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ASSESSING 25 YEARS OF THE CHILD TAX CREDIT (1997–2022)

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BEFORE THE

SUBCOMMITTEE ON TAXATION AND IRS OVERSIGHT

OF THE

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ASSESSING 25 YEARS OF THE CHILD TAX CREDIT (1997–2022)

THURSDAY, JULY 13, 2023

U.S. SENATE,
SUBCOMMITTEE ON TAXATION AND IRS OVERSIGHT,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:04 a.m., in Room SD–215, Dirksen Senate Office Building, Hon. Michael F. Bennet (chairman of the subcommittee) presiding.

Present: Senators Brown, Casey, Whitehouse, Cortez Masto, Warren, Thune, and Johnson.

Also present: Democratic staff: Brendan Duke, Senior Advisor for Senator Bennet; Santiago Gonzalez, Legislative Director for Senator Bennet; Rachel Skaar, Press Secretary for Senator Bennet; Eli Weiner, Legislative Aide for Senator Bennet; and Yousof Omeish, Staff Assistant for Senator Bennet. Republican staff: Adam Wek, Deputy Legislative Director for Senator Thune.

OPENING STATEMENT OF HON. MICHAEL F. BENNET, A U.S. SENATOR FROM COLORADO, CHAIRMAN, SUBCOMMITTEE ON TAXATION AND IRS OVERSIGHT, COMMITTEE ON FINANCE

Senator BENNET. Thank you for being here; good morning. I am pleased to call the Subcommittee on Taxation and IRS Oversight to order. I want to thank Ranking Member Thune for his partnership on this hearing, also for the partnership of his staff, along with the colleagues who are going to join us throughout the day. We have a voting schedule this morning, so people will probably be in and out.

But I am thrilled to have the panel that we have today to discuss the 25-year-old Child Tax Credit and its benefit to tens of millions of American children. Over its history, this tax credit, which is the single largest Federal expenditure on kids, has made it easier for families to afford rent, groceries, child care, and the thousands of other expenses that come with raising a child in America.

At its best, the Child Tax Credit has lifted nearly 2 million children out of poverty and demonstrated that we do not have to accept, in the wealthiest country in the world, one of the highest levels of childhood poverty in the industrialized world as a permanent feature of our economy and our democracy.

In today's testimony we will learn much more about the history of the Child Tax Credit and its success. And although there have been occasional differences in approach between the two parties, I think it is important to recognize that the Child Tax Credit has been expanded, both in size and to whom it has been made available, as a result of bipartisan consensus and agreement.

Indeed, I want to record here that among the first lawmakers to officially embrace the CTC were Republican members of the House in 1994, who included a $500 credit in Newt Gingrich's Contract With America. It was President George W. Bush who worked with both Democrats and Republicans in Congress to make some of the Child Tax Credit refundable for the first time, expanding some of the benefit to low-income families.

In 2017, Congress passed the Trump tax cuts without bipartisan support. That bill doubled the maximum size of the credit from $1,000 to $2,000, but it also made it more available to wealthier families by increasing the income threshold to $200,000 for individuals and $400,000 for married couples.

Around the same time, my colleague Sherrod Brown and I took a different approach and introduced the American Family Act. That bill made the Child Tax Credit fully refundable, cutting taxes for the poorest families in the middle class. We did that because no child chooses to be born poor, but as our witnesses will tell you today, growing up in poverty can shape a child's future and the country's future in ways that are profoundly unfair.

I saw the effect of that poverty every single day when I worked for the children in the Denver Public Schools as their Superintendent, and as a society, we pay the price. Child poverty costs our country up to a trillion dollars a year in the form of more hospital visits, lower earnings, and higher crime, and that is why economists from across the political spectrum agree that investing in our kids is one of the best choices we can make for our country. According to Columbia University, every dollar we invest in the expanded Child Tax Credit guarantees $9 in benefits to society down the road.

When COVID exacerbated and revealed further inequities in our economy, we passed the American Family Act as part of the American Rescue Plan. We will hear today that unlike many things the Federal Government attempts, it was an enormous success. As the research predicted, 62 million kids benefited, 90 percent of kids in every single State. In Colorado, moms spent it on things like groceries and rent and diapers and textbooks. It reduced stress for kids and for their parents, and it helped cut childhood poverty in half and hunger by a quarter. We found out that an extra $10 a day did not actually reduce workforce participation as some people have said.

There is a growing chorus of research now, some of which our witnesses will share today, that shows the expanded Child Tax Credit is pro-family, pro-work, and pro-democracy. For 6 shining months in 2021, we finally treated children in poverty in this country like they were our children, not someone else's children. But we failed to extend the expanded Child Tax Credit, and now because of that failure, child poverty is rising again in America. Child hunger is rising again in America, and American children continue to go to bed hungry in the richest country in the world.

Today, I hope we will have a discussion about why we should move forward in a bipartisan way to make the full expanded credit available to every kid in America. We should consider how extraordinary it would be if the wealthiest country in human history—with the fourth highest rate of child poverty among rich nations, as we meet here this morning—was able in the end to end childhood poverty, to have an economy that when it grows, it grows for everybody, not just the people at the very top. My hope is that in the months ahead, we will build on 25 years of Child Tax Credit expansions to support America's children.

And with that, I will turn it over to my colleague and the ranking member, Senator John Thune, for his opening statement.

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

OPENING STATEMENT OF HON. JOHN THUNE, A U.S. SENATOR FROM SOUTH DAKOTA

Senator THUNE. Thank you, Chairman Bennet, to you and your staff for working with me, and to all our panelists for being here today to examine and further explore this important issue. Today we are here to discuss the Child Tax Credit and evaluate its 25-year history, review its effectiveness in helping to ease the financial burden on American families, and to discuss modifications to the credit that Congress should consider.

In 1997, the Child Tax Credit was created as a $400 nonrefundable per-child tax credit intended to help make life a little easier for working families and children. I was a member of the House of Representatives at the time. As Chairman Bennet pointed out, at that time Speaker Gingrich made this part of the agenda among House Republicans. Bill Archer was the chairman of the Ways and Means Committee, and the Child Tax Credit was born.

Over the last 25 years, the Child Tax Credit has expanded and evolved, and unlike some issues that we debate in this committee, it continues to have a fair amount of bipartisan support. Today, as a result of the Tax Cuts and Jobs Act, the credit provides qualifying families with $2,000 per dependent child and $500 per nondependent child up to the age of 16. Due to the expansion of the Child Tax Credit, families across the Nation are able to reap the benefits of a more lucrative credit. However, this expanded Child Tax Credit is set to expire and revert back to pre-Tax Cuts and Jobs Act levels beginning in 2026. If allowed to happen, families in South Dakota and across the Nation would see their Child Tax Credit benefit cut in half, back to the 2017 levels.

Therefore, it is my hope that my colleagues on the Finance Committee and in the Senate see the necessity for this expanded Child Tax Credit to not be allowed to simply expire in just a few short years. As we all know, there is a push by some to reinstate the temporary changes to the Child Tax Credit that were included in the American Rescue Plan in 2021 which have since expired. This is an approach that I have serious concerns with, as do many others, including some of our witnesses. The American Rescue Plan went beyond simply increasing the per-child tax credit amount. It extended the credit to children who are almost adults. It adopted a completely new approach by mandating taxpayers who did not opt out to receive half their credit in advance, significantly straining the IRS's resources and leading to refund delays, surprise tax bills, and lengthy call wait times for two consecutive tax filing seasons, among a host of other administrative challenges.

Though we can debate the merits of any of these changes, in my view the most concerning change was that Democrats eliminated the credit's tie to working and earning a basic amount of income. This single change essentially turned a credit that targets assistance towards working families into universal basic income for anyone with a child. This contentious and expensive change is also completely contrary to the original intent of the Child Tax Credit. Eliminating the tie between the Child Tax Credit and working takes away a key incentive, a bonus of sorts for certain parents to enter and to stay in the workforce. Such an incentive has been part of the Child Tax Credit since its inception, and one that is lauded in other income support programs such as the Earned Income Tax Credit. Today, while many try to reframe the discussion, the Child Tax Credit originated during the broader back-to-work welfare reform push of the 1990s and cannot be understood without comprehending the lessons of this highly successful series of reforms.

One primary objective of welfare reform was to get families out of the cycle of perpetual poverty by providing them with a hand up rather than a handout. That is why the Personal Responsibility and Work Opportunity Reconciliation Act incorporated work requirements into various Federal programs. These changes were decried by some at the time as being unfair or mean-spirited and likely to lead to harm for those who need assistance. In fact, the data is irrefutably to the contrary. Welfare reform worked and had amazing and positive outcomes for the most economically vulnerable. By tying government assistance to workforce participation, beneficiaries of various Federal programs are incentivized to get a job, which provides the best pathway out of poverty and a host of other positive outcomes.

Clearly, there are certain instances in which a parent does not have the ability to work, but there are current programs like the Earned Income Tax Credit and WIC that do not require one to hold a job in order to reap the full benefits of the program. However, turning the Child Tax Credit into universal basic income is both duplicative and counterproductive, and I believe this is the wrong approach. Instead, I believe it is imperative for Congress to ensure that we continue to build on the successes of the Child Tax Credit that we witnessed over its 25-year history, rather than fixing what is not broken. I look forward to hearing from our witnesses on this very important issue, and I look forward to our discussion.

Thank you, Mr. Chairman.

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

Senator BENNET. Thank you, Senator Thune, for that excellent opening statement. And with that, I am going to introduce the witnesses.

Let me introduce first Mr. Dutta-Gupta, who is the president and executive director of the Center for Law and Social Policy, a nonpartisan antipoverty nonprofit focused on advancing policy solutions to improve the lives of people with low incomes. Prior to joining CLASP, he was the co-executive director of the Georgetown Center on Poverty and Inequality, where he led work to develop policy recommendations focused on poverty and inequality, advancing racial and gender equity, and advancing economic inclusion. Earlier in his career, Mr. Dutta-Gupta served as a professional staff member on the House Ways and Means Committee for the Subcommittee on Income Security and Family Support. He received his BA with honors from the University of Chicago in law, letter and society, and in political science, and was selected as a Harry S. Truman scholar.

Professor Katherine Michelmore is an associate professor of public policy at the University of Michigan's Gerald Ford School of Public Policy. Professor Michelmore is a leading scholar and educator on the social safety net, education policy, labor economics, and economic demography. She is a recognized expert on the efficacy of the Earned Income Tax Credit and its impact on children. She completed her Ph.D. in policy analysis and management at Cornell University. She holds a BA in economics and psychology from Wesleyan University.

Dr. Kevin Corinth is a senior fellow and the deputy director of the Center on Opportunity and Social Mobility at the American Enterprise Institute. Before joining the AEI, Dr. Corinth served as the staff director of the Joint Economic Committee in Congress, and Chief Economist in the White House's Council of Economic Advisors. Dr. Corinth has a Ph.D. and an MA in economics from the University of Chicago. He holds a BA in economics and political science from Boston College.

Last but not least, Dr. Angela Rachidi is a senior fellow and a Rhodes Scholar in Opportunity and Mobility Studies, also at the American Enterprise Institute, where she studies poverty and the effects of Federal safety net programs on low-income people in America. Before joining AEI, Dr. Rachidi researched benefit programs for low-income populations in New York City. From 2007 to 2015, she served as a Deputy Commissioner in New York City's Department of Social Services, where she oversaw the agency's policy research and program evaluation efforts. She received her Ph.D. from The New School and MPA from Northern Illinois University, and a B.S. in public administration from the University of Wisconsin-Whitewater.

I am extremely grateful to have all of you here today for this hearing. Mr. Dutta-Gupta, Professor Michelmore, Dr. Corinth, and Dr. Rachidi, I look forward to your testimony. With that, I think we are going to go to Mr. Dutta-Gupta. As a reminder, we ask each of you to keep your testimony to 5 minutes each, and any written testimony will be submitted for the record. You might hear me tap the gavel should your time expire.

Mr. Dutta-Gupta, you are recognized for 5 minutes.

STATEMENT OF INDIVAR DUTTA-GUPTA, PRESIDENT AND EXECUTIVE DIRECTOR, CENTER FOR LAW AND SOCIAL POLICY, WASHINGTON, DC

Mr. DUTTA-GUPTA. Thank you, Chairman Bennet, Ranking Member Thune, and members of the subcommittee. My name is Indy Dutta-Gupta, and I am president and executive director of the Center for Law and Social Policy, or CLASP. I am honored to come before you to discuss the bipartisan quarter-century history and extraordinary track record of the Child Tax Credit.

I have been working on policies to reduce poverty for nearly 2 decades. As professional staff on the Ways and Means Committee from 2007 through 2010, I worked on a bipartisan basis to reduce the tax credit's discriminatory treatment against people when their incomes are low. We succeeded in shrinking the earnings that are not counted toward the credit from around $11,000 a year to $3,000 a year. Later, I worked at think tanks and advanced a more effective CTC.

The Child Tax Credit was established through the Taxpayer Relief Act of 1997. The credit was the culmination of recommendations made by the National Commission on Children that were embraced by both Republicans and Democrats. The first CTC was modest and was nonrefundable. Over the next 2 decades, the CTC was strengthened. The benefit grew to $1,000 per child and was made partially refundable in the first large tax package signed by President George W. Bush. However, the CTC ignored the first $10,000 in earnings, so a full-time minimum-wage worker with two children received just $45. She would not get the full credit until she worked the equivalent of more than two full-time minimum-wage jobs.

During the 2007 through 2009 financial crisis, bipartisan legislation lowered the earnings threshold to $3,000 temporarily, so this minimum wage worker could now receive $1,725. On a bipartisan basis, this provision was extended multiple times and then made permanent in 2015, alongside various corporate tax cuts including the R&D tax credit. President Trump's 2017 tax law increased the credit to $2,000 per child and lowered the earnings threshold to $2,500.

In 2021, the American Rescue Plan Act's 1-year Child Tax Credit expansion led to all-time lows in child poverty, as well as in racial disparities in child poverty, with little or no undesirable effects. Key to this impact was full refundability, which helped include those families that would most benefit from the income boost, and ensure that they got an equal benefit. Unfortunately, policymakers did not extend this historic investment, and millions of families have struggled as a result.

The United States is the only western industrialized nation that does not have a child allowance policy or some other universal public benefit for families raising children. Those are not my words, but the words of the 1991 National Commission on Children, which included 12 Reagan and Bush appointees. These appointees unanimously recommended something like the American Rescue Plan's Child Tax Credit. At the end of 2025, major provisions of the Trump tax law, including those that expanded the Child Tax Credit, expire. This creates an opportunity to establish and improve CTC, drawing on decades of evidence. A vast array of rigorous studies has demonstrated that the Child Tax Credit and similar policies helped families with low incomes provide a foundation for their children to thrive.

Here are a few examples. Children whose mothers received payments from the mother's pension program a century ago lived 1 year longer, obtained one-third more years of schooling, were less likely to be underweight, and had higher income in adulthood compared to children whose mothers' applications were rejected. A study of the pandemic-era stimulus and Child Tax Credit payments found that each additional $100 in unconditional transfers that a pregnant mother received reduced the prevalence of low birth weight—which can have lifelong effects—by 2 to 3 percent. A study looking at birth and tax years found that an extra $1,000 tax transfer to low-income families with children results in 2.6 percent fewer referrals to child protective services through age 2, and 7.9 percent fewer days spent in foster care.

The Child Tax Credit provides such unequivocally positive outcomes, because each of us needs a basic foundation to develop fully and thrive. A modest income floor allows parents to invest more in their children and reduce their own stress, in turn likely improving parent-child interactions.

An expansive Child Tax Credit offers enormous gains. Researchers calculate that a permanent version of the ARPA Child Tax Credit would return more than $9 to society for each dollar spent, with little to no harmful consequences. If policymakers can come together and establish a permanent and equitable Child Tax Credit, our entire Nation will become more just and prosperous.

[The prepared statement of Mr. Dutta-Gupta appears in the appendix.]

Senator BENNET. Thank you, Mr. Dutta-Gupta. I appreciate very much your testimony.

Dr. Michelmore, thank you.

STATEMENT OF KATHERINE MICHELMORE, Ph.D., ASSOCIATE PROFESSOR, GERALD R. FORD SCHOOL OF PUBLIC POLICY, UNIVERSITY OF MICHIGAN, ANN ARBOR, MI

Dr. MICHELMORE. Chairman Bennet, Ranking Member Thune, and distinguished members of the subcommittee, thank you for the opportunity to testify today. I am an associate professor at the Ford School of Public Policy at the University of Michigan, but I am here on my own behalf, and the views expressed here are my own and should not be attributed to my institution. My testimony today will provide an overview of the children left out of the current-law Child Tax Credit, as well as the impacts of the historical American Rescue Plan Act reform to the Child Tax Credit and the likely enormous, long-term societal benefits of making these reforms permanent.

As Chairman Bennet said, the Child Tax Credit is the single largest Federal expenditure program for children in the U.S. Despite its scope, the current structure of the CTC prevents approximately 19 million of the poorest children in the U.S. from receiving the full credit. In fact, nearly all children living in the bottom 10 percent of the income distribution are not eligible for any CTC benefit. In contrast, nearly all children residing in the households in the top half of the income distribution are eligible for the full benefit. Excluding the poorest children in the U.S. from the Child Tax Credit goes against the evidence that we have about the importance of income for children's future life chances. An extra dollar matters the most for kids living in the poorest households.

Eligibility for the CTC is racially and geographically concentrated. As of 2023, nearly half of Black and more than one-third of Hispanic children resided in households that were not eligible for the full credit, compared to just 17 percent of White children. Likewise, children living in rural areas and coming from larger families are also less likely to receive the full benefit.

To give a few concrete examples, as Mr. Dutta-Gupta said, a single-earner family with two children working full-time year-round at the Federal minimum wage would not be eligible for the full CTC. Such a family would need to earn more than $30,000 per year to qualify for the full benefit, which is well above the official poverty threshold and more than twice the earnings of someone working full-time year-round at the Federal minimum wage. In contrast, under current law, a married couple with annual earnings of $400,000 will qualify for the full $2,000 per-child benefit. In fact, nearly all children residing in households in the top half of the income distribution are eligible for the full benefit, while more than a quarter of the poorest children in the U.S. are not.

The 2021 ARPA reform to the CTC marked a critical moment in CTC legislative history, transforming the benefit into something akin to a universal child allowance. The growing body of evidence on the impact of the reforms suggest that they had real positive impacts on the well-being of families, particularly low-income working families. Survey evidence suggests that families spent their benefit primarily on basic needs, such as food and housing, as well as child-related items and paying down debt.

The Census Bureau estimates that child poverty declined by nearly half in 2021, keeping nearly 3 million children out of poverty. Following the expiration of the monthly payments in 2022, estimates suggested that 3.7 million more children were living below the poverty line. Other measures of material hardship also improved during the months that the expanded CTC was in place. Material hardships, including food insecurity and housing hardships, declined substantially. Evidence also suggests that the CTC reduced child maltreatment in the days following the payments, and increased infant birth weight. Both of these outcomes have been shown to lead to longer-term improvements in child outcomes.

One of the central debates about making the ARPA reforms to the CTC permanent at the end of 2021 was surrounding how the reforms might reduce parents' incentives to work. However, the vast majority of research on the reforms found no evidence that the credit caused parents to work less, with survey evidence suggesting that the credit actually helped some parents work more, by allowing them to afford the necessary costs associated with work, such as child care and transportation.

While it is too soon to tell how these reforms will benefit children in the long term, history tells us that the societal benefits are likely to be enormous. A recent study by researchers at Columbia University estimated that the $97 billion spent on the expanded CTC could generate $929 billion in long-term societal benefits, a return on investment of more than 9 to 1. These calculations were based on a long line of research that points to the importance of income for children's success in both the short and long term. For instance, children who receive more income in early childhood through tax credits such as the Earned Income Tax Credit and other social programs like Food Stamps, go on to have higher test scores in school, have better health outcomes, complete college at higher rates, and have higher earnings in adulthood. They are also less likely to live in poverty and less likely to receive public assistance in adulthood. In short, the evidence is clear that a permanent expansion of the CTC is likely to pay off several times over, for both the beneficiaries themselves as well as society at large.

Thank you.

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

Senator BENNET. Thank you.

Dr. Corinth, you have 5 minutes.

STATEMENT OF KEVIN CORINTH, Ph.D., SENIOR FELLOW AND DEPUTY DIRECTOR, CENTER ON OPPORTUNITY AND SOCIAL MOBILITY, AMERICAN ENTERPRISE INSTITUTE, WASHINGTON, DC

Dr. CORINTH. Chairman Bennet, Ranking Member Thune, and subcommittee members, thank you for the opportunity to testify this morning.

The Child Tax Credit, the version that we have today, should be celebrated as a bipartisan achievement, because it serves the dual purpose of providing tax relief for families and encouraging work. Since it was introduced 25 years ago, the Child Tax Credit has become more generous and has been expanded to more working families, including to those who do not earn enough to pay Federal income tax. Today, for a full-time worker with two children, the Child Tax Credit effectively turns a $15-per-hour job into a $17-per-hour job, increasing take-home pay by $4,000 over the course of the year.

Rewarding work through the tax code has been shown to increase employment, especially for low-income families. It also improves the well-being of children, who not only perform better academically in the short run, but also achieve higher earnings and greater self-sufficiency when reaching adulthood. In short, incentivizing work through the tax code, as the Child Tax Credit has done for almost its entire 25 years of existence, is a proven strategy for increasing employment, reducing poverty, and investing in the long-run success of children.

However, for 6 months during 2021, the Child Tax Credit was completely changed. Instead of offsetting taxes and rewarding work, it was transformed into a universal child allowance, costing an additional $100 billion annually. If made permanent, it will lead an estimated 1.5 million parents to exit the workforce, and could put at risk the long-run benefits for children resulting from the existing Child Tax Credit.

Unfortunately, the risks of adopting a child allowance have been overlooked. The intellectual foundation for this idea was provided in part by a National Academy of Sciences report in 2019. That report concluded that replacing the Child Tax Credit with a child allowance would have a negligible effect on employment and thus dramatically reduce child poverty. However, the report made a fundamental error. It failed to recognize that the work incentives in the existing Child Tax Credit would be eliminated. When my co-authors and I corrected the error and used their own assumptions about how parents respond to work incentives in other contexts, we found that well over a million parents would exit work due to the policy change. Unfortunately, the National Academy of Sciences has been unwilling to correct the public record about their error, misleading policymakers about the true consequences of their decisions.

Policymakers are now being misled again by faulty interpretations of studies that examine the 2021 experience with the child allowance. These studies test whether parents who received the child allowance during the second half of 2021 were more likely to quit their jobs. But contrary to assertions, these studies do not provide a useful guide to the effects of making the child allowance permanent. There are three main reasons.

First, it is hard to believe that most parents understood how work incentives changed in 2021, when the child allowance checks were being paid out. As late as September of that year, 462 economists wrote a letter to Congress in which they failed to recognize that the Child Tax Credit's work incentives were eliminated. It is unrealistic to think that most parents would have understood more quickly. In fact, previous research suggests that it would take several years for employment responses to fully materialize.

