detailed the following:

> Multiple studies have investigated the impacts of income supplements like the EITC for family well-being (*e.g.,* Hoynes et al., 2015 [1]). Higher disbursements from the EITC have been linked to improved birth outcomes (Hamad and Rehkopf, 2015;[2] Hoynes et al., 2015), improved child achievement (Dahl and Lochner, 2012 [3]), increased likelihood of college enrollment (Manoli and Turner, 2018 [4]), short-term improvements in child behavior, home quality scores (Hamad and Rehkopf, 2016 [5]), and food security (Batra et al., 2021 [6]). Research on the EITC also finds some evidence of positive effects on adults (particularly mothers') physical and mental health (Gangopadhyaya et al., 2020;[7] Lenhart, 2019 [8]), and that receipt of the EITC during childhood has sustained, positive effects on long-term educational attainment and economic outcomes (Bastian and Michelmore, 2018 [9]).

I'd like to share several examples of States that used TANF funds to provide a State refundable EITC. In Louisiana, a strategic collaboration among agencies following Hurricane Katrina resulted in over $8 million in EITC payments and nearly another $3 million in Child Tax Credits. We were able to do this because of an intensive and effective EITC campaign aimed at reaching the many displaced residents—some of whom were plunged into poverty due to job and other losses following the hurricane. (Source: Earned Income Tax Credit (EITC) Louisiana Initiative: Helping Families Rebuild after Hurricane Katrina Final Report, U.S. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance, *https://peerta.acf.hhs.gov/sites/default/files/public/uploaded_files/LA%20EITC.pdf.*)

While at HHS we continued our State efforts to drive higher uptake rates for those employed to help more enter and sustain work. We found it critically important to support local action campaigns like the one in Michigan (Benton Harbor), where locals went door to door to raise awareness about the EITC/CTC and increased the uptake rate for TANF adults from 48 percent to 84 percent. (Source:

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[1] *https://www.ncbi.nlm.nih.gov/pmc/articles/PMC8898557/#CR42.*
[2] *https://www.ncbi.nlm.nih.gov/pmc/articles/PMC8898557/#CR35.*
[3] *https://www.ncbi.nlm.nih.gov/pmc/articles/PMC8898557/#CR19.*
[4] *https://www.ncbi.nlm.nih.gov/pmc/articles/PMC8898557/#CR53.*
[5] *https://www.ncbi.nlm.nih.gov/pmc/articles/PMC8898557/#CR36.*
[6] *https://www.ncbi.nlm.nih.gov/pmc/articles/PMC8898557/#CR6.*
[7] *https://www.ncbi.nlm.nih.gov/pmc/articles/PMC8898557/#CR30.*
[8] *https://www.ncbi.nlm.nih.gov/pmc/articles/PMC8898557/#CR52.*
[9] *https://www.ncbi.nlm.nih.gov/pmc/articles/PMC8898557/#CR5.*

Strengthening Self Sufficiency Welfare Peer TA Report #146, U.S. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance, *https://peerta.acf.hhs.gov/sites/default/files/public/uploaded_files/Final%20MO.pdf.pdf.*) OFA sponsored additional events like this in Idaho, Kentucky, and Missouri where according to EITC experts "at any given time 25 percent of the low-wage working population does not participate in the EITC program and 48 percent of working TANF adults that qualify do not either."

More recently States have chosen to implement additional credits or tax relief to eligible low-income families during times of extra hardship, such as many working families experienced as a result of the COVID–19 pandemic and subsequent economic fallout. In New York State,[10] for example, in 2021, the State enacted a relief package to provide an additional average $270 per recipient. These efforts were paired with free tax preparation services to ensure that those who were eligible actually obtained the credits at no additional cost.

In my role with The Fedcap Group, we have demonstrated that it is possible to remove barriers to employment for people who have not had a clear path, including people with physical or intellectual disabilities, people with mental health or are in recovery from substance use disorders, and people with previous justice system involvement. Over the past decade we have placed almost 170,000 people in jobs. (Source: 2022 Annual Report—The Fedcap Group, *https://fedcapgroup.org/annual-report-2022/#2.*)

When government supports hardworking Americans through the tax code by rewarding work for lower-income earners that can help springboard them out of poverty—the individuals, their communities, and our Nation benefit.

Thank you, Chairman Wyden, Ranking Member Crapo, for the opportunity to testify. I look forward to answering any questions you might have.

Questions Submitted for the Record to Grant Collins

Questions Submitted by Hon. James Lankford

Question. In your testimony, you highlighted the Earned Income Tax Credit (EITC) as a work incentive that benefits working families and is a tool toward reducing intergenerational poverty. You specifically referenced efforts in States and localities to both boost awareness of the EITC and supporting State efforts to provide State-level EITCs, some of which use TANF funds to supplement such credits. Oklahoma is one of the 31 States with a State Earned Income Tax Credit.

What impact do State-level EITCs provide in terms of incentives to work and supporting the success and stability of families and children?

Answer. Working Oklahomans are the primary beneficiaries of the State's decision to enact such an effective tax code policy. State EITCs build on the success of the Federal credit by helping to mitigate hardships for eligible working families and helping to keep people in work.

State-level EITCs positively impact family economic circumstances. There is consistent evidence that State level EITCs increase labor market participation and help to reduce poverty (including child poverty). Additionally, these EITCs improve health outcomes among mothers and educational outcomes among children. These credits also show improvements in key infant health outcomes with greater outcomes associated with more generous EITCs.

Overall, these State-level EITCs further incentivize work, while improving real health and life outcomes (educational attainment) for children.

Question. Some research has shown that individuals delay marriage and having children because they are in or fear being in poverty. But data has shown that married couples with children are less likely to live in poverty than single parents. Specifically, Congressional Research Service tracked the poverty rate in 2021 as 8.8 percent. It declining to 4.8 percent for married couples, but grew to 23 percent for single moms and 12 percent for single dads. However, under the current rates, the EITC can result in a marriage penalty, depending on the income of the joint filers.

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[10] *https://www.governor.ny.gov/news/governor-hochul-announces-475-million-tax-relief-18-million-low-income-new-yorkers-and.*

Based on your experience, what impact do such economic impacts, such as marriage penalties, have on the decision for couples to marry? What steps can Congress take to support and incentivize things like marriage and family through the tax code to ensure we aren't punishing or disincentivizing marriage?

Answer. On the issue of behavioral impacts, such as decisions to marry, little is well known. However, there is the issue of fairness, and obvious financial disincentives based on how the thresholds work. With the current framework, the EITC maximum benefit is greater for single filers with children. For example, in Tax Year 2020, the benefit starts to phase out when married filers reach $25,000 and singles reach $19,520. The EITC drops at a rate of 16 percent of additional income for families with one child and 21 percent for families with two or more children. Thus, if/when the low-income couples marries, the combined income pushes the earnings above the EITC threshold for married filers.

To support marriage and family through the tax code, Congress could increase the income at which the benefit phases out for married couples. Others, such as Brooklyn College Professor Robert Cherry proposed reforming the credit in just this sort of way. Using Professor Cherry's model, the phase out for married couples could be increased to $40,000 and begin phasing the benefit out at a rate of 10 percent of additional income. This would eliminate the marriage penalty built into the current tax code and incentivize marriage and support hard working American families.

Additionally, to further encourage work and marriage as pathways out poverty, Congress should combine the EITC and Child Tax Credit (CTC) into a new work-based "family" credit. Investing in working families through this combined credit would amplify the positive effects associated with work attachment and family formation.

PREPARED STATEMENT OF HON. MIKE CRAPO,
A U.S. SENATOR FROM IDAHO

Thank you, Mr. Chairman.

Today we focus on anti-poverty and family support provisions in the tax code. It is important to have a conversation about existing provisions, what has worked in the past, and what more can be done.

If there is one message to distill today, it is that if America is serious about reducing poverty and supporting families, work works. Without work, there is no chance society will achieve either aim. Successes here will be grounded in those from the past.

In 1996, I joined a bipartisan, bicameral group of colleagues, including some in this room today, in voting to pass the welfare reform bill. In the decades since, this landmark legislation's reforms have led to undeniable intergenerational progress.

One of welfare reform's key changes was to replace an ineffective cash handout system with one focused on incentivizing work, job training, and self-sufficiency.

One of our witnesses, Bruce Meyer, has written extensively about the lessons of welfare reform and parallels for today. Another, Grant Collins, has extensive practical experience with pro-work anti-poverty interventions.

The decisive, transformational results of welfare reform speak for themselves, including: marked increases in work and earnings for single mothers, almost doubling these for some cohorts; sharp poverty reductions, with consumption poverty declining by more than 70 percent since 1996 to just 3.7 percent in 2018; and broad declines in benefit dependence, including a fivefold reduction in those needing temporary assistance.

As President Biden—who as a Senator voted in favor of welfare reform—said at the time: "I think everyone here believes that work should be the premise of our welfare system." Not surprisingly, recent polling from May shows that nearly two-thirds of Americans support work requirements for recipients of government benefits.

Welfare reform proves that we can exercise common sense, and be compassionate and fiscally responsible all at the same time. These lessons were applied, for example, when Republicans first proposed the Child Tax Credit in their Contract with America, and were retained when they enacted the credit in 1997, expanded it in 2001 and 2009, and doubled it in the momentous 2017 tax reform bill.

In 2017, Republicans also doubled the standard deduction, lowered tax rates for the hundreds of millions of lower- and middle-class Americans, and stretched these lower rates further through expanded tax brackets. All of these changes put money back into the pockets of working families, and it is no surprise that after the bill's enactment, Americans' disposable personal income jumped, up nearly 87 percent in the first quarter of 2018 over the last quarter of 2017.

I look forward to hearing more from today's witnesses on the key lessons learned from these successes in reducing poverty and supporting working families. In recent years, some seem to have forgotten what previously worked and have pushed for changes to government assistance that appear generous but, in the end, will certainly not solve poverty, or even just child poverty.

The direct costs for these ideas are enormous. Indirectly, data show they actually become an impediment to intergenerational growth and upward mobility.

Just this past February, for example, results of a cash-allowance program being piloted in Spain arrived. The program has already had "sizeable and adverse employment effects," with aid recipients being 20 percent less likely to work and families receiving benefits 14 percent less likely to have any family member working.

As another example, in October 2022, the nonpartisan JCT evaluated Democrats' partisan, temporary changes to the Child Tax Credit, and they reached two critical conclusions. First, they estimated a staggering cost to continue them: more than $1.2 trillion in the budget window, to say nothing of the years beyond. Second, they confirmed that the provision disincentivizes work, with a "dynamic" cost estimate factoring in work and growth that approached $1.4 trillion—more than its headline estimate.

Evidence is sometimes warped to manufacture contrary conclusions. But Professor Meyers and Mr. Collins will tell us that an honest accounting of the data is clear: unconditional, direct-transfer policies simply do not achieve their aim of actually reducing poverty and dependency, even if they are called a tax credit.

There are many thoughtful, compassionate, and prudent ideas worth considering to ensure that our social safety net is strong for those who need it most. What makes no sense is to undo the good that has already been done through harmful policy—whether in the name of equity, morality, or anything else. Progress requires building upon yesterday's gains, not tearing them down.

Thank you, Mr. Chairman.

Prepared Statement of Melissa Lester, Resident, Galloway, OH

Thank you for the chance to testify here today. I am Melissa Lester, a Columbus, OH mom of two girls: Olivia, 3, and Emma, 1. I'm a licensed social worker and have been working for the State of Ohio for over 8 years. I'm a very proud member of MomsRising.

I'm here to talk about the Child Tax Credit, which was a godsend for my family. Even with two working parents, making ends meet is a real struggle for us, and child care has long been our biggest expense. The cost is astronomical. Every family I know struggles to pay for child care. Even before our second child was born, we were paying considerably more for child care than our mortgage.

Today, with two little ones, child care costs us $2,504 per month. Our family's child care costs more than 1 year of tuition at The Ohio State University. The cost of child care just keeps rising.

I see child care as a crisis in this country. There are fewer licensed programs. As expensive as our center is, the program isn't everything I would like. Staff turnover is high. But the wait lists and costs at higher-rated centers make it impossible to leave. One center told us it would be 14 months for our second daughter to get a spot.

Moms like me face impossible choices: do I keep my job and leave my child at a program that isn't all it could be? Or do I leave the workforce entirely, risking hardships for my family.

In 2021, a lot of those problems fell away and life became much more manageable when we began receiving the monthly Child Tax Credit payments for our oldest daughter. The $300 monthly checks were an enormous help. We used it to cover basic needs. It gave us a little bit of breathing room. Each month I was able to use the payments to help with various things such as birthday party, holiday gifts. And when we took our first-ever family vacation, to Kitty Hawk, I was able to use the $300 toward some of those expenses. It helped relieve the constant stress over finances. It was an amazing relief. We were even able to save a little in anticipation of the birth of our second daughter, since much of my maternity leave was unpaid.

But then Congress ended those payments. For us, they ended when prices began to skyrocket. My family struggled terribly with the formula shortage. It isn't possible to budget when you have to buy whatever baby formula you can find, whatever the cost. I keep all my first daughter's clothes, toys, furniture for her baby sister to help cut expenses. I fear a very modest vacation is completely out of reach. Even though my family is considered middle class by government standards. Growing up I didn't experience family vacations; I came from a working/low-middle-income family. I want better for my children.

Continuing the expanded Child Tax Credit and Child and Dependent Care Credit helped my family, so much. The current credit amounts to a few hundred dollars when we spend thousands on care. We need family-friendly policies.

My employer's maternity benefits are grossly inadequate. By the birth of my second daughter I had long since drained all my paid leave, mostly due to COVID-related child-care closures. The first 2 weeks following my delivery, I received no income and then I received 4 weeks of pay at 70 percent. The next 6 weeks were unpaid. As we all know bills don't stop with a birth, they multiply. I'm still making payments for my delivery, a year later.

I firmly believe that our failure to adopt family-friendly policies hurts families and hurts our country. The Child Tax Credit expansion was a glimmer of hope. It made moms like me feel like maybe, just maybe, it's possible for things to get better.

If the Child Tax Credit payments were reinstated, it would be huge for all parents. It would give us just that little bit of space in our budget so we can breathe.

Data shows the expanded Child Tax Credit dramatically reduced child poverty. I don't understand why Congress let it end. Certainly, they weren't looking out for families.

Hardworking families like mine should matter to all of you. We need family-friendly policies like the expanded Child Tax Credit; affordable, quality child care; and paid leave—and we need them now.

Thank you.

PREPARED STATEMENT OF AMY K. MATSUI, DIRECTOR OF INCOME SECURITY AND SENIOR COUNSEL, NATIONAL WOMEN'S LAW CENTER

Chair Wyden, Ranking Member Crapo, and members of the committee, thank you for the opportunity to testify. My name is Amy K. Matsui, and I am the director of income security and senior counsel at the National Women's Law Center (NWLC).

NWLC fights for gender justice—in the courts, in public policy, and in our society—working across the issues that are central to the lives of women and girls. We use the law in all its forms to change culture and drive solutions to the gender inequity that shapes our society and to break down the barriers that harm all of us—especially women of color, LGBTQ people, and women and families with low incomes.

My testimony today will address the historic impact of the American Rescue Plan Act's expansion of refundable tax credits in reducing poverty and supporting families through the tax code, and why it is critical for the well-being and economic security of women and families that these expansions are restored.

THE IMPACT OF COVID–19 ON THE ECONOMIC SECURITY OF WOMEN, HOUSEHOLDS OF COLOR, AND FAMILIES WITH LOW INCOMES

Even before the pandemic, many women, households of color, and families with low incomes struggled to make ends meet from paycheck to paycheck. In 2019, women in the U.S. who worked full-time, year-round were typically paid only 82 cents for every dollar paid to their male counterparts, and wage gaps were even larger for Black women, Native women, and Latinas.[1] Black and Latinx households have only a fraction of the wealth owned by White households, and single women of color likewise face a significant and persistent wealth gap compared to white men.[2] Predictably but unfortunately, the women and communities of color who experienced the greatest disadvantages before the pandemic were hit the hardest by the COVID–19 health and economic crisis.[3]

As the American Rescue Plan Act was being debated in early 2021, it was clear that women, households of color, and families with low incomes were bearing the brunt of the pandemic's economic consequences. Women and people of color were overrepresented in the front-line workforce, making up the vast majority of workers risking their lives to provide health care, child care, and other essential services.[4] Between February 2020 and February 2021, moreover, 2.3 million women left the labor force altogether, meaning they were not working or looking for work.[5] Increased caregiving responsibilities are likely to have been a major factor for many of these women, with schools operating remotely, child care providers closed or at reduced capacity, ill or elderly family members also needing care—and women disproportionately shouldering family caregiving responsibilities.[6] U.S. Census Bureau data show a strong correlation between the caregiving crisis and women's plummeting workforce participation.[7]

Even before the pandemic, many families struggled to access affordable, high-quality child care that met their family's needs. In more than half of States, care

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[1] Brooke LePage and Jasmine Tucker, "The Wage Gap: The Who, How, Why, and What to Do" (National Women's Law Center, October 2020), *https://nwlc.org/wp-content/uploads/2019/09/Wage-Gap-Who-how.pdf.*

[2] Amy Matsui, Kathryn Menefee, and Amy Royce, "Advancing Gender and Racial Equity by Taxing Wealth (National Women's Law Center, April 2022), *https://nwlc.org/wp-content/uploads/2022/04/NWLC-4.-Advancing-Gender-And-Racial-Equity-By-Taxing-Wealth.pdf.*

[3] National Women's Law Center, "A Year of Strength and Loss: The Pandemic, the Economy, and the Value of Women's Work" (March 2021), *https://nwlc.org/wpcontent/uploads/2021/03/Final_NWLC_Press_CovidStats.pdf;* Dominique Derbigny, "On the Margins: Economic Security for Women of Color through the Coronavirus Crisis and Beyond" (Women's Wealth Gap, April 28, 2020), *https://womenswealthgap.org/wp-content/uploads/2020/04/OnTheMargins_April2020_CWWG.pdf;* Danyelle Solomon and Derrick Hamilton, "The Coronavirus Pandemic and the Racial Wealth Gap" (American Progress, March 19, 2020), *https://www.americanprogress.org/issues/race/news/2020/03/19/481962/coronavirus-pandemic-racial-wealth-gap/;* Guillermo Cantor and Lebaron Sims Jr., "The Unequal Impact of the COVID–19 Crisis on Households' Financial Stability: Who is More Likely to be Immediately Hurt and Why" (Prosperity Now, April 2020), *https://prosperitynow.org/resources/unequal-impact-covid-19-crisis-households-financial-stability;* Connor Maxwell, "The Coronavirus Crisis Is Worsening Racial Inequality" (Center for American Progress, June 10, 2020), *https://www.americanprogress.org/issues/race/news/2020/06/10/486095/coronavirus-(risis-worsening-racial-inequality/;* Amanda M. Gutierrez, Jacob Hofstetter, and Mary Majumder, "COVID–19 is a Perfect Storm of Hardship for U.S. Immigrant Communities" (Petrie-Flom Center at Harvard Law School, May 4, 2020), *https://blog.petrieflom.law.harvard.edu/2020/05/04/immigrant-communities-us-covid19-coronavirus/.*

[4] National Women's Law Center, "Women Make Up the Majority of Front Line Workers of the COVID–19 Crisis" (March 2020), *https://nwlc.org/wp-content/uploads/2020/05/final_NWLC_Frontlines_FactSheet-002.pdf*; Hye Jin Rho, Hayley Brown, and Shawn Fremstad, "A Basic Demographic Profile of Workers in Frontline Industries" (Center for Economic and Policy Research, April 7, 2020), *https://cepr.net/a-basic-demographic-profile-of-workers-in-frontline-industries/.*

[5] Claire Ewing-Nelson and Jasmine Tucker, "A Year Into the Pandemic, Women Are Still Short Nearly 5.1 Million Jobs (National Women's Law Center, March 2021), *https://nwlc.org/wp-content/uploads/2021/03/Feb-Jobs-Day-v2.pdf.*

[6] Diana Boesch and Shilpa Phadke, "When Women Lose All the Jobs: Essential Actions for a Gender-Equitable Recovery" (Center for American Progress, February 1, 2021), *https://cdn.americanprogress.org/content/uploads/2021/01/29041540/WomenLoseJobs-brief.pdf?_ga=2.176240101.1575381012.1616382378-895177019.1605122818;* Megan Cerullo, "Nearly 3 million U.S. women have dropped out of the labor force in the past year," CBS News, February 5, 2021, *https://www.cbsnews.com/news/covid-crisis-3-million-women-labor-force/;* Helaine Olen, "The pandemic is devastating a generation of working women," *The Washington Post,* February 5, 2021, *https://www.washingtonpost.com/opinions/2021/02/05/pandemic-is-devastating-generation-working-women/.*

[7] In August 2020, the Census Bureau found, "around one in five (19.6 percent) of working-age adults said the reason they were not working was because COVID–19 disrupted their childcare arrangements." Of those not working, "women ages 25–44 are almost three times as likely as men to not be working due to childcare." Misty L. Heggeness and Jason M. Fields, "Working Moms Bear Brunt of Home Schooling While Working During COVID–19" (United States Census Bureau, August 18, 2020), *https://www.census.gov/library/stories/2020/08/parents-juggle-work-and-child-care-during-pandemic.html;* Child Care Aware of America, "Repairing our Child Care System" (2021), *https://info.childcareaware.org/hubfs/2022-03-FallReport-FINAL%20(1).pdf?utm_campaign=Budget%20Reconciliation%20Fall%202021&utm_source=website&utm_content=22_demandingchange_pdf_update332022.*

for an infant in a child care center costs more than in-State college tuition,[8] and in one study, over 80 percent of two-child families spent more on child care than rent.[9] Additionally, low-income families spend an average of 35 percent of their income on child care, which amounts to five times what is considered affordable.[10] Child care is especially unaffordable for Black and Latinx working families with low incomes.[11] Only one in six children eligible for child care assistance under Federal law were served by the Child Care and Development Block Grant (CCDBG) and related Federal child care programs in 2019 (the most recent year for which data are available).[12] The pandemic laid bare and exacerbated the deep inequities of a child care system that relies on families paying unaffordable sums and early educators being paid poverty-level wages, and that leaves too many communities across the country without a sufficient workforce or facilities to meet child care demands. In early 2021, families faced even more challenges finding and paying for child care, millions of child care workers had lost their jobs, and providers—who operate on razor-thin margins—were struggling to keep their doors open. Child Care Aware of America report found that nearly 16,000 child care providers across the U.S. permanently closed between December 2019 and March 2021 in 37 States with data.[13]

The COVID–19 pandemic further revealed alarming racial disparities in access to health care. Latinx, Black, and Native American communities have experienced significantly higher rates of COVID–19 infection, hospitalization, and death.[14] Sizeable shares of Latinx, Black, and Native American households were unable to get medical care when they needed it during the pandemic, resulting in negative health and economic consequences.[15]

In sum, the pandemic put millions of families on the brink of full-fledged economic disaster. The pandemic and related job losses were especially devastating for Black and Latinx households,[16] who have historically suffered from higher unemployment rates, lower wages, and lower incomes. Majorities of Latinx, Black, and Native American households (72 percent, 60 percent, and 55 percent respectively) reported facing serious financial problems, such as depleting their savings, in the first year of COVID.[17] Households with low incomes were especially likely to accrue debt, with more than three in four (77 percent) SNAP recipients reporting incurring some kind of new debt during the early months of the pandemic-induced shutdown.[18]

This is the context in which the American Rescue Plan Act was enacted.