Second, parents would have been less likely to quit their jobs in response to a temporary 6-month policy change. In real-world labor markets, workers cannot suddenly quit their jobs, then automatically get them back 6 months later when the work incentives are restored.

Third, even if parents understood the weakened work incentives more quickly than 462 economists, and even if they had jobs they could seamlessly move into and out of, the 2021 experience would still provide little help in understanding the consequences of a permanent extension of a child allowance. That is because a lot was going on in 2021 that made it unique. How parents respond to work incentives in the midst of a pandemic and other unprecedented government aid is likely to differ from how they would respond in less extreme times.

While these issues may sound obvious, some have nonetheless extrapolated from the experience with the 2021 child allowance to what would happen if it was made permanent. They have claimed that we now have evidence that it would have little effect on employment, and thus dramatically reduce child poverty. That is simply not true. The existing Child Tax Credit follows a proven strategy for increasing work, reducing poverty, and investing in children's long-run success. Replacing it with a child allowance would provide more resources to low-income families in the short run, but at the same time threaten self-sufficiency and children's well-being in the long run.

As you discuss ways to better support families, I hope that you consider both the benefits and the costs of possible policy changes.

Thank you, and I look forward to your questions.

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

Senator BENNET. Thank you for your testimony as well.

Dr. Rachidi, you get the last word for the moment.

STATEMENT OF ANGELA RACHIDI, Ph.D., SENIOR FELLOW AND ROWE SCHOLAR IN POVERTY STUDIES, AMERICAN ENTERPRISE INSTITUTE, WASHINGTON, DC

Dr. RACHIDI. Chairman Bennet, Ranking Member Thune, and subcommittee members, thank you for the opportunity to testify. My name is Angela Rachidi, and I am a senior fellow at the American Enterprise Institute, or AEI. My research at AEI focuses on the intersection of safety-net policy and employment as a path out of poverty.

I want to make three key points in assessing the history of the Child Tax Credit. First, Congress created the CTC as a credit against Federal income taxes owed by working families with children, complementing the Earned Income Tax Credit, or EITC, which primarily benefits low-income families, working families who do not owe Federal income taxes. Second, over the years, Congress has expanded the refundability of the CTC, meaning that it now substantially overlaps with the EITC and other safety-net benefits, a fact that is frequently overlooked. Finally, proposals to turn the CTC into a child allowance are not targeted well to low-income families, and these proposals jeopardize progress made in the U.S. on child poverty.

The CTC started in 1997 as a modest $500-per-child nonrefundable tax credit for working families, as a way to offset some of their Federal income and payroll tax liability. Through several expansions, it is now partially refundable. Key design features include that it phases in at 15 percent of earnings above $2,500 per year, which incentivizes employment. The CTC works in conjunction with the fully refundable EITC, which operates in a similar way but targets low-income working families without Federal income tax liability. Approximately 86 percent of the EITC is refundable, while 39 percent of the CTC is refundable.

This brings me to another often-overlooked point. By increasing the refundability of the CTC over the years, policymakers have added this transfer payment on top of the existing safety net. For example, under current law, the typical working single mother with two children earning $12 per hour for full-time work would receive the refundable EITC, refundable CTC, and SNAP benefits, totaling more than $12,000 in government benefits per year alone, and increasing her income by 50 percent. Her children would likely also receive free school lunches, health insurance through Medicaid, and the family could receive housing and child-care assistance, averaging another several thousand dollars per year. Nonworking families could receive SNAP, SSI, preschool lunch, TANF, and other benefits.

The safety net I just described is most generous for parents when they work. The refundable EITC and CTC phase in with earnings and do require some employment to maintain eligibility. Studies have documented the many positive effects associated with this design. We cannot rely on the 2021 temporary CTC expansion to understand how a permanent child allowance would affect outcomes due to it being a temporary policy, and because the research suffered from the inability to study the policy in a controlled environment.

For these reasons, we should look to other research to suggest how an expanded CTC might affect families over the long term. One recent study tested an unconditional cash payment for a group of randomly assigned families with a new baby. Called "Baby's First Year," the study produced mixed results. Although there was no statistical difference in whether a mother worked or not at the time of surveys, the payments did reduce full-time employment by 11 percent across 3 years, and hours worked by 12 percent. This demonstrates the importance for policymakers of taking seriously concerns over how government payments affect employment.

My final point is that turning the CTC into a universal child allowance does not target poverty well, which is likely why studies in other countries have found that universal child benefits failed to improve long-term outcomes. For example, economist James Heckman studied universal child benefits in Denmark and concluded that although redistribution did decrease income inequality, it failed to close achievement and skill gaps. Proposals for a child allowance in the U.S. would similarly target low-income families poorly. The Penn Wharton budget model found that 2021-type CTC expansion would distribute only 50 percent of new benefits to those in the bottom two income quintiles.

To conclude, proposals to move the CTC away from its original goals of tax relief threaten the country's progress on poverty by discouraging employment and mistargeting important Federal benefits.

Thank you, and I look forward to answering your questions.

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

Senator BENNET. Thank you, Dr. Rachidi, and thank you to all of you for your excellent testimony. I am going to—I think Senator Thune has to run across the street. I will try to filibuster here with the folks who are here until he comes back. But thank you to the witnesses. I think you guys have done a really good job of delineating the different views of this.

So, let's get into this conversation, and, Professor Michelmore, I think I will start with you. I think we can spend the whole 2 hours here going over the research that proves the expanded CTC does not discourage work, and its effects on poverty and hunger and parental stress, and children's visits to the emergency room. But there are people, as we have heard, who are citing studies that suggest that it will discourage people from working.

I do want to say, Dr. Corinth—and I am happy to get you into this too—that I did not rely on that 2019 study when Sherrod Brown and I wrote this bill in 2017. That was 2 years before. So, if there are other people relying on it, it was not me, and it certainly did not inform my opinion about whether this was a good policy or not.

But I think, just based on the conversations that I have with moms, mostly in Colorado, that some of these critics are living in an imaginary world—you know, a world where a mom who's making $2,000 a month as a janitor, who already can't afford the $1,300 a month for a two-bedroom apartment and $900 a month for child care—you know, in this imaginary world she quits her job paying $2,000 a month because she starts receiving $250 a month from the Child Tax Credit.

In reality, parents cannot afford to work because it is too expensive to pay for child care in America. That is not—do not think—just my opinion; I hear it every single day in Colorado. So I wonder, Dr. Michelmore, if you could help clear this up. Is there any evidence about the effect of the expanded Child Tax Credit on work, and could you explain how it actually, in some cases, helps families work more?

Dr. MICHELMORE. Thank you for the question. The vast majority of the evidence we have to date found no evidence that the monthly payments reduce parents' employment. And so, while we cannot say for sure whether these effects would persist, it is not clear that parents knew that the credits were going to expire. I think many of us did not know the credits would expire until late in the year, and lots of survey evidence does show, as you mentioned, that it actually helped parents work more by allowing them to afford child care and transportation.

A survey by AEI actually found that the vast majority of parents said that the credit would not impact their employment at all. An equal share said that it helped them work more as those who said it would help them work less.

Senator BENNET. Dr. Corinth, do you have anything you would like to add?

Dr. CORINTH. I would just add that there is a large literature in the economic literature finding that tax credits that incentivize work do in fact increase work, and I do not think we can rely on the temporary 2021 experience.

Senator BENNET. I appreciated your testimony about that too, because it was different than other testimony that we have heard in front of this committee, where people actually imagined, sitting in your seat, that there were families out in America watching the committee debate over the expanded Child Tax Credit and retreating from the labor market as a result of that debate.

I think your testimony is different from that, which is that the tax credit was too short a period in 2021, and maybe there was too much else in the environment to be able to tell. I think there is pretty convincing evidence on the other side. But I do want to say that that testimony is different from what we had before, and I will come back to you if you want to respond to any of that.

I do have one other question I would like to ask at the outset, and since for once I have the chairman's gavel, I am going to do that, even though I may go over time slightly, Senator.

You know, the part of the expanded Child Tax Credit that Sherrod Brown and I worked on that has raised the most debate is what we call full refundability, which simply means that families get the credit even if their income taxes are less than the credit. And, Mr. Dutta-Gupta, this question is going to go for you.

We know first of all, if you look at this chart, that more than 70 percent of the people who received the fully refundable credit were working. I think that is a really important point. Seven out of 10 were working. If you look at people who were working the year before, that number is actually more than 80 percent of the people who were getting the refundable tax credit were working.

If you look at the rest of the people who are there, there is 95 percent that are either working—so, the vast majority were working, but if you want to take just the year of the credit, more than 70 percent. If you want to take the year before, there were people working and who may have fallen out of the workforce, which is not unusual—I mean, people do that all the time—that is more than 80 percent.

And then you add up people with a child under the age of two. As Senator Thune said when he was here, maybe there is the opportunity for us to think about people with very young children and whether we would be happier incentivizing them to work or happier incentivizing them to try to raise children. There are children living with senior citizens, and there are children living with disabled people.

If you operate all of that—grandparents, people who have a baby, people who are disabled—that is 90 percent of the families that benefited from the fully refundable credit. I would argue that that 95 percent—you cannot make a case that they are being disincentivized from working, because they are either working or they have a really good excuse for not working.

And nevertheless, we took this credit away from people who were working, and in doing that—and I am going to put this in the record later when I have had the chance to do it—over 700,000 janitors and housekeepers who do backbreaking work now have lost the benefit of the full refundability of the credit, the marginal improvement to their income that they were getting as a result of the credit. Over 700,000 cooks, waitresses, farmers, and ranchers who feed this country, almost 600,000 teachers and child-care workers who educate and care for our kids, they got the benefit of full refundability.

Today, they do not have the benefit, and it is not because they are not working. Over 500,000 health-care aides and nurses who take care of America's sick and elderly, over 400,000 construction workers who are building this country—this is a list from the Center on Budget and Policy Priorities that I am going to enter into the record.

[The list appears in the appendix beginning on p. 44.]

Senator BENNET. And as I have said, we have also taken it away from grandparents who worked for 50 years and now probably, for circumstances beyond their own control, are helping to raise their grandchildren, and the moms of 1-year-olds who are paying more for child care than they will ever make if they are working.

But notwithstanding all of that—and I think there are probably people on the other side of the aisle who would say that sounds unjust and counterproductive. Notwithstanding all of that, somebody who makes $400,000 in America gets the full $2,000 credit for every kid they have.

Talk about something that is misallocated or mistargeted or misspent. So, Mr. Dutta-Gupta, could you talk more about who has lost out from the expiration of the enhanced Child Tax Credit? Could you explain why it makes sense that we live in a world where someone making $400,000 gets the full credit for every child that they have, and that people who are struggling to survive, the vast majority of whom are working, do not get the full credit?

Mr. DUTTA-GUPTA. Well, I am not going to make sense of that world. But I will say that you are exactly right. By making that tax credit fully refundable for 1 year, we kept nearly 3 million families out of poverty. This particularly helped a lot of families of color: Black, Latino. We are talking about nearly half of Black children and two in five Latino children who did not get the full Child Tax Credit prior to the temporary ARPA expansions because their family incomes were too low to qualify.

We are not showing exactly why sometimes people are not working, but if you do not have a fully refundable Child Tax Credit, you have a situation where somebody gets hit, say with a cancer diagnosis, and then has to focus on their treatment, step away from work. We already do not have paid family medical leave in this country. We fall short on caregiving in general, and now we are going to say we are also going to take away your Child Tax Credit or shrink it. Folks lose jobs all the time through no fault of their own. We have recognized that in the past, and it happens throughout the business cycle.

Again, people might be students doing something to advance their prospects in the labor market. Well, they have kids, and it makes little sense when, as Dr. Michelmore documented, it is actually those folks who are growing up in families with the lowest incomes, where you are going to get the most bang for your buck.

Senator BENNET. Thank you.

Senator Johnson, thank you for enduring that, and the floor is yours.

Senator JOHNSON. I've got no choice. [Laughter.]

Senator BENNET. Take as long as you want.

Senator JOHNSON. I appreciate that.

Well, first of all, Mr. Chairman, I am new to the committee, new to the complexity of this issue. We have been in enough hearings now that you realize that my thrust always ends up being the KISS principle. You know: keep it simple.

Senator BENNET. Right.

Senator JOHNSON. And this is a classic example of it. We have so many different programs to try and alleviate poverty, and one of the charts I used in an earlier hearing here is, prior to the War on Poverty, we had poverty rates dropping precipitously, from about 22 percent down to about the 15-percent range.

In the 50–60 years since the War on Poverty, we have spent about $23 trillion. It has pretty well flatlined. It has gone up and down a little bit, but you know, we have not conquered. We have not won that War on Poverty. I would argue part of the problem is simply the complexity.

I mean, even this chart—I am an accountant. I actually do understand numbers. It is like—I do not know how any working family or nonworking family would even begin to comprehend what the incentives are. They will just take what money they get.

I would argue we ought to really focus entirely on simplifying what it is we are trying to do, and of course the real challenge in any type of—you know, we are a compassionate society. We want to help people who cannot help themselves. We want to help people help themselves, right?

The trick is, how do you design benefit programs that do not make people dependent on government, that do not encourage people to—you know, we've got what, 20 percent of the adult working-age male population permanently out of the workforce? That is not good for America, that is not good for them, and that is certainly not going to solve poverty. So you know, Dr. Rachidi, you were talking about the different programs. How many different programs do we have trying to help people? I mean, do we even know the number?

Dr. RACHIDI. Well, we have tried to quantify it. There are actually 80-plus programs that are means-tested.

Senator JOHNSON. Only 80?

Dr. RACHIDI. Yes, 80-plus, because it is a little bit hard to identify all of them. But yes, there are roughly five or six major programs that kind of account for the major expenditures that cover food, housing, and basic necessities.

Senator JOHNSON. Again, it is so difficult because it is, you know, a single mom with one child. I mean, it is hard to come up with stock figures, but I do not know whether you are familiar with the work of former Senator Phil Gramm and John Early. They looked at the income gap, or the wealth gap, which you know, on its surface, looks pretty dramatic. But then when you—from the top earners, when you take away taxes, and from lower earners when you add benefits, all of a sudden it does not look quite that bad. Can you comment a little bit on that?

Dr. RACHIDI. Yes, that is very true. And actually, the CBO puts out great data on after-tax and transfer income, and it shows very different trends than if you are looking at pretax. It shows not only that the gap you describe shrinks, but it shows that income, considering all benefits and after taxes, has increased for those in the lowest-income quintiles. So, it is important to look at that after tax and transfer, because the Federal Government does provide a lot of transfer payments to low-income households.

Senator JOHNSON. And again, these benefit programs are tax-free. I think we kind of lose that in the translation as well. In a budget hearing—this is many years ago and when we were considering budget items as opposed to climate change most of the time. I remember we had a—I think the individual was in charge of the welfare system in Pennsylvania, and what was striking about his testimony—and these are just gross numbers; do not hold me to them. But you know, he was describing a person in Pennsylvania who, for every additional dollar of work, she would make more money, up to about $30,000-some worth of income. And then she would have to make something like $65,000 before she could put an additional dollar in her pocket because of the drop in benefits versus again—is that called the welfare gap, or I mean the benefit——

Dr. RACHIDI. Benefit cliff.

Senator JOHNSON. Benefit cliff, yes. That is a significant problem. And you are talking about the Earned Income Tax Credit versus this Child Tax Credit, just the complexity of all this stuff. I would argue we really ought to, as opposed to just focusing on the Child Tax Credit—and all of these studies produce different results based on time frames.

Again, your head just starts swimming in the complexity, and I do not think you can really draw any conclusions to it. I would argue what the Finance Committee and what this subcommittee ought to do is take a look at these benefit programs in total, what can we do to simplify them to accomplish the goal that we all agree on, which is, how do we help people help themselves; how do we help people who cannot help themselves?

How can we make sure that children do not live in poverty? How can we actually win the War on Poverty, because we are not doing it, and we have spent trillions of dollars. And I would argue one of the problems, one of the biggest problems for people in poverty is that a dollar they held at the start of this administration is now worth less than 86 cents.

It is kind of hard to develop programs that make up for that damage, which is caused by massive deficit spending. And what are we massively deficit spending on? Programs that make no sense, that again, there is no way a human being can understand exactly how they ought to maneuver to take best advantage of them.

I mean, it is just—it is just impossible. So I mean, I am sorry. I appreciate all your scholarship here, but I mean, I just—I listen to these studies, and my head just swims. Dr. Corinth, do you want to comment on this at all?

Dr. CORINTH. Sure. I would just note in terms of trends in poverty, you are exactly right if you look at the official poverty measure. We have made no progress. That said, if you include all of the benefits that we pay out, we have made a lot of progress in reducing poverty over time. The only problem is that it has come through government transfers, as opposed to self-sufficiency.

Actually, in the 90s when we had welfare reform, we not only saw poverty falling, we also saw self-sufficiency growing. So we can do both. You can both increase work, increase self-sufficiency, and reduce poverty. You just need programs that encourage work like the existing Child Tax Credit and the EITC.

Senator JOHNSON. So, one of the results of what you just said there is, what we ought to do is take a look at how we calculate poverty, and we ought to build into that the value of the benefits so we are actually looking at——

Because again, I think that is okay, and most Americans would say, "Fine; great. If we reduce poverty, and these people are getting benefits, great." But we will go back to my main point. How do you provide those types of benefits without encouraging dependency, and what actually does, long-term, solve poverty, people working plus providing people the dignity of earning their own success, as opposed to just being dependent on government?

So anyway, I just—these are extremely interesting hearings. I do not understand most of it. I do not think most people understand most of it. Now, I would like to understand it, so that what I would—you know, just yesterday in a budget hearing, I said the same thing when we were talking about Social Security. I said, "Let's have some roundtables where we can have full discussions, where we are not talking by each other, and start fixing these problems, because we are not fixing them."

Senator BENNET. Yes, yes. And I will take that as a start. I mean, at least this is not a boring hearing. Most of the hearings around here are pretty boring.

So, thank you for that. And I would say just as a little bit of a reaction to what you are saying, you know, one place I think where it is pretty clear that we have done a good job on poverty—not as good as I would want, but a good job on poverty—is Social Security, and what the poverty rate for seniors would look like if we did not have that program in place.

You know, that is something that actually has worked, and I think that was very much on my mind when we were crafting the Child Tax Credit: simplicity. That was very much on my mind when we were crafting the Child Tax Credit because, unlike a billion other programs that this committee or this Congress writes in its wisdom to try to make Americans' lives better, you know, what we said was, "Let parents make the decision about how to spend this money."

Senator JOHNSON. So, the problem with Social Security is, it was a concept that made sense, but when we extracted those payments out of people's wages, we did not put that money into an account for them. We spent it; the money is gone.

Senator BENNET. Yes.

Senator JOHNSON. Had we actually put that into real assets, we literally—I have done the spreadsheet on this. We would literally have $6 trillion of hard assets that the Social Security Administration could call on, as opposed to those government bonds that have no value to a government agency.

You've got to borrow more money for that. So the vast—we could not even get that out yesterday in that budget hearing. So again, what I am encouraging is——

Senator BENNET. That is another thing.

Senator JOHNSON. These are—this kind of dialogue in a kind of roundtable, as opposed to a standard hearing where we get 5 minutes' worth of questioning, where we can really vet these issues, then rely on experts to tell us when we are either full of it or not, that is about right.

Senator BENNET. Right.

Senator JOHNSON. So we need to have—and I think in a public setting too, not just behind closed doors—but we need a public setting where we have these discussions, and both sides get to talk with each other, as opposed to past each other.

Senator BENNET. And I think that is great. And you know, you mentioned something that I think is really important as well, which is the persistent, chronic rate of numbers of people in America who are not working today. The system that we have is a system—you know, the system we have, not the system with the Child Tax Credit, but the system that we have. You know, our workforce participation rate is actually lower in America today than it is in every single one of these countries that has a child allowance where people have the opportunity to be able to get a little bit of an incremental bump to their income, to stay at work, to pay for a little extra child care, to pay for a little bit of extra after-school programs.

I met parents in Colorado Springs who were telling me about how their expanded Child Tax Credit had enabled them to pay for a bicycle so that their kid could stay at an after-school program in the spring, so they could stay at work. And if they did not—if they had to go pick that kid up——

And for me, the thing about this I think, Senator Johnson, is that you know, having been the Superintendent of the Denver Public Schools, a school district where most of the kids are kids living in poverty, in this country, where most of the parents—whatever these studies say about anything, I will assure you that the people in that school district are working.

They are working two and three jobs in many cases. They are not lazy, they are not—and I know you are not saying that. They are not not working. That is not the problem. They are working at jobs in the richest country in the world that pay them so little that no matter how hard they work, they cannot lift their kids out of poverty.

And I will say—I will turn it over to you—I will say a huge part of that is because this is not the 1990s in America anymore. A huge part of that is if you look—and I've got a slide we can talk about later. If you look at, you know, the economic expansions from the 1930s until today, and especially from the 1980s until today, what you will see is that people's incomes in America have flatlined for 50 years, unless you are in the top .1, top 1, top 5, top 10, top 20 percent, a little bit for the people in the bottom of the 20 percent.

For everybody else, it has absolutely flatlined, especially for the people living in poverty. That is a reason why I would argue that we face the stubborn problem that we face. It is not just this issue of government programs.

In fact, I think much more important than that is that we have had an economy where the people at the very top have benefited with every period of economic growth, and people in the rest of the economy, including not just poor people but people in the middle class, have been flatlining, flatlining, flatlining, so that for them—this is indisputable. For them, economic recoveries since the early 1980s have been recessions, not economic recoveries.

Senator JOHNSON. And it may surprise you to hear this, but I agree with you, and you know how rare right now this exchange is in this kind of setting, and it should not be.

Senator BENNET. No.

Senator JOHNSON. You were on a school board. I was on the Partners in Education council in Oshkosh, and I sat with some of the most liberal college professors and the most conservative business people. The politics never came up, because we were concerned about what we could do to improve the education of our children.

The same thing here. There are so many more things that unify us as a Nation. I would argue right now the greatest threat to this country is the division, and I tried to encourage Chairman Whitehouse yesterday to—you know, okay, Social Security is really important. In that hearing, we were just talking by each other. So let us have a roundtable. His reaction was, well, until you guys lay your plan on the table, there is no point. Well, and I think you know—we lay a plan on the table, and it will just be attacked. It is not—there are just some basic truths or basic realities that we need to get on the table, agree on the facts. And these hearings are not, they are just—they do not work that well.

So I would encourage you as chairman of this subcommittee, let us use this subcommittee as an example. Let us set up a roundtable. Let us bring in some experts to be as advisors, not necessarily provide testimony but be as advisors as we discuss this over a series of meetings. And I think we will find far more areas of agreement and learn from each other. I just think it could maybe be a breakthrough in terms of how you can actually solve some of these problems. Again, I have done a lot of problem solving in the private sector. This place drives me nuts.

You know, it is just—again, we just do not approach this in a problem-solving process, where you agree you have a problem, identify the root cause. Compromise is actually the last part of the process, and what just does not work is, one side of the parties offers a proposal. The other side is diametrically opposed, and it just never gets solved, as opposed to, let us focus on all the areas of agreement first, and then going through that problem-solving process, go, "Okay, now we start compromising on exactly how we ought to solve the problem."

Because again, there are differences of opinion from the witnesses here, but my guess is all of you want to alleviate child poverty. Well, what is the best way to do it, and start discussing it. So again, what I am proposing is a different process, and let us start at the subcommittee level. It does not seem like we will achieve it at the front. I mean, you seem to be a person of goodwill. Let's start doing this.

Senator BENNET. Great. Well, thank you, Senator Johnson. I will take that suggestion, and we can think about how to make it work. I do think, you know, again—and I appreciate your agreement at the outset, which I was not expecting. I do think that a lot of what we are struggling with—you mentioned the divisions in America.

I think a lot of that has to do with the fact that we have had an economy, again for 50 years, that has not grown the way historically we have expected it to, where when it grows, it grows for everybody. It is my view—I do not know whether I am right or whether I am wrong—but it is my view that that is when you lose democracies in human history.

Senator JOHNSON. You need a middle class. You need a strong middle class.

Senator BENNET. Exactly. People are losing the sense of opportunity. It is not a good thing. They cannot move their families ahead.

And you mentioned, you know——

Senator JOHNSON. By the way, I've got a tax plan that would address that to a certain extent. I would like to talk about that. A true Warren Buffet tax.

Senator BENNET. You mentioned that, which is good because, you know, folks like Warren Buffet should not be paying less in taxes than their secretary. But on education, you know, I want to get—I have a couple of questions I do want to ask these guys about priorities and spending.

Senator JOHNSON. I am assuming these folks are finding this very interesting.

Senator BENNET. Well, I do not know if they are. They are probably not. It is like my mom and my dad are watching me, and these knuckleheads on the committee will not shut up. So we will stop, but let me just say on education though, because you raised it—and this is a place where I am just infuriated myself about Congress and about the Federal Government.

You know, we have had yet another—in the last month, we have had two sets of reports about what is happening to American kids.

[Senator Thune walks in.]

Senator BENNET. Oh man, you've missed it. [Laughter.]

Senator JOHNSON. Now we return to regular order.

Senator BENNET. Adult supervision has returned. But in the wake of COVID, you know, and all of the educational loss that has happened, all of the, at least in my State, the mental health epidemic that is occurring amongst adolescents in America, here we find ourselves once again posting horrendous academic outcomes on kids. We are failing on the latest NAEP stuff; we are failing on the latest other assessments. You know, that is not a topic that ever comes up around here, like what to do about it.

Senator JOHNSON. Yes. We do not want to discuss our failures.

Senator BENNET. Well, we also—yes, all right.

Senator Thune, you are here.

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

Senator BENNET. Thank you, Senator Johnson. I appreciate the conversation. We are going to be able to put these folks back on TV with their moms and their dads and their families, so they can hear your erudite answers.

Senator THUNE. I am guessing this is a fairly robust conversation with our colleague from Wisconsin. So, thank you, Mr. Chairman.

Dr. Corinth, I would like to start with you. In your testimony, you raise concerns with the validity of studies from the National Academy of Sciences and the Census Bureau touting the effectiveness of morphing the Child Tax Credit into a child allowance. You also challenge the various studies that claim impressive results from the American Rescue Plan Act's changes to the credit, particularly its impact on child poverty.

Now, it is a lot to unpack I realize, but could you expand on these issues, specifically outline the flaws or data gaps in each of these studies? And then in addition, you note that you did your own simulation of what impact shifting the Child Tax Credit into a child allowance would have on employment and poverty.

Could you perhaps tell us a little bit about your findings, as well as respond to arguments that your concerns are overstated?

Dr. CORINTH. So quickly, the first study was the National Academy of Sciences study, and there it is very simple. They also recognize that the Child Tax Credit's work incentive was eliminated. When we fixed the error and applied all their other assumptions, you get 1.3 million people leaving the workforce. In terms of the 2021 studies, one of the problems is that lots of things were changing at the same time. So not only did we get the child allowance; we also had child-care assistance being extended. We had vaccines being rolled out, schools opening up again. So it is very hard to isolate the effect of the child allowance as opposed to these other factors.

And the other issue, of course, which I mentioned in my testimony, is that when you have a temporary 6-month policy change, it is going to be a lot different than how people would respond to a permanent change.

And then finally, in terms of the study that my coauthors and I did—you know, we were the first study to actually recognize and model the work incentive effects of this policy change. We also used by far the highest-quality data set. We linked survey data with administrative tax records and government program data to get much more accurate incomes and to identify those people who are most likely to respond to the incentives. So, when we use that higher-quality data and actually recognize the work incentive changes, that is when we find that, you know, 1.5 million people would leave the workforce.

Senator THUNE. So, as you know, the Tax Cuts and Jobs Act that Congress passed in 2017 doubled that maximum tax credit amount to $2,000 and allowed most of it to continue being refundable for those with sufficient earnings up to an inflation-adjusted cap, which is currently around $1,600. Under current law, this increased Child Tax Credit will be cut in half if Congress does not act.

So, could you please speak to the importance of the Child Tax Credit as it is currently structured, and the benefit that it is providing to American families today?

Dr. CORINTH. Sure. So, the existing Child Tax Credit sort of has a triple bottom line. It encourages work, reduces poverty, and invests in the long-run success of children. The Tax Cuts and Jobs Act did a lot more than that. It boosted economic growth, increasing wages across the spectrum.

So I would say it is vitally important to make that permanent after 2025 when it will otherwise expire.

Senator THUNE. Dr. Rachidi, in your testimony you speak to how the American Rescue Plan temporarily revamped the Child Tax Credit. And one of the changes it made was paying it directly to individuals without any taxable income, thereby removing the historic incentive for credit beneficiaries to be working, and turning it into, as we have talked about, a child allowance.

Should the American Rescue Plan version of the Child Tax Credit be resurrected? Could you speak to some of the negative impacts, including impacts on workforce participation, that you would expect to see among those claiming the CTC?

Dr. RACHIDI. Sure. Thank you for the question. I do have concerns both about making it fully refundable for nonworking households, as well as eliminating the phase-in, which has the work incentive that Kevin is talking about.

For the nonworking families, I have concerns for a couple of reasons. One is, we have a large body of evidence from the 1990s, and I agree we are not in the 1990s, but I also do not want to return to the 1990s.

And so, making the Child Tax Credit available to nonworking families would actually be a larger benefit to those nonworking families than AFDC was in the 1990s, and we know that that had very bad effects for families. So I am concerned about that.

The other thing I am concerned about for nonworking families is, currently we have a fairly robust social-service system for those families in terms of SNAP, TANF, and other benefits. When you turn that into a child allowance, it removes the touchpoint from the social-service sector, and I have concerns about what is happening in households when there is no work in the household. And just kind of removing that touchpoint is concerning, I think, from a child perspective.

Senator THUNE. Well, and just to follow up on that, you pointed out in your testimony that there are these other Federal programs that do not have a work requirement component and are therefore targeted at helping those who are unable to be employed for one reason or another.

So, could you just enumerate again or outline for this committee what some of those Federal programs are, and why paying the Child Tax Credit to those without taxable income duplicates these other efforts and reduces the effectiveness of the Child Tax Credit?

Dr. RACHIDI. It very much duplicates the existing system that we have. We currently have Temporary Assistance for Needy Families, which is primarily targeted to nonworking, mostly single-mother families. It provides child-care assistance, provides a lot of other support services.

We have SNAP, which was formerly Food Stamps, also available to nonworking families. So there is a fairly robust safety net that already exists for nonworking families.

So that is why a CTC with the phase-in, with the work incentives, that is only available to working families, is such a positive policy, because it encourages that work and it gives those nonworking families the incentive to get into the labor market, to provide them not only the opportunity to escape poverty, but also the employment that will help them move up the income ladder.

Senator THUNE. So, you reference in your testimony this Penn Wharton budget model that reviewed the American Rescue Plan CTC changes, and it found that the benefits to the changes are not targeted at those families in the lowest-income brackets.

So, could you speak broadly at least to those distributional effects of the American Rescue Plan CTC changes on families in various income brackets, as well as the distributional effects of the advance payments specifically?

I think there is an impression here that those changes did impact distribution among people with lower income, families of lower incomes, and I am curious as to what you have seen while that was in effect, and maybe you can speak to the distributional impacts of that change that was in place temporarily?

Dr. RACHIDI. Yes, it is a good question. I mean, because the expansion of the Child Tax Credit was so large and reached so high up the income scale, it was neither strictly an antipoverty policy nor was it tax relief. It was kind of a mix of both.

So, if you think of the expanded Child Tax Credit as necessary to reduce child poverty, it really is not targeted well towards child poverty, because the Penn Wharton model—and even the data that we have on what families received the benefit—shows less than 50 percent was actually targeted, in terms of expenditures, to the bottom two quintiles of income, which means middle- and higher-income families got about half of those benefits.

And so, that was a design choice, and you know, I think the perception is that because it was made fully refundable and went to nonworking families, it was strictly an antipoverty policy and most of those benefits went to those households. But in reality, it was much more distributed across the income spectrum, and like I said, not really truly tax relief, but also not strictly an antipoverty policy.

Senator THUNE. Okay.

Thank you, Mr. Chairman. And I would say, just simply in conclusion, that in my State of South Dakota right now, the unemployment rate is, if you can believe this, under 2 percent. And if in fact what you are saying in your analysis, Dr. Corinth, is accurate, and that is that we are going to lose—it is going to cost us over a million people who are not going to go back into the workforce—— We need people in the workforce. And if it is also true, as Dr. Rachidi has pointed out, that the distributional effects of this do skew towards the upper end as well as to people in the lower-income categories, that perhaps is keeping a number of people out of the workforce.

Thank you.

Senator BENNET. Thank you. Thank you, Senator Thune.

I am going to defer to Senator Warren, because she is here, and it is her turn. But I would say, one, that Dr. Rachidi's testimony, I think, confirms what is reality about the Child Tax Credit, which is that it both is an antipoverty measure and a measure targeted at America's middle class. That is why you see the distribution.

You know, unlike the Trump tax cuts, which I will go through in a second after Senator Warren, where 52 percent—52 percent—of the benefit went to the top 5 percent of Americans, as Dr. Rachidi said, just over 50 percent of the tax credit that we put in place in 2021 went to the bottom 50 percent of Americans. That is true, and that was the design.

So, in America, it takes consistent choices, and we are going to have to make choices about whether we want to cut taxes for the wealthiest people in America again and expect it to trickle down to everybody else, or whether for once we are actually going to have to do something for working people and for people living in poverty.

Senator, do you have something to respond? Do you have anything to say, because I do not want to leave you hanging.

Senator THUNE. Well, no. I think the only thing I would say to that is if you look at again—and of course, it is surely when people are paying more as a total, in totality, that you are going to see more tax benefits probably when talking about volume. But when you are talking about percentages, what happened with the Tax Cuts and Jobs Act in 2017 is in fact—if you look at who pays taxes, the burden, the tax burden relative to what it was prior to 2017 and after—people with higher incomes ended up paying more not less.

Senator BENNET. And I think the question—you and I actually had this debate. I do not know if you remember, but we had it back then. I will leave it for a moment, and we will come back to it.

Senator Warren, thank you for coming back, and please, take the time you want.

Senator WARREN. Thank you, Mr. Chairman.

So, too many families walk a tightrope to try to make ends meet, and that is why Congress established the Child Tax Credit, to try to help families pay for essentials like diapers and daycare. During the pandemic, Democrats increased the value of the CTC and expanded access to more lower-income families. The result was one of the most effective antipoverty programs ever. A record 3 million children were lifted out of poverty. Child poverty was slashed nearly in half within the space of a year.

But congressional Republicans continue to insist on what they call "work requirements" for the CTC and other critical programs. I call these "unworkable requirements." This is an old trick of using a maze of red tape to deny families the help they need, while not actually promoting employment.

Now, Mr. Dutta-Gupta, you are the director of the Center for Law and Social Policy and an expert on poverty. So tell me, have work requirements, when applied to the CTC, to Medicaid, to SNAP, to TANF, whenever they have been applied, actually helped families find good jobs and escape poverty?

Mr. DUTTA-GUPTA. No, no. Data show that the CTC refundability does not stop parents from working. I just want to remind folks, it is completely different than the old pre-TANF AFDC program. It does not phase out dollar for dollar at some point, and you do not have less access to health coverage after a year, as you did then.

So look, the main effect here of work requirements is to make it harder for people to access benefits. We tried this in Arkansas with Medicaid under the Trump administration, and there was no impact on employment. But they did kick one in four adults off of health coverage, even though 95 percent were either already working or qualified for an exemption.

Senator WARREN. So, say that again. So, they put work requirements in place, and the consequence was not to boost the number of people who were working at all, but it did lower the rolls of people who got the benefits that they were legally qualified for, and you said what portion lost their benefits?

Mr. DUTTA-GUPTA. One in four adults.

Senator WARREN. One in four. So all of this red tape has not helped people find work, but it has cost millions of people the help that they need, and wasted the time of millions more. It is not just families that get buried under this mountain of paperwork; the government actually has to administer it, and that is not free.

So, Mr. Dutta-Gupta, in addition to costing families their benefits, can you tell us a little bit about what work requirements actually cost the government?

Mr. DUTTA-GUPTA. Yes. You are right, Senator Warren. Administering these complex rules inevitably costs the government money. So again, if we look at when the Trump administration tried to apply work requirements in Medicaid, the Georgetown Center for Children and Families estimated costs for States that were interested in or, in the case of Arkansas, actually implemented the program, and they found that the costs varied from tens of millions a year to hundreds of millions a year in just implementing the work requirement. So this is not a path toward simplifying.

Senator WARREN. Okay. So, work requirements do not actually promote work, but they do cost millions of Americans benefits, and they cost the government hundreds of millions of dollars to administer. But there is one group that actually profits from these work requirements. Obviously not the government; it is obviously not the people who need the help. But instead, it is the for-profit contractors who are hired to administer these programs.

Maximus, for example, has contracts in more than half of the States to administer eligibility rules for Medicaid, SNAP, and TANF. They have raked in billions of dollars, shoving families off their benefits if those families cannot run through the maze.

So, Mr. Dutta-Gupta, in your opinion, do work requirements help anyone besides the private contractors that get paid to administer them?

Mr. DUTTA-GUPTA. Overwhelmingly, no. They distract from a lot of the things that actually boost incomes, improve health and other outcomes. We talk about the 1990s often, the 1996 welfare law. Well, we need to acknowledge the big boost in the Earned Income Tax Credit, the child-care spending, raising the minimum wage, running a tight labor market, all of which I think were much more effective.

Yes, private contractors are paid millions of dollars to administer these programs and have been busy lobbying Congress and States to expand the requirements in order to increase demand for their services. That could be far better spent directly supporting families.

Senator WARREN. All right; I agree with you. We need to stay focused on policies that actually help struggling families and invest in our economy. That means restoring an expanded Child Tax Credit and opposing Republican efforts to try to tear another hole in America's safety net—and use a maze of red tape that has been proven a failure every time it has been tried. Families need us to get this right, so I hope we can get this done.

Thank you, Mr. Chairman.

Senator BENNET. Thank you very much, Senator Warren, for being here, for your leadership. I also want to recognize now Senator Brown, who was the coauthor of the American Family Act that we did write, Dr. Corinth, 2 years before the study that you have indicted here this morning, which did not form any basis for that bill.

But I do want to say that none of the progress that we would have made, if one considers it progress to cut childhood poverty almost in half, would have happened without the leadership of Senator Brown. And I want to thank him for that on behalf of the kids in Colorado, and I will turn it over to you.

Senator BROWN. Thanks. Thanks, Mr. Chairman. And as you know, I share that credit with you certainly in the work you have done, and we have been working on this for a lot of years. I have said many times—and I know you concur—that the best day of my career was March 6, 2021, when I was sitting next to Senator Casey on the floor and turned to him and talked about that.

We had a couple of other things that mattered in that too—a pension bill too—but I remember after that we all kind of teamed up and talked to Secretary Yellen after the President signed it, and he went to the IRS Commissioner, a Trump appointee who was a professional, and not only did he not stand in the way but accelerated it by July of that year.

By July of that year, the checks went out to the families of 60 million children, 2 million in my State, 2 million in Pennsylvania, hundreds of thousands in Colorado. The child poverty rate dropped by 40 percent—not quite immediately, but quickly—and it is the way government is supposed to run.

We did something, we listened, we listened to people like you, we acted as a group. Senator Bennet was a real star in that, and we passed the bill. We made sure it was implemented, we got the administration to do it right, and look what happened. Unfortunately, we were not able to make it permanent. That is the mission I know the three of us on this panel are committed to.

So I would start with Mr. Dutta-Gupta and Dr. Michelmore. You both mention in your testimony that the research tells us a permanently expanded CTC would cost taxpayers $97 billion per year, but it would generate literally ten times that in annual economic stimulus via future earnings and tax contributions.

I love the back and forth between Senator Bennet and Senator Thune. I like Senator Thune; I just think he's colossally wrong when it comes to tax cuts for the rich, which do very little but shift the tax burden to the wrong people.

But what Senator Bennet said about what this means, what the two of you—and I will let you answer in a second. What the two of you have said—we talk a lot about the cost. Conservatives talk about the cost. People who want tax cuts for the rich talk about the cost in this; they never talk about the benefits.

So, tell us more about the cost-benefit analysis you mentioned, both of you, Mr. Dutta-Gupta and Dr. Michelmore, if you would.

Dr. MICHELMORE. Thank you for the question, Senator Brown. Yes, I would be happy to talk about that. Some of my own work in this area—and I think from other mounting evidence—suggests that when kids get more income in childhood through tax credits like the Earned Income Tax Credit, they go on to have much higher earnings in adulthood.

So I think that is a big component of the benefits that have been calculated. They have also been shown to reduce health costs in the future and reduce costs through things like reducing crime.

Senator BROWN. Thank you.

Mr. Dutta-Gupta?

Mr. DUTTA-GUPTA. And, Senator Brown, first, thank you for your extraordinary leadership with Senator Bennet on this issue. I would just add that it also reduces interaction with the Child Protective Services child welfare system. So we are keeping families together, which I think is usually important. And you know, we are talking about nearly two dozen studies and, in many ways, we can actually isolate the impact on income itself as a transfer. And I think we have very good reason to believe in some ways that these estimates might even be conservative.

So just imagine—we talked about being in the private sector. If you could get a 9 to 1, 10 to 1 return on investment, how foolish would you be to not make that investment? This is an investment that only the United States can make, only the government can make.

Senator BROWN. And you think of the economic growth just overall, and how that really is a case of lifting up all boats. Not tax cuts for the rich, but directly investing in workers and the working poor and the middle class, and workers generally.

One other thing that I wanted to mention is, Senator Bennet called this hearing in part to highlight the bipartisan history of CTC. I worked with Senator Cassidy—a Republican from Louisiana; we have worked on a number of things together; he sits on this committee—on a temporary measure that strengthened CTC.

During the pandemic, many families saw their wages take a hit because they got laid off or saw their hours cut. That in turn reduced the amount of their additional CTC. So Senator Cassidy and I got a bill passed that allowed families to use their 2019 wages instead of 2020 wages for purposes of the CTC. We called it the "lookback option," and again we got it done bipartisanly. It had broad support here when families filed their taxes in 2021.

Mr. Dutta-Gupta, tell us why this would be so important to working families if it became permanent law?

Mr. DUTTA-GUPTA. Yes. Senator Brown, as you describe, the tax credit lookback really helps folks when they face wage reduction or they lose their jobs, and they have the option of figuring out which year of income would give them the higher benefit. And this happened obviously a lot in the pandemic, but it happens all the time.

Senator BROWN. Yes. Let me interrupt and explore that.

Senator BENNET. Take whatever time you want, Senator Brown. Take whatever time you want. You will not need——

Senator BROWN. Thank you, thank you. I assume the people who benefit centrally and the most from the CTC are—if in fact there is data on this, and I would assume it—but are people whose incomes are more like this, right? [Moving his finger up and down.]

They are likely to pass in and out of good or better or worse jobs, likely to get laid off, likely to have their hours cut, likely to not have child care so their hours are different. Is that probably, generally right?

Mr. DUTTA-GUPTA. Yes. We have good reason to believe that there is more income volatility at the very bottom of the income distribution, and the low-paid, low-wage labor market itself often treats workers, especially during an economic recession, as quite disposable. So I think that is right.

I just want to add that one other thing that you have pushed for, full refundability, helps with this problem, for what full refundability says is, look, you may have lost hours on the job. You may have even lost your job. But we are not also going to cut the Child Tax Credit. You at least have that floor. You do not have to then pull your kid out of after-school programs. You do not have to stop the music lessons. You do not have to cut back necessarily on the nutritious food you are providing.

So the lookback option is a terrific option that you all enacted temporarily, and full refundability as well actually really helps with this challenge. It helps smooth incomes and people's consumption.

Senator BROWN. Thank you.

Mr. Chairman, thank you.

Senator BENNET. Thank you, Senator Brown. I very much appreciate your leadership here.

Senator Casey?

Senator CASEY. I want to thank Senator Bennet for presiding over this hearing, and in a larger sense thank him for his leadership on the Child Tax Credit all these years, as well as Senator Brown, culminating in that moment when we passed the American Rescue Plan.

The first vote—we had to have two votes over the course of about 3 weeks. The first vote passed at 5:34 in the morning—not that I remember—but I remember the moment it passed, and we all appreciate what was done in the lead-up to that over the many years before the American Rescue Plan. But in my judgment, the current Child Tax Credit is not—is not—enough for families. We should have the version that we enacted in the American Rescue Plan.

You know also, when I consider the last 40 years—this is my view of the last 40 years. The tax code has been rigged over and over and over again for big, big companies and very wealthy Americans. I think that is not just my view; I think it is the view of a lot of people. In the American Rescue Plan, with regard to the Child Tax Credit provision, we finally said we are going to choose as a body—in this case the Senate, with a very limited vote on one side, but we got it passed—we are going to choose to help families who are trying to raise their children, trying to struggle through a pandemic, and we are not going to do anything in this bill for big companies and wealthy Americans. They have gotten a lot over those 40 years, so we made the right choice.

But as much as we can talk about the data—you have heard the data over and over again. You have all testified, and you bring great expertise. As much as we testify about the data, about the impact on families, some of it cannot be measured in numbers. The impact of this tax credit on the lives of families and the lives of children is literally immeasurable, incalculable.

Here are just a few examples in our State. Jim and Judy from Apollo, PA talked about using the tax credit for paying for medical and dental care. Kenya from Philadelphia talked about paying rent, feeding children, paying bills, buying shoes. A person from Scranton talked about eyeglasses for her children. Joy from Glenside talked about preschool and child care, paying for that with the Child Tax Credit. Stephanie from Glen Rock: food on the table. Rebecca from Philadelphia: mortgage or food. And Laurie from Orefield, PA: paying for her daughter's dance classes, protecting her social and emotional health, and teaching her resiliency.

You cannot measure that impact. There is no way that we can measure the positive impact that this had on people's lives. I saw two mothers in the Lehigh Valley on the eastern side of our State, two of them. Between them they had about, I think, six children as I remember. Both of them said, "We can pay for school activities we could never afford before."

How do you measure if a child could be in a science club or was in some kind of a music after-school program, or an athletic endeavor of some kind? How do you measure that on the life of that child?