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[8] Child Care Aware of America, "Price of Care: 2022 Child Care Affordability Analysis" (2022), *https://info.childcareaware.org/hubfs/2022_CC_Afford_Analysis.pdf,* 24–25.

[9] Elise Gould and Tanyell Cooke, "High Quality Child Care is Out of Reach for Working Families" (Economic Policy Institute, October 2015), *http://www.epi.org/publication/child-care-affordability/,* 2.

[10] Rasheed Malik, "60 Percent of Families Are Spending More than Twice as Much on Child Care as What the U.S. Government Considers Affordable" (Center for American Progress, June 2019), *https://www.americanprogress.org/issues/early-childhood/reports/2019/06/20/471141/working-families-spending-big-money-child-care/,* 3.

[11] Maura Baldiga, Pamela Joshi, Erin Hardy, and Dolores Acevedo-Garcia, "Data-for-Equity Research Brief: Child Care Affordability for Working Parents" (Diversity Data Kids, November 2018), *https://www.diversitydatakids.org/research-library/research-brief/child-care-affordability-working-parents.*

[12] Nina Chien, "Factsheet: Estimates of Child Care Eligibility and Receipt for Fiscal Year 2019" (U.S. Department of Health and Human Services, September 2022), *https://aspe.hhs.gov/sites/default/files/documents/1d276a590ac166214a5415bee430d5e9/cy2019-child-care-subsidy-eligibility.pdf.*

[13] Child Care Aware of America, "16,000 childcare providers shut down in the pandemic. It's a really big deal," February 9, 2022, *https://info.childcareaware.org/media/16000-childcare-providers-shut-down-in-the-pandemic.-its-a-really-big-deal.*

[14] Centers for Disease Control and Prevention, "Hospitalization and Death by Race/Ethnicity" (May 25, 2023), *https://www.cdc.gov/coronavirus/2019-ncov/covid-data/investigations-discovery/hospitalization-death-by-race-ethnicity.html.*

[15] Robert Wood Johnson Foundation, "The Impact of Coronavirus on Households, by Race/Ethnicity" (Harvard University T.H. Chan School of Public Health, September 2020), *https://www.hsph.harvard.edu/wp-content/uploads/sites/94/2020/09/NPR-Harvard-RWJF-Race-Ethnicity-Poll_091620.pdf.*

[16] NWLC Analysis of U.S. Census Bureau COVID–19 Household Pulse Surveys, *https://nwlc.org/resource/nwlc-analysis-of-u-s-census-bureau-covid-19-household-pulse-surveys/.*

[17] Robert Wood Johnson Foundation, "The Impact of Coronavirus on Households, by Race/Ethnicity" (Harvard University T.H. Chan School of Public Health, September 2020), *https://www.hsph.harvard.edu/wp-content/uploads/sites/94/2020/09/NPR-Harvard-RWJF-Race-Ethnicity-Poll_091620.pdf.*

[18] Diana Enriquez and Adam Goldstein, "COVID–19's Socioeconomic Impact on Low-Income Benefit Recipients: Early Evidence from Tracking Surveys," *Socius: Sociological Research for a Dynamic World* 6 (2020), *https://doi.org/10.1177/2378023120970794.*

ARPA'S EXPANSION OF REFUNDABLE TAX CREDITS REDUCED POVERTY AND SUPPORTED THE FINANCIAL SECURITY OF WOMEN AND THEIR FAMILIES

The American Rescue Plan Act of 2021 (ARPA) was a historic piece of legislation that provided needed relief for women and families. This relief included temporary expansions of three Federal income tax credits that benefit families, including the refundable Child Tax Credit (CTC), the refundable Earned Income Tax Credit (EITC), and the temporarily refundable Child and Dependent Care Tax Credit (CDCTC).

Tax credits wipe out tax liability, and a refundable tax credit provides a refund if the tax filer lacks sufficient tax liability to use up the full amount of the credit. This allows families with low and moderate incomes, among whom women supporting families on their own and households of color are overrepresented, to benefit. Both the EITC and CTC have a long track record of supporting women, families of color, and families with low incomes. Both credits serve a greater proportion of households of color, though a larger number of white households receive the credits.[19] The income boosts from the CTC and EITC have been proven to support working women, especially single working mothers.[20] Additionally, refunds from the credits have been shown to improve children's well-being, health outcomes, and education outcomes.[21]

Policymakers have expanded refundable tax credits during economic downturns in order to support families as well as stimulate the economy. Researchers in 2021 "estimate[d] that the CTC expansion will boost consumer spending by $27 billion, generate $1.9 billion in revenues from State and local sales taxes, and support the equivalent of over 500,000 full-time jobs at the median wage."[22] In 2021, the ARPA expanded and strengthened the CTC, EITC, and CDCTC.

The Child Tax Credit

The CTC helps families with the cost of raising children and has long been a critical source of income support for women and families. For tax year 2023, the CTC is worth up to $2,000 per child under age 17, and families can receive up to $1,600 of that amount as a refundable tax credit if they have at least $2,500 in earned income.[23] Due to their overrepresentation among families with low incomes, families headed by women of color especially benefit from the refundable portion of the CTC. In 2019, the refundable portion of the CTC benefited the families of 7 million women of color, with 21 percent of Latinas and 14 percent of Black women benefiting respectively, compared to 6 percent of White women.[24] However, because the CTC is not fully refundable, families with low incomes who have limited or no tax liability—including a disproportionate number of women-headed households and households of color—cannot receive the full value of the CTC.

For tax year 2021, the ARPA made the CTC fully refundable, allowing families with low incomes to benefit from the full credit. The size of the credit was also increased: families received up to $3,600 per qualifying child ages 0 to 5 and up to

[19] Chye-Ching Huang and Roderick Taylor, "How the Federal tax code Can Better Advance Racial Equity" (Center on Budget and Policy Priorities, July 25, 2019), *https://www.cbpp.org/research/federal-tax/how-the-federal-tax-code-can-better-advance-racial-equity.*

[20] Chuck Marr, Chye-Ching Huang, Arloc Sherman, and Brandon Debot, "EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children's Development, Research Finds" (Center on Budget and Policy Priorities, October 1, 2015), *https://www.cbpp.org/research/federal-tax/eitc-and-child-tax-credit-promote-work-reduce-poverty-and-support-childrens.*

[21] Hilary Hoynes, Doug Miller, and David Simon, "Income, the Earned Income Tax Credit, and Infant Health," *American Economic Journal: Economic Policy* 7, no. 1 (2015), *https://www.aeaweb.org/articles?id=10.1257/pol.20120179;* Irwin Garfinkel, Laurel Sariscsany, Elizabeth Ananat, Sophie M. Collyer, Robert Paul Hartley, Buyi Wang, and Christopher Wimer, "The Benefits and Costs of a U.S. Child Allowance" (National Bureau of Economic Research, March 2022), *https://www.nber.org/system/files/working_papers/w29854/w29854.pdf;* Andrew Barr, Jonathan Eggleston, and Alexander A. Smith, "Investing in Infants: The Lasting Effects of Cash Transfers to New Families," *Quarterly Journal of Economics* 137, no. 4 (2022), *https://academic.oup.com/qje/article-abstract/137/4/2539/6571263?redirectedFrom=fulltext.*

[22] Samuel Hammond and Robert Orr, "Report: Measuring the Child Tax Credit's Economic and Community Impact" (Niskanen Center, August 2, 2021), *https://www.niskanencenter.org/report-measuring-the-child-tax-credits-economic-and-community-impact/.*

[23] Elaine Maag, "Options to Improve the Child Tax Credit for Low-Income Families," Tax Policy Center, December 14, 2022, *https://www.taxpolicycenter.org/taxvox/options-improve-child-tax-credit-low-income-families#:~:text=To%20receive%20the%20full%20%241%2C600,refundable%20portion%20of%20the%20credit.*

[24] Chuck Marr and Yixuan Huang, "Women of Color Especially Benefit From Working Family Tax Credits" (Center on Budget and Policy Priorities, September 9, 2019), *https://www.cbpp.org/research/federal-tax/women-of-color-especially-benefit-from-working-family-tax-credits.*

$3,000 per child ages 6 to 17 (up from the previous age limit of 16). Finally, the ARPA allowed families to receive up to half their CTC credit amount in monthly installments between July and December 2021, with the second half received when they filed their tax returns in early 2022.

Almost 38 million families received the first half of their CTC as advance monthly payments, and the average total amount (across the six payments) was $2,466.[25] In 2022, nearly 47 million families received the CTC when they filed their tax returns for the 2021 tax year, and the average amount was $2,569.[26] For many families, this amount represented half of their total CTC, as they had received the first half in advance payments. In comparison, families in tax year 2020—before the ARPA expansion—received the entirety of their CTC in their tax returns with an average amount of $2,441.[27]

The expanded CTC had a tremendous anti-poverty impact, especially for families of color. It lifted 1.5 million women above Supplemental Poverty Measure (SPM)[28] poverty in 2021, including 575,000 Latinas and 351,000 Black women.[29] Additionally, the monthly payments reduced child poverty by about 30 percent during the 6 months of 2021 when they were being issued.[30]

This reduction in poverty was also associated with an increased ability for families to meet their basic needs. Analysis of the Census Household Pulse Survey demonstrated that, while families were receiving advance payments, food insufficiency dropped by almost 20 percent among families with children.[31] Families used their payments to help pay for necessities like groceries, rent, and child care, and Black women and Latinas were especially likely to report using their payments to purchase food.[32] This increased economic security was also associated with improved mental health. Another analysis of the Census Household Pulse survey demonstrated that adults with low incomes who received the CTC payments experienced fewer anxiety and depressive symptoms.[33] Finally, a national survey found that nearly 70 percent of families who received the advance payments reported that the payments reduced their financial stress—and this percent was even larger among Latinx respondents.[34]

The advance payments also helped parents balance caregiving needs and work. This balance is especially critical to women, who disproportionately shoulder caregiving responsibilities and are more likely than men to take time off paid work to provide care for family members.[35] In a national survey, over one-quarter of families who received the payments reported that the payments helped them work more, and

[25] Sarah Hassmer, Amy Matsui, Kathryn Menefee, and Shengwei Sun, "By the Numbers: Data on Key Programs for the Well-Being of Women and Their Families" (National Women's Law Center, May 2023), *https://nwlc.org/resource/by-the-numbers-data-on-key-programs-for-the-well-being-of-women-lgbtq-people-and-their-families/.*

[26] *Ibid.*

[27] National Women's Law Center calculations based on the Joint Committee on Taxation, "Estimates of Federal Tax Expenditures for Fiscal Years 2020–2024" (November 5, 2020), *https://www.jct.gov/publications/2020/jcx-23-20/.*

[28] U.S. Census Bureau, "Supplemental Poverty Measure" (last reviewed October 31, 2022), *https://www.census.gov/topics/income-poverty/supplemental-poverty-measure.html.*

[29] Hassmer et al., "By the Numbers."

[30] Zachary Parolin, Sophie Collyer, and Megan A. Curran, "Absence of Monthly Child Tax Credit Leads to 3.7 Million More Children in Poverty in January 2022" (Center on Poverty and Social Policy, February 17, 2022), *https://www.povertycenter.columbia.edu/news-internal/monthly-poverty-january-2022.*

[31] Zachary Parolin, Elizabeth Ananat, Sophie Collyer, Megan A. Curran, and Christopher Wimer, "The Differential Effects of Monthly and Lump-Sum Child Tax Credit Payments on Food and Housing Hardship" (Center on Poverty and Social Policy, September 2, 2022), *https://static1.squarespace.com/static/610831a16c95260dbd68934a/t/632dec8900629f3bdf310b91/1663954058776/CTC-Payments-on-Food-and-Housing-CPSP-2022.pdf.*

[32] Brooke LePage and Sarah Javaid, "Black, Non-Hispanic Women and Latinas Use Advance Child Tax Credit to Cover Necessities and Pay Down Debt in the Last Month of Payments" (National Women's Law Center, January 2022), *https://nwlc.org/wp-content/uploads/2022/01/PulseWeek40FS-1.pdf.*

[33] Akansha Batra, Kaitlyn Jackson, and Rita Hamad, "Effects of the 2021 Expanded Child Tax Credit on Adults' Mental Health: A Quasi-Experimental Study," *Health Affairs,* 41, no. 1 (January 2023), *https://www.healthaffairs.org/doi/10.1377/hlthaff.2022.00733.*

[34] Center for Law and Social Policy, "The Expanded Child Tax Credit is Helping Families, But National Survey Shows Continued Outreach Remains Essential" (April 2022), *https://www.clasp.org/wp-content/uploads/2022/04/2022_National-CTC-Survey-Round-2_Full-Report.pdf.*

[35] Tanya Byker, Elena Patel, and Shanthi Ramnath, "Who Cares? Paid Sick Leave Mandates, Care-Giving, and Gender" (Federal Reserve Bank of Chicago, April 2023), *https://www.chicagofed.org/publications/working-papers/2023/2023-14.*

Black respondents were twice as likely as White respondents to do so.[36] Parents interviewed for the survey specified that the advance payments helped them pay for transportation and cover the child care they needed to work additional hours.[37] In October 2021, three million fewer CTC-eligible parents reported they were unemployed because they had to care for children, than in the months before the CTC was expanded. Low- and moderate-income parents were more likely to report this shift.[38]

The Earned Income Tax Credit

The EITC is a refundable tax credit that benefits workers with low and moderate incomes. For tax year 2023, the EITC is worth a maximum of $7,430 for families with children and $600 for families not claiming children for the credit.[39] Eligibility and credit amounts depend on a worker's income, number of children claimed, and marital status. Women of color and single mothers, who are more likely to be paid low wages, especially benefit from this credit: in 2019, 21 percent of Black women and Latinas benefited (more than double the 9 percent of White, non-Hispanic women who did so).[40] In 2019, the EITC boosted the incomes of 9 million women of color above the poverty line.[41] And single mothers receive almost half of EITC credit amounts.[42]

However, the EITC only provides a very small benefit—or no benefit at all—to workers who do not claim children, including noncustodial parents and parents with older children. In 2020, the average benefit for this group was $295.[43] The EITC for childless workers, moreover, is limited to those ages 25–64, meaning that many younger and older workers are prevented from receiving the credit at all. This harms young adults trying to get a foothold in the workforce; they are generally ineligible for other State and Federal benefits and face high rates of poverty.[44] Older adults are also impacted: one in five older adults over age 65 is still in the workforce, many for financial reasons,[45] and the earnings of women over age 65 are only 77 percent of older men's.[46] In fact, childless workers with low incomes are the only group that is pushed into—or further into—poverty by their Federal taxes, largely because their EITC is too small to offset their income and payroll taxes. It is estimated that this group comprises almost 6 million workers ages 19 and older—who, among other things, do essential work as cashiers, home health aides, child-care workers, and more.[47]

In 2021, the ARPA addressed these shortcomings by expanding the EITC for workers not claiming children.[48] The maximum credit was tripled, from around $500 to $1,502, and the income limits for claiming the credit were increased from about $16,000 to around $21,000 for single adults ($27,000 for married couples). Additionally, the lower age limit was reduced to 19 in most cases and the upper age

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[36] Center for Law and Social Policy, "The Expanded Child Tax Credit."
[37] *Ibid.*
[38] Humanity Forward, "Study Finds the Expanded, Monthly Child Tax Credit Supports Work and Promotes Small Business Formation" (November 2022), *https://humanityforward.com/wp-content/uploads/2021/11/Humanity-Forward-Report-One-Pager-v4.pdf.*
[39] Center on Budget and Policy Priorities, "Policy Basics: The Earned Tax Income Credit," April 28, 2023, *https://www.cbpp.org/research/federal-tax/the-earned-income-tax-credit.*
[40] Marr and Huang, "Women of Color Especially Benefit."
[41] *Ibid.*
[42] Bruce Meyer, "The Effects of the Earned Income Tax Credit and Recent Reforms," *Tax Policy and the Economy* 24, no. 1 (2010), *https://www.journals.uchicago.edu/doi/full/10.1086/649831#:~:text=In%20addition%20to%20directly%20raising,liability%20that%20the%20credit%20offsets.*
[43] Center on Budget and Policy Priorities, "Policy Basics."
[44] Teon Dolby, Ashley Burnside, and Whitney Bunts, "EITC for Childless Workers: What's at Stake for Young Workers" (Center for Law and Policy, June 2022), *https://www.clasp.org/publications/report/brief/eitc-childless-workers-2022/.*
[45] S. Kathi Brown, "Widespread Support of Tax Relief for Workers Ages 65-Plus," AARP Research, April 2023, *https://www.aarp.org/research/topics/economics/info-2023/earned-income-tax-credit.html.*
[46] National Council on Aging, "Get the Facts on Economic Security for Seniors," June 8, 2023, *https://ncoa.org/article/get-the-facts-on-economic-security-for-seniors;* Brooke LePage and Jasmine Tucker, "A Window Into the Wage Gap: What's Behind It and How to Close It" (National Women's Law Center, January 2023), *https://nwlc.org/wp-content/uploads/2023/01/2022-Wage-Gap-Factsheet-1.10.23.pdf.*
[47] Center on Budget and Policy Priorities, "Policy Basics."
[48] Chuck Marr, "Another Tax Day Message for Congress: Time to Expand EITC for Adults Without Children," Center on Budget and Policy Priorities, April 12, 2022, *https://www.cbpp.org/blog/another-tax-day-message-for-congress-time-to-expand-eitc-for-adults-without-children.*

limit was removed. These expansions made 11 million people newly eligible for the credit,[49] including 2 million older adults.[50]

For tax year 2021, 31 million workers and families received the EITC overall (both those claiming children and those who did not).[51] The credit reached roughly 6 million more workers and families than in 2020.[52] The 2021 EITC also moved 2.6 million people out of SPM poverty, including 946,000 women (180,000 of whom are Black and 434,000 of whom are Latina).[53]

The Child and Dependent Care Tax Credit

The CDCTC is a nonrefundable tax credit that helps families meet their out-of-pocket, work-related child and dependent care expenses. In tax year 2023, the CDCTC allows families to claim $3,000 in expenses for one child or dependent, and $6,000 for two or more children or dependents. The percentage of eligible expenses that a family may claim—ranging from 20 to 35 percent—is based on a sliding scale that declines with income.[54] Currently, the CDCTC is theoretically worth a maximum of $1,050 for one child or dependent, and $2,100 for two or more children or dependents.

But because the CDCTC is nonrefundable under current law, the credit provides little actual benefit to families with low incomes who incur out-of-pocket expenses for child care, even though these expenses represent a significant share of their household budgets. Indeed, a 2022 analysis by the Tax Policy Center showed that less than 1 percent of the benefits from the CDCTC went to families with adjusted gross income of $30,000 or less.[55] This limits the credit's benefit to many households of color and women-headed households, who are overrepresented among households with low incomes.

The ARPA expanded and improved the CDCTC for tax year 2021, most importantly by making it refundable. This meant that more low- and moderate-income families were able to benefit from the credit, and in fact, some families were able to claim the CDCTC for the first time. The ARPA also increased the amount of expenses that could be claimed for the credit, and families could claim up to 50 percent of these expenses for the credit.[56] Under the ARPA, the CDCTC was worth a maximum of $4,000 for one child or dependent, and $8,000 for two or more children or dependents. In 2022, nearly 6.5 million families received the expanded CDCTC when they filed their tax returns for the 2021 Tax Year.[57] This was 288,000 more families than received the CDCTC in 2020, before the ARPA expansions.[58]

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[49] *Ibid.*

[50] Nancy A. LeaMond, "An Age Cap in the tax code Harms Older Workers," AARP, April 13, 2023, *https://blog.aarp.org/fighting-for-you/eitc-age-cap-older-workers.*

[51] Internal Revenue Service, "Statistics for Tax Returns with the Earned Income Tax Credit (EITC)," March 17, 2023, *https://www.eitc.irs.gov/eitc-central/statistics-for-tax-returns-with-eitc/statistics-for-tax-returns-with-the-earned-income.*

[52] *Ibid.*

[53] Hassmer et al., "By the Numbers."

[54] Tax Policy Center, "How Does the Tax System Subsidize Child Care Expenses?" (May 2020), *https://www.taxpolicycenter.org/briefing-book/how-does-tax-system-subsidize-child-care-expenses.*

[55] Tax Policy Center, "T22–0246—Tax Benefit of the Child and Dependent Care Credit (CDCTC), Baseline: Current Law, Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2022" (December 28, 2022), *https://www.taxpolicycenter.org/model-estimates/individual-income-tax-expenditures-december-2022/t22-0246-tax-benefit-child-and.*

[56] Congressional Research Service, "The American Rescue Plan Act of 2021 (ARPA; Pub. L. 117–2): Title IX, subtitle G—Tax Provisions Related to Promoting Economic Security" (March 16, 2021), *https://crsreports.congress.gov/product/pdf/R/R46680,* 8–9.

[57] Hassmer et al., "By the Numbers."

[58] National Women's Law Center calculations based on U.S. Congress, "Estimates of Federal Tax Expenditures for Fiscal Years 2020–2024" (Joint Committee on Taxation, November 5, 2020), *https://www.jct.gov/getattachment/ec4fb616-771b-4708-8d16-f774d5158469/x-23-20.pdf,* 40 (Table 3). There is reason to believe even more families would claim the credit if these expansions were restored. Because the credit was previously unavailable to families with low incomes, it is likely that many eligible families did not know to claim the credit in 2021; a barrier that could be remedied with awareness campaigns. Additionally, the child care industry experienced massive job losses in 2021 and child care was more difficult to access, meaning that fewer families may have incurred out-of-pockets child care costs during that time. Claire Ewing-Nelson, "Another 275,000 Women Left the Labor Force in January" (National Women's Law Center, February 2021), *https://nwlc.org/wp-content/uploads/2021/02/January-Jobs-Day-FS.pdf,* 2. Finally, some tax returns from 2021 still have not been processed. Kelly Phillips Erb, "IRS Processing Updates Include Up to 20-Week Wait for Amended Tax Returns," *Forbes,* May 22, 2023, *https://www.forbes.com/sites/kellyphillipserb/2023/05/22/irs-issues-processing-updates-including-20-week-wait-for-amended-tax-returns/?sh=3c8e8658176e.*

The Expiration of ARPA's Tax Credit Expansions Increased Poverty, Harmed the Economic Security and Well-Being of Women and Families, and Once Again Limited the Support the Tax Code Provides to the Families That Need It Most

The ARPA's expansions to the CTC, EITC, and CDCTC expired at the end of 2021, and the impact on women and families was immediate and severe. In early 2022, after the CTC payments had expired, poverty among children and families had already begun to increase. The overall monthly child poverty rate rose sharply between December 2021 and January 2022, from 12.1 percent to 17 percent. This means there were 3.7 million more children living below the poverty line in January 2022 than in December 2021.[59] Children of color were hit the hardest: 1.25 million more Latinx children and 600,000 more Black children experienced poverty in the months after the payments expired.[60] These elevated poverty rates, after a brief dip in March when families received their tax refunds, remained high throughout 2022.[61]

The expiration of the CTC has also made it more difficult for families to meet their basic needs. After the CTC payments stopped, households with children experienced a 25 percent increase in food insufficiency.[62] Nearly two in three parents reported that it has been more difficult for their families to meet expenses after the payments expired, with Latinx and low-income parents especially likely to report difficulty. Parents also reported more challenges affording high quality foods and visiting food banks or pantries more frequently.[63]

The fact that the CTC is no longer fully refundable is especially harmful to the families most in need of support. About 19 million children under age 17 live in families that do not receive the full CTC under current law because their family is not paid enough[64]—including almost half of Black and Latinx children.[65] A majority of children in households headed by a single parent, who are most often women, also do not receive the full credit now that the expansions have expired.[66]

Additionally, the expiration of the EITC's and the CDCTC's expansions made these credits less beneficial, or even inaccessible, to many families and workers with low incomes. The more than 17 million people estimated to have received additional benefit from the expanded EITC in 2021—including 3.6 million Latinx workers and 2.7 million Black workers—are now only eligible for much smaller credits or no credit at all.[67] And families with low incomes are effectively shut out of the CDCTC entirely, despite the increasingly high cost of child care. Limiting the benefit these credits provide to families with low incomes, moreover, disproportionately impacts women and families of color.

Congress Should Reinstate the ARPA's Expansions to Refundable Tax Credits

The ARPA's expansion of the CTC, EITC, and CDCTC provided effective and targeted relief during a devastating economic downturn. In 2021, the three expanded

[59] Parolin, Collyer, and Curran, "Absence of Monthly Child Tax Credit."
[60] Megan A. Curran, "Research Roundup of the Expanded Child Tax Credit: One Year On," Poverty and Social Policy Report 6 no. 9 (November 15, 2022), *https://static1.squarespace.com/static/610831a16c95260dbd68934a/t/63732dd8efcf0e5c76aea26e/1668492763484/Child-Tax-Credit-Research-Roundup-One-Year-On-CPSP-2022.pdf,* 20.
[61] Center on Poverty and Social Policy at Columbia University, "Monthly Poverty Data" (December 2022), *https://www.povertycenter.columbia.edu/forecasting-monthly-poverty-data.*
[62] Bovell-Ammon, Allison, Nicole C. McCann, Martha Mulugeta, Stephanie Ettinger de Cuba, Julia Raifman, and Paul Shafer, "Association of the Expiration of Child Tax Credit Advance Payments with Food Insufficiency in U.S. Households," *JAMA Network Open* 5, no. 1 (2022), *https://jamanetwork.com/journals/jamanetworkopen/fullarticle/2797549.*
[63] Ashley Burnside, Bruce Fuller, and Qifan Zhang, "How Parents Use the Child Tax Credit and Implications of Ended Monthly Payments: Key Findings, July 2022 Continental U.S. Survey" (The Center for Law and Social Policy, September 12, 2022), *https://www.clasp.org/wp-content/uploads/2022/09/Continental-CTC-Survey-3-Topline-Findings-1-1.pdf,* 2.
[64] Tax Policy Center, "T22–0123—Distribution of Tax Units and Qualifying Children by Amount of Child Tax Credit (CTC), 2022" (October 18, 2022), *https://www.taxpolicycenter.org/model-estimates/children-and-other-dependents-receipt-child-tax-credit-and-other-dependent-tax.*
[65] Jacob Goldin and Katherine Michelmore, "Who Benefits from the Child Tax Credit," *National Tax Journal* 75, no 1 (2022).
[66] Zachary Parolin, Elizabeth Ananat, Sophie M. Collyer, Megan Curran, and Christopher Wimer, "The Initial Effects of the Expanded Child Tax Credit on Material Hardship" (National Bureau of Economic Research, September 2021), *http://www.nber.org/papers/w29285.*
[67] Marr, "Another Tax Day Message."

credits boosted nearly 9.7 million people out of SPM poverty, including nearly 2.9 million adult women and over 4.9 million children.[68]

The relief provided by the ARPA and other legislation helped mitigate the worst impacts of the pandemic on women, communities of color, and families with low incomes. But inequities in the job market and other economic systems that predated the pandemic have persisted, and in some cases have grown. The economic recovery has been uneven for many women, households of color, and families with low incomes. Women,[69] including women of color[70] and older women,[71] lagged behind in job gains. In May 2023, over one in five unemployed women were long-term unemployed, meaning they had been out of work for 6 months or longer.[72] In addition, many women—especially Latinas and Black women—continue to work part-time involuntarily, because they cannot find full-time work or for other economic reasons.[73]

With Federal relief expiring, families are struggling to make ends meet, with households of color and those with low and moderate incomes reporting larger declines in their financial well-being in 2022.[74] In 2022, a substantial minority of households were unable to cover their monthly bills in full, or would have been unable to meet an unexpected emergency of $400.[75] There is also evidence that women of color continue to face higher rates of material hardship. In November 2022, nearly one in five Latinas and over one in seven Black women were in households that lost employment income, and nearly one in five Black women and over one in seven Latinas did not have enough food to eat.[76] This exacerbates the pandemic's impact on mental health.

Between July 2021 and May 2022, one in three women had anxiety or depressive symptoms, and this share was much higher among women who did not have food, could not afford rent, or did not have child care.[77]

Negative long-term effects of the pandemic on the incomes, wealth, health and well-being, and overall economic security of women, children, and families will likely continue to reveal themselves. For example, an estimated 245,000 children across the United States have been orphaned during COVID,[78] and may well face significant mental health, educational, and financial needs in the coming years. Researchers have also found that long COVID is impacting people's employment[79] and have estimated that people with long COVID face average additional health costs of about

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[68] Hassmer et al., "By the Numbers."

[69] Beth Almeida and Isabela Salas-Betch, "Fact Sheet: The State of Women in the Labor Force in 2023" (Center on American Progress, February 6, 2023), *https://www.americanprogress.org/article/fact-sheet-the-state-of-women-in-the-labor-market-in-2023/*.

[70] Sarah Jane Glynn and Mark DeWolf, "Black Women's Economic Recovery Continues to Lag" (U.S. Department of Labor, February 9, 2022), *https://blog.dol.gov/2022/02/09/black-womens-economic-recovery-continues-to-lag;* Jared Bernstein and Janelle Jones, "The Impact of the COVID–19 Recession on the Jobs and Incomes of Persons of Color" (Groundwork Collaborative, May 13, 2020), *https://groundworkcollaborative.org/wp-content/uploads/2020/05/Groundwork-Bernstein-Jones-paper_5.13.pdf;* Megan Cassella, "Black Workers, Hammered by Pandemic, Now Being Left Behind in Recovery," POLITICO, March 23, 2021, *https://www.politico.com/news/2021/03/23/black-workers-pandemic-recovery-477640.*

[71] Catherine Hill and Gretchen Livingston, "Two Years into the Pandemic, Women Aged 65 and Older Had Yet to Recover Their COVID-Related Employment Losses" (Women's Bureau, U.S. Department of Labor, (2021), *https://www.dol.gov/sites/dolgov/files/WB/media/Two%20Years%20into%20the%20Pandemic_Women%20Ages%2065.pdf.*

[72] Sarah Javaid and Brooke LePage, "Despite Strong Job Gains in May, Black Women's Unemployment Rate Jumps Nearly a Full Percentage Point" (National Women's Law Center, June 2023), *https://nwlc.org/wp-content/uploads/2023/06/May-Jobs-Day-6.2.23v2.pdf.*

[73] *Ibid.*

[74] The Federal Reserve, "Economic Well-Being of U.S. Households in 2022" (May 2023), *https://www.federalreserve.gov/publications/files/2022-report-economic-well-being-us-households-202305.pdf.*

[75] *Ibid,* 2.

[76] Sarah Javaid and Shengwei Sun, "Lacking Robust Supports, Black, Non-Hispanic Women, Latinas, LGBT Adults, and Disabled Women Endure Persistent Hardship" (National Women's Law Center, March 2023), *https://nwlc.org/resource/lacking-robust-supports-black-non-hispanic-women-latinas-lgbt-adults-and-disabled-women-endure-persistent-hardship/.*

[77] Sarah Javaid, "A Mental Health Epidemic: The COVID–19 Pandemic's Effect on Anxiety and Depression Among Women and LGBT Adults" (National Women's Law Center, 2022), *https://nwlc.org/wp-content/uploads/2023/06/NWLC_Report_MentalHealthReport-1.pdf.*

[78] Timothy Pratt, "COVID has Left Thousands of U.S. Children Orphans. Few States are Addressing the Crisis," *The Guardian,* April 8, 2023, *https://www.theguardian.com/world/2023/apr/08/covid-orphans-us.*

[79] New York State Insurance Fund, "NYSIF Releases Report on Long-Term Impacts of COVID–19" (January 24, 2023), *https://ww3.nysif.com/en/FooterPages/Column1/AboutNYSIF/NYSIF_News/2023/20230124LongCovid.*

$9,000 per year.[80] In addition, research suggests that younger workers entering the job market in a period of high unemployment, such as that which occurred during the pandemic, may experience reduced earnings for up to 10 years and reduced job mobility, both of which will affect lifetime earnings.[81] Women can ill afford these reductions: based on today's wage gap, women will already lose almost $400,000 over a 40-year career, with the lifetime loss of earnings for Black women totaling nearly $1 million and the lifetime losses for Latinas exceed $1 million.[82] Moreover, many families exhausted their savings, fell behind on bills, or accrued debt.[83] It will take time and resources for these families to dig themselves out of this financial hole, and the accumulated debt may impact their credit, and their future ability to purchase a car or a home, invest in their children's education, or save for their own retirement.

Accordingly, in order to reduce poverty and support families through the tax code, policymakers should reinstate the ARPA's expansions to the CTC, EITC, and CDCTC.

In particular, the full refundability of the CTC should be a priority. The limits on the CTC's refundability exclude those who are most disadvantaged in the labor market—for example, those who face gender, racial, or other discrimination and harassment in the workplace, have work-limiting disabilities, have significant unpaid caregiving responsibilities, or experience extended spells of unemployment during a particular tax year. Permanently removing those limits would benefit households headed by women of color, who have higher poverty rates, face wide and persistent wage gaps, have limited access to caregiving supports, and are overrepresented in poorly paid jobs. Additionally, evidence from the ARPA showed that full refundability greatly reduces child poverty; it is estimated that full refundability drove 87 percent of the expanded CTC's anti-poverty impact in 2021.[84] Restoring full refundability for the CTC would once again drive historic reductions in child poverty and ensure millions of children in low-income households could receive the full benefit of the CTC.[85] One 2022 study estimated that restoring the ARPA's CTC expansions would increase the number of children eligible for the full credit from 64 percent to nearly 97 percent of all children, including 98 percent of Black and Latinx children.[86]

Policymakers should consider making the ARPA's other expansions to the CTC, which especially benefited women, households of color, and families with low incomes, permanent as well. For example, providing families with the option of monthly payments would help many families better manage their expenses, compared to waiting for a lump-sum payment after taxes are filed.[87] In a national sur-

[80] Greg Iacurci, "Millions Suffer from Long COVID and It Costs Them $9,000 a Year in Health-care Expenses, on Average" (CNBC, December 1, 2022), *https://www.cnbc.com/2022/12/01/long-covid-costs-patients-an-average-9000-a-year-in-medical-expenses.html.*

[81] Catherine Bosley, Max Reyes, Jeff Green, and Bloomberg, "How Millennials Are Being Set Back by Back-to-Back Financial Crises," *Fortune,* April 11, 2020, *https://fortune.com/2020/04/11/millennials-coronavirus-great-recession-economy-personal-finance/; NY Times,* "Facing Adulthood With an Economic Disaster's Lasting Scars," May 19, 2020, *https://www.nytimes.com/2020/05/19/business/economy/coronavirus-young-old.html;* Janet Adamy, "Millennials Slammed by Second Financial Crisis Fall Even Further Behind," *Wall Street Journal,* August, 9, 2020, *https://www.wsj.com/articles/millennials-covid-financial-crisis-fall-behind-jobless-11596811470.*

[82] National Women's Law Center, "The Lifetime Wage Gap, State by State" (March 2023), *https://nwlc.org/resources/the-lifetime-wage-gap-state-by-state/.*

[83] Kim Parker, Rachel Minkin, and Jesse Bennett, "Economic Fallout From COVID–19 Continues to Hit Lower-Income Americans the Hardest" (Pew Research Center, September 24, 2020).

[84] Chuck Marr, Kris Cox, and Arloc Sherman, "Build Back Better's Child Tax Credit Changes Would Protect Millions From Poverty—Permanently" (Center on Budget and Policy Priorities, November 2021), *https://www.cbpp.org/research/federal-tax/build-back-betters-child-tax-credit-changes-would-protect-millions-from#:~:text=Altogether%20Build%20Back%20Better's%20Child, would%20be%20without%20the%20expansion.*

[85] Gregory Acs and Kevin Werner, "Expanding the Child Tax Credit Could Lift Millions of Children out of Poverty" (Urban Institute, June 2022), *https://www.urban.org/sites/default/files/2022-06/expanding-the-child-tax-credit-could-lift-millions-of-children-out-of-poverty.pdf.*

[86] Goldin and Michelmore, "Who Benefits from the Child Tax Credit?"

[87] 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)" (Brookings Institute, April 13, 2022), *https://www.brookings.edu/research/the-impacts-of-the-2021-expanded-child-tax-credit-on-family-employment-nutrition-and-financial-well-being/.*

vey, 55 percent of respondents preferred the monthly payments compared to 26 percent who didn't (and 19 percent who did not know).[88] Families with lower incomes were more likely to prefer the monthly payments, with survey responses indicating that the predictability and flexibility of the payments allowed these families to fill gaps in their budget and put the money toward their most pressing expenses.[89] Women of color were especially likely to use the payments to pay for basic expenses, such as groceries and rent payments, and monthly cash payments are more useful than a lump sum delivered once yearly to meet such ongoing needs as they arise.[90] The increased credit amounts for young children, moreover, will help ameliorate the impact of the higher costs of raising very young children—which show no signs of abating—on families with low and moderate incomes.

Research conducted during the ARPA expansions found that the advance CTC payments allowed many parents to work more hours.[91] Moreover, the vast majority of families who received the monthly credit payments in 2021 did not work less than other families.[92] A national survey found no statistically significant changes in employment between CTC-eligible households and CTC-ineligible households over the 6 months of advance CTC payments.[93] Another analysis found that adults that received the CTC had similar changes to employment and hours of work from 2020 to 2021 as those who did not.[94]

Similarly, numerous studies have shown that making the CTC expansion permanent would not greatly impact employment. One 2022 study surveyed programs that provide benefits similar to the CTC—including the EITC and annual income supports in Alaska—and found that there is "not much empirical evidence that moderately sized shocks to household income led to substantial declines in labor supply." The study further modeled the impact of a permanently expanded CTC and estimated that less than one percent of working parents would leave the workforce.[95] An Urban Institute study likewise estimated that any reduction of employment would be minimal and would not affect the credit's anti-poverty impact.[96] Further, recent research by Barnard College, Columbia University, and the Open Sky Policy Institute estimates that making the ARPA CTC expansions permanent would provide $982 billion in social benefits by improving children's future earnings, health, and longevity, outweighing any losses from employment reductions and translating

[88] Amy Matsui, "Families Prefer Receiving Monthly CTC Payments" (National Women's Law Center, January 14, 2022), *https://nwlc.org/families-prefer-receiving-monthly-ctc-payments/*.

[89] Elaine Maag and Michael Karpman, "Many Adults with Lower Incomes Prefer Monthly Child Tax Credit Payments" (Urban Institute, July 27, 2022), *https://www.taxpolicycenter.org/publications/many-adults-lower-income-prefer-monthly-child-tax-credit-payments*.

[90] LePage and Javaid, "Black, Non-Hispanic Women."

[91] Humanity Forward and Washington University in St. Louis Social Policy Institute, "Child Tax Credit: Promoting Work, Responsibility, and Economic Growth" (September 2022), *https://humanityforward.com/wp-content/uploads/2021/10/humanity-forward-report-9-17-1.pdf;* Stephen Roll, Leah Hamilton, and Yung Chun, "Expanded Child Tax Credit Payments Have Not Reduced Employment" (Humanity Forward, January 2022), *https://humanityforward.com/wp-content/uploads/2022/01/CTC-and-Employment-012620221.pdf*.

[92] Elizabeth Ananat, Benjamin Glasner, Christal Hamilton, and Zachary Parolin, "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, March 2022), *https://www.nber.org/system/files/working_papers/w29823/w29823.pdf*.

[93] 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)" (Brookings Institute, 2022), *https://www.brookings.edu/wp-content/uploads/2022/04/Child-Tax-Credit-Report-Final_Updated.pdf*.

[94] Michael Karpman, Elaine Maag, Stephen Zuckerman, and Doug Wissoker, "Child Tax Credit Recipients Experienced Larger Decline in Food Insecurity and a Similar Change in Employment as Nonrecipients between 2020 and 2021" (Urban Institute, May 9, 2022), *https://www.urban.org/research/publication/child-tax-credit-recipients-experienced-larger-decline-food-insecurity-and*.

[95] Jacob Goldin, Elaine Maag, and Katherine Michelmore, "Estimating the Net Fiscal Cost of a Child Tax Credit Expansion," *Tax Policy and the Economy* 36 (2022), *https://www.journals.uchicago.edu/doi/abs/10.1086/718953?journalCode=tpe#:~:text=We%20find%20that%20making%20the,cost%20approximately%20%2421%20billion%20annually*. Other studies modeling the employment impact of a permanent CTC have had similar findings. Jacob Bastian, "How Would a Permanent 2021 Child Tax Credit Expansion Affect Poverty and Employment?" (April 23, 2023), *https://drive.google.com/file/d/1H5iNZZO_YFRIDz-3Tip4C-BpnD85bUjH/view;* Alex Brill, Kyle Pomerleau, and Grant M. Seiter, "CTC Labor Response" (2021), *https://grantseiter.com/CTC-Labor-Response/content.html*.