The problem is, we should continue that. So, I wanted to start with you, Mr. Dutta-Gupta. You testified that there are also—you talked about the long-term benefits of the Child Tax Credit. You said that EITC and CTC increase a child's test scores by 6 to 9 percent over standard deviation.

Tell me more about the long-term benefits. I was not here for your live testimony, so tell me more about the long-term benefits for children.

Mr. DUTTA-GUPTA. Yes, Senator Casey, children benefit in numerous ways that we have been able to measure, although I think you are exactly right that some of the impacts are really best understood through these stories.

But they benefit with higher earnings as adults and improved health, as Dr. Michelmore also testified, including longevity. We have reason to believe that they live longer because of these sorts of investments. When children are exposed to these sorts of cash supports, they are also less likely to have children as teenagers or young adults, and they are more likely to complete higher levels of education. And in turn, we know they do better in the labor market.

Senator CASEY. Yes. Well, I know I am almost out of time.

Senator BENNET. Take whatever time you would like.

Senator CASEY. I do not want to go too far over my time, because the chairman has been very patient with our time today. But the last point I will make is—I know there was some debate here in the aftermath of the passage about the effect on jobs and that somehow this would be a disincentive to work.

Well, 2.2 million families in Pennsylvania, over 2.2 million children and their families benefited in Pennsylvania. That is about 85 percent of the children in our State. We have about, I think it's 2.2 out of 2.6 million, if I remember correctly.

So that passed, and yet today we have, I think, the lowest unemployment rate we have ever had. So I am not sure that argument holds much water. But I think the one part that is missed in a lot of our States is, most of my State is rural, at least by geography but also substantially by population. We have about 3½ million people who live in rural communities, 48 counties. If I look at the list—and I will just give you three or four examples in different geographic regions of the State.

Crawford County, up just south of Erie in northwestern Pennsylvania, a rural county: 16,000 children. Fulton County, down by the Maryland border, a very small county, only has 14,000 people in it: 3,000 children benefited in Fulton County. Mifflin County: 9,000 children. It's a small population county, a rural county: 9,000 children. Susquehanna County, up where I live near Scranton, again a rural county, not a big population: 7,000 children there.

So this benefited children in low-income urban communities, small towns in rural areas disproportionately, in a very positive way. But even in our suburban counties where sometimes people think families are better off, 70, 80 percent sometimes of those communities benefited as well.

So, Mr. Chairman, I cannot say more about the positive impact this had on people's lives, in ways, as Mr. Dutta-Gupta just said, ways that are measurable and ways that are literally immeasurable. And I want to thank you for your ongoing leadership.

Senator BENNET. I want to thank you, Senator Casey. I mean, your description of the people that you are meeting in Pennsylvania is exactly the same as what I am seeing in Colorado, and what I saw when I was Superintendent of the Denver Public Schools.

The problem in America is not that people will not work. The problem in America is that we have had an economy for 50 years that has grown for the very wealthy. It has grown incredibly well for the wealthiest people in the country, and it has not grown for anybody else, including when we have had periods of economic growth, which as I mentioned earlier, have actually been recessions for working people in this country. And I do not think any defender of capitalism can defend that set of outcomes, you know? I still believe we can create a capitalist economy in this country that when it grows, it grows for everybody.

But that is what we have to do, and in the meantime, for people just to have the bare minimum expectation for what it is to have a middle-class life in America, to be able to afford a little bit, maybe a music lesson or some back-to-school clothes, without being unable to pay the rent or unable to feed their family.

You know, these are families that are not on the public dole. These are families that are working every day, a lot of times two and three jobs, you know, to be in a position to hope for the best for their kids. I agree with you that you cannot possibly quantify what the value is of that—you know, the family I mentioned earlier who bought a bicycle for their kid so they could stay at work and work a little extra time while their kid was there.

And it is probably impossible to quantify the value to our Nation, but you know, we are living in a world now where we are the richest country in the world, and we have one of the highest rates of childhood poverty in the industrialized world. We do not have to accept that. That is what we showed when we passed this. Thanks for being here.

There was some discussion earlier about distribution tables. There were some arguments that we should extend the Trump tax cuts because of what they had done for the American economy. There was some complaint about the amount of money that had been spent on the Child Tax Credit.

I wanted to get into this question with Dr. Michelmore and Mr. Dutta-Gupta. I do think that life, as Senator Johnson was saying, does consist of choices. I have been baffled by the choices that Congress has been making, been baffled by the choices that some colleagues on the other side have been making when it comes to taxes.

And why it is baffling—well, let me give you the question, and then I will tell you why I think it is baffling. I just want to remind everybody about the Trump tax cuts. If they are extended, as Dr. Corinth said they should be, they are going to have an annual cost of $350 billion a year, unpaid for. Not a dollar of that has been paid for—$350 billion a year.

That is more than double what the expanded Child Tax Credit and Earned Income Tax Credit from 2021 cost. The difference between these two things is that the Trump tax cuts overwhelmingly, to a degree that is almost impossible to imagine or fathom, helped the wealthiest Americans while leaving pennies for low-income families.

It is so hard to believe this that I hope people will pay attention to this, especially people who supported the Trump tax cuts and the idea that somehow it was a middle-class tax cut. As I mentioned earlier when we were having the conversation with Dr. Rachidi—and I will ask anybody who wants to refute these distribution tables, if they can refute these distribution tables. [A bar graph is displayed.]

Half of President Trump's tax cut went to the top 5 percent of Americans—half, half. That is 7.5 million people out of a country of 330 million people—7.5 million households to be precise, with an average income of almost $800,000. They got, because of the Trump tax cuts that some want to extend, they got a $150-billion tax cut from Donald Trump.

At the same time, the bottom 40 percent—you will see it over on that end where you have the poorest 20 percent and the second 20 percent, the bottom 40 percent—that unlike the top 5 percent, which was 7.5 million, the bottom 40 percent is 63 million American households with an average income not of $800,000, but of $22,000.

To come to Dr. Rachidi's point, those columns represent where we put half of our credit; the rest of the half went into the other, by and large, working people there. But those folks who were at the bottom, those little red lines at the bottom, they got 5 percent of the Trump tax cuts. The two lowest quintile groups in America got 5 percent of the benefit. The richest 5 percent got over 50 percent. None of it was paid for. I wish my colleagues were here to have this discussion right now. None of it was paid for.

Life consists of choices, as people said, and when I go home to red parts of Colorado and blue parts of Colorado, and I take this distribution chart with me, they think that we have been smoking something that is now legal in Colorado, or worse.

That is what they think. They cannot believe it. You are going to see the economic distribution in America in a minute, but they know, they know the last 50 years—you know, since we began this trickle-down economics and this outsourcing to China and Southeast Asia—and they know that the people who have benefited from living in that global economy because of their education——

And by the way, I hold nothing against them, you know? More power to people who have succeeded in an economy that has not worked for most people. They have worked hard to earn what they have earned. But it is impossible to look at these slides and not realize the benefits that the last 50 years have accrued to them and the lack of benefit that literally has accrued to everyone else in America. When I go home and I describe this, people say—they say the same thing Senator Johnson says, which is, "This is so complicated. I am not sure I understand it."

And what I say is, "Okay, well let me give you an example. This would be like if a Mayor—the Trump tax cuts would be like if a Mayor in Denver or Durango or Grand Junction or Cortez or Greeley or Colorado Springs or Pueblo or Alamosa or Springfield, if any Mayor"—and by the way, those are Democratic and Republican places.

If any Mayor said to their constituents, "I am going to go borrow more money than we have ever borrowed before," and their constituents being Coloradans would say, "That concerns me. I am worried about that. Why are you going to borrow more money than we have ever borrowed before? What are you going to do with that money? Are you going to invest in our schools?" "No." "Are you going to invest, you know, to combat the mental health epidemic that American children are facing as a result of COVID and the way social media has interacted with them?" "No." "Are you going to invest in our water infrastructure, which we desperately need?" "Nope."

"Are you going to invest in our libraries, our roads, our bridges?" "No, no, no." "What are you going to spend the money on that you are going to borrow from our children to pay for?" "We are going to take more than 50 percent of it, and we are going to give it to the top 5 percent of taxpayers in this city and expect it to trickle down to everybody else. We are going to give it to the two richest neighborhoods in town and expect that it is going to trickle down. That is the set of values we are pursuing. We are going to borrow—we are not going to pay for it. We are going to borrow every single penny of that, and then we are going to chastise people who try to do anything else for the people who are at the lower end. But we are going to borrow that money, send the benefit to the two richest neighborhoods, and hope somehow that is going to benefit the rest of us." That was Donald Trump's tax policy. I hate to say it, but it's true. The numbers do not lie. Those were what the numbers were.

And let us remember, let us put this up—and Senator Whitehouse is ready to question. Let us remember the backdrop here, which I have been talking about all morning long. This slide goes from 1973 to the present, although you could take this all the way back to the Great Depression. And what it shows is that the top 1 percent of Americans—that is that red line at the very top—the 7.5 million wealthiest Americans are the ones who have seen the fastest income growth over that entire time.

They decoupled from everybody else. Everybody else almost has been flat. If you squint even harder, you see the top 100th of 1 percent, which is 25,000 Americans who benefited the most from President Trump's tax credits, where our economy has reaped the biggest benefits.

This is a tragic story in our country—tragic. Between the first World War and 1980, average incomes grew from $4 to $5 million for the wealthiest folks. That is not a huge leap. But since 1980, these incomes have grown to an astonishing $32 million a year. That is an unimaginable amount of money.

And life is about choices. President Trump made a choice to reward the wealthiest people among us, and he made a choice to leave the rest of America behind. That was his choice. They masqueraded—they made it look like there was a middle-class tax cut, because they had a little bit of a tax cut there, but it was tiny in volume compared to what the rest of the credit looked like.

And we made a significantly different choice in 2021. It is true, Dr. Rachidi. I think our choice was far more targeted than you are saying, and certainly far more targeted than the Trump tax cuts, if your effort was to try to provide some relief to working people, if your effort was to provide some relief to the middle class.

We said—as you said, as you testified—half of the tax cuts to the 63 million poorest households, and it is a choice that I am happy to defend in red parts of Colorado and blue parts of Colorado. Let me get out of the way of Senator Whitehouse.

So actually, I will—well, let me just say, could you compare, Dr. Michelmore and Mr. Dutta-Gupta, could you compare the wisdom and long-term benefits of the expanded Child Tax Credit versus the Trump tax cuts—and I will come to you guys in a minute. But let me do this, and then we will come to Senator Whitehouse and Senator Cortez Masto.

Mr. DUTTA-GUPTA. Thank you, Mr. Chairman.

Senator BENNET. Yes sir.

Mr. DUTTA-GUPTA. Yes. So, the TCJA or Trump tax cuts, as you pointed out, made a series of changes that mostly benefited middle- and upper-income households. I will just note that your chart, if we could pull it back in time—you are right to say that the top decoupled, because actually from 1943 to really the post-war period, 1945 to 1973, all of those lines would have been growing together, and that stopped right around 1973.

So this made particularly little sense in light of this long-term trend. But just to give an example, a full-time, year-round minimum-wage worker benefited with a $45 increase through the Trump tax law's Child Tax Credit changes, while somebody making $400,000 a year and a married couple—each of them have two kids—could benefit with a $4,000 increase.

And I am sorry, but it does not cost nine or ten times as much for a wealthier person to afford the same necessities for their kids. So this was absolutely a question of priorities, and the Trump tax law underscores exactly how we need to focus on refundable tax credits, particularly full refundability, if we want to deliver support to families through the tax code.

Senator BENNET. I am going to come to Senator Whitehouse, and then we will come to you, Dr. Michelmore.

Senator WHITEHOUSE. Thanks. We have a vote pending.

Senator BENNET. Please, go ahead.

Senator WHITEHOUSE. I am entangled in a complicated Judiciary thing.

Senator BENNET. Go ahead.

Senator WHITEHOUSE. I just wanted to make a brief point, because I do have to get to the floor. In Rhode Island, we saw a test fire of the Child Tax Credit, and it was a phenomenal success. It made a difference in people's lives.

A woman—Crystal from Pawtucket—said it helped when child support payments dropped below the mandated amount. "I am still in significant debt, but working remotely has allowed me to save on gas, and the amount that I receive from my teen allows me to put more money towards paying down that debt." So that is one experience—helped her work remotely.

The other one was a woman from Providence who talked about her kids and her ability for them to "purchase grocery food, diapers, and baby formula. Diapers are very expensive, and child care"—mark that—"child-care costs are soaring. I don't want my baby to go without. It is not the children's fault their parents are poor. All families need help, and it's time we start giving them the help they deserve."

I understand that the argument has been proposed that by offering the Child Tax Credit, we will encourage people to stay out of the workforce. In Rhode Island, our experience was exactly the opposite, and I think the logic of this is exactly the opposite. Child care is expensive. With a Child Tax Credit, you can afford child care. Once you can afford child care, you can show up in the workforce. Everybody I talk to—when I visit employers in Rhode Island who are feeling workforce pressure—says, "If people could afford child care, it would help me solve my workforce problems, because it would add to my workforce pool."

So, I just want to rebut that argument from Rhode Island's experience, and just from a point of simple logic. With that, let me turn it over to Senator Cortez Masto, and I understand that she now has the gavel.

Senator CORTEZ MASTO [presiding]. Thank you. Thank you to the panelists. I could not agree more. As you all know, it is such an important game-changer for so many families to have that support—for many reasons.

The one, really one question I have though—and I am going to direct it to Mr. Dutta-Gupta—is, 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, right?

And so, my question to you is, really, these are some of the most in need children in our country, and what is the long-term impact if these children continue to be denied benefits?

Mr. DUTTA-GUPTA. Thank you for that question, Senator Cortez Masto, and for your leadership on this issue. Well, one of the goals of the Child Tax Credit is to reduce child poverty, and any exclusions are going to harm the children who are growing up in this country and who are going to live in this country, by and large.

So, as you pointed out, it is up to a million children who were restricted because of this completely new requirement that was not in place before, for folks who are paying taxes. Nobody doesn't pay taxes in the United States. You cannot function without paying taxes: sales taxes, property taxes, income taxes, Federal, State, local. State and local often are more regressive.

Remember, many of these children are part of mixed status immigrant families, which include U.S. citizen children as well. So the whole family can suffer. There are estimates that restoring access to these children currently being excluded can have an impact of up to $3.3 billion.

As we discussed earlier before you joined, we know the Child Tax Credit helps children do better in school, have better health outcomes, reduced interaction with the foster care system, reduced interaction with the criminal legal system, and do better as adults, including through more schooling and better——

Senator CORTEZ MASTO. But let me just say, for those reasons, do you see that there should be a distinction between these children and other children?

Mr. DUTTA-GUPTA. No. They are children.

Senator CORTEZ MASTO. Right, and their parents are paying taxes. And just like you said, they come from mixed families, and they are in our communities. And so, I just, I cannot stress this enough. I know I am preaching to the choir here, but this is such an important issue and area, because we do not want to leave any of our children out.

Clearly, there is more work to be done, and I, like my colleagues, support the Child Tax Credit. I think it has provided benefits. You all know it. You see the data; we see the data. It is there. But I do not think we should, quite honestly, distinguish amongst children just because they are immigrants or come from immigrant families. It is outrageous to me.

So I thank you, and I do not know if you have any other comments around here, but this is really such an important issue for me, because there are so many families across the country that have children who have been denied, which is outrageous. And I think on its own, that we are not really fighting for all of our children.

Mr. DUTTA-GUPTA. And it just adds one more layer, one more obstacle, one more administrative burden, to folks. So look, at the end of the day, children are children. We do not have work requirements for attending public schools, and one day I hope we will realize that a basic income is something every child deserves.

Senator CORTEZ MASTO. That is right. Thank you.

Does anybody else have any other comments? Let me just ask: anything else that has not been addressed that you would like to put forward in the hearing, that has not been asked? Yes.

Mr. DUTTA-GUPTA. Well, we talked a lot about the War on Poverty, and I just wanted to say a little bit about that. So one of the misunderstandings about the War on Poverty is this idea that it was about income transfers. Income transfers had very little to do with the War on Poverty.

The War on Poverty was primarily about human capital and health care. So, when we talk about how much we have spent since the War on Poverty, it was almost entirely Medicare, Medicaid, and we did spend some on education and workforce.

But what happened afterwards was, we realized some of the error, and we had a Republican President, Richard Nixon, signing Supplemental Security Income for folks with disabilities. We had a Republican President, Gerald Ford, signing the Earned Income Tax Credit. Then on a bipartisan basis, we got the Child Tax Credit, and so on and so forth.

But if there was any failure in the War on Poverty, it was that it did not try to address the underlying economic structure—systems, rules, policies—and it did not do enough on transfers.

Senator CORTEZ MASTO. Thank you. Let me just say "thank you" to our witnesses for providing your incredible perspectives today. I want to say "thank you" to the chairman and Ranking Member Thune for their partnership in hosting this important hearing, and to all my fellow members who were here.

We would ask that any additional statements or questions they may have for the record be submitted to the committee clerk within 5 business days from today, or 5 p.m. next Thursday, July 20, 2023. I will say the hearing is adjourned.

Thank you.

[The hearing reconvened at 12:12 p.m.]

Senator BENNET. The hearing will come back to order, and thank you very much for your patience. And I apologize for the miscommunication about whether we were recessing or not.

I am going to have to go back and vote at another time, or maybe I will skip that vote. But, Mr. Dutta-Gupta, can you talk a little bit about how the 2017 expansion of the Trump tax cuts on the CTC differed?

As I said earlier, we have had a history of bipartisan work on the child tax expansions. This is a really good reminder that both parties have a reason to be proud of their work to get the credit to more low-income families, which I hope can serve—I really do—as a template for a bipartisan version.

And it is part of my frustration with that Trump tax cut—obviously, I am very frustrated for other reasons as well—but that it provided $2,000 per child, an increase to people making $400,000, while giving $75 to minimum-wage folks.

Can you explain how that expansion differed from the Bush-era CTC expansions, and the Obama-Boehner-Ryan-McConnell expansions in particular? I am interested in how those versions of the CTC treated low-income families versus high-income families.

Mr. DUTTA-GUPTA. Yes. Thank you, Senator Bennet. That is a great question, and as you pointed out, one of the main things the TCJA did after doubling the credit was to dramatically expand the income range for eligibility. So we went from $75,000 to $200,000 for heads of households, $110,000 to $400,000 for married joint filers.

We had not seen that before. The Boehner-Bush prior tax cuts, and provisions around the child tax, sort of consistently at least focused more on working- and middle-class families. The one thing that the TCJA did that was helpful for lower-income families was reducing the start of the phase-in threshold from $3,000 to $2,500. But it did cap the refundable portion to $1,400.

So, it meant that unless a family owed at least $600 per child in Federal income taxes, they could not receive the full $2,000 credit. So this was actually quite a break from the previous sort of tradition and history of the Child Tax Credit.

Senator BENNET. I wanted also to get back to something we talked about—Dr. Rachidi talked about it a little bit earlier—which was the comparison of the Child Tax Credit to 1990s welfare and welfare reform. Dr. Michelmore, maybe I will ask you about that.

There has been a lot of debate over the Child Tax Credit that has taken us back to that era. I have heard opponents, including today, of the 2021 Child Tax Credit expansion argue that this would take us back to pre-Clinton welfare programs—AFDC, for the example we heard about today.

The argument goes that cash welfare inhibited labor force participation, and making the CTC permanent will do the same thing. We have heard that today. Could you explain why the 2021 Child Tax Credit is different from the pre-Clinton welfare that was referred to this morning, and in fact how it learns from some of that, what I agree were problems with that earlier program?

Dr. MICHELMORE. Yes, absolutely. Thank you, Senator Bennet. I think we have come a long way since the 1990s in terms of how we structure means-tested programs. So for instance, in the 1990s, the AFDC program had 100-percent marginal tax rates, which meant that every dollar of earnings was essentially going to reduce your AFDC benefits by a dollar.

We are far from that today. So the CTC benefit phases out much more gradually under current law, and under the 2021 reforms as well. And we also have a lot of other work supports in place now that we did not in the 1990s. So the Earned Income Tax Credit is still in place and provides a very substantial work incentive for families.

And we have also decoupled Medicaid eligibility from AFDC, which allows families to still become eligible for Medicaid without being on TANF or AFDC.

Senator BENNET. Thank you.

Do you have anything you would like to add?

Mr. DUTTA-GUPTA. The other thing that I would just note is, not only are you keeping the CTC as your income rises, but we have also learned that during that period a lot was going on, as Dr. Corinth talked about, in 2021.

The same was true in the mid-1990s. And part of the rise—a large part, I would argue from the research—in labor force participation, employment rates, especially among single mothers with limited education, was also due to, yes, the expansion of the Earned Income Tax Credit, but a higher minimum wage, tight labor market, lots of child care spending that we have all learned was hugely essential for folks getting to work.

Senator BENNET. And, Dr. Rachidi, I am happy to give you a chance to respond or tell me why I am wrong; Dr. Corinth as well. I know that you have a different point of view about it, and I just want to get on the record whatever you would like to put on the record.

Dr. RACHIDI. Well, sure; thank you. I appreciate that. I mean, I agree that we are in a different position now than we were in the 1990s in terms of benefit reduction rates and things like that.

I think the concern, though, is this is one step in that direction and kind of a return to those types of programs, and kind of a reverse from what we have learned over the past 2 decades—much from Dr. Michelmore's research on the EITC—that the work incentive of the EITC has been really important for low-income families.

So, if we believe that research, that has been so positive for children and families, and I think we should also believe that taking away that work incentive, the phase-in part of that, could be detrimental to children.

Senator BENNET. So, Dr. Michelmore, it is your research. If we believe your research, how can Dr. Rachidi sleep at night on the Child Tax Credit? Or why should she be able to?

Dr. MICHELMORE. Well, I think—thank you. So, I think the complicated thing with the EITC is, it has both this work incentive and an income component, and it is nearly impossible to disentangle those two things. But I do think that we have a growing body of evidence that suggests that it is the income that matters for children. We have evidence from, say the Canadian child benefit system, which is not contingent on work, that it also leads to substantial improvements in child outcomes, very similar to the ones that have been found in the EITC.

So, while I do think that the work component might be contributing to some of the impact that we see for children's outcomes, I think that the majority of it is plausibly driven by the income that the children receive.

Senator BENNET. Dr. Corinth?

Dr. CORINTH. Yes. I think there has been a lot of agreement, from economists at least, that the work component does matter a lot. There has been recognition that the EITC, which does have the earnings requirement, has more powerful effects for children than other benefit programs like housing assistance, which do not have that work requirement.

So, if nothing else, I do think it is a big risk if we take the step of going to this unconditional cash transfer that would delink the cash from the work requirement.

Senator BENNET. And I hear you saying it is a risk, and I hear Dr. Rachidi say she is worried that it is a first step in that direction. I am worried that if we do not take the risk to try, we are going to end up with millions of children permanently marooned in American poverty. We are going to end up with a workforce participation rate that continues to lag other countries around the world that have similar child allowances.