[96] Gregory Acs and Kevin Werner, "How a Permanent Expansion of the Child Tax Credit Could Affect Poverty" (Urban Institute, July 29, 2021), *https://www.urban.org/research/publication/how-permanent-expansion-child-tax-credit-could-affect-poverty*.

into up to 10 dollars of social benefit for every dollar invested in the CTC.[97] Given the positive effects of the expanded CTC on children, families, and society more broadly, expanding this policy is warranted.

Restoring the ARPA's expansions to the EITC for workers not claiming children would also help many low-income households, among whom women and people of color are overrepresented. It is estimated that the expanded EITC would provide additional benefit to 17.4 million workers,[98] including 5 million young workers. This group of younger workers is comprised of many young workers of color: nearly a million young Latinx individuals and 600,000 young Black people would have their incomes lifted by $765 million and $470 million in total EITC benefits, respectively.[99] Additionally, 204,000 Black and 187,000 Latinx workers over the age of 65 would have their EITC eligibility restored.[100] The expansion would also benefit a broad range of women workers, including working mothers with older children, women workers caring for family members who are seniors or people with disabilities, and older women who are approaching retirement.

Policymakers should also restore expansions to the CDCTC. Families with low and moderate incomes continue to struggle to access and afford child care in the absence of sustained public investments that would strengthen the fragile and inequitable child-care system. The lack of affordable, available child care has hampered women's return to the workforce.[101] Reinstating some of the ARPA's improvements to the CDCTC, most especially refundability, would benefit families with children who are struggling to meet child care expenses. It should be noted that increased support to *individual families* through the tax code would not supplant the need for robust public investments in child care, home- and community-based services. While tax credits can relieve some of the financial burden of care, they alone cannot make care affordable nor build the needed supply and workforce to provide that care.[102]

Finally, policymakers should restore and increase IRS funding—including the funding from the Inflation Reduction Act that was recently reduced. The IRS will need to hire and train staff and develop agency initiatives to improve experiences for taxpayers more generally, but specifically to help ensure that low- and moderate-income tax filers know about, and can access, tax benefits for which they are eligible. In addition, increasing funding for IRS enforcement with an emphasis on the wealthiest will ensure that the country is not deprived of tax revenues from unpaid taxes—an estimated $600 billion per year[103]—and that EITC claimants are not audited at disproportionate rates.[104]

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97 Garfinkel et al., "The Benefits and Costs."

98 Marr, "Another Tax Day Message."

99 Aidan Davis, "Federal EITC Enhancements Help More Than One in Three Young Workers" (Institute on Taxation and Economic Policy, February 8, 2022), *https://itep.org/federal-eitc-enhancements-help-more-than-one-in-three-young-workers/*.

100 LeaMond, "An Age Cap."

101 Liana Christin Landivar and Mark deWolf, "Mothers' Employment Two Years Later: An Assessment of Employment Loss and Recovery During the COVID–19 Pandemic" (U.S. Department of Labor, May 2022), *https://www.dol.gov/sites/dolgov/files/WB/media/Mothers-employment-2%20-years-later-may2022.pdf;* Mitchell Hartman, "Women's Return to Work a Stop-and-Start Struggle," *Marketplace,* October 6, 2022, *https://www.marketplace.org/2022/10/06/womens-return-to-work-a-stop-and-start-struggle/*.

102 Katherine Gallagher Robbins, Melissa Boteach, and Julie Kashen, "Why Child Care Needs Direct Spending, Not Just Tax Credits, During COVID and Beyond" (Center for Law and Social Policy, January 28, 2021), *https://www.clasp.org/publications/fact-sheet/child-care-direct-spending-tax-credits/;* "Cutting Costs for Women and Families Depends on Public Investments" (National Women's Law Center, March 2022), *https://nwlc.org/wp-content/uploads/2022/03/PublicInvestmentFS-1.pdf.*

103 Julia Cusick, "RELEASE: 88 Organizations Call for Stronger Tax Enforcement for Wealthy Individuals and Corporations" (Center for American Progress, February 18, 2021), *https://www.americanprogress.org/press/release/2021/02/18/496075/release-88-organizations-call-stronger-tax-enforcement-wealthy-individualscorporations/;* Galen Hendricks and Seth Hanlon, "Better Tax Enforcement Can Advance Fairness and Raise More than $1 Trillion of Revenue" (Center for American Progress, April 19, 2021), *https://www.americanprogress.org/issues/economy/reports/2021/04/19/498311/better-tax-enforcement-can-advance-fairness-raise1-trillion-revenue/*.

104 U.S. Government Accountability Office, "Tax Compliance: Trends of IRS Audit Ratios and Results for Individual Taxpayers by Income" (May 2022), *https://www.decligao.gov/assets/gao-22-104960.pdf;* Congressional Research Service, "EITC Audits: By the Numbers" (June 13, 2022), *https://crsreports.congress.gov/product/pdf/IN/IN11952*.

CONCLUSION

The evidence is clear that expanded refundable tax credits are a targeted and effective way to reduce poverty and support families through the tax code. While the ARPA expansions provided substantial relief to families in the depth of the COVID recession, decades of research, bolstered by recent evidence about the impact of the expanded credits in 2021, show the irrefutable benefit of these credits in all economic circumstances, especially for families with low and moderate incomes, families headed by women, and Black and Latinx families. For example, the Urban Institute estimates that in a typical year the expanded CTC, by itself, would reduce child poverty by over 40 percent—and would cut Black child poverty in half.[105] Moreover, expanded refundable tax credits can correct for systemic inequities—especially if combined with robust public investments in the care infrastructure, health care, affordable and accessible housing, and a livable wage.[106] In short, women and families needed the expanded refundable tax credits before the pandemic, especially benefited from them in 2021 and 2022, and continue to need them today and in the foreseeable future.

Policymakers should reduce poverty and support families by expanding refundable tax credits that women and families rely on, following the successful model of the American Rescue Plan Act.

QUESTION SUBMITTED FOR THE RECORD TO AMY K. MATSUI

QUESTION SUBMITTED BY HON. CATHERINE CORTEZ MASTO

Question. The Tax Cuts and Jobs Act of 2017 denied the Child Tax Credit to roughly 1 million low-income children in immigrant families who lack a Social Security number, even though their parents face payroll and other taxes on their income.

These are some of the most in need children in our country. What is the long-term impact if these children are continued to be denied benefits?

Answer. The Child Tax Credit (CTC) supports the economic security of families with children and lifts millions of children out of poverty every year; in 2018, the CTC lifted 2.3 million children above the poverty line.[1] However, under current law, many children in immigrant families with low incomes cannot benefit from the credit at all.

The Tax Cuts and Jobs Act—signed into law in 2017—prohibits taxpayers from claiming children with Individual Tax Identification Numbers (ITINs) for the CTC. This prevents roughly 1 million children from receiving the credit, overwhelmingly "Dreamers" who were brought to this country by their parents,[2] many of whom are Latinx.[3] This prohibition is particularly harmful for immigrant families with low incomes and few resources, who may not be eligible to receive other income supports. Continuing to bar 1 million children from the anti-poverty impact of the CTC imperils their well-being over the long term. Poverty severely harms children's development.[4] In contrast, numerous studies have found that refunds from refundable tax credits like the CTC improve children's well-being, health outcomes, and education

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[105] Gregory Acs and Kevin Werner, "How a Permanent Expansion of the Child Tax Credit Could Affect Poverty" (Urban Institute, July 29, 2021), *https://www.urban.org/research/publication/how-permanent-expansion-child-tax-credit-could-affect-poverty.*

[106] Melissa Boteach, Amy K. Matsui, Indivar Dutta-Gupta, Kali Grant, Funke Aderonmu, and Rachel Black, "A tax code for the Rest of Us: A Framework and Recommendations for Advancing Gender and Racial Equity Through Tax Credits" (National Women's Law Center, November 2019), *https://nwlc.org/wp-content/uploads/2019/11/NWLC-GCPI-Tax-Code-for-the-Rest-of-Us-Nov14.pdf.*

[1] Center on Budget and Policy Priorities, "Policy Basics: The Child Tax Credit" (December 7, 2022), *https://www.cbpp.org/research/federal-tax/the-child-tax-credit.*

[2] Chye-Ching Huang, "Fundamentally Flawed 2017 Tax Law Largely Leaves Low- and Moderate-Income Americans Behind" (Center on Budget and Policy Priorities, February 2019), *https://www.cbpp.org/federal-tax/fundamentally-flawed-2017-tax-law-largely-leaves-low-and-moderate-income-americans.*

[3] Wyatt Clarke, Kimberly Turner, and Lina Guzman, "One Quarter of Hispanic Children in the United States Have an Unauthorized Immigrant Parent" (National Research Center on Hispanic Children and Families, October 2017), *https://www.hispanicresearchcenter.org/wp-content/uploads/2019/08/Hispanic-Center-Undocumented-Brief-FINAL-V21.pdf.*

[4] Nicole L. Hair, Jamie L. Hanson, Barbara L. Wolfe, and Seth D. Pollak, "Association of Child Poverty, Brain Development, and Academic Achievement," *JAMA* 169, no. 9 (2015), *https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4687959/.*

outcomes. One study found that children whose families received a one-time benefit of $1,300 when they were infants experienced increased earnings in young adulthood.[5]

The American Rescue Plan Act's temporary expansion made the CTC's anti-poverty impact even more tremendous, reducing child poverty by about 30 percent during the 6 months of 2021 when the payments were being issued. As the Congress considers expansions to the CTC, policymakers should ensure that children with ITINs are no longer left out of the credit. Children's immigration status should not exclude them from benefits that might lift them out poverty and improve their lives, as well as support their families, communities, and the economy as a whole.

PREPARED STATEMENT OF BRUCE D. MEYER, PH.D., MCCORMICK FOUNDATION PROFESSOR, HARRIS SCHOOL OF PUBLIC POLICY, UNIVERSITY OF CHICAGO; AND NONRESIDENT FELLOW, AMERICAN ENTERPRISE INSTITUTE [1]

Chairman Wyden, Ranking Member Crapo, and distinguished members of committee, thank you for the opportunity to testify. My name is Bruce D. Meyer, and I am the McCormick Foundation Professor of Public Policy at the University of Chicago Harris School of Public Policy.

I have spent 40 years researching the effects of government programs for those suffering disadvantage or with low incomes. My approach is to see what the facts say, not presuppose answers to policy questions. While I am testifying on behalf of the Republican minority, I am not a partisan individual. Federal Election Commission data will tell you that I have never donated to Republicans and frequently donated to Democrats. I was proud to work with a little-known Illinois State Senator in the late 1990s, Barack Obama, to pass a State Earned Income Tax Credit because my research suggested that such a credit would reduce poverty and encourage work at the same time.[2] I thought it was a good use of evidence when President Clinton cited that same research.[3] President Clinton also signed bipartisan legislation to convert a welfare system that discouraged work and prolonged poverty into one that promoted work and financial independence.[4] Times have changed. This legislative body came within a vote of reversing the pro-work incentives of the existing Child Tax Credit (CTC). I am specifically talking about the replacement of the CTC with a child allowance as included in Build Back Better Act of 2021 and other proposals. Such proposals would largely reverse the bipartisan welfare reforms of the 1990s that encouraged work, reduced poverty, and encouraged responsible parenting. I refer specifically to proposals that would make the CTC completely refundable as a child allowance, essentially converting the CTC from a credit against taxes to a cash welfare program administered by the Internal Revenue Service, conditioned neither on work nor payment of taxes.

Times have changed, but I do not believe I have, except to acknowledge that the evidence in favor of pro-work social policy has only gotten stronger. I believe it is my responsibility to push back against policy changes that have been advocated on the basis of limited and faulty evidence. In my testimony today, I will summarize the historical evidence on policies supporting low-income individuals and families; describe the likely impacts of the proposed child allowance; and argue that there are pronounced weaknesses in the evidence underpinning support for such an allowance.

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[5] Andrew Barr, Jonathan Eggleston, and Alexander A. Smith, "Investing in Infants: The Lasting Effects of Cash Transfers to New Families," *The Quarterly Journal of Economics* 137, no. 4 (2022), *https://academic.oup.com/qje/article-abstract/137/4/2539/6571263*.

[1] The American Enterprise Institute (AEI) is a nonpartisan, nonprofit, 501(c)(3) educational organization and does not take institutional positions on any issues. The views expressed in this testimony are those of the author.

[2] "Make Work Pay in Illinois," a 2000 video promoting an Illinois State Earned Income Tax Credit featuring Bruce Meyer, Barack Obama, and others, *https://voices.uchicago.edu/brucemeyer/media/*.

[3] Bruce D. Meyer and Dan T. Rosenbaum, 2001, "Welfare, the Earned Income Tax Credit, and the Labor Supply of Single Mothers." *The Quarterly Journal of Economics* 116 (3); and Bruce D. Meyer and Dan T. Rosenbaum, 2000, "Making Single Mothers Work: Recent Tax and Welfare Policy and Its Effects." *National Tax Journal* 53, 1027–1062.

[4] President Clinton's statement on the Personal Responsibility and Work Opportunity Act of 1996: "A long time ago I concluded that the current welfare system undermines the basic values of work, responsibility, and family, trapping generation after generation in dependency and hurting the very people it was designed to help." *https://www.nytimes.com/1996/08/01/us/text-of-president-clinton-s-announcement-on-welfare-legislation.html*

HISTORY PROVIDES THE BEST EVIDENCE

The best evidence on the likely effects of proposed tax and benefit changes comes from similar changes in the past affecting the same population. Large policy changes make determining the causal impact of policy changes more obvious as other factors become relatively less important. Examining the responses over many years is more likely to show the long run effects after the target population has understood and responded to the policy changes. Some of the social trends that are crucial likely involve changing norms that may take decades to be fully evident.[5]

Welfare Reform Increased Work, Raised Living Standards, and Reduced Poverty

During the 1990s a series of policy changes shifted the emphasis of support from unconditional cash assistance to assistance conditioned on work for most single mothers.[6] While much of the attention is on PRWORA, other policy changes during this time also increased the incentives to work, including significant expansions to the Earned Income Tax Credit (EITC) between 1990 and 1996.[7] Collectively, these policy changes served to increase work effort, raise incomes and living standards, and reduce poverty, particularly among low-education single mothers, those most likely to be affected by these changes.

Employment

A number of studies have shown a direct tie between the replacement of Aid to Families with Dependent Children (AFDC) with Temporary Assistance to Needy Families (TANF) as well as expansions of the generosity of the EITC in the 1990s and the employment of single mothers.[8]

This link is evident in Figure 1, which reports the fraction of single mothers that were employed at any point in the year by educational attainment. The most striking feature of these patterns is the 1990s sharp rise in employment rates for single mothers without a high school degree—the group most likely to be affected by welfare reform, the EITC, or the replacement of the CTC with a child allowance. The changes largely take place between 1990 and 1999—a period that spans the largest EITC expansions and welfare reform as well as other pro-work policies. There are only small changes in other periods prior to and after the period of welfare reform and EITC expansion. This pattern of rising employment in the 1990s is also evident, but to a much lesser extent, for single mothers with a high school degree or some college. Past work has shown that this rise in employment for low-educated single mothers contrasts sharply with the pattern for childless single women.[9] There was some reduction in employment for these groups in the 2000s that mirrored the changes for other groups, such as single women without children, but most of the increase in employment was permanent. For single mothers with a college degree, however, the employment rates have been both higher and remarkably flat over the

[5] Thomas J. Nechyba, 2001, "Social approval, values, and AFDC: A reexamination of the illegitimacy debate." *Journal of Political Economy* 109, no. 3 (January): 637–72. *https://doi.org/10.1086/321020.*

[6] For detailed discussions of these policy changes, *see* Grogger and Karoly (2005) and Ziliak (2016).

[7] Other relevant policy changes include expanded childcare and job training as well as other noncash assistance. In addition, policies that significantly impacted single mothers continued to be implemented during and well after the welfare reform period, including expansions in Medicaid, the introduction of the Child Tax Credit in 1997, allowing a portion of the CTC to be refundable in 2001, expanded access to health insurance through the ACA, as well as other changes in tax and transfer policy. Some of these policies reduce work incentives, such as the refundability of the CTC and the expanded availability of health insurance through Medicaid without work.

[8] Bruce D. Meyer and Dan T. Rosenbaum, 2001, "Welfare, the Earned Income Tax Credit, and the Labor Supply of Single Mothers." *The Quarterly Journal of Economics* 116 (3); Bruce D. Meyer and Dan T. Rosenbaum, 2000, "Making Single Mothers Work: Recent Tax and Welfare Policy and Its Effects." *National Tax Journal* 53, 1027–1062; Jeffrey Grogger, 2003, "The Effects of Time Limits, the EITC, and Other Policy Changes on Welfare Use, Work, and Income among Female-Headed Families." *Review of Economics and Statistics* 85 (2): 394–408; Diane Whitmore Schanzenbach and Michael Strain. 2020. "Employment Effects of the Earned Income Tax Credit: Taking the Long View." w28041. Cambridge, MA: National Bureau of Economic Research; Henrik Kleven, 2019, "The EITC and the Extensive Margin: A Reappraisal." w26405. Cambridge, MA: National Bureau of Economic Research.

[9] Bruce D. Meyer, 2010, "The Effects of the Earned Income Tax Credit and Recent Reforms." *Tax Policy and the Economy* 24 (1): 153–80; Robert Moffitt and Stephanie Garlow, 2018, "Did Welfare Reform Increase Employment and Reduce Poverty?" Stanford Center on Poverty and Inequality.

past 35 years. Overall, between 1990 and 1999, the employment of single mothers rose by 1.2 to 1.4 million people.[10]

Living Standards

While this sizeable and permanent increase in involvement in the labor market led to increased earnings for single mothers, it is not immediately clear whether the increase in employment led to improvements in economic well-being given the sharp decline in the receipt of cash welfare, as well as other concerns such as the greater need for childcare due to increased work. The evidence is that living standards at the bottom did increase substantially, as indicated by both consumption and income measures that account for survey underreporting. Furthermore, when one accounts for the underreporting of transfers by either using consumption measures of well-being or relying on broader measures of income, researchers have found that poverty fell and well-being at the bottom rose following welfare reform.[11] Han, Meyer, and Sullivan (2021) find that what single mothers could afford in terms of housing, food, clothing and other goods—their consumption—rose sharply. Consumption on average rose for low-educated single mothers over time, in both absolute terms and relative to comparison groups of highly educated single mothers, single women without children, and married mothers. Even those with the fewest resources tended to fair better, as consumption for those at low percentiles of the consumption distribution for single mothers rose more than those at middle or high percentiles. While looking at what individuals were actually able to afford might be preferred given the underreporting of income in surveys,[12] evidence from income data also is consistent with these spending patterns. When joined with administrative data to reduce underreporting problems, survey income data show that for single mothers over this period there was a reduction in poverty and deep poverty consistent with the consumption evidence.[13] Other research has supported this conclusion.[14]

Poverty

The decline in poverty for single mothers due to their increased connection to work is one of the most pronounced successes in poverty reduction over the last 50 years. The fall in poverty for other demographic groups over this period has been due to increased receipt of government benefits. Single mothers, on the other hand, have seen large improvements in their living standards due to their own efforts complemented by government work supports like the EITC and CTC.[15]

Finally, I note that the current safety net still has many safety valves for those unable to work. Currently, over 1.9 million individuals receive TANF, 41 million individuals receive SNAP and 8.5 million individuals receive Supplemental Security

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[10] Jeehoon Han, Bruce D. Meyer, and James X. Sullivan, NTJ 2021. The range of estimates is due to a choice of whether to control for the education of single mothers (which greatly increased over this period) or not, and if so, what year to use for the base year distribution. Some of this increase is likely due to the improvement in economic conditions over this period, but not a large share given the lack of reversion to lower employment during the recessions of the 2000s.

[11] Bruce D. Meyer and James X. Sullivan, 2008, "Changes in the Consumption, Income, and Well-Being of Single Mother Headed Families." *American Economic Review* 98 (5): 2221–41; Scott Winship, 2016, "Poverty after Welfare Reform." Washington, DC: Manhattan Institute; Jeehoon Han, Bruce D. Meyer, and James X. Sullivan, 2021, "The Consumption, Income, and Well-Being of Single Mother-Headed Families 25 Years After Welfare Reform." *National Tax Journal,* September.

[12] Bruce D. Meyer and Wallace K.C. Mok, 2015, "Household Surveys in Crisis." *Journal of Economic Perspectives,* 29(4), 199–226; Meyer, Mok and Sullivan. Bruce D. Meyer and Nikolas Mittag. 2019. "Using Linked Survey and Administrative Data to Better Measure Income: Implications for Poverty, Program Effectiveness and Holes in the Safety Net." *American Economic Journal: Applied Economics,* 11(2): 176–204.

[13] Kevin Corinth, Bruce D. Meyer, and Derek Wu, 2022, "The Change in Poverty from 1995 to 2016 Among Single-Parent Families." American Economic Association Papers and Proceedings, 112: 345–350; Bruce D. Meyer, Derek Wu, Victoria Mooers, and Carla Medalia, 2021, "The Use and Misuse of Income Data and Extreme Poverty in the United States." *Journal of Labor Economics* 39 (S1): S5–58 find that the extreme poverty rate was so low after welfare reform for families with children that it could not have substantially increased after welfare reform.

[14] Richard V. Burkhauser, Kevin Corinth, James Elwell, and Jeff Larrimore, forthcoming, "Evaluating the Success of the War on Poverty Since 1963 Using an Absolute Full-Income Poverty Measure." *Journal of Political Economy* (forthcoming), *https://doi.org/10.1086/725705,* and Dana Thomson, Renee Ryberg, Kristen Harper, James Fuller, Katherine Paschall, Jody Franklin, and Lina Guzman, 2023, "Lessons From a Historic Decline in Child Poverty, Child Trends."

[15] Richard V. Burkhauser, Kevin Corinth, James Elwell, and Jeff Larrimore, forthcoming, "Evaluating the Success of the War on Poverty Since 1963 Using an Absolute Full-Income Poverty Measure." *Journal of Political Economy* (forthcoming), *https://doi.org/10.1086/725705.*

Income (SSI), to name a few programs. Not everyone should be expected to work. However, we learned in the 1990s that more people could work than many thought possible.

Welfare Reform Was Associated With a Decline in Single Parenthood

Figure 2 reproduces a figure from the U.S. Census Bureau on the living arrangements of children in the U.S. since 1960. Note the decline in the share of those living with two parents. Expressed in a more telling way, there was a tripling of the share of children living without two parents between 1960 and the early 1990s. In the following years, the pattern was essentially flat, with a decline in the share without two parent in the first decade of the 2000s. Thus, the share of children with a single parent stabilized and then started to fall after welfare reform, reversing a more than 30-year trend.[16] While the evidence on causal links here is less definitive, the time pattern is strongly suggestive. It is also consistent with the empirical evidence that economic incentives have an influence on marriage decisions.[17]

THE INSTITUTION OF A CHILD ALLOWANCE WOULD LARGELY REVERSE WELFARE REFORM

I begin by comparing the magnitude of the changes in incentives under proposals such as the Build Back Better Act of 2021 that would replace the current Child Tax Credit with a child allowance to the changes instituted under welfare reform in the 1990s.

Work Incentives

Welfare reform had many features, but the two most salient were the expansion of the EITC which increased the financial return to work, and the elimination of unconditional cash aid under the TANF program. The replacement of the CTC with a child allowance incorporates these two main features of welfare reform, but in the opposite direction, reducing the financial return to work and providing unconditional cash aid with no restriction to an even larger group than under the former AFDC program.

To interpret the applicability of the experience of welfare reform to the change to a child allowance, it is helpful to scale the relative size of the changes in work incentives and unconditional aid. In 1990, AFDC provided aid to 3.8 million adults and their children in a typical month, but the number had declined to 1.9 million by 1999.[18] Thus, the number of adults receiving aid declined by about 1.9 million. The child allowance would reach several multiples of that count, including about 9.6 million single parents, excluding cohabiting couples.[19] Under the pre-PRWORA welfare system, a nonworking single parent with two children in January of 1996 received 846–1484 dollars monthly from AFDC and Food Stamps (in 2023 dollars, depending on the which of the lower 48 States in which they lived). In 2023, the child allowance plus SNAP benefit (the replacement for Food Stamps) would have been higher even after accounting for inflation than the old welfare benefits in 32 States and the District of Columbia. These States with higher benefits for nonworking families contained 63 percent of the 2020 population. These benefits for families with a nonworking head would be in addition to those under PRWORA, housing assistance and other programs. The cash assistance provided by the IRS through a child allowance would be much more widely available and more taken advantage of than AFDC given its ease of receipt and universality. However, it should be noted that a child allowance would not bring back the high implicit marginal tax rates under AFDC that applied to many more recipients prior to welfare reform than after.

The relative size of the EITC and child allowance work incentives can be seen in Figure 3. The figure reports the EITC incentives to work for a single parent with two children as well as the incentives of the CTC that would be reversed by a child allowance. The CTC work incentives are a substantial share of the EITC incentives at very low earnings, and exceed EITC incentives at earnings above $30,000. But this figure for the EITC in 2021 reflects increases in the EITC prior to 1990 to which we cannot attribute the increase in employment of single mothers in the 1990s. In 1990 the maximum credit was already $1,934 (in 2021 dollars) compared

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[16] *See https://www.census.gov/data/tables/time-series/demo/families/children.html.* A good visual summary is provided by *https://www.census.gov/content/dam/Census/library/visualizations/time-series/demo/families-and-households/ch-1.pdf.*

[17] Melissa S. Kearney, "The Two-Parent Privilege," University of Chicago Press, forthcoming 2023.

[18] U.S. Department of Health and Human Services. 2004a. "Caseload Data 1990 (AFDC Total)." Office of the Administration for Children and Families.

[19] United States Census Bureau. 2020. "America's Families and Living Arrangements: 2020."

to the $5,920 in Figure 3. Thus, the change in the EITC incentives (along with TANF changes) during the 1990s were only a share of the EITC incentives indicated in Figure 3 and more comparable to the CTC work incentives that would be eliminated by the change to a child allowance available for nonworkers.

Employment and Poverty

While the visual evidence is fairly compelling, a large body of evidence concludes that some combination of welfare reform and EITC expansions were responsible for the large rise in employment among single mothers during the 1990s, beyond the effect of a strong economy.[20] While there is some argument as to the relative importance of the EITC and welfare reform there is no argument that the combined change in policies was responsible for the increase in employment. Whether thought of as reversing welfare reform or eliminating a program similar to the EITC, the change to a child allowance could be expected to reverse most or all of the employment gains of the 1990s.

The similarity of replacing the CTC with a child allowance to reversing the welfare reforms of the 1990s has implications for the effects of the child allowance on poverty. If bringing back unconditional cash aid and eliminating substantial work incentives can be thought of as reversing welfare reform, it would likely undo the beneficial effects of welfare reform on poverty.

THE CASE FOR A CHILD ALLOWANCE HAS BEEN BASED ON FAULTY EVIDENCE

Forecasted Effects on Work and Poverty

The CTC produces strong work incentives because the credit is generally available only to parents who work. Eliminating the CTC would therefore reduce employment participation by decreasing the return to work.[21]

Work Incentives

Rather than looking to the experience of welfare reform, a number of studies have forecasted the anti-poverty effects of replacing the CTC with a child allowance through simulations.[22] In addition to relying solely on survey data, most of the studies do not incorporate the impact of the decline in work resulting from changes in the CTC when modeling impacts on income and poverty.[23] The National Academy of Sciences (2019) analyzed the employment and hours effects of a similar policy and is often cited as evidence that the replacement of the CTC with a child allowance would have minimal employment effects.[24] However, it omitted the effects on employment and poverty of eliminating the work incentives of the CTC, basing its calculations on a child allowance in its simplest form without preexisting work incentives. It included such work incentives when forecasting the effect of expanding the EITC. This gives the appearance of the NAS including employment effects when

[20] Bruce D. Meyer and Dan T. Rosenbaum, 2001, "Welfare, the Earned Income Tax Credit, and the Labor Supply of Single Mothers." *The Quarterly Journal of Economics* 116 (3); Jeffrey Grogger, 2003, "The Effects of Time Limits, the EITC, and Other Policy Changes on Welfare Use, Work, and Income among Female-Headed Families." *Review of Economics and Statistics* 85 (2): 394–408; Diane Whitmore Schanzenbach and Michael Strain. 2020. "Employment Effects of the Earned Income Tax Credit: Taking the Long View." w28041. Cambridge, MA: National Bureau of Economic Research; Henrik Kleven, 2019, "The EITC and the Extensive Margin: A Reappraisal." w26405. Cambridge, MA: National Bureau of Economic Research.

[21] Replacing the CTC with a child allowance (akin to a universal basic income-type benefit for children) and increasing the maximum benefit amount would further reduce employment by increasing the incomes of all families working and nonworking (through what economists call an income effect).

[22] These studies include Acs and Werner 2021; Brill, Pomerleau, and Seiter 2021; Collyer et al. 2021; Congressional Research Service 2021; Marr et al. 2021.

[23] Following the insight of Corinth et al, some recent papers have responded by including labor supply responses on the participation margin, *e.g.,* Goldin et al. and Bastian 2022, but they have tended to use a responsiveness to tax credits far from the central tendency of the work on tax credits for those with low incomes.

[24] One report notes: "An expert panel convened by the National Academy of Sciences projected that under a child credit policy similar to the expanded Child Tax Credit, 99.5 percent of working parents would continue to work, and few would substantially reduce their hours" (Sherman, Marr, and Hingten 2021). Some previous studies simulating the anti-poverty effects of replacing the CTC with a child allowance cite the NAS report as a justification for not incorporating labor supply effects (*e.g.,* Acs and Werner 2021; Collyer et al. 2021). A letter from 462 economists submitted to congressional leaders on September 15, 2021 argues that replacing the CTC with a child allowance would lead to minimal work reduction based on the NAS report, stating: "Indeed, the panel of experts who reviewed this issue for the National Academy of Sciences concluded that a universal child allowance would have a negligible effect on employment."

they supported policies it promoted, while excluding them when they made favored policies look less promising.

Surveys Alone Are Insufficient to Measure Poverty

Furthermore, relying on surveys alone to measure income may bias estimates of the anti-poverty effects of proposed policies. Survey-reported values of income have been found to understate true incomes for both market income sources and government benefits.[25] This error can lead survey data to not only overstate the level of poverty but also understate the anti-poverty effects of existing government programs.[26] To address the misreporting of income and other information in surveys, the Comprehensive Income Dataset (CID) links major household surveys with an extensive set of tax records and administrative government program data sources.[27] The CID improves upon existing efforts to simulate proposed policies by calculating a more accurate distribution of baseline incomes, modeling the replacement of the CTC with a child allowance more accurately, and enabling more accurate comparisons of the child allowance to existing programs.

Simulations

In simulating the effects of a child allowance on poverty, it is important to account for any resulting reductions in employment. While other behavioral responses may be important, such as changes in private transfers and living arrangements, the response for which we have the best evidence is labor supply. The most reliable way to simulate the employment effects of a change to a child allowance is by relying on values of the responsiveness to taxes that have been used by the NAS, the Congressional Budget Office, and are reported in academic surveys of the responsiveness of low-income individuals to tax credit changes. I report estimates here that use a degree of responsiveness that is in fact lower than that implied by some of the most notable studies.[28]

In work with Corinth, Stadnicki, and Wu, I estimate that the decreased return to work would lead 1.32 million working parents to exit the labor force, while the income effect would reduce employment by a further 0.14 million, for a total employment loss of 1.46 million workers (constituting 2.6 percent of all working parents).

Our estimate of employment loss due to the change to a child allowance differs markedly from the corresponding estimate in a 2019 NAS report, which concludes that replacing the CTC with a child allowance similar to that proposed under the Build Back Better Act of 2021 would reduce employment by 0.15 million workers.[29] NAS (2019) obtains a much smaller employment reduction because it does not account for the decrease in the return to work, despite accounting for such an effect when analyzing reforms to the EITC. Instead, the NAS report only estimates employment loss due to an income effect, which is similar in magnitude to our estimate of the income effect. If the NAS had applied to the CTC the methods it used to simulate changes to the EITC, it would have found an estimate larger than ours.[30]

Additional evidence on the plausibility of our employment responses comes from the two studies that I am aware of that directly examine the employment effects

[25] *See* Adam Bee and Joshua Mitchell. 2017. "Do Older Americans Have More Income Than We Think?" SESHD Working Paper SESHD–WP2017–39. Bureau of the Census (U.S.) for the impact of underreporting of market income sources and Bruce D. Meyer and Nikolas Mittag. 2019. "Using Linked Survey and Administrative Data to Better Measure Income: Implications for Poverty, Program Effectiveness, and Holes in the Safety Net." *American Economic Journal: Applied Economics* 11 (2): 176–204 for underreporting of government benefits.

[26] Bruce D. Meyer and Derek Wu. 2018. "The Poverty Reduction of Social Security and Means-Tested Transfers." *ILR Review* 71 (5): 1106–53; Shantz, Katherine, and Liana E. Fox. 2018. "Precision in Measurement: Using State-Level Supplemental Nutrition Assistance Program and Temporary Assistance for Needy Families Administrative Records and the Transfer Income Model (TRIM3) to Evaluate Poverty Measurement." Washington, DC: U.S. Census Bureau.

[27] Bruce D. Meyer, Derek Wu, Victoria Mooers, and Carla Medalia, 2021, "The Use and Misuse of Income Data and Extreme Poverty in the United States." *Journal of Labor Economics* 39 (S1): S5–58; Kevin Corinth, Bruce D. Meyer, and Derek Wu, 2022, "The Change in Poverty from 1995 to 2016 Among Single-Parent Families." American Economic Association Papers and Proceedings, 112: 345–350.

[28] *See* Appendix A of Kevin Corinth, Bruce D. Meyer, Matthew Stadnicki, and Derek Wu, 2022, "The Anti-Poverty, Targeting, and Labor Supply Effects of Replacing a Child Tax Credit with a Child Allowance." NBER Working Paper 29366 (revised March 2022).

[29] National Academies of Sciences, Engineering, and Medicine. 2019. *A Roadmap to Reducing Child Poverty*. Edited by Greg Duncan and Suzanne Le Menestrel. Washington, DC: National Academies Press.

[30] *See* Appendix B of Kevin Corinth, Bruce D. Meyer, Matthew Stadnicki, and Derek Wu, 2022, "The Anti-Poverty, Targeting, and Labor Supply Effects of Replacing a Child Tax Credit with a Child Allowance." NBER Working Paper 29366 (revised March 2022).

of the CTC, a 2019 study by U.S. Treasury economist Kye Lippold [31] and a 2022 working paper by Hyein Kang.[32] Lippold estimates that when a child turns 17 and thus loses eligibility for the CTC—prior to the more generous TCJA version taking effect—low-income parents' probability of employment falls by 8.4 percentage points, implying a work responsiveness considerably larger than what we principally assumed in our simulations. Kang finds a responsiveness of single mothers' employment to the maximum CTC amount only slightly smaller than others have found for the maximum EITC benefit. She also finds a response of hours worked conditional on working at all.

My paper has generated some pushback. The arguments have generally been that we have assumed too high a responsiveness to taxes. In fact, our estimates tend to be lower than those of our most vociferous critics. The assumed responsiveness was lower than that used by the NAS. It is claimed that the responsiveness of individuals to taxes has fallen over time. However, the evidence is based on a decline since the early 1970s, not since the late 1980s and early 1990s from which most of the evidence is derived.[33]

Implications of My Research

Labor force exits due to the child allowance would have important implications for the anti-poverty effect of the policy change. Allowing for behavioral responses, we estimate that the effect of the change to a child allowance on child poverty would fall from 34 percent based on our simulation ignoring employment changes to at most 22 percent based on simulations allowing for a change in employment. Moreover, we estimate that replacing the CTC with a child allowance would have no effect on deep child poverty after allowing for labor supply responses, in stark contrast to the 39 percent reduction in deep poverty based on our simulation without employment changes.

Evidence From the Advance CTC of 2021

Monthly child allowance payments were made during the second half of 2021 under the American Rescue Plan Act. Many analyses of poverty and employment during this period have been done. This section discusses income, expenditures, and employment during the second half of 2021. One should keep in mind that given the temporary nature of the policy change, that it was likely poorly understood, and that individuals will likely change their behavior to a greater degree in the long run. Thus, analyses of this period should not be taken as the likely effects of a permanent child allowance. Long run responses would include changes in many behaviors including employment and living arrangements, as well as changes in support from fathers, other family members and boyfriends.

Evidence of Poverty Reductions

Two highly cited sources suggest a substantial short-run decline in poverty in response to the temporary institution of the monthly child allowance payments during the second half of 2021. Researchers at the Columbia University Center on Poverty and Social Policy (CPSP) have simulated an effect of a child allowance on monthly poverty. Their approach does not use any income data from 2021, but uses data from previous years to predict a monthly measure of poverty. They conclude that child poverty was 25-percent lower in July 2021 as the result of the CTC expansion.[34] The CPSP researchers subsequently claimed that poverty rose by over 40 percent in January after the expiration of the monthly payments. These findings have been frequently cited by policymakers and the press in discussions of extending Advance CTC benefits. One of the key differences between the poverty measures that I emphasize is that the CPSP measure allows a very limited effect of behavioral responses to the substitution of a Child Tax Credit with a child allowance.

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[31] Kye Lippold. "The Effects of the Child Tax Credit on Labor Supply." *SSRN Electronic Journal*, 2019.

[32] Hyein Kang, 2022, "The Child Tax Credit and Labor Market Outcomes of Mothers," working paper, University of Kentucky, *https://www.hyeinkang.com/uploads/1/3/9/3/139322079/jmp.pdf.*

[33] *See* Appendix A of Kevin Corinth, Bruce D. Meyer, Matthew Stadnicki, and Derek Wu, 2022, "The Anti-Poverty, Targeting, and Labor Supply Effects of Replacing a Child Tax Credit with a Child Allowance." NBER Working Paper 29366 (revised March 2022).

[34] *See* *https://www.povertycenter.columbia.edu/publication/monthly-poverty-july-2021, https://www.povertycenter.columbia.edu/publication/monthly-poverty-january-2022,* and *https://www.nytimes.com/2022/05/02/opinion/child-tax-credit.html.* 2021. "The Initial Effects of the Expanded Child Tax Credit on Material Hardship." NBER Working Paper 29285. National Bureau of Economic Research, Cambridge, MA.

The Census Bureau in its recent report indicates a large decline in poverty in response due to the CTC in 2021 using the Supplemental Poverty Measure (SPM).[35] The Census Bureau also does not use a direct measure of income incorporating tax credits received in 2021 in this poverty measure. Rather, it attributes predicted income tax returns received during 2022 and applies them to 2021. Such an approach is not likely to induce large errors when tax returns received in a given year are similar to those received in the following year, but 2021 was not such a year. Furthermore, the Census imputations of taxes have been found to suffer from measurement error.[36] While I suspect there has been a short-run decline in poverty due the expenditure of an additional $100 billion under ARPA to make the CTC completely refundable, the evidence is overstated as in much of the CTC debate.

Alternative Poverty Measures

The two sources of direct evidence on cash income of households or their expenditures and consumption do not suggest sharp declines in poverty during the Advance CTC period. In particular, one can construct a measure of income poverty that can be updated on a monthly basis using reports of total money income received over the past 12 months from the Census Bureau survey that is the source of official employment statistics.[37] This measure does clearly register other pandemic tax credits, specifically the Economic Impact Payments, but shows little effect of the Advance CTC.

A second source of direct information does not require predicting income or taxes and comes from the Bureau of Labor Statistics. These consumption and expenditure poverty measures directly rely on individuals reports of the goods and services they were able to purchase for their families, rather than making an educated guess as to the resources that they have available. In Figure 4 I report quarterly measures of expenditure and consumption poverty. The expenditure measure is directly calculated from household responses as to the goods and services they purchased over a quarter. The consumption measure is largely based on actual expenditures, but it also incorporates a value of the service provided by the ownership of a home or a car, since the owner has their use without paying directly for them.[38] This series again shows a fairly steady pattern of slow improvement in poverty during the years preceding and during the Advance CTC period of the second half of 2021.

Employment

Short-run employment responses to the ARPA changes should have been small given incomplete understanding of the CTC incentives as well as other features of the changes. The 2021 changes also affected calendar year decisions for a year that was already in its third month when the policy was signed and implemented. It was also known to be temporary. Using CPS data, we examine changes in employment around the time of the CTC payments. We find a decline in the employment of adults with children (the group expected to be affected by the change in tax credits based on prior research) relative to those without children beginning shortly after the passage of the American Rescue Plan Act in March 2021. This decline is only apparent for those with a high school education or less. There is little change for those with at least some college education. The decline begins to reverse in the last quarter of 2021, and by early 2022, the difference between those with and without children disappears. The magnitude of the change is about one-third of the long-run change we predicted, which does not seem unreasonable.

There have been other analyses of employment changes with the temporary replacement of the CTC. There are important drawbacks to these studies that limit their usefulness. Two of the most-cited studies focus on the time after payments started (either July or August depending on the study) rather than March when the work incentives changed with full refundability.[39] This misalignment of the meas-

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[35] U.S. Census Bureau, Poverty in the U.S.: 2021, John Creamer, Emily A. Shrider, Kalee Burns, and Frances Chen, Report Number P60–277.

[36] Bruce D. Meyer, Grace Finley, Patrick Langetieg, Carla Medalia, Mark Payne, and Alan Plumley. 2020. "The Accuracy of Tax Imputations: Estimating Tax Liabilities and Credits Using Linked Survey and Administrative Data."

[37] Han, Jeehoon, Bruce D. Meyer, and James X. Sullivan. 2021. "The Consumption, Income, and Well-Being of Single Mother-Headed Families 25 Years After Welfare Reform." *National Tax Journal,* September.

[38] The methods are described in Bruce D. Meyer and James X. Sullivan, 2012, "Winning the War: Poverty from the Great Society to the Great Recession." Brookings Papers on Economic Activity, Fall: 133–200.

[39] Elizabeth Ananat, Benjamin Glasner, Christal Hamilton, and Zachary Parolin. 2021. "Effects of the Expanded Child Tax Credit on Employment Outcomes: Evidence from Real-World Data from April to September 2021." Poverty and Social Policy Discussion Paper, October; *see*

ures with the policy changes is particularly problematic given that the program was temporary and available for only a short time. This mischaracterization of the work incentives also points to the difficulty of inferring long-run effects from a temporary program that was likely not well understood. One of these researchers also conditioned on a measure of the outcome, which makes the results unlikely to be valid.