I am worried about how we deal with the fact that we do not, unlike our competitors, provide paid family leave or early childhood education or predictable preschool for families. And this might be one opportunity to be able to say—partly to deal with the worries about complexity—be able to say we are going to give parents the opportunity to make this experiment.

I guess I would say, since I have the floor as well, I would rather experiment with that, if we are making choices about scarce resources, than having another set of tax cuts that benefits the people at the very top, you know? Let us give some tax cuts to working people and the middle class and see whether they spend it on their children, which is what I think—I think at least—the evidence pretty categorically shows about what people did in 2021.

That actually is the subject of my next question for Mr. Dutta-Gupta, which is about how families spent the credit. You know, the average rent for a two-bedroom apartment is $1,300 a month, and the average cost of child care is $1,000 a month. If you throw in groceries, a car if you are lucky, health care, mental health care, after-school programs, and all the rest, not to mention the quantum amount more that people who have more means in this country spend on their kids to make sure they have the very best—and who among us, who on this panel, would not do that for our kids and for our grandkids?

Now, the purpose of the Child Tax Credit is to provide a little bit of a margin to support kids in this country. And there is nobody who can spend a moment in a town hall in my State, considering the last 50 years of the economy that we are talking about, the prices of housing, of health care, of higher education and inflation that we face today——

Although I am happy to hear people up here talk about how low the unemployment rate is in their States, which is great news—and we got great news yesterday, that the inflation rate is 3 percent, so some sign of progress. But I do not think you can spend a moment in those town halls and not understand how this credit is a benefit, if only on the margin, as I said, to help people who are working hard to pay bills, put food on the table, and pay the rent.

And again, one of the things I really like about this Child Tax Credit is, it is not the government telling you how to spend the money. There is no bureaucracy telling you what to do. So, could you explain what we know about how families spent the expanded Child Tax Credit, and what specific things the CTC allowed parents to do?

Mr. DUTTA-GUPTA. Well, we know they spent it on food and groceries, and sure enough, the Census Bureau was able to document that food insecurity rates fell right around the time, and following the time, of those monthly payments. We also know they spent it on bills and rent, on everyday essential costs of raising children, including some of the activities and opportunities that we have discussed that promote social and educational development, including costs for musical instruments so a child can join the school band, or for a birthday party for their child.

And finally, we know that the CTC payments also helped some parents work more hours. Many parents reported using the payments toward expenses like car repairs and child care, which helped them maintain employment. And I would just close quickly by noting that if you really worry about the CTC and its effect on work, you have to look at the effects on the second generation.

And it is quite clear that the effects on the second generation are unequivocally positive and unequivocally improved labor market outcomes. So, even if you agreed with one outlier study out of seven or eight, and believe that more than a very small slice of folks were affected and reduced their work in any way, we have to factor in the fact that the children who are in those families are going to work more as adults.

Senator BENNET. I am going to put everybody here out of their misery, and I am about to gavel this to a close. But I want to thank all of you for your testimony today. I really appreciate it. I really hope you got a sense of how important this is, at least from my perspective.

I mean, I really do think that we are going to have a hard time holding on to this democracy if we cannot give the American people a vision for the future where they feel like if they are working hard in this country, that there is a future for their kids, and that there is an economy that when it grows, as I said earlier, it grows for everybody.

And I think we can still create that in America. I think that, you know, a bipartisan consensus has emerged about the last 50 years, consensus on outsourcing and sending stuff to China and Southeast Asia, and how cavalier we were about that.

And I would say President Trump's sort of preternatural sense that that had somehow gone wrong, I think provides one vector for thinking about what it might look like. I think that the investments that we are now making in this country in infrastructure, bringing the semiconductor industry back to the United States, leading the global transition on energy—which no other country in the world is well-situated to do—we are well-situated to do.

One of the massive headwinds that we face—in addition to our health-care system that continues to cost twice as much as any health-care system in any industrialized country in the world, and our lack of mental health care—in my opinion, is the lack of outcomes from our education system, which is reinforcing the income inequality we have.

You see that we have the same income inequality, basically, that we have had since the 1920s, and our lack of investment in preschool, our lack of quality K–12 education, and the expense of higher education, those are all conspiring to reinforce the income inequality that we have.

I think it was in the midst of all of that—and the idea was that a simple, tested policy approach created really by the exigencies of COVID, although not designed during the exigencies of COVID—that we turned to the Child Tax Credit.

As Senator Brown said earlier, for many of us, it was one of the proudest moments that we have had since we have worked here. I do hope we can get to a place where we can create a bipartisan consensus around the parts of the Child Tax Credit.

I do believe that there is a bipartisan consensus in America, that we do not need to cut any more taxes for the people at the very top and expect that it is going to trickle down. I believe there is a bipartisan consensus in America that that has compounded the income inequality that we have, that it has made it more difficult for families to achieve what they can achieve.

I think people are ready to turn the page on that trickle-down economics in all respects. Because of the distribution tables that I pointed out earlier, more clearly than any other tax policy that anybody has ever dreamt up around this place, this was an attempt to take a step in a different direction. And I am going to continue to fight for that, because I think it is the right thing for the American people, the right thing for the people of Colorado.

I want to thank very much the witnesses who were here to provide their perspectives, both people called by the majority and called by the minority. I hope that you will continue to have this debate and discussion among yourselves as we get to a place where we try to get to a bipartisan outcome.

I would like to thank Ranking Member Thune and his staff for their partnership in hosting this important hearing, and I would say to my fellow members, we would ask that any additional statements or questions you may have for the record be submitted to the committee clerk 5 business days from today, or 5 p.m. next Thursday, July 20, 2023.

Thank you very much for being here. This hearing is adjourned.

[Whereupon, at 12:28 p.m., the hearing was concluded.]

APPENDIX

Additional Material Submitted for the Record

Prepared Statement of Hon. Michael F. Bennet,
a U.S. Senator From Colorado

Good morning. I am pleased to call this Subcommittee on Taxation and IRS Oversight to order. I want to thank Ranking Member Thune for his partnership on this hearing, along with all of our colleagues who join us.

Today, we're here to discuss the 25-year-old Child Tax Credit, and its benefit to tens of millions of American children. Over its history, this tax credit—which is the single largest Federal expenditure for kids—has made it easier for families to afford rent, groceries, child care, and the thousand other expenses that come with raising a child in America.

At its best, the Child Tax Credit has lifted nearly 2 million children out of poverty and demonstrated that we don't have to accept, in the wealthiest country in the world, one of the highest levels of childhood poverty in the industrialized world as a permanent feature of our economy or our democracy.

In today's testimony we will learn much more about the history of the Child Tax Credit and its success. And although there have been occasional differences in approach, I think it is important to recognize that the Child Tax Credit has been expanded—both in size and to whom it's available—as a result of bipartisan consensus and agreement.

Indeed, I want to record here that among the first lawmakers to officially embrace the CTC were Republican members of the House in 1994, who included a $500 credit in Newt Gingrich's "Contract with America." And it was President George W. Bush who worked with both Democrats and Republicans in Congress to make some of the Child Tax Credit refundable for the first time, expanding some of the benefit to low-income families.

In 2017, Congress passed the Trump tax cuts without bipartisan support. That bill doubled the maximum size of the credit from $1,000 to $2,000, but it also made it more available to wealthier families by increasing the income threshold to $200,000 for individuals and $400,000 for married couples.

Around the same time, my colleague Sherrod Brown and I took a different approach and introduced the American Family Act. That bill made the Child Tax Credit fully refundable, cutting taxes for the poorest families and the middle class.

We did that because no child chooses to be born poor, but as our witnesses will tell you today, growing up in poverty can shape a child's future in ways that are profoundly unfair. I saw the effect of that poverty every day when I worked for the kids of the Denver Public Schools as their Superintendent.

And as a society, we've paid the price. Child poverty costs our country up to $1 trillion a year, in the form of more hospital visits, lower earnings, and higher crime. That's why economists from across the political spectrum agree that investing in our kids is one of the best choices we can make as a country. According to Columbia University, every dollar we invest in the expanded Child Tax Credit generates $9 in benefits to society down the road.

When COVID exacerbated and revealed further inequities in our economy, we passed the American Family Act as part of the American Rescue Plan. And we will hear today that, unlike many things the Federal Government attempts, it was an enormous success.

As the research predicted:

- Sixty-two million kids benefited, 90 percent of kids in every single State.
- In Colorado, moms spent it on things like groceries, diapers, and textbooks.
- It reduced stress for kids and their parents.
- It helped cut child poverty in half and hunger by a quarter.

And we found out that an extra $10 a day didn't actually reduce workforce participation as some suggested it would.

There is a growing chorus of research, some of which our witnesses will share today, that shows the expanded Child Tax Credit is pro-family, pro-work, and pro-democracy.

For 6 shining months in 2021, we finally treated children in poverty like they are our children—not someone else's. But we failed to extend the expanded Child Tax Credit, and now, because of that failure, child poverty is rising again in America. And American children continue to go to bed hungry.

Today, I hope we'll have a discussion about why we should move forward in a bipartisan way to make the full, expanded credit available to every kid in America. We should consider how extraordinary it would be for the wealthiest Nation in human history—with the fourth highest rate of childhood poverty among rich nations—to end child poverty. To have an economy that when it grows, it grows for everybody, not just the people at the very top.

And my hope is in the months ahead, we will build on 25 years of Child Tax Credit expansions to support America's children.

With that, I'll turn it over to my colleague, and the ranking member, Senator John Thune.

Workers in Selected Occupations Who Would Receive Less Than the Full WFTRA Child Tax Credit in 2023 if Not for Full Refundability

Comparing WFTRA to a version of WFTRA with the current-law credit's phase-in and refundability cap

Occupation	Number of Workers
Cashiers	503,000
Nursing, psychiatric, and home health aides	439,000
Maids and housekeeping cleaners	423,000
Cooks	371,000
Construction laborers	360,000
Janitors and building cleaners	333,000
Truck and delivery drivers	306,000
Waiters and waitresses	306,000
Personal and home care aides	294,000
First-line supervisors/managers of retail sales workers	227,000
Customer service representatives	224,000
Grounds maintenance workers	222,000
Child care workers	221,000
Retail salespersons	216,000
Miscellaneous agricultural workers	202,000

Workers in Selected Occupations Who Would Receive Less Than the Full WFTRA Child Tax Credit in 2023 if Not for Full Refundability—Continued

Comparing WFTRA to a version of WFTRA with the current-law credit's phase-in and refundability cap

Occupation	Number of Workers
Carpenters	201,000
Laborers and freight, stock, and material movers, by hand	197,000
Receptionists and information clerks	181,000
Food preparation workers	166,000
Secretaries and administrative assistants	155,000
Managers, all other	153,000
Miscellaneous manufacturing assemblers and fabricators	137,000
Production workers, including semiconductor processors and cooling and freezing equipment operators	137,000
Elementary and middle school teachers	132,000
Taxi drivers and chauffeurs	132,000
Food service managers	125,000
Teacher assistants	117,000
Stock clerks and order fillers	115,000
Hairdressers, hairstylists, and cosmetologists	109,000
Medical assistants	108,000
Hand packers and packagers	101,000
Armed Forces	100,000
Preschool and kindergarten teachers	99,000
Automotive service technicians and mechanics	96,000
Office clerks, general	92,000
Painters, construction and maintenance and paperhangers	86,000
Registered nurses	83,000
Security guards and gaming surveillance officers	82,000
Industrial truck and tractor operators	80,000
Bus drivers	77,000
Inspectors, testers, sorters, samplers, and weighers	70,000
First-line supervisors/managers of food preparation and serving workers	68,000
Bartenders	66,000
Packaging and filling machine operators and tenders	63,000
Welding, soldering, and brazing workers	63,000

Workers in Selected Occupations Who Would Receive Less Than the Full WFTRA Child Tax Credit in 2023 if Not for Full Refundability—Continued

Comparing WFTRA to a version of WFTRA with the current-law credit's phase-in and refundability cap

Occupation	Number of Workers
Miscellaneous personal appearance workers	63,000
Combined food preparation and serving workers, including fast food	61,000
Health diagnosing and treating practitioner support technicians	61,000
Other teachers and instructors	60,000
Metalworkers and plastic workers, all other	59,000
Butchers and other meat, poultry, and fish processing workers	59,000
Farmers, ranchers, and other agricultural managers	58,000
First-line supervisors/managers of office and administrative support workers	53,000
Pipelayers, plumbers, pipefitters, and steamfitters	52,000
Shipping, receiving, and traffic clerks	52,000
Licensed practical and licensed vocational nurses	49,000
Bookkeeping, accounting, and auditing clerks	49,000
First-line supervisors/managers of non-retail sales workers	43,000
Electricians	41,000

Note: Table shows selected occupations for tax filers and spouses who are at least age 18, worked last year, and would receive less than the full WFTRA Child Tax Credit in 2023 if it did not include the full refundability provision (*i.e.,* if WFTRA had a $2,500 earnings threshold, 15% phase-in, and $1,600 refundability cap.)

PREPARED STATEMENT OF KEVIN CORINTH, PH.D., SENIOR FELLOW AND DEPUTY DIRECTOR, CENTER ON OPPORTUNITY AND SOCIAL MOBILITY, AMERICAN ENTERPRISE INSTITUTE

INTRODUCTION

Chairman Bennet, Ranking Member Thune, and distinguished members of the Subcommittee on Taxation and IRS Oversight, thank you for the opportunity to testify on the Child Tax Credit (CTC). My name is Kevin Corinth, and I am a senior fellow and the deputy director of the Center on Opportunity and Social Mobility at the American Enterprise Institute. This testimony reflects my own personal views and does not represent those of the American Enterprise Institute, which has no institutional views.

The CTC—the version that we have today—should be celebrated as a bipartisan achievement because it serves the dual purposes of providing tax relief for families and encouraging work. Since it was introduced in 1997, the CTC has become more generous and expanded to more working families, including to those who do not earn enough to pay Federal income tax. Research shows that tax credits that incentivize work are successful not only in increasing employment but also in improving the long-run outcomes of children.

However, for 6 months during 2021, the CTC was replaced with something completely different. Congress turned the CTC, provided to working families, into a child allowance provided to all families regardless of their work effort. This reform cost an additional $100 billion annually, likely contributing to the high inflation we have experienced for the past 2 years. If made permanent, it would lead an estimated 1.5 million parents to exit the workforce. It would also put at risk the other benefits of tax credits that encourage work, including promoting the long-term well-being of children.

Unfortunately, the risks of turning the CTC into a child allowance have been overlooked, in large part due to failures by experts to identify and communicate the risks. My testimony is intended to serve as a corrective to these shortcomings. This includes correcting the record on faulty research that misled policymakers on the expected effects of introducing the CTC changes in 2021, as well as the misuse of studies that analyze the effects of the 2021 CTC changes to extrapolate the effects of extending these changes permanently.

The facts are as follows:

- Permanently replacing the CTC with a child allowance, as was temporarily implemented in the second half of 2021, would substantially weaken the incentive to work.
- Nobody knows exactly how many workers would exit the labor force due to the weakened work incentives, but the highest quality and most relevant research on how employment responds to work incentives suggests that the disemployment effect would be substantial.
- The reduction in employment would mute at least some of the direct child poverty reduction of transferring more government assistance to low-income families.
- Evidence on the employment and child poverty effects from the temporary 2021 CTC changes provides little information about the effects of a permanent extension of those CTC changes. This is because it takes time for people to understand changes in work incentives in the tax code, it can be difficult to seamlessly exit and reenter the workforce in response to sudden changes in work incentives, and the pandemic and related events make it difficult to extrapolate the 2021 experience to less extreme periods.

Given the gravity of the decision to replace the CTC with a child allowance, it is unfortunate that these basic facts have been overlooked, misunderstood, and diminished. The CTC changes being considered would represent the biggest change to the social safety net since welfare reform in the 1990s. But unlike welfare reform which was preceded by a large body of rigorous research and State experimentation, the CTC changes in 2021 were motivated by a flawed National Academy of Sciences report that overlooked the elimination of the CTC's work incentives induced by the policy change, and now, evidence from a temporary 6-month version of the policy which has little bearing on the expected effects of a permanent extension of the policy.

In order to make informed decisions, policymakers require accurate, unbiased evidence on the effects of policies. It is the job of technical experts to provide that evidence and contextualize it. Unfortunately, in the case of the CTC, that process has fallen short. I hope that my testimony provides a corrective and allows you to make more informed decisions about how to strengthen support for families and the safety net in a way that better balances the benefits and costs of any policy change.

THE CURRENT CHILD TAX CREDIT ENCOURAGES WORK

The CTC was enacted in 1997 and first went into effect in 1998.[1] It provided a nonrefundable $500 tax credit to families, for each dependent child under the age of 17.[2] Being nonrefundable means that the CTC could only offset Federal income tax liability, and so its value could not exceed a family's income tax liability. As a result, families who did not have any Federal income tax liability did not receive any Child Tax Credit. Starting in 2001, the CTC was made partially refundable, and so families without a Federal income tax liability could obtain some benefit, in the amount of 10 percent of earned income in excess of $10,000. In 2003, the maximum per child CTC amount increased to $1,000. Over the next several years the CTC became more generous for families without Federal income tax liability, and by 2009, they could obtain a partially refundable CTC equal to 15 percent of earned income in excess of $3,000.

The next major reform of the CTC occurred in 2017 as part of the Tax Cuts and Jobs Act. The maximum per child CTC was doubled to $2,000, of which up to $1,400 could be claimed as a refundable credit. The refundable credit was set at 15 percent of earned income in excess of $2,500. These are the current parameters of the CTC

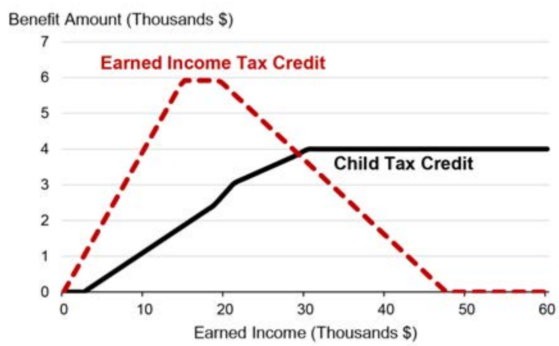
[1] For a legislative history of the Child Tax Credit, *see* Congressional Research Service, 2021, "The Child Tax Credit: A Legislative History," *https://crsreports.congress.gov/product/pdf/R/R45124*.

[2] The credit was $400 in 1998 and increased to $500 in 1999.

as of 2023, although they are set to revert to the pre-Tax Cuts and Jobs Act version (including a $1,000 maximum per-child credit) starting in 2026.

The current CTC encourages work. The reason is that the CTC increases with earnings up to its maximum benefit amount. Figure 1 below shows the CTC schedule for a single parent with two dependent children. A parent with less than $2,500 of annual earnings receives no CTC. But then the CTC increases by $0.15 for every dollar of earnings. The CTC peaks at $4,000 (again, for a parent with two dependent children) when annual earnings reach just over $30,000. Thus, a single parent who earns at least $30,000 each year receives a reward of $4,000 as a result of working. Earning $30,000 per year could be achieved by one parent working full-time, year round at an hourly wage of $15. One parent working full-time, year-round at an hourly wage of $10 would earn $20,000 from work, and still receive $2,760 from the CTC.

Figure 1: Child Tax Credit and Earned Income Tax Credit for Single Parent with Two Children under Age 17, by Earned Income



Source: Internal Revenue Service, Congressional Research Service, Author's calculations
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). 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.

These work rewards are substantial, which can be seen by comparing the CTC with the Earned Income Tax Credit (EITC), also shown in Figure 1. The EITC has been widely acknowledged to encourage work among single mothers and its 1990s expansion is credited with contributing to the dramatic rise in single mother employment during that time period.[3] A 2019 National Academy of Sciences panel estimated that increasing the EITC by just 40 percent would lead 0.8 million more single mothers to enter the workforce.[4] Since the CTC provides similar or more benefits to workers than 40 percent of the EITC, we should expect that it induces even more mothers to enter employment. This is consistent with a recent working paper by Kye Lippold estimating that the loss of the CTC when children become too old to qualify leads to a large reduction in parental employment.[5]

For almost all of the entire 25-year existence of the CTC, it has maintained the same basic structure, functioning as a tax credit that provides financial relief and a work reward for working families. The one exception was the second half of 2021, when the CTC was replaced with a child allowance. Although the CTC was still called the CTC during this time and was still administered by the Internal Revenue Service, it no longer was intended to offset tax liability, and it no longer required

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[3] For a review of the literature on the employment effects of the EITC, *see for example,* Austin Nichols and Jessie Rothstein, 2016, "The Earned Income Tax Credit," in *Economics of Means-Tested Transfer Programs in the United States,* Volume I. For more recent evidence, *see* Diane Whitmore Schanzenbach and Michael R. Strain, 2021, "Employment Effects of the Earned Income Tax Credit: Taking the Long View," *Tax Policy and the Economy,* Volume 35.

[4] National Academies of Sciences, Engineering and Medicine, 2019, "A Roadmap to Reducing Child Poverty," *https://nap.nationalacademies.org/catalog/25246/a-roadmap-to-reducing-child-poverty.*

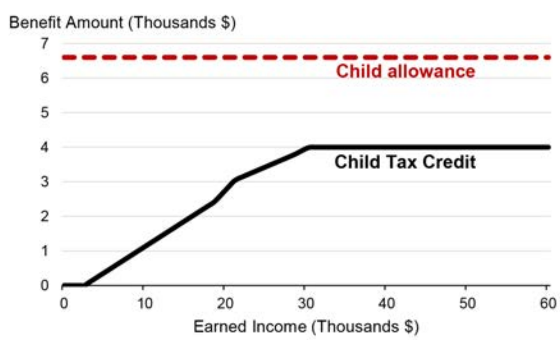
[5] Kye Lippold, 2020, "The Effects of the Child Tax Credit on Labor Supply," *SSRN Working Paper, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3543751.*

earnings for families to receive the credit. The maximum amount of the CTC per child was increased to $3,600 for children under 6 years old and $3,000 for children between the ages of 6 and 17 years old, and full cash payments were provided monthly. But the most transformative change was to no longer require either a Federal income tax liability or earned income to receive the benefit. A nonworking family received the same credit amount as a working family.

Figure 2 compares the current CTC with the child allowance as defined by the American Rescue Plan Act, for an adult with two dependent children (one aged 0 to 5 and the other aged 6 to 16). Because the family receives the same child allowance regardless of their earnings, the child allowance removes the entire CTC work reward. If enacted on a permanent basis, this policy change would be expected to reduce employment.

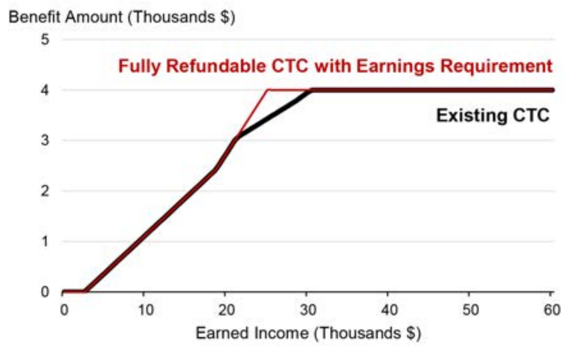
There has been confusion about terminology when discussing the 2021 changes to the CTC, especially regarding the term "fully refundable." To be fully refundable simply means that the CTC amount provided to a family does not depend having a Federal income tax liability to offset. The current CTC is *partially* refundable because only $1,400 of the full $2,000 per-child benefit can be claimed without offsetting a family's Federal income tax liability. Congress could make the current CTC *fully* refundable if families could instead claim the full $2,000 per-child benefit without a Federal income tax liability. But this change could be made while preserving the current earnings requirement, with the CTC phasing in at a 15-percent rate for every dollar earned above $2,500. Such a fully refundable CTC that maintains the earnings requirement would, in effect, differ only slightly from the current CTC, as shown in Figure 3. Since the 2021 CTC further modified the current CTC by eliminating the earnings requirement, I refer to it as a child allowance, rather than a "fully refundable CTC."

Figure 2: The Child Tax Credit and Child Allowance for a Parent with Two Children (one aged 0 to 5 and the other aged 6-16), by Earned Income



Source: Internal Revenue Service, Congressional Research Service, Author's calculations
Notes: Child Tax Credit (CTC) 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 American Rescue Plan 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.

Figure 3: The Child Tax Credit and a Fully Refundable Child Tax Credit that Maintains the Earnings Requirement for Single Parent with Two Children under Age 17, by Earned Income



Source: Internal Revenue Service, Congressional Research Service, Author's calculations
Notes: Child Tax Credit (CTC) parameters are based on 2020 tax law (all dollar values expressed in 2020 nominal terms). The fully refundable CTC with earnings requirement sets the Alternative CTC at $2,000 but changes no other parameters of the CTC. 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.

EVIDENCE MOTIVATING THE 2021 CHILD TAX CREDIT CHANGES

The intellectual foundation for replacing the CTC with a child allowance in 2021 was provided in large part by a National Academy of Sciences report published in 2019.[6] That report concluded that the replacement of the Child Tax Credit with a child allowance, like the one we had in the second half of 2021, would have negligible effects on employment and reduce child poverty by 41 percent. This National Academy of Sciences report inspired additional simulations of replacing the CTC with a child allowance which assumed no employment effects, and as a result, found similarly large child poverty reductions.[7]

The National Academy of Sciences report was highly influential, and ultimately contributed to Congress implementing the child allowance in the American Rescue Plan Act in March 2021. The report and the simulations it inspired were also cited in efforts during 2021 to extend the child allowance into future years. For example, a September 2021 letter to Congress signed by 462 economists referenced the National Academy of Sciences report in concluding that the policy would "dramatically reduce child poverty" and lead to "minimal work reduction."[8]

Unfortunately, the National Academy of Sciences report contained a fundamental and consequential error. The report failed to recognize that replacing the CTC—which has a work incentive—with a child allowance provided regardless of work effort, would discourage work. In contrast, the same National Academy of Sciences report assumed a strong employment response when modeling the effects of expanding the EITC, a similar tax credit targeted especially to families with children. Specifi-

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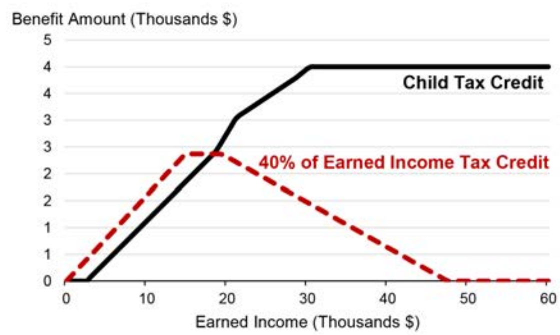
[6] National Academies of Sciences, Engineering, and Medicine, 2019, "A Roadmap to Reducing Child Poverty," *https://nap.nationalacademies.org/catalog/25246/a-roadmap-to-reducing-child-poverty.*

[7] *For example, see* Gregory Acs and Kevin Werner, 2021, "How a Permanent Expansion of the Child Tax Credit Could Affect Poverty," *Urban Institute, https://www.urban.org/sites/default/files/publication/104626/how-a-permanent-expansion-of-the-child-tax-credit-could-affect-poverty.pdf;* Chuck Marr, Kris Cox, Stephanie Hingtgen, and Katie Windham, 2021, "Congress Should Adopt American Families Plan's Permanent Expansions of Child Tax Credit and EITC, Make Additional Provisions Permanent," Center on Budget and Policy Priorities, *https://www.cbpp.org/sites/default/files/5-24-21tax.pdf;* Sophie Collyer, Megan A. Curran, Robert Paul Hartley, Zachary Parolin, and Christopher Wimer, 2021, "The Potential Poverty Reduction Effect of the American Families Plan," Center on Poverty and Social Policy at Columbia University.

[8] Hilary Hoynes, et al., 2021, Final Economist CTC Letter, *https://static1.squarespace.com/static/5ecd75a3c406d1318b20454d/t/6148f183c62fb147d0d25138/1632170373799/Economist+CTC+Letter+9-14-21+430pm.pdf.*

cally, they estimated that increasing the EITC by 40 percent would draw 0.8 million single mothers into employment. Since the full CTC is a larger work incentive than 40 percent of the EITC (as seen in Figure 4 below), this implies that the employment effect of the CTC is even larger. My coauthors and I calculated that if the National Academy of Sciences had applied the same work responsiveness assumption used for its EITC simulation to the incentive change caused by replacing the CTC with a child allowance, they would have found at that at least 1.3 million parents would have exited employment as a result, before accounting for any employment response by married parents to the weakened work incentives.[9]

Figure 4: The Child Tax Credit and 40 Percent of the Earned Income Tax Credit for a Parent with Two Children Under Age 17, by Earned Income



Source: Internal Revenue Service, Congressional Research Service, Author's calculations
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). 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.

My coauthors and I conducted our own research simulating the employment and poverty effects of permanently replacing the CTC with a child allowance.[10] Unlike the National Academy of Sciences report and follow-on studies, we recognized and modeled the change in work incentives. In addition, we used a more accurate dataset that links household survey data with administrative program and tax data, what is known as the Comprehensive Income Dataset. This dataset corrects for misreporting of income in surveys and allows for a more accurate simulation of changes to the CTC. We estimated that 1.5 million parents would exit employment as a result of permanently extending the child allowance. Accounting for the employment effect would reduce the child poverty effect by over a third, from 34 percent to 22 percent.

Unfortunately, the National Academy of Sciences has not yet been willing to correct the public record about their error, misleading policymakers about the true consequences of their policy choices.[11]

While the parental employment and child poverty effects have received the most attention in the policy debate over whether to replace the CTC with a child allowance, there are other important consequences that policymakers should consider. These include long-run effects on child well-being, effects on single parenthood, and fiscal consequences.

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[9] 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, https://www.nber.org/system/files/working_papers/w29366/w29366.pdf.*

[10] 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, *https://www.nber.org/system/files/working_papers/w29366/w29366.pdf.*

[11] *See* Kevin Corinth and Bruce Meyer, 2021, Letter to National Academies of Sciences, Engineering, and Medicine, *https://bpb-us-w2.wpmucdn.com/voices.uchicago.edu/dist/a/3122/files/2021/10/NAS-Roadmap-Letter_10_27_2021.pdf.*

Regarding long-run child well-being, an extensive literature finds that tax credits that encourage work improve child outcomes.[12] Specifically, the EITC, which as noted earlier is structured similarly to the CTC, has been found to improve children's test scores, and upon adulthood increase their earnings and reduce dependency on government programs.[13] Government programs that provide aid to low-income families without encouraging work appear to be a less robust mechanism for improving long-run child outcomes.[14] For example, housing assistance has been found to have weaker positive impacts than the EITC.[15] The evidence in support of non-work conditioned government assistance improving child outcomes is more frequently drawn from an earlier era in which the rest of the safety net was much less extensive than today, such as evidence that the rollout of Food Stamps in the 1960s and 1970s improved children's long-run outcomes.[16] Thus, replacing the work-encouraging CTC with a child allowance that does not encourage work could weaken the positive effects of the safety net in improving long-run child outcomes.

Another potential consequence of replacing the CTC with a child allowance is an increase in single parenthood. As pointed out in recent testimony by Bruce Meyer for a Senate Finance Committee hearing, the growing rate of single parenthood flattened out in the aftermath of welfare reform.[17] While this evidence is not causal, it is plausible that welfare reform, which rewarded work through an expanded EITC and required work in return for receipt of cash welfare, played a role in this change in trend. Since replacing the CTC with a child allowance would weaken the incentive to work for low-income families and greatly increase assistance for families with no earnings, it can be thought of as partly reversing welfare reform, which could increase single parenthood as a result. In fact, for a nonworking single parent with two children, there are 32 States (and the District of Columbia) in which the combined value of the child allowance and Supplemental Nutrition Assistance Program (SNAP) benefits in 2023 would exceed the combined value of Aid to Families with Dependent Children (AFDC) and SNAP benefits in 1996, immediately prior to welfare reform (see Figure 5). Since this calculation omits benefits from Temporary Assistance for Needy Families (TANF) in 2023, it understates the extent to which cash and near-cash benefits under a child allowance for nonworking families in 2023 would exceed what was available in 1996 prior to welfare reform.

Finally, replacing the CTC with a child allowance would increase government spending by over $100 billion annually.[18] This will eventually require increasing taxes which would lead to further reductions in employment and restrict economic growth, or cutting other government spending. These costs should be considered alongside the benefits of short-run increases in resources directed to families with children.

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[12] For a literature review, *see* Hilary Hoynes and Diane Whitmore Schanzenbach, 2018, "Safety Net Investments in Children," *Brookings Papers on Economic Activity, https://www.brookings.edu/wp-content/uploads/2018/03/HoynesSchanzenbach_Text.pdf.*

[13] *For example, see* 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): 1127–1163, *https://www.journals.uchicago.edu/doi/abs/10.1086/697477?journalCode=jole.*

[14] *See* Council of Economic Advisers, 2018, "Expanding Work Requirements in Non-Cash Welfare Programs," *https://trumpwhitehouse.archives.gov/wp-content/uploads/2018/07/Expanding-Work-Requirements-in-Non-Cash-Welfare-Programs.pdf;* Austin Nichols and Jessie Rothstein, 2016, "The Earned Income Tax Credit," in *Economics of Means-Tested Transfer Programs in the United States,* Volume I.

[15] Brian A. Jacob, Max Kapustin, and Jens Ludwig, 2015, "The Impact of Housing Assistance on Child Outcomes: Evidence from a Randomized Housing Lottery," *Quarterly Journal of Economics* 130(1): pp. 465–506, *https://academic.oup.com/qje/article-abstract/130/1/465/2337692?redirectedFrom=fulltext.*

[16] Hilary Hoynes, Diane Whitmore Schanzenbach, and Douglas Almond, 2016, "Long-Run Impacts of Childhood Access to the Safety Net," *American Economic Review* 106(4): pp. 903–934, *https://www.aeaweb.org/articles?id=10.1257/aer.20130375.*

[17] *See* written testimony of Bruce D. Meyer for United States Senate Finance Committee Hearing on "Anti-Poverty and Family Support Provisions in the Tax Code," June 14, 2023, *https://www.aei.org/wp-content/uploads/2023/06/Bruce-Meyer-Testimony-Senate-Finance-6-14-2023.pdf?x91208.*

[18] 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, *https://www.nber.org/system/files/working_papers/w29366/w29366.pdf.*

EVIDENCE BASED ON THE 2021 CHILD TAX CREDIT CHANGES

A year and a half removed from the temporary replacement of the CTC with a child allowance, official data have been released allowing us to determine how poverty changed during the second half of 2021 when the policy change was in effect. In addition, a growing number of studies have attempted to parse out the extent to which the CTC policy change *caused* changes in child poverty, parental employment, and other outcomes. However, the data and methodological approaches suffer from limitations, and more broadly, the evidence from the temporary six-month change to the CTC does not provide a useful guide to the effects of making a child allowance permanent.

One frequently reported upon set of data is child poverty trends. While the official poverty rate for children fell by just 0.7 percentage points (4 percent) from 2020 to 2021, the official poverty measure excludes the child allowance payments as income. The Census Bureau's supplemental poverty measure attempts to address this shortcoming by including child allowance payments as income, but because Census does not ask parents about the amount of child allowance payments parents received, Census must impute them. The Census imputation assumes full take-up of the child allowance payments among families that Census calculates should be eligible based on other self-reported information. Census also allocates both the monthly child allowance payments made in July through December of 2021 to families' 2021 income, as well as the other half of the child allowance that was paid out when families filed their taxes for the 2021 tax year around April 2022. According to the supplemental poverty measure, child poverty fell by 46 percent in 2021 compared to 2020. Other nongovernment income-based poverty measures find conflicting child poverty trends during the pandemic: Child poverty based on income reported by recipients over the past 12 months did not substantially fall in the second half of 2021, while monthly child poverty rates based on imputed incomes and imputed child allowance payments fell substantially.[19]

A better measure of poverty, especially when large income sources must otherwise be imputed as in the case of the child allowance, is one that relies on expenditures or consumption. Measuring poverty on the basis of consumption does not require imputation of the child allowance, while still capturing the benefit to the extent that families use the additional resources to consume more. The Bureau of Labor Statistics recently calculated poverty rates based on expenditures and consumption, finding that child poverty fell by between 13 percent and 23 percent, respectively, from 2020 to 2021 (see Figure 6).[20]

Even these changes could overstate the child poverty decline during the second half of 2021. Bruce Meyer, in recent testimony before the Senate Finance Committee reporting quarterly child consumption poverty, found only small declines in the third and fourth quarters of 2021, relative to the first two quarters of 2021. While it may be the case that child poverty fell by a meaningful amount in 2021 in conjunction with the child allowance payments, it is important to recognize that (i) some of the most widely cited estimates are likely overstated due to imputation assumptions and the allocation of benefits paid out in 2022 to poverty in 2021, and (ii) there remains uncertainty about the magnitude of child poverty experienced.

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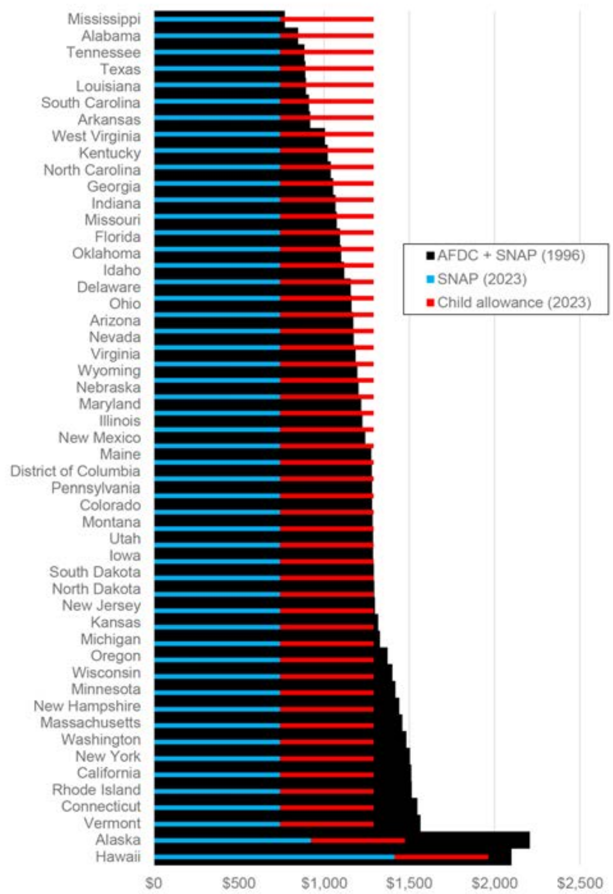
[19] *See* Jeehoon Han, Bruce D. Meyer, and James X. Sullivan, 2022, "Real-Time Poverty, Material Well-Being, and the Child Tax Credit," *National Tax Journal* 75(4), *https://www.journals.uchicago.edu/doi/abs/10.1086/722137;* and Zachary Parolin, Megan Curran, Jordan Matsudaira, Jane Waldfogel, and Christopher Wimer, 2022, "Estimating Monthly Poverty Rates in the United States," *Journal of Policy Analysis and Management* 41(4): pp. 1177–1203, *https://onlinelibrary.wiley.com/doi/10.1002/pam.22403.*

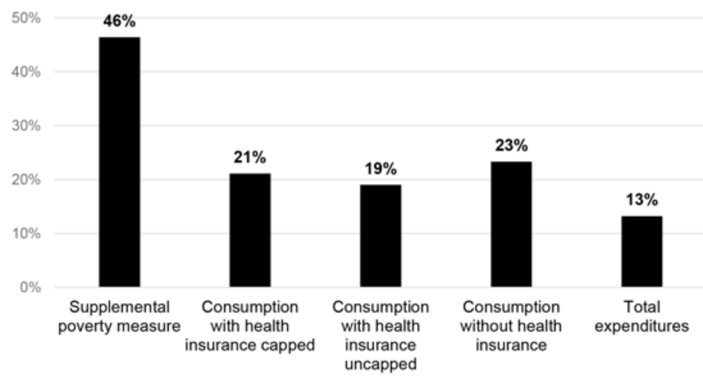
[20] Thesia I. Garner, Brett Matsumoto, Jake Schild, Scott Curtin, and Adam Safir, 2023, "Developing a Consumption Measure, with Examples of Use for Poverty and Inequality Analysis: A New Research Product from BLS," *Monthly Labor Review, https://www.bls.gov/opub/mlr/2023/article/developing-a-consumption-measure-with-examples-of-use-for-poverty-and-inequality-analysis-a-new-research-product-from-bls.htm.*

Figure 5: Combined Monthly Value of AFDC and SNAP in 1996 vs. Combined Value of Child Allowance and SNAP in 2023, Single Parent with Two Children and No Earnings



Source: Green Book 1996, U.S. Department of Agriculture, Author's calculations (with Bruce Meyer)
Notes: One child assumed to be under age 6 and other aged 6-17. Child allowance is that specified by the American Rescue Plan Act of 2021. All dollar amounts converted to 2023 using the Personal Consumption Expenditures Price Index.

Figure 6: Percent Decrease in Child Poverty, 2020-2021, Various Poverty Measures



Source: United States Census Bureau, United States Bureau of Labor Statistics, Author's calculations
Notes: Each bar represents the percent decrease in child (under age 18) poverty between 2020 and 2021. The Supplemental Poverty Measure is an income-based measure that relies on "quasi-relative" poverty thresholds. It imputes monthly CTC payments made in the second half of 2021 and the remaining portion of the 2021 CTC paid out in 2022 as income in 2021. The consumption and expenditure poverty measures rely on an absolute standard that holds the poverty threshold constant in real terms in 2020 and 2021.

A growing number of studies move beyond trends in child poverty in an attempt to estimate the causal effect of the replacement of the CTC with a child allowance on various outcomes in the second half of 2021. These studies typically compare changes in outcomes experienced by families who were eligible for the child allowance to changes in outcomes experienced by families who were eligible for a smaller child allowance or no child allowance at all. These studies conclude that if those families who received the child allowance saw a greater improvement in outcomes than those families who did not receive the child allowance, then the incremental improvement in outcomes can be attributed to the policy change.

A problem for the design of these studies is that other events occurred around the same time that child allowance payments were being distributed, making it difficult to disentangle effects of the child allowance payments from effects of these other events. In March 2021, the American Rescue Plan Act expanded the Child and Dependent Care Tax Credit—increasing the generosity of the credit and making more families eligible—and distributed another round of Economic Impact Payments (*i.e.,* stimulus checks), including $1,400 per dependent child. These policy changes were part of the same legislation that replaced the CTC with a child allowance in 2021, and they likely affected families who received a higher child allowance (due to having more children and younger children) more than families who received a lower or no child allowance. For example, a family with more children would have received a larger Economic Impact Payment, and a family with younger children would have been more likely to benefit from the expansion of the Child and Dependent Care Tax Credit. Since these are the same families who received higher child allowance payments, it is difficult to determine whether improved outcomes for these families were due to the child allowance payments or the other policy changes.

Other events further confound studies that focus on differences between families who received the child allowance and families who received a lower or no child allowance. For example, COVID–19 vaccines were first made available to children aged 12 through 15 in May 2021, and to children aged 5 through 11 in October 2021.[21] Schools opened in August and September 2021, after many had been closed or offered only in hybrid format the preceding Spring. Each of these events likely mattered more for families with children than families without children, conflating studies that rely on variation in who received the child allowance to identify its effects. The events also likely mattered more for families with older children than

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[21] U.S. Department of Health and Human Services, "COVID–19 Vaccines," *https://www.hhs.gov/coronavirus/covid-19-vaccines/index.html,* accessed July 10, 2023.

families with younger children, conflating studies that rely on variation in child allowance amounts to identify its effects.

Despite these methodological limitations, a growing number of studies have nonetheless proceeded to estimate effects of the CTC policy change on a range of outcomes including families' consumption, material hardship, mental health, and employment.[22] Many but not all find that that the child allowance in 2021 increased the well-being of families who appear to have been eligible for the child allowance payments.[23]

Results on employment effects are not conclusive. One study finds modest employment declines among adults with a high school degree or less who have children, compared to similarly educated adults without children.[24] While meaningful, the employment effects are only about a third as large as would be predicted in the long run based on a permanent extension of the child allowance. Other studies do not find employment effects, although they generally test for effects starting when monthly child allowance payments were made in July 2021 as opposed to when work incentive changes were announced and took effect starting in March 2021.[25]

Even as there remains debate about the short-run effects of the 2021 CTC change, along with serious questions about the methodological approaches used, the most concerning issue is that some have used the results of these studies which measure the effect of a temporary policy change, to infer what would happen if those changes were made permanent. For example, one study states: "Evidence that even the temporary wage cut in the 2021 CTC expansion did not reduce parent employment thus strongly suggests that a permanent expansion would not meaningfully reduce parent employment."[26] In fact, these studies do not provide a useful guide to the effects of making the 2021 CTC changes permanent. This is certainly the case for employment. But it is also true for all other outcomes because reductions in employment would offset reductions in poverty and potentially other hardship measures.

There are four main reasons that evidence from the temporary 2021 CTC changes should not be used to extrapolate the long-term effects of a permanent policy change.

First, it is unlikely that most parents actually understood how work incentives changed in 2021. As late as September 2021, 462 economists wrote a letter to Congress in which they failed to recognize the work incentive effects of the 2021 CTC changes. If hundreds of economists failed to recognize the work incentive changes even as they were advocating a permanent extension of the policy, it seems unrealistic to think that a majority of parents still dealing with the effects of pandemic-related shutdowns would have understood them even more quickly.