Other Evidence of Potential Child Allowance Effects

Potential long-run effects of the change to a child allowance are also important to consider alongside short-run effects. Increased support for low-income children could improve their long-run outcomes. Researchers have found that children's access to food stamps in the 1960s and 1970s led to improved outcomes when they became adults, including higher earnings (though not increased employment), better health, less incarceration, and less dependence on welfare programs.[40] Much of this evidence comes from a period when other safety net programs were much less generous than current aid, so the marginal effects might be lower today. Much of the recent evidence of positive long-term effects of income support comes from work on the EITC. Larger EITC payments for children have increased their educational attainment and their employment and earnings as adults.[41] But in the case of the EITC, the policy being examined is a combination of more income and higher employment through work incentives. That aspect of the CTC would be eliminated by a child allowance.

Changes in Single Parenthood

The change to a child allowance could also affect behavior in less favorable ways, for example by changing rates of marriage or divorce. The most methodologically sound research on this topic has found large effects of unconditional aid on single parenthood.[42] Consistent with this microdata evidence, the share of children with a single parent stabilized and then reversed after welfare reform, reversing a more than 30-year trend.[43] Single parenthood has been found to lead to many negative outcomes, for example, to lower levels of educational attainment and higher incarceration rates of children in the long run.[44]

The Child Allowance as a Universal Basic Income

Replacement of CTC with child allowance can be thought of as instituting a universal basic income (UBI) for families with children. A broad group of liberal and conservative economists have opposed a UBI.[45] The basic argument is that the current safety net targets those who are most in need while a UBI does not. A UBI would also be expensive. If the benefits are set so they are affordable, they do not provide sufficient benefits for the most need. If the benefit level is set high enough to serve those most in need, the program would be so costly that the taxes needed to finance it would sharply discourage work among the able, reducing the size of the pie to be shared. One of the most lucid presentations of this argument was writ-

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Kevin Corinth and Bruce D. Meyer, 2021, "A Note on Ananat, Glasner, Hamilton, and Parolin's, "Effects of the Expanded Child Tax Credit on Employment Outcomes," Harris School of Public Policy, *https://bpb-us-w2.wpmucdn.com/voices.uchicago.edu/dist/a/3122/files/2021/10/Note-on-Ananat-et-al-2021.pdf* for a discussion of the additional weaknesses of the Ananat et al. paper; Brandon Enriquez, Damon Jones, and Ernest V. Tedeschi, 2023, "The Short-Term Labor Supply Response to the Expanded Child Tax Credit." NBER Working Paper 31110.

[40] Hilary Hoynes, Diane Whitmore Schanzenbach, and Douglas Almond. 2016. "Long-Run Impacts of Childhood Access to the Safety Net." *American Economic Review* 106 (4): 903–34; Marianne Bitler and Theodore F. Figinski. 2019. "Long-Run Effects of Food Assistance: Evidence from the Food Stamp Program." ESSPRI Working Paper Series. Economic Self-Sufficiency Policy Research Institute.

[41] Jacob Bastian and Katherine Michelmore. 2018. "The Long-Term Impact of the Earned Income Tax Credit on Children's Education and Employment Outcomes." *Journal of Labor Economics* 36 (4): 1127–63; Andrew C. Barr, Jonathan Eggleston, and Alexander A. Smith, "Investing in Infants: The Lasting Effects of Cash Transfers to New Families." NBER Working Paper 30373.

[42] Jeffrey Grogger and Stephen G. Bronars. 2001. "The Effect of Welfare Payments on the Marriage and Fertility Behavior of Unwed Mothers: Results from a Twins Experiment." *Journal of Political Economy* 109 (3): 529–45.

[43] *See https://www.census.gov/library/stories/2021/04/number-of-children-living-only-with-their-mothers-has-doubled-in-past-50-years.html.*

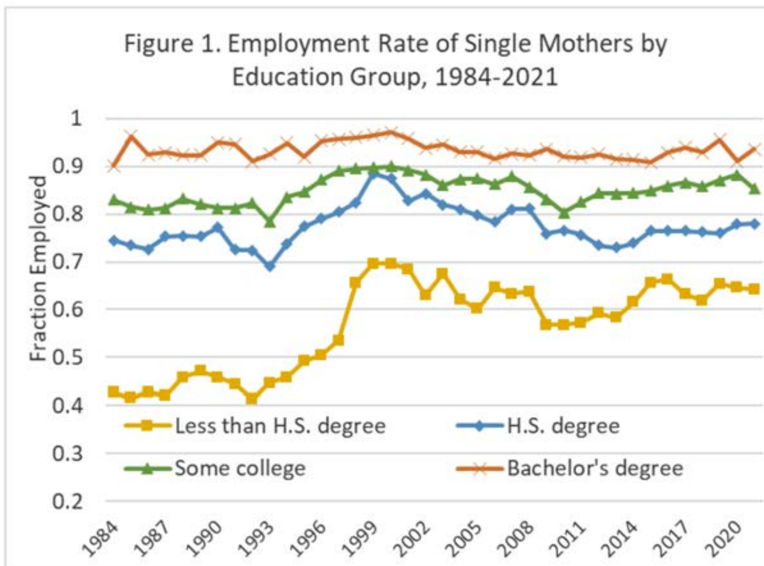
[44] Saul D. Hoffman and Rebecca A. Maynard. 2008. *Kids Having Kids: Economic Costs and Social Consequences of Teen Pregnancy, Second Edition.* Washington, DC: The Urban Institute Press.

[45] Recent statements of this case are Magne Mogstand and Melissa S. Kearney, 2019, "Universal Basic Income (UBI) as a Policy Response to Current Challenges." Aspen Strategy Group; and Hilary Hoynes and Jesse Rothstein, 2019, "Universal Basic Income in the United States and Advanced Countries." *Annual Review of Economics,* 11:929–958.

ten 40 years ago by the husband of the current Treasury Secretary.[46] A child allowance has this feature as it is not well targeted and is expensive. It would reduce poverty at a higher cost than almost all other anti-poverty programs.[47]

CONCLUSIONS

Social science tends to be inconclusive. I cannot tell you I am sure what is the right policy. But I do know that a child allowance has been sharply oversold by its proponents. We are in danger of going down the same road we did with AFDC, discouraging work, encouraging dependence. This route is not a long-run solution to poverty and risks encouraging the formation of family units that cannot adequately support their children. We are also potentially backing into universal unconditional benefits that have been widely rejected as expensive and poor targeted.



Note: The sample consists of single women aged 18–54 who live with their own children and at least one child under age 18, excluding those with other adults in the household from the U.S. Census Bureau, Current Population Survey, survey years 1985-2022. Employment is defined as working at all for profit, pay, or as an unpaid family worker during the previous calendar year. Prior to 1991, education groups are defined based on the the highest grade completed, instead of degree obtained. The statistics are weighted using fixed demographic weights as explained in Han, Meyer, and Sullivan (2021).

[46] George A. Akerloff, 1978, "The Economics of 'Tagging' as Applied to the Optimal Income Tax, Welfare Programs, and Manpower Planning," *American Economic Review,* 68 (1), March.

[47] Kevin Corinth, Bruce D. Meyer, Matthew Stadnicki, and Derek Wu, 2022, "The Anti-Poverty, Targeting, and Labor Supply Effects of Replacing a Child Tax Credit with a Child Allowance." NBER Working Paper 29366 (revised March 2022).

Figure 2. Living Arrangements of Children 1960-2022

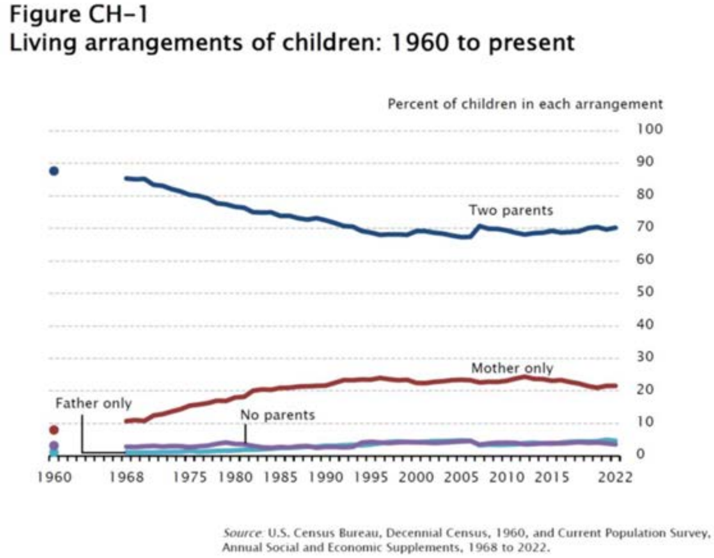
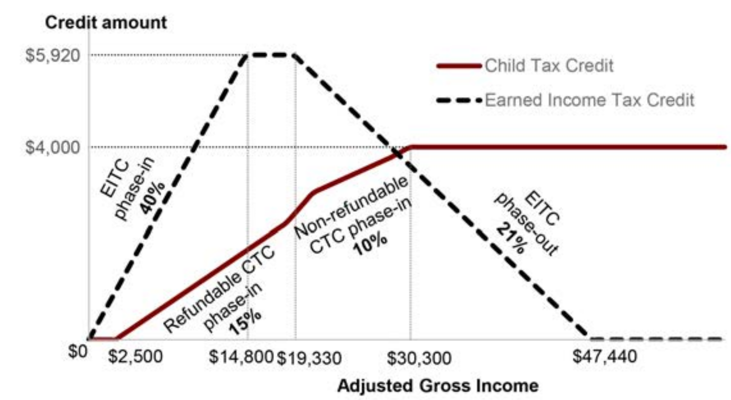
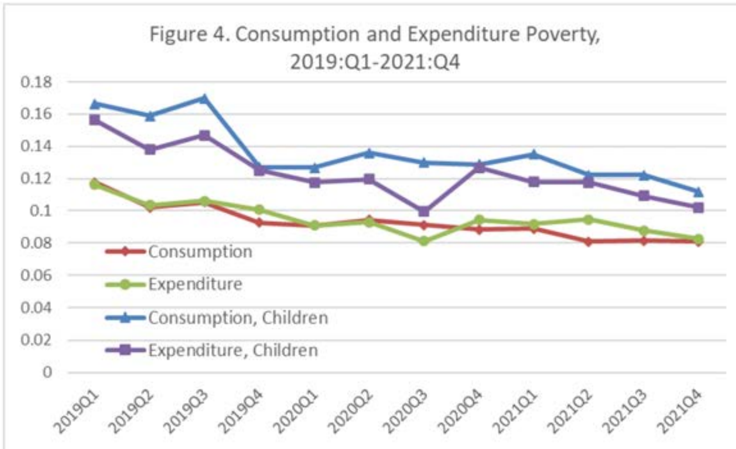


Figure 3. Child Tax Credit and Earned Income Tax Credit by Adjusted Gross Income Using 2020 Rules, Single Parent with Two Children Under Age 17



Source: Internal Revenue Service, Congressional Research Service
Notes: Child Tax Credit (CTC) and Earned Income Tax Credit (EITC) parameters are based on 2020 tax law (all dollar values expressed in 2020 nominal terms). The child allowance is based on parameters set under the Build Back Better Act of 2021. All adjusted gross income is assumed to come from earned income, and the family is assumed to take the standard deduction and claim no other non-refundable tax credits.



Notes: The data source is the Bureau of Labor Statistics Consumer Expenditure Survey. For the full sample, the threshold in 2020Q1 is anchored to the value that gives the SPM poverty rate in 2020 (9.1 percent). The thresholds are then adjusted over time using the annual CPI-U. The quarter reflects the predominant reference months for the data. Consumption includes all spending in total expenditures less spending on out of pocket health care expenses, education, and payments to retirement accounts, pension plans, and social security. In addition, housing and vehicle expenditures are converted to service flows.

PREPARED STATEMENT OF HON. RON WYDEN,
A U.S. SENATOR FROM OREGON

The Finance Committee meets this morning to talk about tax policy tools for helping children and families climb the economic ladder. There are a lot of policy issues involved here, but in my view, it all comes down to one basic question.

Congress has a proven strategy for lifting millions of American children out of poverty and ensuring their families have a stronger opportunity to get ahead. Should we act on it? In my view, that ought to be an easy call.

The reality is, helping more Americans get ahead and encouraging people to work are not mutually exclusive. Those priorities go hand in hand, as the committee is going to hear firsthand today.

First, a bit of recent history on this issue. In 2021 as part of the American Rescue Plan, Democrats in Congress passed landmark expansions of key sources of financial support for lower-income families. The Child Tax Credit got the biggest expansion. Previously it was worth $2,000 per child each year, and lower-income families who needed more help actually got less than higher-income families.

After the expansion, the CTC gave families $3,600 for each child up to age 5 and $3,000 up to age 17. For the first time, Democrats made it fully refundable, which means the lowest-income taxpayers got the full value of the credit. No more discriminating against the most vulnerable.

Democrats also modernized the system to pay out much of the credit in monthly installments rather than all at once during tax filing season. That gave families a reliable boost to their monthly take-home pay.

The American Rescue Plan also expanded the Earned Income Tax Credit to encourage even more people to work, and it boosted the tax credit for child and dependent care. What was the effect of this expansion? According to researchers at Columbia University, expanding the CTC lifted 3.7 million American children out of poverty. Child hunger fell by nearly a quarter. And other research shows that when families escape poverty, kids are healthier, they do better in school, and their earnings are higher as adults.

I'll share a few stories from Oregon. A single mother in Myrtle Creek wrote that she was finally able to save up enough to move her three kids out of a run-down apartment into a better home.

A single mom in Portland wrote that she was relieved to be able to cover the bills and save enough to have a nice Christmas with her kids.

Another mom in Eugene who lives with extended family wrote that she was finally able to save up for a place where she and her son could live on their own.

Millions of people all across the country had their own stories like these. For the first time in a long time, maybe for the first time ever, they felt some financial relief. Unfortunately, these landmark enhancements to the tax code expired at the end of 2021. Congress has been unable to agree on fixing that, but Democrats are fighting to keep children out of poverty and help families get ahead.

Today Senator Brown and Senator Bennet, who are some of the real champions of tax policy supporting children and families, are introducing the Working Families Tax Relief Act, which I'm proud to cosponsor. It would make the 2021 expansions of the Child Tax Credit and the Earned Income Tax Credit permanent. Today there are 19 million kids whose families don't currently get the full Child Tax Credit—disproportionately Black and Latino families. Under the Brown-Bennet proposal, those families would no longer get shortchanged. This is pro-family, pro-opportunity legislation. My view is that it ought to interest many more Senators than just Democrats.

Republicans, however, argue that this kind of proposal actually discourages work. That claim just doesn't pass the smell test, nor is it backed by reliable research. Hundreds of economists have looked into this issue in the last few years. The Federal Reserve recently did too. The overwhelming majority of experts agree that the CTC expansion did not hurt employment in any meaningful way. In fact, in some cases, it actually helped more parents enter the labor force because it helped them pay for things like child care and transportation that are necessary prerequisites for holding a job.

In July 2021, when the first payments under the expanded Child Tax Credit went out, the unemployment rate was 5.4 percent. In December of that year, after 6 monthly payments had gone out, the unemployment rate was 3.9 percent. It's awfully hard to see how the CTC kept people out of the workforce in 2021.

There's also a big double standard at the heart of this Republican argument. If the tax system being less generous to low-income Americans encourages work and productivity, why doesn't the same logic apply to the wealthy? The reality is that all Americans want to work hard and provide for their families. That's part of what makes our country and our economy so dynamic and durable. This Republican double standard that punishes lower-income Americans and favors the wealthy, in the long run, only limits opportunity and makes it harder for a lot of people to get ahead. That's an issue that Democrats want to change.

So there's a lot to discuss today. I want to thank our witnesses for being here, and I look forward to Q&A.

COMMUNICATIONS

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Statement of Michael G. Bindner

Chairman Wyden and the Ranking Member Crapo, thank you for the opportunity to submit these comments for the record. These comments restate those made to the Ways and Means Work and Welfare Committee in March regarding work requirements. As you might guess from our prior comments from the record, we challenged the main assumption of the hearing.

The short answer to using work to lift families out of poverty is to make work pay, which sounds like a good topic for a hearing before this Subcommittee. Indeed, there is a term for making people go to work for inadequate pay: slavery.

First and foremost, wages must be adequate. In 2021, the House proposed increasing the minimum wage to $15 per hour as part of reconciliation. Until the Senate Parliamentarian ruled that this was out of order and the votes did not exist to overrule her, the Republican Minority counter-offered $10 per hour.

American workers would appreciate putting that counter-offer back on the table, while ending the tipped wage subminimum rate. American customers are not nearly generous enough for this to be at all just. Wherever either (or both) options are proposed as ballot initiatives, they pass. In some states, higher minimums have been enacted and more economic activity, rather than less, has occurred. The reason is obvious—when lower income people have more income they spend it all back into the economy. When wealthier people get a tax cut, they take it out of the economy and into Wall Street speculation. The sad irony is that it is in the so-called "Red States" where the minimum wage has not been raised where the economy lags.

Franchise holders have a history of paying low wages and justifying their opposition to wage increases because their wages would be squeezed out. This is not the case because, again, sales will increase to compensate. That being said, the conditions of franchise employment and franchise agreements deserve attention, as well as the tactic of using the franchise system to avoid unionization and paying for such things as health insurance. If the onus on providing health care and voting for representation is shifted to the franchisor, some firms will decide that turning franchise and gig employment into full-time employment is better. That would be a socially desirable outcome.

The second way to make work pay is to increase the already existing Child Tax Credit. To increase the incentive to work and grow the economy, the credit must be made fully refundable. People do not seek out low wage jobs because the credit is too generous. Just the opposite is true. When family wages are adequate, people make investments in themselves, like further education and skills training, so that they can move up the economic ladder.

The President's Budget proposes that the Child Tax Credits enacted as part of the American Recovery Plan Act be restored. During that period, payment of the Child Tax Credit was in advance of the annual tax filing. This is appropriate and will change the culture of such credits, which should be for continuing support, not an annual bonus.

We agree with increasing the CTC to at least American Rescue Plan Act levels and refundability. We would make it $1,000 per month and phase it out from the median income to the 90th percentile. During the pandemic, the IRS managed payments. This had the "stink of welfare" that even some Democratic Senators objected to, which led to its discontinuance.

I submit that, over the long term, it would be more acceptable to distribute them either through other government subsidies, such as Unemployment Insurance, Disability Insurance, or a training stipend OR through wages.

For middle-income taxpayers whose increased credits are less than their annual tax obligation, a simple change in withholding tables is adequate. Procedures are already in place to deliver refundable credits to larger families.

Employers can work with their bankers to increase funds for payroll throughout the year while requiring less money for their quarterly tax payments (or estimated taxes) to the IRS. The main issue is working out those situations where employers owe less than they pay out. This is especially true for labor intensive industries and even more so for low wage employers. A higher minimum wage would make negative quarterly tax bills less likely.

Tax reform can be used to facilitate this process. Instead of having each family file to collect their Child Tax Credits and EITC (as an end of the year bonus), enact an employer-paid subtraction value-added tax and make Child Tax Credits and health insurance tax benefits an offset to the payment of this tax and remove most families from having to file at all. Tax offsets could also be created to fund paid family medical leave, sick leave and childcare provided through employers.

Please see the attachment for the latest details of our tax reform plan. This approach is superior to the prebate mechanism proposed for the Fair Tax and for the same reason. The government should not be the national paymaster for every family.

When I graduated from Loras College and began graduate studies at the American University, the Washington Area Consortium of Universities held a conference on poverty. **Every speaker in every topic area cited education as the key avenue to upward mobility.**

Poor people need to work longer hours to make ends meet. Their opportunity costs to seek education are, therefore, high because education cost is competing with food and shelter (both of which are inadequate for workers and their families at current wage levels). If the Subcommittee is serious about getting people to work their way out of poverty, it must give them the tools to do so, which means paid educational opportunity.

Providing minimum wage pay to attend school will assure that, when the wage is increased, those without skills will not be priced out of the economy—as some fear when opposing raising the wage. One reason to raise the minimum wage is precisely so no one lives only on their Child Tax Credit proceeds. There are some in both parties who believe that the Child Tax Credit should have a work requirement. I agree if that work includes being paid to go to school.

Paid training must be provided to those whom the education system and the former culture of dependency has failed. The caricature of the welfare cheat was never reality, however those who were and are trapped in poverty usually have educational deficits, as well as a history of family incarceration due to the war on drugs and its disproportionate penalties for Black and Hispanic men.

Paid training must not only make failed students whole, but advance all students to either vocational training or the completion of the first two years of college (both community and residential). Students with families would also receive the Child Tax Credit. In either case, wages, the CTC payment, health insurance (rather than Medicaid) and any social services, should be delivered through the training provider.

English as a Second Language should not only be free, but workers should be paid to attend, irrespective of immigration status. Part-time workers should also be eligible for this benefit.

Technical training should be covered as well at both public and accredited private schools, including religious schools. In *Espinoza v. Montana,* prohibitions on funding private schools (Blaine Amendments) were found to be unconstitutional. New (and existing) funding should reflect that fact.

The homeless find it impossible to get jobs and hard to get benefits. This is why the "housing first" approach is essential to getting people back into the workforce or to channel them into the appropriate educational program—including those associated with drug court and disability insurance. Such individuals should be required to attend either long-term recovery programs, occupational therapy or psychiatric rehabilitation programs—but be paid to do so.

With a higher minimum wage, payment for training and rehabilitation and a decent sized Child Tax Credit, housing will be affordable without additional subsidies (save possibly for those with permanent disability—but even they should be paid to attend training and such training should not be time limited by payment through Medicaid).

What will society gain for all of this generosity, aside from higher economic growth? This should be obvious—indeed, it has even been proposed by the Senator from Utah—albeit clumsily. Food Stamps, TANF and even Medicaid for the non-elderly poor, as well as governmentally provided case management could be abolished in the vast majority of cases. Dependency would not only end—it would be both impossible and unnecessary.