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[22] For effects on consumption, *see for example,* Jake Schild, Sophie M. Collyer, Thesia Garner, Neeraj Kaushal, Jiwan Lee, Jane Waldfogel, and Christopher T. Wimer, 2023, "Effects of the Expanded Child Tax Credit on Household Spending: Estimates Based on U.S. Consumer Expenditure Survey Data," NBER Working Paper, *https://www.nber.org/papers/w31412.* For effects on material hardship, *see for example,* Sophie Collyer, Jill Gandhi, Irwin Garfinkel, Schuyler Ross, Jane Waldfogel, and Christopher Wimer, 2022, "The Effects of the 2021 Monthly Child Tax Credit on Child and Family Well-Being: Evidence from New York City, *Socius,* 8, *https://journals.sagepub.com/doi/10.1177/23780231221141165.* For effects on employment, *see for example,* Brandon Enriquez, Damon Jones, and Ernie Tedeschi, 2023, "The Short-Term Labor Supply Response to the Expanded Child Tax Credit," *AEA Papers and Proceedings* 113: pp. 410–405, *https://www.aeaweb.org/articles?id=10.1257/pandp.20231087.*

[23] For example, no evidence of improved mental health was found in Benjamin Glasner, Oscar Jimenez-Solomon, Sophie M. Collyer, Irwin Garfinkel, and Christopher T. Wimer, 2022, "No Evidence the Child Tax Credit Expansion Had an Effect on the Well-Being and Mental Health of Parents," *Health Affairs* 41(111), *https://www.healthaffairs.org/doi/abs/10.1377/hlthaff.2022.00730.*

[24] *See* Jeehoon Han, Bruce D. Meyer, and James X. Sullivan, 2022, "Real-Time Poverty, Material Well-Being, and the Child Tax Credit," *National Tax Journal* 75(4), *https://www.journals.uchicago.edu/doi/abs/10.1086/722137.*

[25] *See* Brandon Enriquez, Damon Jones, and Ernie Tedeschi, 2023, "The Short-Term Labor Supply Response to the Expanded Child Tax Credit," *AEA Papers and Proceedings* 113: pp. 410–405, *https://www.aeaweb.org/articles?id=10.1257/pandp.20231087;* and Elizabeth Ananat, Benjamin Glasner, Christal Hamilton, and Zachary Parolin, 2022, "Effects of the Expanded Child Tax Credit on Employment Outcomes: Evidence from Real World Data from April to December 2021," NBER Working Paper, *https://www.nber.org/papers/w29823.* The most recent version of the latter study includes a robustness check using the timing of the work incentive change in March 2021.

[26] Elizabeth Ananat, Benjamin Glasner, Christal Hamilton, and Zachary Parolin, 2022, "Effects of the Expanded Child Tax Credit on Employment Outcomes: Evidence from Real World Data from April to December 2021," NBER Working Paper, *https://www.nber.org/papers/w29823.*

Second, even if they understood the work incentive changes, parents are less likely to quit their jobs in response to an unexpected and temporary 6-month policy change. In real world labor markets, the typical worker cannot suddenly quit their job and then automatically get their job back 6 months later when the work incentives are restored.

Third, the work incentive of the CTC is strongest earlier in the year, but the American Rescue Plan Act was not passed until March 2021, and many parents were likely unaware that the CTC was replaced until July 2021 or later. The delay in implementing the policy until later in the year muted the change in work incentives relative to a policy that was announced and understood at the beginning of the year. For example, a parent working full-time, year-round with an annual salary of $60,000 would have already earned $30,000 by the start of July 2021, qualifying her family for the full CTC under 2020 law, and thus providing her with no additional incentive (above and beyond her wages net of taxes and transfers) to continue working the remainder of the year. Even if she understood the work incentive changes induced by the switch to a child allowance as soon as July 2021, she would face no change in work incentives as a result. Only those individuals who had not yet worked prior to learning about the work incentive change would be fully affected by the weakening of work incentives in the switch to a child allowance.

Fourth, even if parents understood the incentive change more quickly than 462 economists, and even if they had jobs they could seamlessly move into and out of, and even if they still faced the full strength of the work incentive change by not working in early 2021 before learning about the policy, the 2021 experience would still provide little help in understanding the consequences of a permanent extension of this policy. The reason is that a lot was going on in 2021 that made it unique. We were facing a pandemic. We had undergone multiple rounds of economic stimulus payments and boosted unemployment benefit payments. Supplemental Nutrition Assistance Program benefits and child care assistance were substantially expanded in 2021. Many schools were just beginning to open up again. How parents respond to work incentive changes in the midst of a pandemic and in the midst of other unprecedented government aid is likely to differ from how they would respond in less extreme times.[27]

It is important to emphasize these issues, because some have extrapolated from the experience with the 2021 CTC to what would happen if those changes were made permanent. They have claimed that we now have evidence that permanently extending the 2021 CTC changes would have little effect on employment and thus dramatically reduce child poverty. They are wrong.

CONCLUSION

Ultimately, the decision over whether to replace the CTC with a child allowance should be informed by an accurate understanding of the costs and benefits. Unfortunately, the costs have been overlooked, misunderstood and minimized, and the benefits have been oversold. I hope my testimony can provide a corrective so that in the future you can make better informed policy decisions.

QUESTIONS SUBMITTED FOR THE RECORD TO KEVIN CORINTH, PH.D.

QUESTIONS SUBMITTED BY HON. JAMES LANKFORD

Question. What impact have the Tax Cuts and Jobs Act's changes to the Child Tax Credit had on reducing poverty? What other changes to the Child Tax Credit should Congress consider to encourage work, provide tax relief for families and reduce poverty?

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[27] As stated by Michael Karpman, Elaine Maag, Stephen Zuckerman, and Doug Wissoker, 2022, "Child Tax Credit Recipients Experienced a Larger Decline in Food Insecurity and a Similar Change in Employment as Nonrecipients Between 2020 and 2021," Tax Policy Center, *https://www.urban.org/research/publication/child-tax-credit-recipients-experienced-larger-decline-food-insecurity-and:* "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" (p. 2).

Answer. The Tax Cuts and Jobs Act's changes to the Child Tax Credit (CTC) increased resources directed to low income families and encouraged work. It did so by increasing the maximum per child credit from $1,000 to $2,000, and increasing the refundable portion to $1,400. While the elimination of tax exemptions for dependents offset some of the increased CTC benefit, net benefits rose for families, including for those with lower incomes. The higher CTC and other provisions of the Tax Cuts and Jobs Act that reduced individual taxes encouraged work because parents could keep more of their earned income.

Increased CTC benefits and increased earnings from work contributed to falling poverty rates after the Tax Cuts and Jobs Act was implemented starting in tax year 2018. The official poverty rate for the full population fell from 12.3 percent in 2017 to 10.5 percent in 2019, and the official poverty rate for children fell from 17.4 percent in 2017 to 14.4 percent in 2019. Other poverty measures that address the flaws of the official measure also find substantial poverty declines. For example, a full income poverty measure that adjusts for taxes and includes government transfers fell from 13.8 percent in 2017 to 10.5 percent in 2019. This decline in poverty resulted from a strong labor market that increased labor force participation and raised wages for lower skilled and historically disadvantaged groups, in addition to the CTC changes that directly increased resources for low income families.

Further changes to the CTC should maintain the existing tie to earnings or a Federal income tax liability. Providing benefits to families with neither earnings nor a tax liability would discourage work and duplicate existing safety net programs that are better targeted at low-income families and can more effectively address their individual needs. Fortunately, there are ways to maintain the CTC's work incentives while also providing more tax relief for families and reducing poverty. For example, the CTC could begin phasing in with the first dollar of earned income instead of not phasing in until the existing $2,500 earnings thresholds is reached. Also, the existing cap on the portion of the CTC that is refundable could be increased from approximately $1,600 per child for the 2023 tax year to $2,000 per child. These reforms would be targeted at lower income families, help reduce poverty, encourage work, and be much less expensive than replacing the CTC with a child allowance.

Question. In your opinion, will reforming the Child Tax Credit to a direct cash assistance program create further dependence on government assistance? If so, would that dependence reduce poverty?

Answer. Turning the Child Tax Credit (CTC) into a direct cash assistance program would increase dependence on government assistance. Before welfare reform in the 1990s, the Aid to Families with Dependent Children (AFDC) program provided direct cash assistance to low income families without requiring work. Recent research finds that 17 percent of children's families in 1993 received at least half of their income from the government, but that this share fell to 10 percent by 2000 in conjunction with welfare reform. This decline in dependence occurred at the same time as a decline in child poverty. Thus, it is possible to both reduce dependence and reduce child poverty at the same time.

In the short run, it is likely the case that turning the CTC into a direct cash assistance program would reduce poverty—transferring more resources to families below the poverty line would mechanically lift some of them above the poverty line. But in the long run, this mechanical effect in alleviating poverty would be weakened and could potentially be reversed, due to withdraw from the labor market for a small but important subset of parents and potentially worse outcomes for children upon reaching adulthood themselves. This makes a strategy of reducing poverty by transferring more resources that are not connected to work a risky one.

Question. In your testimony, you argued that a consequence of replacing the Child Tax Credit with a cash allowance would be increasing single parenthood. What impact would an increase in single parenthood have on childhood poverty? What impact does marriage have on reducing childhood poverty? What are additional steps Congress should consider to incentivize marriage?

Answer. Replacing the Child Tax Credit (CTC) with a child allowance could increase single parenthood relative to married parenthood, because a nonworking parent separating from a working spouse could partly offset the loss in earnings with the child allowance. As I noted in my testimony, the rise in single parenthood flattened out after welfare reform, suggesting that reverting back to unconditional cash assistance like we had prior to welfare reform could risk increasing single parenthood.

An increase in single parenthood would increase childhood poverty. Single parenthood can be much more difficult than living in a married, two-parent family, because single parents typically require child care for young children in order to work at all and because single parent families have only one potential earner rather than two. As a result, children living in single parent families are more likely to be poor than children living in married parent families. Having two parents in a household increases the resources available to children which reduces childhood poverty, and a committed partnership can allow for increased investment in children which can promote positive long run outcomes.

Congress should consider incentivizing marriage, first of all, by not imposing further marriage disincentives. That means not adopting reforms like the replacement of the CTC with a child allowance that would partially reverse welfare reform. Second, Congress should consider mitigating marriage disincentives in tax and transfer policies. For example, the Earned Income Tax Credit, due to its steep phaseout rate for families with moderate levels of earnings, disincentivizes marriage because while a single working parent can qualify for a large benefit, marriage to a working spouse can largely reduce or eliminate the benefit altogether. While there are budgetary reasons to target benefits to those most in need, which can lead married families to receive fewer benefits than single parent families, the importance of marriage for strong and healthy families should motivate policymakers to consider reforms that mitigate at least some of the strongest marriage disincentives imposed by government policies.

Prepared Statement of Indivar Dutta-Gupta, President and Executive Director, Center for Law and Social Policy

INTRODUCTION

Thank you, Chairman Bennet, Ranking Member Thune, and members of the subcommittee. My name is Indivar Dutta-Gupta, and I am the president and executive director of the Center for Law and Social Policy (CLASP). CLASP is a national, nonpartisan nonprofit utilizing 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, in turn building a more prosperous country for all of us.

I'm honored to submit this written testimony on the extraordinary bipartisan history and even more extraordinary quarter-century track record of the Child Tax Credit (CTC). My own history working on the CTC dates to 2006, when I was a research assistant at the Center for American Progress, developing policies to reduce poverty in the United States, including a more inclusive CTC. From 2007 through 2010, I worked on a bipartisan basis to reduce the discrimination in the tax credit against people with limited incomes as Professional Staff on the Ways and Means Committee. We succeeded in shrinking the amount of family earnings ignored from around $11,000 a year to $3,000 a year, avoiding a worsening situation as more and more children who would benefit the most would otherwise be excluded from the credit. Subsequently, I worked at the Center on Budget and Policy Priorities—and later at the Georgetown Center on Poverty and Inequality—to push for a truly inclusive, more adequate, and more effective CTC that would help families raise children in developmentally desirable environments. The enhanced CTC in 2021 marked the high-water mark for these collective and often bipartisan efforts.

This testimony highlights the CTC's role in reducing poverty and expanding opportunity, as well as raising living standards over time by growing our economy. I also focus my testimony on the history of bipartisan support for the CTC and how and why Congress should improve the credit. First, I start with some context-setting, explaining just how harmful child poverty—even defined narrowly as simply having very low childhood income—is.

THE HIGH COST OF CHILD POVERTY

Mounting research makes clear that childhood poverty harms children and society overall.

Child Poverty's Effects on Children

Poverty is bad for all children and particularly bad for the youngest children. Children who experience poverty are far more likely than their peers to fail to finish high school, become parents as teens, and experience poverty as adults.[1] The time around the birth of a child is frequently the point at which parental income is at a nadir,[2] meaning that the youngest children are most likely to live in poverty, at a time that is critical for their development.

Poverty affects children through direct material hardships such as food insecurity and hunger, inadequate clothing or diapers, lack of health care, living in overcrowded or substandard housing, or being homeless. But poverty also harms children by imposing high levels of stress on their parents, which impairs their capacity to give their children the care and attention any child needs to thrive.[3] The harsh realities of today's low-wage labor market—with the norm being little paid time off and unpredictable and unstable schedules—ratchet up the stress and make it harder for parents to fulfill their dual roles as wage-earners and caregivers.[4] Children's needs themselves are a major source of motivation for parents, as well as sometimes a cause for economic vulnerability and stress. As a result, parents facing poverty, however loving and dedicated, often struggle to meet their children's needs.

A number of studies have attempted to identify the effect of income, independent of the many other family and neighborhood factors, on child well-being and future outcomes. A few representative findings include:

- Researchers were able to track 16,000 boys into adulthood whose mothers applied for cash support from the Mothers' Pension program between 1911 and 1930 due to the loss or disability of their breadwinning father. Compared to the children whose mothers' applications were rejected, male children whose mothers received assistance lived 1 year longer, obtained one-third more years of schooling, were less likely to be underweight, and had higher income in adulthood.[5]
- A study of variation in pandemic-era stimulus and CTC payments found that each additional $100 in unconditional transfers a family received while a mother was pregnant reduced the prevalence of low birthweight by 2 to 3 percent. Low birth weight in turn has strong predictive power for adverse health outcomes throughout childhood and into adulthood.[6]
- A study taking into account that families with babies born in December receive an additional year of child-related tax benefits compared to families with babies born in January found that a $1,000 tax transfer to low-income families results in 2.6 percent fewer referrals to child protective services through age 2 and 7.9 percent fewer days spent in foster care.[7]
- A randomized study of a cash transfer program for low-income mothers of infants in four geographically diverse metro areas found impacts on the children's brain wave patterns associated with higher language, cognitive, and social-emotional scores in older children.[8]
- Educationally, each $1,000 in combined EITC and CTC Federal tax credits increases a child's test scores by 6 to 9 percent of a standard deviation, with

[1] American Psychological Association, *Effects of Poverty, Hunger and Homelessness on Children and Youth,* last updated July 2022, *https://www.apa.org/pi/families/poverty.aspx.*

[2] Austin Clemens and Kavya Vaghul, *Economic Insecurity Rises Around Childbirth, Explained in Four Charts,* Washington Center for Equitable Growth, 2016, *https://equitablegrowth.org/economic-insecurity-rises-around-childbirth-explained-in-four-charts/.*

[3] Caroline Ratcliffe and Signe-Mary McKernan, Child Poverty and Its Lasting Consequence, The Urban Institute, September 2012, *https://www.urban.org/research/publication/child-poverty-and-its-lasting-consequence.* Lawrence Aber, Pamela Morris, and Cybele Raver, "Children, Families, and Poverty: Definitions, Trends, Emerging Science and Implications for Policy," Society for Research in Child Development, 2012, *https://nyuscholars.nyu.edu/en/publications/children-families-and-poverty-definitions-trends-emerging-science.*

[4] Elizabeth Lower-Basch and Stephanie Schmit. "TANF and the First Year of Life: Making a Difference at a Pivotal Moment." Center for Law and Social Policy, October 2, 2015, *https://www.clasp.org/publications/report/brief/tanf-and-first-year-life-making-difference-pivotal-moment/.* Goldman, Tanya, Pronita Gupta, and Eduardo Hernandez. "The Struggles of Low-Wage Work." Center for Law and Social Policy, May 29, 2018, *https://www.clasp.org/wp-content/uploads/2022/01/2018_lowwagework.pdf.*

[5] Anna Aizer, Shari Eli, Joseph Ferrie, and Adriana Lleras-Muney, "The Long-Run Impact of Cash Transfers to Poor Families," *American Economic Review* 106, no. 4, April 2016, 935–71, *https://doi.org/10.1257/aer.20140529.*

[6] Krista Ruffini, "Does Unconditional Cash during Pregnancy Affect Infant Health?", SSRN Scholarly Paper, March 29, 2023, *https://doi.org/10.2139/ssrn.4404319.*

[7] Katherine Rittenhouse, "Income and Child Maltreatment: Evidence from a Discontinuity in Tax Benefits," *SSRN Electronic Journal,* 2023, *https://doi.org/10.2139/ssrn.4349231.*

[8] Sonya V. Troller-Renfree et al., "The Impact of a Poverty Reduction Intervention on Infant Brain Activity," *Proceedings of the National Academy of Sciences* 119, no. 5, February 2022: e2115649119, *https://doi.org/10.1073/pnas.2115649119.*

> higher effects seen in math scores.[9] Similar results, along with impacts on mental and physical health, are found in a study of Canadian child benefits that were overwhelmingly unconditional.[10]

Family income during the prenatal period and early childhood is particularly critical to healthy development and positive outcomes in later life and may have a larger impact on long-term outcomes than income later in life.[11] Holding all else equal, for families with early childhood (prenatal to age 5) incomes below $25,000, a $3,000 annual boost to family income during that period is associated with a 17-percent increase in adult earnings when that child grows up.[12]

The 2019 National Academies of Sciences, Engineering, and Medicine (National Academies) report on Child Poverty comprehensively reviewed the literature on the causal impact of poverty and found:

> The weight of the causal evidence indicates that income poverty itself causes negative child outcomes, especially when it begins in early childhood and/or persists throughout a large share of a child's life. Many programs that alleviate poverty either directly, by providing income transfers, or indirectly, by providing food, housing, or medical care, have been shown to improve child well-being.[13]

Child Poverty's Effects on Society

But the impact of child poverty is not limited to individuals. The consequences of poverty as experienced in this country impose significant costs on society as a whole through a few major mechanisms:

- Lost worker productivity and earnings;
- Greater morbidity and mortality, which can be especially costly in a country with extraordinarily high health-care costs and spending; and
- Increased law enforcement and prison and jail costs, due to policymakers' decisions to pursue a path of mass criminalization and mass incarceration.

The evidence of societal costs is particularly strong for child poverty, which lowers tax revenues and increases public spending unnecessarily, in turn hindering our Nation's economic prosperity and potential.[14] One estimate finds societal costs of child poverty to be approximately 5.4 percent of GDP in 2015.[15]

HISTORY OF THE CHILD TAX CREDIT, 1991–2020

The policy origin of the United States Child Tax Credit dates to at least 1991, and the credit has changed on numerous occasions on a bipartisan basis since its original enactment in 1997, generally becoming more inclusive and generous over time.

1991—National Commission on Children

The Child Tax Credit was first proposed in the March 1991 report of the congressionally established National Commission on Children, a bipartisan body whose 34 members were appointed by President Ronald Reagan (in 1987) and both houses of Congress. The Commission unanimously recommended a $1,000 per child refundable credit that would be indexed for inflation (*i.e.,* approximately $2,250 in today's dollars), noting that the United States is "the only Western industrialized nation that does not have a child allowance policy or some other universal public benefit

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[9] Raj Chetty, John N. Friedman, and Jonah Rockoff, "New Evidence on the Long-Term Impacts of Tax Credits," Statistics of Income Paper Series, November 2011, *http://www.irs.gov/pub/irs-soi/11rpchettyfriedmanrockoff.pdf.*

[10] Kevin Milligan and Mark Stabile, "Do Child Tax Benefits Affect the Well-Being of Children? Evidence from Canadian Child Benefit Expansions," *American Economic Journal: Economic Policy* 3, no. 3, August 2011: 175–205, *https://doi.org/10.1257/pol.3.3.175.*

[11] Greg J. Duncan and Katherine Magnuson, "The Long Reach of Early Childhood Poverty," Pathways, 2011, *https://web.stanford.edu/group/scspi/_media/pdf/pathways/winter_2011/PathwaysWinter11_Duncan.pdf.*

[12] Hilary W. Hoynes, Diane Whitmore Schanzenbach, and Douglas Almond, Long Run Impacts of Childhood Access to the Safety Net, Working Paper, National Bureau of Economic Research, November 2012, *http://www.nber.org/papers/w18535.*

[13] "Beyond Rhetoric: A New American Agenda for Children and Families. Final Report of the National Commission on Children," National Commission on Children, Conclusion 3–8, 1991, *https://eric.ed.gov/?id=ED336201.*

[14] National Academies of Sciences, Engineering, and Medicine, *A Roadmap to Reducing Child Poverty,* The National Academies Press, 2019, *https://doi.org/10.17226/25246.*

[15] M. McLaughlin and M.R. Rank, "Estimating the economic cost of childhood poverty in the United States." *Social Work Research,* 42(2), 73–83, 2018.

for families raising children."[16] The Commission noted that the Federal personal exemption for dependent children does not meet the goal of assisting families with the cost of raising children "because it has declined in value over the past 4 decades, because it is not available to families that do not pay Federal income tax, and because it provides a greater benefit to families with higher earnings."[17]

1991–1996—Legislative Momentum

The idea of a child tax credit was embraced by both Democrats and Republicans. In 1994, the Contract with America, the Republican Party's legislative agenda championed by Newt Gingrich, included a $500-a-year child tax credit.[18] In the 104th Congress, two Republican-led bills also included this provision in the American Dream Restoration Act and the Tax Fairness and Deficit Reduction Act, the latter of which passed in the House.[19] President Clinton also put out his own proposal on what the child tax credit could look like with the Middle-Class Bill of Rights Tax Relief Act of 1995, as did other Democrats including then-Senator Tom Daschle and Rep. Charles Rangel with their own proposals.[20]

1997—Initial Enactment

The CTC was first enacted as part of the Taxpayer Relief Act of 1997, with large margins of bipartisan support (92–8 in the Senate and 389–43 in the House).[21] However, the CTC as enacted fell well short of the Commission's recommendations. In particular, the credit was worth only $400 (rising to $500 in 1999), and it was mostly nonrefundable, meaning that it excluded those who would most benefit. The only families who could get a refundable credit were those with more than two children and whose payroll taxes exceeded their Earned Income Tax Credit. For example, a minimum wage earner working full time would have earned $10,300, below the filing threshold, and therefore would not have benefited at all. The credit also began to phase out starting at $75,000 in adjusted gross income for heads of household filers and $110,000 for married joint filers. Neither the amount of the credit nor the phaseout thresholds were indexed for growth in prices or living standards.