To encourage work in good jobs, unemployment insurance must be less punitive, particularly where younger workers are concerned. In lower wage jobs, the preference is to find potential supervisors (whose compensation is usually subpar as well) and keep a file of infractions to justify firing workers who do not work out. A punitive work environment that does not exactly make any kind of work attractive.

In certain circumstances, unemployment compensation should be available on a no-fault basis. Better still, employees should be allowed to voluntarily leave firms with a history of quickly dismissing employees without penalty. There should be no expendable jobs or workers.

Lastly, to make work pay better, quit overpaying the few through inflation adjustments. Households making under the 90th percentile have been losing ground for almost half a century, while incomes above that amount have increased on a regular basis.

The source of inequality, aside from abandoning the 91% top marginal tax rate, is granting raises at an equal percentage rather than by an equal amount. When the 91% rate was repealed, incomes were fairly equal, so it was not an issue.

The federal government plays an outsized role in how salaries are determined through percentage based cost-of-living adjustments to government workers, beneficiaries, government contractors. The government can change this with the stroke of a pen. The private sector will follow suit with a higher minimum wage, adequate Child Tax Credits (as described below) and paying individuals in training from ESL to community college the minimum wage to purse their studies.

From here on in, adjust for cost of living on a per dollar an hour rather than on a percentage basis (or dollars per month or week for federal beneficiaries). Calculate the dollar amount based on inflation at the median income level. No one gets more dollars an hour raise, no one gets less dollars per hour in increases. Increase the minimum wage as above and consider decreasing high end salaries paid to government employees and contractors. Even without decreases, simply equalizing raises will soon reduce inequality. Why is this necessary?

Prices chase the median dollar. The median dollar of income is actually at the 90th percentile, rather than the 77th percentile (which is about where the median is). This strategy will reduce inflation in both the long and short terms as prices adjust to decreases in higher salaried income. **Let me repeat this—prices chase income dollars, not income earners.**

Thank you for the opportunity to address the committee. We are, of course, available for direct testimony or to answer questions by members and staff.

Attachment—Tax Reform, Center for Fiscal Equity, March 24, 2023

Synergy: The President's Budget for 2024 proposes a 25% minimum tax on high incomes. Because most high income households make their money on capital gains, rather than salaries, an asset value-added tax replacing capital gains taxes (both long and short term) would be set to that rate. The top rate for a subtraction VAT surtax on high incomes (wages, dividends and interest paid) would be set to 25%, as would the top rate for income surtaxes paid by very high income earners. Surtaxes collected by businesses would begin for any individual payee receiving $75,000 from any source at a 6.25% rate and top out at 25% at all such income over $375,000. At $450,000, individuals would pay an additional 6.25% on the next $75,000 with brackets increasing until a top rate of 25% on income over $750,000.

This structure assures that no one games the system by changing how income is earned to lower their tax burden.

Individual payroll taxes. A floor of $20,000 would be instituted for paying these taxes, with a ceiling of $75,000. This lower ceiling reduces the amount of benefits received in retirement for higher-income individuals. The logic of the $20,000 floor reflects full-time work at a $10 per hour minimum wage offered by the Republican caucus in response to proposals for a $15 wage. The majority needs to take the deal. Doing so in relation to a floor on contributions makes adopting the minimum wage germane in the Senate for purposes of Reconciliation. The rate would be set at 6.25%.

Employer payroll taxes. Unless taxes are diverted to a personal retirement account holding voting and preferred stock in the employer, the employer levy would be replaced by a goods and receipts tax of 6.25%. Every worker who meets a minimum hour threshold would be credited for having paid into the system, regardless of wage level. All employees would be credited on an equal dollar basis, rather than as a match to their individual payroll tax. The tax rate would be adjusted to assure adequacy of benefits for all program beneficiaries.

High-income Surtaxes. As above, taxes would be collected on all individual income taxes from salaries, income and dividends, which exclude business taxes filed separately, starting at $400,00 per year. This tax will fund net interest on the debt (which will no longer be rolled over into new borrowing), redemption of the Social Security Trust Fund, strategic, sea and non-continental U.S. military deployments, veterans' health benefits as the result of battlefield injuries, including mental health and addiction and eventual debt reduction.

Asset Value-Added Tax (A–VAT). A replacement for capital gains taxes and the estate tax. It will apply to asset sales, exercised options, inherited and gifted assets and the profits from short sales. Tax payments for option exercises, IPOs, inherited, gifted and donated assets will be marked to market, with prior tax payments for that asset eliminated so that the seller gets no benefit from them. In this perspective, it is the owner's increase in value that is taxed. As with any sale of liquid or real assets, sales to a qualified broad-based Employee Stock Ownership Plan will be tax-free. These taxes will fund the same spending items as high-income and subtraction VAT surtaxes. There will be no requirement to hold assets for a year to use this rate. This also implies that this tax will be levied on all eligible transactions.

The 3.8% ACA–SM tax will be repealed as a separate tax, with health care funding coming through a subtraction value-added tax levied on all employment and other gross profit. The 25% rate is meant to be a permanent compromise, as above. Any changes to this rate would be used to adjust subtraction VAT surtax and high-income surtax rates accordingly. This rate would be negotiated on a world-wide basis to prevent venue seeking for stock trading.

Subtraction Value-Added Tax (S–VAT). Corporate income taxes and collection of business and farm income taxes will be replaced by this tax, which is an employer paid Net Business Receipts Tax. S–VAT is a vehicle for tax benefits, including

- Health insurance or direct care, including veterans' health care for non-battlefield injuries and long-term care.
- Employer-paid educational costs in lieu of taxes are provided as either employee-directed contributions to the public or private unionized school of their choice or direct tuition payments for employee children or for workers (including ESL and remedial skills). Wages will be paid to students to meet opportunity costs.
- Most importantly, a refundable Child Tax Credit at median income levels (with inflation adjustments) distributed with pay.

Subsistence-level benefits force the poor into servile labor. Wages and benefits must be high enough to provide justice and human dignity. This allows the ending of state administered subsidy programs and discourages abortions, and as such enactment must be scored as a must pass in voting rankings by pro-life organizations (and feminist organizations as well). To assure child subsidies are distributed, S–VAT will not be border adjustable.

As above, S–VAT surtaxes are collected on all income distributed over $75,000, with a beginning rate of 6.25%. replace income tax levies collected on the first surtaxes in the same range. Some will use corporations to avoid these taxes, but that corporation would then pay all invoice and subtraction VAT payments (which would distribute tax benefits). Distributions from such corporations will be considered salary, not dividends.

Invoice Value-Added Tax (I–VAT). Border adjustable taxes will appear on purchase invoices. The rate varies according to what is being financed. If Medicare for All does not contain offsets for employers who fund their own medical personnel or for personal retirement accounts, both of which would otherwise be funded by an S–VAT, then they would be funded by the I–VAT to take advantage of border adjustability.

I–VAT forces everyone, from the working poor to the beneficiaries of inherited wealth, to pay taxes and share in the cost of government. As part of enactment, gross wages will be reduced to take into account the shift to S–VAT and I–VAT, however net income will be increased by the same percentage as the I–VAT. Inherited assets will be taxed under A–VAT when sold. Any inherited cash, or funds borrowed against the value of shares, will face the I–VAT when sold or the A–VAT if invested.

I–VAT will fund domestic discretionary spending, equal dollar employer OASI contributions, and non-nuclear, non-deployed military spending, possibly on a regional basis. Regional I–VAT would both require a constitutional amendment to change the requirement that all excises be national and to discourage unnecessary spending, especially when allocated for electoral reasons rather than program needs. The latter could also be funded by the asset VAT (decreasing the rate by from 19.25% to 13%).

Carbon Added Tax (C–AT). A Carbon tax with receipt visibility, which allows comparison shopping based on carbon content, even if it means a more expensive item with lower carbon is purchased. C–AT would also replace fuel taxes. It will fund transportation costs, including mass transit, and research into alternative fuels. This tax would not be border adjustable unless it is in other nations, however in this case the imposition of this tax at the border will be noted, with the U.S. tax applied to the overseas base.

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The Center for Law and Social Policy (CLASP) is a national, nonpartisan, anti-poverty nonprofit organization advancing solutions to improve the lives of people with low incomes. For over fifty years, our organization has promoted policy solutions at the legislative and administrative level to improve economic prosperity for individuals and families with low incomes. We use research and analysis to advance effective policy solutions that disrupt structural and systemic racism and sexism and remove barriers blocking people from economic security and opportunity. CLASP has advocated for tax credit expansions to support individuals and families with low incomes, as well as promoting access to benefits for immigrant children and families who make vital contributions to our economy and society.

CLASP appreciates the opportunity to submit a written statement for the record for the United States Senate Committee on Finance hearing titled "Anti-Poverty and Family Support Provisions in the tax code." The tax code provides an opportunity to advance equity and to reduce poverty for individuals and families, and we applaud the Senate Finance Committee for discussing these topics. To address poverty among families, we appreciate the introduction of the Working Families Tax Relief Act, but we urge lawmakers to restore Child Tax Credit (CTC) eligibility for children who have Individual Taxpayer Identification Numbers (ITINs) in the bill. CLASP believes in promoting opportunity for individuals regardless of their immigration status, and leaving out kids with ITINs from the policy will only reduce the anti-poverty effects of the legislation.

Expanding the CTC and making it fully refundable reduces poverty for children and families through the tax code. The temporary expansion of the credit in 2021 led to unprecedented reductions in child poverty,[1] reduced food hardship for families

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[1] Priya Pandey et al., "Historic 2021 Decline in Child Poverty Proves Effectiveness of Federal Investments," CLASP, September 2022, *https://www.clasp.org/publications/report/brief/historic-2021-decline-in-child-poverty-proves-effectiveness-of-federal-investments/*.

with children,[2] and decreased financial stress among parents.[3] CLASP, along with other partner organizations and in collaboration with Ipsos, surveyed a nationally represented sample of adults to evaluate the effects of the expanded CTC on families with children. We administered three rounds of the survey to assess the impacts on families before, during, and after the distribution of the monthly, expanded CTC payments. Families who received the monthly CTC payments reported having an easier time affording their basic needs, and used the payments toward expenses like monthly bills, food and groceries, and their rent or mortgage payment.[4] Once the expanded monthly CTC payments expired, these positive trends reversed for families.[5]

We applaud the introduction of the Working Families Tax Relief Act by Senators Brown, Bennet, Booker, Warnock, and Wyden, which would permanently expand the CTC for families with children, in addition to making positive improvements in the Earned Income Tax Credit (EITC). But we are disappointed that the bill does not restore CTC eligibility for children who have ITINs. For the credit to most effectively reduce child poverty, it must be inclusive of all children in need.

Children of immigrants make up 1 in 4 of all children in the country and while the vast majority are U.S. citizens, many are part of mixed-status families where one or more family members may be undocumented or have another immigration status.[6] Additionally, about 1 million undocumented children growing up in the United States file their taxes with an ITIN. These children, also referred to as "Little Dreamers," previously had access to the CTC until they were excluded under the Tax Cuts and Jobs Act of 2017.[7] As a result, these children, as well as their families, have gone without critical economic support, even during the height of the COVID–19 pandemic. Research shows the significant impact more inclusive tax policies would have on alleviating child poverty nationally, and in particular for Latino children, who are over-represented among ITIN-holding children currently excluded from the CTC.[8] While this problematic exclusion is expected to sunset in 2025, each year that goes by represents a loss in the potential for positively impacting a child's long-term development.

We appreciate that the Working Families Tax Relief Act would make the CTC fully refundable, making the credit equally available to families with the lowest incomes. Full refundability in the CTC especially benefits Black and Latinx families who are likelier to be left out of receiving the full CTC under current law due to earning too little income.[9] The bill also would increase the CTC amount given to families and provide a higher amount for children under age six. Research has concluded that providing families with increased income during these pivotal stages of early child development will result in positive long-term outcomes for the child.[10]

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[2] Daniel J. Perez-Lopez, "Economic Hardship Declined in Households with Children as Child Tax Credit Payments Arrived," United States Census Bureau, August 2021, *https://www.census.gov/library/stories/2021/08/economic-hardship-declined-in-households-with-children-as-child-tax-credit-payments-arrived.html.*

[3] Ashley Burnside, "The Expanded Child Tax Credit is Helping Families, But National Survey Shows Continued Outreach Remains Essential," CLASP, April 2022, *https://www.clasp.org/publications/report/brief/the-expanded-child-tax-credit-is-helping-families-but-national-survey-shows-continued-outreach-remains-essential/.*

[4] *Ibid.*

[5] Ashley Burnside, Bruce Fuller, and Qifan Zhang, "Child Tax Credit: Key Findings from July 2022 National Survey," CLASP, September 2022, *https://www.clasp.org/publications/report/brief/child-tax-credit-poll-3/.*

[6] Migration Policy Institute tabulation from U.S. Census Bureau, 2021 American Community Survey (ACS) and 1990 Decennial Census, *https://www.migrationpolicy.org/programs/data-hub/charts/children-immigrant-families.*

[7] Marco Guzman, "Inclusive Child Tax Credit Reform Would Restore Benefit to 1 Million Young 'Dreamers,'" Institute on Taxation and Economic Policy, April 2021, *https://itep.org/inclusive-child-tax-credit-reform-would-restore-benefit-to-1-million-young-dreamers/.*

[8] UnidosUS, "Hispanic Children and the Child Tax Credit," June 2021, *https://unidosus.org/wp-content/uploads/2021/08/unidosus_hispanicchildrenandctc.pdf.* Dolores Acevedo-Garcia et al., "A Policy Equity Analysis of the Earned Income Tax Credit: Fully Including Children in Immigrant Families and Hispanic Children in this Key Anti-Poverty Program," Diversity Data Kids.Org and Brandeis University, April 2022, *https://www.diversitydatakids.org/sites/default/files/file/ddk_a_policy_equity_analysis_of_the_earned_income_tax_credit_5.24.22_0.pdf.*

[9] Sophie Collyer, David Harris, and Christopher Wilmer, "Left Behind: The One-Third of Children in Families Who Earn Too Little to Get the Full Child Tax Credit," Center on Poverty and Social Policy, Volume 3. Number 6, May 2019, *https://www.povertycenter.columbia.edu/news-internal/leftoutofctc.*

[10] Bradley L. Hardy, "Child Tax Credit Has a Critical Role in Helping Families Maintain Economic Stability," Center on Budget and Policy Priorities, April 2022, *https://www.cbpp.org/research/federal-tax/child-tax-credit-has-a-critical-role-in-helping-families-maintain-economic.*

Providing the CTC payments monthly also allows parents to use the payments for monthly expenses their family needs to maintain economic stability—expenses like bills, food, household cleaning supplies, transportation costs and car repairs. Implementing all of these CTC expansions on a permanent basis will promote positive outcomes for children and invest in families.

We also applaud the inclusion of expansions to the EITC for workers with low- and moderate- incomes in the Working Families Tax Relief Act. These changes to the EITC would increase the credit for workers without dependent children, who under current law are taxed *deeper* into poverty, partly due to the meager credit they are eligible to receive from the EITC.[11] The bill also would support younger workers and older workers. The EITC is an effective anti-poverty tool because it reaches workers who are paid low wages and allows them to save money, as well as help them cover essential expenses, like an emergency car repair.[12] These EITC changes would reach an estimated 17 million workers who are paid low wages.[13]

The Working Families Tax Relief Act provides an exciting opportunity to reduce child poverty and to support low- and moderate-income workers and families through our tax code by expanding the CTC and the EITC. But we urge lawmakers to include CTC eligibility for children with ITINs. The tax code should promote equity, and continuing these harmful eligibility restrictions would reduce the bill's anti-poverty impacts.

We thank you for the opportunity to submit this written statement for the record. If you have any questions regarding this topic, please feel free to contact Ashley Burnside, Senior Policy Analyst with the Income and Work Support Team at CLASP at aburnside@clasp.org.

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June 27, 2023

RE: Full Committee Hearing: Anti-Poverty and Family Support Provisions in the tax code, June 14, 2023

Chair Wyden, Ranking Member Crapo, and Members of the Committee:

Thank you for organizing the recent full committee hearing, *Anti-Poverty and Family Support Provisions in the tax code,* and for your recognition of the present need and opportunity to examine tax policy as a tool to reduce child poverty and promote financial stability. On behalf of Children's HealthWatch, a network of pediatricians, public health researchers, and policy and child health experts, we write today to share our research on the significant impact of the 2021 expanded Child Tax Credit (CTC) among families with young children, to urge members to restore eligibility for children who have Individual Tax Identification Numbers (ITIN), and to highlight the health impact of expanding this credit as well as the evidence-based Earned Income Tax Credit (EITC).

Children's HealthWatch seeks to achieve health equity for young children and their families by advancing research to transform policy. We accomplish this mission by interviewing caregivers of young children on the frontlines of pediatric care in urban emergency departments and primary care clinics in four cities: Boston, Minneapolis, Little Rock, and Philadelphia. Since 1998, we have interviewed over 80,000 caregivers and analyzed data from those interviews to determine the impact of public policies on the health and development of young children.

The CTC and EITC are two evidence-based policies that work together to support the health and financial stability of low-wage workers and caregivers. Boosting in-

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[11] Chuck Marr, Kris Cox, Stephanie Hingtgen, Katie Windham, and Arloc Sherman, "American Rescue Plan Act Includes Critical Expansions of Child Tax Credit and EITC," Center on Budget and Policy Priorities, March 2021, *https://www.cbpp.org/research/federal-tax/american-rescue-plan-act-includes-critical-expansions-of-child-tax-credit-and.*

[12] Teon Hayes, Ashley Burnside, and Whitney Bunts, "EITC for Childless Workers: What's at Stake for Young People," CLASP, June 2022, *https://www.clasp.org/publications/report/brief/eitc-childless-workers-2022/.*

[13] *Ibid.*

come through these credits maintains families' freedom to prioritize their own basic needs and to make choices that are best for their family. Research shows that families use their EITC benefit and other direct cash to purchase healthy foods, afford basic goods, make necessary home or car repairs, pay bills including rent and utility arrearages, and save for the future.[1,2] Children's HealthWatch research similarly found that the 2021 expanded CTC helped families with young children catch up on rent, improved food security, protected parents' health, and supported mothers' mental health.[3,4] This is consistent with the growing body of evidence over the past year demonstrating that the fully refundable and inclusive federal CTC expansion helped families meet basic needs, reduced child poverty, and improved child and caregiver health.[5] However, there were notable disparities in health outcomes based on which families received the CTC, demonstrating opportunities for future improvement.[4]

We applaud the introduction of the Working Families Tax Relief Act (WFTRA) by Senators Brown, Bennet, Booker, Warnock, and Wyden. This bill would permanently expand the CTC for families with children and make improvements to the EITC. By reaching overlapping but different populations, these tax credits provide targeted relief to low-wage workers and caregivers of children. **However, we are disappointed that the bill does not restore CTC eligibility to the estimated 1 million children who have an ITIN, as proposed last session, nor does it restore EITC eligibility for workers who pay taxes using an ITIN.** For these credits to most effectively reduce poverty and improve health, they must be inclusive of *all* children and families.

The EITC and CFTC are effective at reaching communities of color, and expansions have historically had a larger net positive impact for people of color—particularly Black and Latinx families and women—who are overrepresented among low income workers and disproportionately experience higher rates of poverty and associated poor health outcomes compared to white families.[6] We appreciate that the WFTRA would make the CTC fully refundable and available to families with the lowest incomes, amplifying this equity effect. However, Children's HealthWatch research found that explicit exclusion of children with ITINs—combined with ongoing concerns among immigrant families about participating in public programs—may have contributed to significant disparities in receipt of the 2021 advance CTC among eligible immigrant families (for example, among mixed status families with citizen children).[4,7] Furthermore, when immigrant children and families are left out of benefits or face threat of consequences for participating, immigrant family participation across public assistance programs among those eligible.[8,9] An inclusive CTC that

[1] Bruce C, Bovell-Ammon A, Sheward R, Lê-Scherban S, Frank DA, Poblacion A, Ettinger de Cuba S, Cook J. The Earned Income Tax Credit and Child Tax Credit: Building on success for healthy families. Children's HealthWatch. 2020. Available at *https://childrenshealthwatch.org/wp-content/uploads/CHW-EITC-2020-web.pdf.*

[2] New census data shows families spent first Child Tax Credit payments on basic needs. Economic Security Project. 2021. Available at *https://www.economicsecurityproject.org/wp-content/uploads/2021/08/New-Census-Data-Shows-Families-Spent-First-Child-Tax-Credit-Payments-on-Basic-Needs.pdf.*

[3] Bovell-Ammon A, Burnett D, Ettinger de Cuba S, Gupta-Barnes S, Banks J, Bates E, Coleman S, Bruce C, Lê-Scherban S. "I didn't have to worry": How the Child Tax Credit helped families catch up on rent and improved health. 2022. Available at *https://childrenshealthwatch.org/wp-content/uploads/CTC-Report-Aug-2022-Final.pdf.*

[4] Bovell-Ammon A, Ettinger de Cuba S, Lê-Scherban S, Gupta-Barnes S, Rateau L, Bruce C, Sheward R, Frank DA. The Child Tax Credit Benefits Whole Families: Preliminary data show improved food security and parental health.

[5] Center on Poverty and Social Policy at Columbia University. Publications Archive: Child Tax Credit. Updated 2023. Available at *https://www.povertycenter.columbia.edu/child-tax-credit-archive.*

[6] Marr C, Huang Y. Women of color especially benefit from working family tax credits. 2019. Available at *https://www.cbpp.org/research/federal-tax/women-of-colorespecially-benefit-from-working-family-tax-credits.*

[7] Bernstein H, Karpman M, Gonzalez D, Zuckerman S. Immigrant Families Continued Avoiding the Safety Net during the COVID–19 Crisis. The Urban Institute. 2021. Available at *https://www.urban.org/research/publication/immigrant-families-continued-avoiding-safety-net-during-covid-19-crisis.*

[8] Bovell-Ammon A, Ettinger de Cuba S, Coleman S, Ahmad N, Black MM, Frank DA, Ochoa E, Cutts DB. Trends in food insecurity and SNAP participation among immigrant families of U.S. born young children. Children. 2019.

[9] Barofsky J, Vargas A, Rodriguez D, Barrows A. Spreading Fear: The Announcement of the Public Charge Rule Reduced Enrollment in Child Safety-Net Programs: Study examines whether the announced change to the federal public charge rule affected the share of children enrolled in Medicaid, SNAP, and WIC. *Health Affairs.* 2020;39(10):1752–61.

ensures all children are eligible regardless of immigration status would begin to address this and further the health, anti-poverty, and equity impact of the credit.

The changes to the EITC contained in the WFTRA, specifically—increasing the benefit for workers without dependent children and expanding eligibility to younger and older workers, would improve financial stability and health for an estimated 17 million workers with low wages.[10] The Centers for Disease Control and Prevention describes the EITC as "one of the best public health interventions available"[11] and has identified the credit in its HI–5 Interventions (Health Impact in Five Years) as an evidence-based and cost-effective approach to achieve positive health results within 5 years, especially for maternal and child health outcomes.[12] Expansions in the EITC have been strongly associated with a decrease in infants born with low birth weights among pregnant women eligible for the credit.[13] This relationship is significant to note because low birth weight is damaging to the long-term physical health and cognitive, behavioral, and socioemotional development potential of children and costly to the health system. In addition to benefits for infants, children in families receiving the EITC have fewer behavioral health problems, such as anxiety and depression.[14] Mothers receiving the EITC are more likely to have good health, including lower risk of high blood pressure and inflammation and reduced reports of depression and stress.[15, 16]

The WFTRA offers an exciting opportunity to meaningfully reduce child poverty and improve the health and well-being of millions of children and their families. **But we urge lawmakers to go further by including eligibility for children with ITINs in the CTC, and workers with ITINs in the EITC.** Maintaining these harmful exclusions runs counter to the underlying bill's stated intention and its provisions to reduce poverty and inequities across the country.

Sincerely,

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EXPANSION OF THE CHILD TAX CREDIT FOSTERS DEPENDENCY

Statement of Tim Puglisi, Visiting Fellow

Bottom line

Public policy should set families up for success and self-sufficiency. Expanding the Child Tax Credit (CTC) as it currently exists would have the opposite effect, fostering government dependency and transforming it into yet another cash welfare program. Efforts to combat poverty should focus on lifting families out of dependency instead of creating a new welfare entitlement.

As this committee explores options to help Americans, it would be wise to consider the proven effectiveness of policies geared toward incentivizing work, like strong

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[10] Hayes T, Burnside A, Bunts W. EITC for Childless Workers: What's at Stake for Young People. Center for Law and Social Policy. June 2022. Available at *https://www.clasp.org/publications/report/brief/eitc-childless-workers-2022/*.

[11] Centers for Disease Control and Prevention. Public Health Action Guide: EITC. 2020. Available at *https://www.cdcfoundation.org/sites/default/files/files/PublicHealthActionGuide_EITC.pdf*.

[12] Centers for Disease Control and Prevention. What is an Earned Income Tax Credit (EITC)? 2019. Available at *https://www.cdc.gov/policy/hst/hi5/taxcredits/index.html*.

[13] Hoynes H, Miller D, Simon D. Income, the Earned Income Tax Credit, and infant health. *American Economic Journal: Economic Policy.* 2015;7(1):172–211.

[14] Hamad R, Rehkopf DH. Poverty and child development: A longitudinal study of the impact of the Earned Income Tax Credit. *American Journal of Epidemiology.* 2016;183(9):775–84.

[15] Evans WN and Garthwaite CL. Giving mom a break: The impact of higher EITC payments on maternal health. *American Economic Journal.* 2014;6(2):258–90.

[16] Boyd-Swan C. Harbst CM, Ifcher J, Zarghamee H. The Earned Income Tax Credit, mental health, and happiness. *Journal of Economic Behavior and Organization.* 2016;126(part A):18–38.

work requirements for able-bodied adults. When there are work requirements in welfare, we see reductions in government dependency, increases in self-sufficiency, and consistent upward mobility. Providing most American families with a monthly "child allowance" check unattached to work would only further encourage welfare dependency, trapping individuals in poverty.

The Child Tax Credit

In 1997, lawmakers created the Child Tax Credit to reduce families' tax liability through a non-refundable tax credit. Since then, the CTC has been expanded to give families a tax credit of $2,000 per child.[1] Up to $1,400 of the credit can be refunded, provided the recipient is not liable to pay the federal income tax and has at least $2,500 in earned income.[2] The earned income requirement operates in some ways like a work requirement for the refundable portion of the credit.[3]

In 2021 during the pandemic, congress temporarily expanded the CTC through the American Rescue Plan Act (ARPA), converting the tax credit into a cash welfare program.[4] ARPA temporarily increased the amount of the CTC by up to 80 percent, reaching $3,600 for children under six and $3,000 for older children.[5] ARPA also eliminated work requirements as the entire credit became refundable to all taxpayers, including those with no earned income, out of work. This was a poor policy decision, one of several welfare expansions during the last several years that has contributed to a near-all-time low in labor force participation.

Consequences of the proposed expansions

With new efforts to permanently expand the CTC beyond its original intent are ill-advised. A chief goal of those pushing such changes appears to begin with the complete gutting of any work requirements. The second goal is to turn it from a tax credit into a new cash welfare program. The new welfare program envisioned by proponents of an expanded CTC looks a lot like the Temporary Assistance for Needy Families (TANF) cash welfare program but without its most important and successful feature—a strong work requirement.

TANF work requirements resulted in increased income and workforce participation, and decreased poverty and dependency, as shown through numerous studies.[6, 7, 8, 9] Even with ample proof that work requirements work, federal policymakers continue to expand welfare eligibility and benefits without provisions requiring work, and the CTC proposals are the latest example of that lurch towards disconnecting welfare from work.

In fact, federal policymakers have made it possible for states not to enforce already modest work requirements in the food stamp program for able-bodied, childless adults between the ages of 18 and 49 (ABAWDs) through gimmicks and loopholes.[10] Because of these gimmicks and loopholes, 75 percent of ABAWDs receiving food stamps do not work.[11]

These wayward expansion proposals of the CTC would result in a disincentive for parents that we see in many other welfare programs, like Medicaid and food

[1] 26 U.S.C. § 24(h)(2) (2018), *https://www.govinfo.gov/content/pkg/USCODE-2018-title26/pdf/USCODE-2018-title26-subtitleA-chap1-subchapA-partIV-subpartA-sec24.pdf.*

[2] Margot L. Crandall-Hollick, "The Child Tax Credit: How it Works and Who Receives It," Congressional Research Service (2020), *https://fas.org/sgp/crs/misc/R41873.pdf.*

[3] 26 U.S.C. § 24(d)(1) (2018), *https://www.govinfo.gov/content/pkg/USCODE-2018-title26/pdf/USCODE-2018-title26-subtitleA-chap1-subchapA-partIV-subpartA-sec24.pdf.*

[4] Margot L. Crandall-Hollick, "The Child Tax Credit: How it Works and Who Receives It," Congressional Research Service (2020), *https://fas.org/sgp/crs/misc/R41873.pdf.*

[5] *Ibid.*

[6] Nic Horton and Jonathan Ingram, "Work requirements are working for Kansas families: How welfare reform increases incomes and improves lives," Foundation for Government Accountability (2017), *https://thefga.org/research/kansas-work-requirements/.*

[7] Ron Haskins, et al., "A Safety Net that Works: Temporary Assistance for Needy Families," The American Enterprise Institute (2017).

[8] Ron Haskins, "Work over welfare: The inside Story of the 1996 welfare reform law," Brookings Institution Press (2006).

[9] Mary Daly and Joyce Kwok, "Did welfare reform work for everyone? A look at young single mothers," Federal Reserve Bank of San Francisco (2009), *https://www.frbsf.org/economic-research/publications/economic-letter/2009/august/welfare-reform-single-mothers/.*

[10] Sam Adolphsen et al., "Waivers gone wild: How states have exploited food stamp loopholes," Foundation for Government Accountability (2018), *https://thefga.org/research/waivers-gone-wild/.*

[11] Jonathan Ingram, "House-Proposed Work Requirements Would Limit Dependency, Save Taxpayer Resources, and Grow the Economy," Foundation for Government Accountability (2023), *https://thefga.org/research/house-proposed-work-requirements/.*

stamps. Those programs have expanded to more able-bodied adults while sidelining work requirements, and the effect has been clear, with record high able-bodied adult enrollment in each program.

The same would happen with an expanded CTC. Parents within the 25th percentile income bracket would receive greater financial support from a combination of current welfare programs and the proposed CTC expansion as opposed to going to work at their current job.[12] Reports warn about the dire consequences of expanding the CTC, where an estimated 1.5 million parents would likely leave the workforce entirely.[13]

This exodus from the labor force would be an especially ill-timed sabotage of the nation's economy, as there are currently a whopping 10 million job openings across the country.[14] The number of available jobs is roughly twice that of unemployed individuals actively searching for a job.[15] Now is the time to expand policies that promote, incentivize, and support work. The proposed CTC expansions being discussed would do the exact opposite.

A better approach

Instead, federal policymakers should consider solutions proven successful in addressing poverty, such as expanding work requirements. The 1996 welfare reform was proven successful in decreasing dependency, moving Americans into the labor force, and spurring more significant economic growth.[16] A more recent example of the success of work requirements can be seen in Missouri, where state policymakers reinstated the ABAWD work requirement for the state's food stamp program. After reinstating work requirements, 85 percent of ABAWDs became ineligible for the food stamp program as they had entered the workforce.[17]

ABAWDs in Missouri who started working were not only able to leave the food stamp program but also experienced a doubling of their wages.[18] In addition to the excellent outcomes many ABAWDs experienced following the implementation of work requirements, Missourians saved $89 million in state taxes annually, lifting the overall economy.

The solution to the issue of dependency and family support will not come through an expanded Child Tax Credit that warps the program to more closely resemble cash welfare. Instead, the right solutions will come through initiatives that foster self-sufficiency, such as work requirements.

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Statement of Harry J. Holzer, McCourt School of Public Policy, Georgetown University

I appreciate the opportunity to submit a written statement for the record for the United States Senate Committee on Finance hearing titled "Anti-Poverty and Family Support Provisions in the Tax Code". It's important to note my credentials as I am a Professor of Public Policy at Georgetown University's McCourt School of Public Policy, an expert on the low-wage labor market, and have authored or edited 12

[12] Hayden Dublois, "'Fixing' What Wasn't Broken: Why Biden's Child Tax Credit Scheme Is a Recipe for Failure," Foundation for Government Accountability (2021), *https://thefga.org/research/biden-child-tax-credit-failure/*.

[13] Kevin Corinth et al., "The anti-poverty, targeting, and labor supply effects of replacing a Child Tax Credit with a child allowance," National Bureau of Economic Research (2022), *https://www.nber.org/papers/w29366*.

[14] U.S. Bureau of Labor Statistics, "Job openings and labor turnover survey news release," United States Department of Labor (March 2023), *https://www.bls.gov/news.release/jolts.htm*.

[15] Michael Greibrok, "Universal Work Requirements for Welfare Programs Are a Win for All Involved," Foundation for Government Accountability (2023), *https://thefga.org/research/universal-work-requirements/*.

[16] Jonathan Ingram, "'The Power of Work—How Kansas' Welfare Reform is Lifting Americans Out of Poverty," Foundation for Government Accountability (2016), *https://thefga.org/research/report-the-power-of-work-how-kansas-welfare-reform-is-lifting-americans-out-of-poverty/*.

[17] Hayden Dublois et al., "Food stamp work requirements worked for Missourians," Foundation for Government Accountability (2020), *https://thefga.org/research/missouri-food-stamp-work-requirements/*.

[18] *Ibid.*

books and several dozen journal articles, mostly on disadvantaged American workers and their employers, as well as on education and workforce issues and labor market policy. Lastly, I write to you today as a member of the Scholars Strategy Network.

I support a permanent increase in the Child Tax Credit (CTC), at least somewhat along the lines proposed in the American Family Act (AFA). Such an increase would provide needed resources for children in low-income families, while also providing tax benefits to middle-class families with children.

I judge the evidence of declining material hardship for poor families with children from the 2021 CTC expansion, along with declining child poverty, to be very compelling. I believe these changes, if permanent, would reduce "toxic stress" on such children and would improve their cognitive and socioemotional development, leading to better education and employment outcomes for them over time.

But economists and others worry that the CTC might reduce parental work incentives and therefore employment rates. To date, the research on potential reductions in employment associated with the CTC expansion in 2021 do not show serious evidence that the policy leads to lower employment. On the other hand, most economists agree that these studies do not indicate what the effects of a *permanent* increase in the CTC would be on parental employment and earnings, since it was not reduced beyond 2021. I believe that such an increase would **quite modestly reduce parental employment, while leaving children better off.**

But there are also other questions one might raise about the specific increase proposed by the AFA—namely, whether it should be fully refundable, whether it should phase out with respect to income earlier and/or more slowly, and especially whether/how it would be financed. I consider all these issues below.

THE 2021 CTC EXPANSION: WHAT THE EVIDENCE SHOWS

Over the past 18 months, a number of rigorous studies have examined the impacts of the 2021 CTC expansion on both child/family well-being and parental employment. These studies include Ananat et al. (2022), Collyer et al. (2022), Lourie et al. (2022), Parolin et al. (2022), Enriquez et al. (2023) and Pilkauskas et al. (2023). (These are summarized in a new piece by the Center on Budget and Policy Priorities—see Fenton, 2023).

Each of these studies finds **major declines in material hardship and/or food insecurity for poor children and families as a result of the CTC expansion.** While some authors (Han et al., 2022) had cast some doubt on whether or not child poverty would be substantially reduced by the CTC expansion—especially if parental employment declined—**evidence from monthly data strongly suggests that the expansion reduced child poverty quite dramatically in 2021,** while its expiration increased child poverty from roughly 12 to 17 percent between 2021 and early 2022, using the Supplemental Poverty Measure (Parolin et al., 2022).

The studies listed above also find no evidence of declining employment among parents in response to the CTC expansion, as had been strongly predicted by Corinth et al. (2021) but much less so by Bastian et al. (2022) and Goldin et al. (2021). On the other hand, virtually all analysts acknowledge that the evidence on employment from this one-year expansion tells us very little about what the effects would be of a permanent change, especially if parents had more time to learn about the CTC and adjust their employment behavior in response. Also, since the labor force in 2021 was still recovering from the pandemic recession of 2020, any effects of the CTC might be swamped by broader improvements that were occurring.

WHAT WOULD BE THE EFFECTS OF A PERMANENT CTC EXPANSION?

A permanent expansion of the CTC, along the lines of the 2021 expansion, would no doubt continue to alleviate material hardship and food insecurity among lower-income families with children. This, in turn, would likely lead to permanent improvements in educational attainment and earnings among such children, since a body of research (Hoynes et al., 2016; Bailey et al., 2020) now shows that major improvements in nutrition associated with the expansion of food stamps in the 1960s and beyond led to long-term improvements in adult outcomes for poorer children. It is also likely that such changes would reduce the costs of poverty to the U.S., in terms of lost productivity and earnings, bad health and/or crime (Holzer et al., 2008; National Academies of Science, 2019).

There are reasons to believe that parental employment would very modestly decline if the CTC were made permanent, as the AFA proposes. There would be two mechanisms generating this decline in parental labor supply: (1) an *income effect* for the vast majority of American families; and (2) a *wage effect* as the credit phases out at higher family earnings (and income) levels, thereby reducing the net wage associated with more work.

In textbook labor market analysis, both of these effects would potentially reduce labor supply—as having higher unearned income reduces the need for earnings, while a lower net wage would likely reduce the rewards to working and therefore labor supply as well. But the magnitudes of these changes depend crucially on the sizes of what economists call "labor supply elasticities"—in other words, the responsiveness of work effort to changes in income and net wages. If the elasticities are small, the effects of modest income or net wage changes on work effort would likely be very modest as well.

Though Corinth et al. predicted large losses of employment, most other studies (including Bastian and Goldin et al., op. cit.) suggested **declines of under 1 percentage point for the overall US labor force.** The latter makes sense for a few reasons:

- The increases in income for the average American family would be quite small.
- The estimated labor supply elasticities for women (in other words, the changes in employment that might be associated with changes in nonwork income or net wages) appear to have declined in recent decades and are now quite small (*e.g.,* Kumar and Liang, 2016—though they might have risen for prime-age men).
- Very few people would experience the phaseout of benefits that might reduce net wages and therefore employment.

To illustrate these effects, consider the following facts: only about 40% of American families have children under the age of 18; median household incomes are now over $70,000 per year; and the average family with two children—for instance, one below age 6 and one between 6 and 18—would gain approximately $2,600 a year in income. The average income gain for such a family would be about 3.5 percent, and applying that increase to only 40 percent of families would increase overall family income by about 1.5 percent. Applying estimated income elasticities (especially the small ones estimated recently by Kumar and Liang) to such income gains would lead to only very small employment declines—well under 1 percentage point.

Of course, the increases in income would be substantially larger for lower-income families and/or those with more children. In such cases, the improvements in income might be substantially greater—especially for families with no earnings for whom a fully refundable credit would now be available—and might generate somewhat larger employment losses for these subsets of families as well. In this case, there might well be a tradeoff between greater income security for poor families and children and the employment rates of parents in these families.

On the other hand, it is also possible that the higher incomes associated with the more generous CTC could *raise* work effort among low-income families, which could now afford more child care and transportation, perhaps offsetting any potential losses of work effort among these parents (Ananat et al., op. cit.). Evidence from child benefits in Canada also shows little loss of employment among parents there (Baker et al., 2021). And, while changes in net wages (caused by the phasing out of the benefits as earnings rise) might produce more substantial changes in parental labor supply, these would be relevant for very small percentages of families in AFA: those with incomes over $150,000 for single filers and $200,000 for joint filers per year. Furthermore, the net changes in earnings for these high-income families would also be quite small in magnitude.

One question to consider is, why should the child benefits be fully available to families until they have such high earnings? Part of the answer is no doubt political. Many middle-class voters do not like the better targeted but more redistributive income support and antipoverty programs like food stamps and Medicaid (Mettler, 2018). On the other hand, since even middle-class families sometimes pay substantial amounts for childcare and other costs of raising children (Holzer and Sawhill, 2022), a substantive case can be made for helping them as well.

Unfortunately, the fiscal costs of such an expansion would be substantial. The Congressional Budget Office (CBO) and the Joint Committee on Taxation project that the budgetary costs of such an expansion would be approximately $1.6 T over the next decade (Congressional Research Service, 2022). In an era where federal budget deficits are already a major policy concern, especially as Baby Boomers retire, adding such expenditures to the budget would not be trivial. And, if either taxes must rise or other government spending fall to finance these expansions, their potential effects on economic outcomes would have to be considered as well. Overall, the combination of larger budget deficits and even modestly lower employment has reduced the political appetite for a permanent CTC expansion in the near future.

Because of these concerns, more modest proposals for CTC expansion have been developed. For instance, Edelberg and Kearney (2023) propose an expansion which would be only partially refundable—with families with no or low earnings receiving only half of the credit—and phasing out somewhat sooner as income rises—beginning at $75,000 a year for single filers and $100,000 for joint filers—but also more slowly, thus generating smaller potential effects on labor supply. Their formulation is quite appealing in many respects; but, given the clear evidence in 2021 of better income security and less material hardship for poor children while employment losses among their parents remain hypothetical and uncertain, **I prefer the fuller refundability of AFA, as I think it would protect children in such families from food insecurity or material hardship that would otherwise occur.**

Other proposed changes in the credit that involve much less refundability and/or shrinking the Earned Income Tax Credit (EITC), such as proposed by Senator Romney (Marr et al., 2022), do not appeal to me. Families with very low earnings would receive too little credit; and reducing the positive work incentives and income boosts associated with the EITC, which have generated a wide range of improvements in outcomes for poor families (Nichols and Rothstein, 2015), does not seem sensible. A different proposal by Rachidi et al. of the American Enterprise Institute (2022) would retain the more positive effects of the EITC but generate smaller improvements in child well-being and cuts in poverty than the AFA proposal.

CONCLUSION

The improvements in child and family well-being associated with the temporary CTC expansion in 2021, and the reductions in child poverty, were substantial—while no employment losses among parents were observed. At the same time, making such an expansion permanent—as proposed in the AFA—might very modestly reduce overall US employment, and even more so in poor families. And the proposal would be quite expensive—$1.6 T over a decade—in an era where we already face disturbingly large budget deficits currently and in the future (and where the political will to raise taxes is extremely limited).

I would support an expansion of the CTC with full refundability but otherwise also along the lines suggested by Edelberg and Kearney, which would reduce parental employment by less and be less fiscally costly. And I believe we would need to specify how we intend to finance such an increase, so that it would not contribute even more to federal budget deficits that already appear daunting over the next few decades.

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