2001–2004—First Steps Toward Inclusion

In 2001, the Economic Growth and Tax Relief Reconciliation Act, which passed with a 58–33 Senate vote (46 Republicans and 12 Democrats) and in the House with a 240–154 vote (211 Republicans, 28 Democrats, and 1 Independent),[22] represented one of President George W. Bush's signature legislative achievements. It also made the credit partially refundable—up to 10 percent of income over $10,000 for tax years 2001 to 2004, and 15 percent of taxable income over that threshold starting in 2005.[23]

This schedule was later accelerated by the Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) and the Working Families Tax Relief Act, so that the expansion was fully phased in by 2004.[24] JGTRRA was passed by a vote of 231–200 in the House, with 7 Democratic votes, and 51–49 in the Senate.[25] However, at that point, a single parent with two children would not receive the full value of the CTC until their taxable income reached $23,333—the equivalent of working full-time, every week . . . in *more than* two *minimum wage jobs* in 2004 (see Figure 1.). The JGTRRA threshold was indexed for inflation and had reached $11,750 by 2007.[26]

When the JGTRRA was signed into law in 2003, it failed to make the CTC more fully refundable. Two Senators—Blanche Lincoln, a Democrat from Arkansas, and

[16] *Beyond Rhetoric,* p. 94.
[17] *Beyond Rhetoric,* p. 94.
[18] Republican National Committee, "Republican Contract with America," September 27, 1994, *https://teachingamericanhistory.org/document/republican-contract-with-america/.*
[19] Margot L Crandall-Hollick, "The Child Tax Credit: Legislative History," Congressional Research Service, December 23, 2021, *https://sgp.fas.org/crs/misc/R45124.pdf.*
[20] Robert Greenstein and Iris J. Lav. "The Clinton Tax Plan," Center on Budget and Policy Priorities, July 3, 1997, *https://www.cbpp.org/sites/default/files/archive/clinttax.htm.*
[21] 143 Cong. Rec. H4816, 1997; 143 Cong. Rec. S8480, 1997.
[22] 147 Cong. Rec. S5796, 2001.
[23] Rockefeller Foundation, The Earned Income and Child Tax Credits: The Federal Framework, Reform Efforts to Date, and Options for Future Change, 2020, *https://www.rockefellerfoundation.org/wp-content/uploads/The-Rockefeller-Foundation-EITC-Policy-Paper-2020-1.pdf.*
[24] Margot L Crandall-Hollick, "The Child Tax Credit: Legislative History," Congressional Research Service, December 23, 2021, *https://sgp.fas.org/crs/misc/R45124.pdf.*
[25] 149 Cong. Rec. S7087, 2003; 149 Cong. Rec. H4730, 2003.
[26] "Revenue Procedure 2006–53," Internal Revenue Service, November 2006, *https://www.irs.gov/pub/irs-drop/rp-06-53.pdf.*

Olympia Snowe, a Republican from Maine—led the push for a vote weeks later to expand partial refundability, which had been included in an earlier version of JGTRRA. This bill passed the Senate 94–2.[27] However, the bill that was ultimately enacted—the Working Families Tax Relief Act of 2004—extended the CTC and made changes to the definition of a dependent, but it did not lower the threshold for refundability. The Senate passed the bill in an overwhelmingly bipartisan manner—by a 92–3 vote—and the House passed it by a 339–65 vote.[28]

2007–2015—Leaps Toward Inclusion

The earnings threshold was finally lowered in response to the 2007–2009 financial crisis. The threshold was reduced first to $8,500 by the Emergency Economic Stabilization Act of 2008 (passed in the Senate 74–25, with 44 Democrats and 30 Republicans, and in the House 263–71, with 172 Democrats and 91 Republicans) and then temporarily to $3,000 by the American Recovery and Reinvestment Act of 2009. The earnings threshold was extended under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 and the American Tax Relief Act of 2012, and finally made $3,000 permanently (with the threshold no longer rising with inflation) by the Protecting Americans from Tax Hikes (PATH) Act of 2015.[29]

2017—Substantial Expansions for High-Income Households

The Tax Cut and Jobs Act of 2017 (TCJA) made a series of changes to the CTC that mostly benefited middle- to upper-income households. It doubled the maximum credit per child to $2,000 and greatly increased the phaseout thresholds, from $75,000 to $200,000 for heads of household and from $110,000 to $200,000 for married joint filers. It modestly reduced the start of the phase-in threshold, from $3,000 to $2,500, but capped the refundable portion of the credit at $1,400. This means that unless families owed at least $600 per child in Federal income taxes, they did not receive the full benefit of the credit—both the refundable and nonrefundable portions. (The $1,400 cap is adjusted for inflation and rose to $1,500 for tax year 2021 and $1,600 for tax year 2023.) The Center on Policy and Budget Priorities estimated 19 million children under age 17 in 2019 lived in families that did not earn enough to receive the full credit.[30] In addition, TCJA made more restrictive the identification requirement for children for whom the credit is claimed, requiring a Social Security number—issued before the date of the tax return—for each child.[31]

As a result of the TCJA changes, many low-income families received just $75 extra—resulting from the $500 lowering of the refundability threshold, multiplied by the 15-percent phase-in rate. By contrast, most newly eligible higher-income families received the maximum credit of $2,000 per child.[32]

To limit the scored revenue losses under the TCJA, most of its provisions, including the changes to the CTC, will sunset after 2025. Beginning in 2026, the parameters of the CTC will reset to their previous levels—$1,000 per child through age 16, phasing in at 15 percent after ignoring the first $3,000 of earnings, and beginning to phase out at $75,000 for heads of household and single filers—unless Congress enacts additional legislation to extend these changes.

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[27] Ted Barett, "Child Tax Credit Faces Hurdles in House," CNN.Com, June 6, 2003, *http://www.cnn.com/2003/ALLPOLITICS/06/06/child.tax/*.

[28] PL–108–311, The Working Families Tax Relief Act of 2004, *https://www.congress.gov/bill/108th-congress/house-bill/1308.*

[29] Rockefeller Foundation, The Earned Income and Child Tax Credits: The Federal Framework, Reform Efforts to Date, and Options for Future Change, 2020, *https://www.rockefellerfoundation.org/wp-content/uploads/The-Rockefeller-Foundation-EITC-Policy-Paper-2020-1.pdf.*

[30] Elaine Maag, "The TCJA Didn't Change Child Benefits for Most Families With Children by Very Much," Tax Policy Center, October 8, 2019, *https://www.taxpolicycenter.org/taxvox/tcja-didnt-change-child-benefits-most-families-children-very-much.*

[31] Rockefeller Foundation, The Earned Income and Child Tax Credits: The Federal Framework, Reform Efforts to Date, and Options for Future Change, 2020, *https://www.rockefellerfoundation.org/wp-content/uploads/The-Rockefeller-Foundation-EITC-Policy-Paper-2020-1.pdf.*

[32] Elaine Maag, "The TCJA Will Help Families With Children, But High Income Households Will Get Much of the Benefit," Tax Policy Center, December 22, 2017, *https://www.taxpolicycenter.org/taxvox/tcja-will-help-families-children-high-income-households-will-get-much-benefit.*

Figure 1. Partially Refundable Credit Provides Less Support to Children of Low-Wage Working People

Year	Maximum credit per child	Maximum refundable credit per child	Earnings not counted for refundable credit	Credit received by single mother with 2 kids with a full-time minimum-wage job	Credit she receives as share of maximum credit for 2 kids	Number of minimum-wage jobs she'd need to work for full credit
1999	$500	–	NA	–	0%	2.1
2004	$1,000	$1,000	$10,000	$45	2%	2.3
2009	$1,000	$1,000	$3,000	$1,725	86%	1.1
2018	$2,000	$1,400	$2,500	$1,800	45%	2.1
2021	$3,000 ($3,600 < 6)	$3,000 ($3,600 < 6)	NA	$6,000 (if kids are > 6)	100%	0
2023	$2,000	$1,600	$2,500	$1,800	45%	2

Source: CLASP calculations using IRS data.

2019—National Academies Roadmap on Reducing Child Poverty

In 2019, the National Academies of Sciences, Engineering, and Medicine released a report on child poverty. The FY 2016 Omnibus bill included an amendment proposed by Democratic Representatives Roybal-Allard and Barbara Lee requesting that the National Academies conduct a comprehensive study of child poverty, including the societal impacts (discussed above) and the effectiveness of current efforts to reduce child poverty, and propose recommendations with the goal of reducing the number of U.S. children living in poverty by one-half in 10 years. This amendment was supported by Republican Tom Cole, who was the chairman of the House Appropriations Labor, Health and Human Services, and Education Subcommittee at the time, and was passed in the Republican-controlled House and Senate.[33] The report found that while no single policy could achieve this goal, packages of policies could. Two of the proposed packages included a child allowance similar to a fully refundable CTC.[34]

THE 2021 CHILD TAX CREDIT: FULL REFUNDABILITY'S SIZEABLE EFFECT ON CHILD POVERTY

The American Rescue Plan Act's enhanced Child Tax Credit help slash poverty nearly in half.

How the American Rescue Plan Act Temporarily Expanded the CTC

The American Rescue Plan Act made three changes to the CTC for tax year 2021:[35]

1. The credit became fully refundable, meaning it would be fully available to families without regard to their Federal income tax liability, including to families with little to no earnings;
2. The credit increased to $300 per month per child ages 0 through 5 and to $250 per month for children ages 6 through 17, adding eligibility for 17-year-olds for the first time; and
3. The credit would be distributed to families monthly.

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[33] Full Committee Markup—FY16 Labor, Health, Human Services, and Education Appropriations Bill, June 24, 2015, 114th Congress (remarks by Rep. Tom Cole), *https://appropriations.house.gov/legislation/markups/full-committee-markup-fy-2016-labor-health-and-human-services-and-education.*

[34] Greg Duncan and Suzanne Le Menestrel, eds., *A Roadmap to Reducing Child Poverty,* National Academies Press, 2019, *https://doi.org/10.17226/25246.* Note: The National Academies recommended that the child allowance be administered by the Social Security Administration rather than the IRS because of concerns about the IRS's capacity to administer monthly payments.

[35] The White House, "The Child Tax Credit," accessed July 9, 2023, *https://www.whitehouse.gov/child-tax-credit/.*

Eligible parents received up to half of their 2021 CTC through monthly payments between July and December 2021 and then received the second half of their credit when they filed their tax return in early 2022. Nearly 90 percent of children received the monthly payments automatically, based on information the IRS already had.[36] Families could choose to opt out of receiving the monthly payments and instead get their entire credit as a lump-sum payment amount when they filed their return.

The CTC Expansion's Impacts on Reducing Child Poverty

The temporary expansions to the CTC, similar to the recommendations originally made by the Reagan Commission, dramatically reduced child poverty—especially the credit's full refundability, which is the component of the bill making the credit available to the lowest-income families for the first time. In 2021, the CTC kept 1 million children under the age of 6 out of poverty, and 1.9 million children between the ages of 6 and 17, according to the U.S. Census Bureau.[37] Child poverty rates, as measured by the U.S. Census Bureau's Supplemental Poverty Measure, declined nearly in half (to 5.2 percent) from the previous low (9.7 percent in 2020, driven mainly by the stimulus payments), thanks in large part to the expanded CTC.[38]

The expanded CTC payments, especially the full refundability of the credit, benefited Black and Latinx children. Due to factors such as discrimination and wage gaps in the labor market and structural influencers of family poverty, Black and Latinx kids are often overrepresented among households with lower incomes. Because of this, Black and Latinx kids were more likely to be among the one-third of families who did not receive the full CTC benefit under prior law due to their families earning too little.[39] About 45 percent of Black children and 39 percent of Latinx children did not get the full CTC because their families' incomes were too low to qualify.[40] Making the CTC fully refundable expanded access for Black and Latinx kids, which had huge ramifications for reducing child poverty.

CLASP-Ipsos Survey Assessing Impacts of the CTC Expansions for Families

CLASP conducted a survey in collaboration with Ipsos, researchers at the University of California, Berkeley, and other organizations to evaluate the effects of the monthly CTC payments on families' finances and well-being, and to assess tax-filing behavior among parents. The surveys asked a nationally representative sample of over 1,000 parents with low to moderate incomes about how they spent their CTC payments and how the payments impacted the well-being of their families during and after the distribution of the monthly payments.

In the October 2021 survey, parents largely reported spending the monthly payments on bills, food and groceries, and rent and mortgage payments.[41] Parents who received the monthly payments reported that it decreased their financial stress and helped them afford monthly expenses more easily.[42] Nearly 70 percent of survey respondents who received the monthly payments said that the payments made them

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[36] U.S. Department of the Treasury, "Treasury and IRS Announce Families of 88% of Children in the U.S. to Automatically Receive Monthly Payment of Refundable Child Tax Credit," May 17, 2021, *https://home.treasury.gov/news/press-releases/jy0177.*

[37] Kalee Burns, Liana Fox, and Danielle Wilson, "Child Poverty Fell to Record Low 5.2% in 2021," United States Census Bureau, September 2022, *https://www.census.gov/library/stories/2022/09/record-drop-in-child-poverty.html.*

[38] John Creamer, Emily A. Shrider, Kalee Burns, and Frances Chen, "Poverty in the United States: 2021," Report Number P60–277, United States Census Bureau, September 2022, *https://www.census.gov/library/publications/2022/demo/p60-277.html.* Laura Wheaton, Linda Giannarelli, Ilham Dehry, "2021 Poverty Projections: Assessing the Impact of Benefits and Stimulus Measures," Urban Institute, July 2021, *https://www.urban.org/research/publication/2021-poverty-projections-assessing-impact-benefits-and-stimulus-measures.*

[39] Sophie Collyer, David Harris, and Christopher Wimer, "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 at Columbia University, May 2019, *https://www.povertycenter.columbia.edu/news-internal/leftoutofctc.*

[40] Chuck Marr, Kris Cox, Sarah Calame, Stephanie Hingtgen, et al., "Year-End Tax Policy Priority: Expand the Child Tax Credit for the 19 Million Children Who Receive Less Than the Full Credit," Center on Budget and Policy Priorities, December 2022, *https://www.cbpp.org/research/federal-tax/year-end-tax-policy-priority-expand-the-child-tax-credit-for-the-19-million.*

[41] 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/.*

[42] *Ibid.,* Burnside, "The Expanded Child Tax Credit is Helping Families, But National Survey Shows Continued Outreach Remains Essential."

feel a lot or a little less stressed about money.[43] Some parents also reported that receiving the monthly payments made it easier for them to engage in paid work or to work more hours. About one-quarter of all survey respondents receiving the monthly payments agreed that the payments helped them work. Black respondents were twice as likely to say the monthly payments helped them work compared to White respondents.[44]

Once the monthly payments ended, respondents reported a reversal of these positive trends—they were having a harder time affording essentials, facing food instability, and experiencing more financial stress, according to findings from the subsequent July 2022 survey.[45] Sixty percent of parents who previously received the monthly payments stated it had been more difficult for their family to meet their expenses since the payments stopped.[46] Respondents with lower incomes (incomes of under $50,000) reported having more difficulty affording these expenses than survey respondents with higher incomes (incomes between $50,000 and $74,999, which was the highest income included in the survey sample.) Hispanic respondents said they had more difficulty meeting these expenses compared to white and Black respondents, as did respondents with disabilities compared to respondents without disabilities.[47] Many respondents who had received the monthly payments also said it was harder for their family to afford more or higher-quality food and reported visiting food banks more frequently after the monthly payments stopped. Fifty percent of Hispanic respondents who had received the monthly payments reported being unable to buy quality food and/or visiting a food bank more frequently after the payments ended, compared to 39 percent of white respondents and 34 percent of Black respondents.[48]

CLASP and researchers from the University of California, Berkeley also conducted phone interviews with consenting survey respondents to further discuss how households were faring after the end of the monthly payments, and one parent described how they had changed their food spending patterns to stretch their dollars further after the monthly payments ended: "I'm buying less expensive food and not as much. Try to keep enough in the house, so there is a decent amount." During these phone interviews, parents also explained how they could afford enrichment activities for their kids, as well as other treats for their families, when they were receiving the monthly payments. For example, one parent said the monthly payments went toward their son's birthday party—a celebration they had not been able to afford in prior years. Another parent reported being able to afford a musical instrument for their child while receiving the monthly payments, allowing the child to join the school's marching band. Being able to afford these kinds of gifts and experiences for children can have positive emotional effects for both the child and the parent.

Other Research Assessing Impacts on Food Security, Mental Health, and Other Well-Being Measures from the CTC Expansions

Other research studies on the effects of the expanded CTC have found similar findings—the monthly payments supported families and improved their well-being. Studies largely concluded that the monthly CTC payments went toward basic necessities. About 9 in 10 families with low incomes (incomes of less than $35,000) used their monthly CTC payments for basic household expenses or education, according to an analysis by the Center on Budget and Policy Priorities of Census Bureau data from July, August, and September 2021.[49] The Washington University in St. Louis Social Policy Institute used Census Household Pulse survey data from July and August 2021 to determine the most common way recipients spent CTC payments, and

[43] *Ibid.,* Burnside, "The Expanded Child Tax Credit is Helping Families, But National Survey Shows Continued Outreach Remains Essential."

[44] *Ibid.,* Burnside, "The Expanded Child Tax Credit is Helping Families, But National Survey Shows Continued Outreach Remains Essential."

[45] Ashley Burnside, "Child Tax Credit: Key Findings from July 2022 National Survey," Center for Law and Social Policy, September 2022, *https://www.clasp.org/publications/report/brief/child-tax-credit-poll-3/*.

[46] *Ibid.,* Burnside, "Child Tax Credit: Key Findings from July 2022 National Survey."

[47] These findings will be published in an upcoming CLASP report on the survey findings from the third survey distributed in July 2022.

[48] These findings will be published in an upcoming CLASP report on the survey findings from the third survey distributed in July 2022.

[49] Claire Zippel, "9 in 10 Families With Low Incomes Are Using Child Tax Credits to Pay for Necessities, Education," Center on Budget and Policy Priorities, October 2021, *https://www.cbpp.org/blog/9-in-10-families-with-low-incomes-are-using-child-tax-credits-to-pay-for-necessities-education.*

in nearly all States—with the exception of Mississippi—it was to purchase food.[50] Research from the Urban Institute from September 2021 also concluded that food was the most common way that recipients reported spending their monthly CTC payments.[51]

Research has concluded that monthly payment receipt was tied to declines in food insecurity for families with children. The Census Bureau reported that food insecurity rates among families with children declined coincident with the distribution of the monthly payments in July, compared to food insecurity rates remaining constant during the same period for households without children.[52] The Center on Poverty and Social Policy at Columbia University concluded that monthly payments reduced food insufficiency among families, especially for families with incomes below $35,000. This finding was consistent among Black, Latino, and White families.[53] A survey from the Brookings Institution found that the expanded CTC improved food security and healthy eating habits among households that were eligible for the expanded credit. Eligible households were 1.3 times more likely to increase their fruit consumption, 1.5 times more likely to increase their meat and protein consumption, and 1.4 times more likely to report having an increased ability to afford balanced meals, when compared to households that were not eligible for the expanded credit.[54]

When families can afford essential costs of living like bills, groceries, and rent, this can help reduce financial stress. Improved food stability can also reduce stress for parents and improve their health outcomes, including both physical and mental health. One study found that higher CTC payments correlated with a decreased amount of reported bad mental health days. These effects began 3 months after the initiation of the monthly payments and went away once the monthly payments ended.[55]

Families who receive SNAP benefits and who use Propel—a financial service application for people with low incomes—reported in a survey how receiving the CTC monthly payments impacted their families. Parents who received the CTC payments in July and August 2021 were more likely to think that they would be able to stay in their housing for the next 30 days, less likely to be evicted, and less likely to report having slept in a shelter in the past 30 days. But despite this, some households still reported their utilities being shut off (13 percent of all households surveyed with children under 18 years old) and paying their September rent late or not at all (50 percent of all households surveyed with children under 18).[56] Another survey of families receiving the expanded CTC found that eligible households had statistically significant declines in credit card debt when compared to households that were not eligible for the CTC. Eligible households were more likely to reduce their use of high-cost financial services, like payday loans and pawn shops, and to

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[50] Stephen Roll et al., "How are American families using their Child Tax Credit payments? Evidence from Census Data," Social Policy Institute, Washington University at St. Louis and Appalachian State University, September 2021, *https://cpb-us-w2.wpmucdn.com/sites.wustl.edu/dist/a/2003/files/2021/09/CTC-National-Analysis.pdf.* In Mississippi, school costs and food nearly tied as the number one cost.

[51] Michael Karpman et al., "Who Has Received Advance Child Tax Credit Payments, and How Were the Payments Used? Patterns by Race, Ethnicity, and Household Income in the July–September 2021 Household Pulse Survey," Urban Institute, November 2021, *https://www.urban.org/sites/default/files/publication/105023/who-has-received-advance-ctc-payments-and-how-were-the-payments-used.pdf.*

[52] Daniel J. Perez-Lopez, "Economic Hardship Declined in Households With Children as Child Tax Credit Payments Arrived: Household Pulse Survey Collected Responses Just Before and Just After the Arrival of the First CTC Checks," 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.*

[53] Zachary Parolin et al., "The Initial Effects of the Expanded Child Tax Credit on Material Hardship," NBER Working Paper 29285, National Bureau of Economic Research, doi: 10.3386/w29285, September 2021, *https://www.nber.org/papers/w29285.*

[54] Leah Hamilton et al., "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 Institution, April 2022, *https://www.brookings.edu/articles/the-impacts-of-the-2021-expanded-child-tax-credit-on-family-employment-nutrition-and-financial-well-being/.*

[55] Clemente Pignatti and Zachary Parolin, "The Effects of an Unconditional Cash Transfer on Mental Health in the United States," Institute of Labor Economics, IZA DP No. 16237, June 2023, *https://docs.iza.org/dp16237.pdf.*

[56] Propel, "The Child Tax Credit is Bringing 'A Sense of Security and Relief' to Parents," October 2021, *https://www.joinpropel.com/ctc-in-depth-october.*

have reduced their rates of selling blood plasma. Eligible households were also more easily able to manage emergency expenses and faced declines in evictions.[57]

Evidence of CTC Expansions' (Lack of) Effects on Work

When the CTC was temporarily expanded to include families with little to no earnings, some lawmakers expressed concern about the effect the policy change would have on labor force participation. Claims about the expanded credit significantly reducing workforce participation go against what numerous research studies have concluded.[58] Studies from the United States and abroad find that a generous child credit has minimal effects on employment. In addition, expanding the CTC has positive benefits to society at large that pay for any small cost of parents dropping their work hours or dropping out of the workforce.

We can evaluate the effects of the expanded CTC on employment behavior partly by evaluating the effects in 2021 when the monthly payments were temporarily distributed to families. According to data from the Bureau of Labor Statistics, employment increased by 1.7 percentage points among both parents and nonparents in 2021, meaning the expanded CTC did not reverse employment participation gains for parents who were eligible to receive the credit.[59] Researchers at the University of Michigan found no evidence of CTC receipt affecting labor force participation, including both full-time and part-time employment, using monthly survey data of households with at least one child under 18 from the Propel application available to SNAP recipients. Specifically, the researchers concluded, "We find no evidence that the monthly CTC benefits led to a reduction in employment or labor force participation in the 6 months during which the benefits were distributed."[60] Similarly, an analysis by Columbia University researchers of Current Population Survey and Census Pulse data found "small, inconsistently signed and statistically insignificant" impacts on both employment in the prior week and on active participation in the labor force among adults in households with children.[61]

A comprehensive literature review from Megan Curran at the Center on Poverty and Social Policy at Columbia University summarizes the multiple research reports about the expanded CTC and its impacts, including on employment outcomes. That report concluded that the expanded CTC "had no discernable negative effects on parental employment" based on the research evidence currently available.[62]

Parents are unlikely to change their employment status due to receiving just a few extra hundred dollars a month from a monthly CTC. The CTC payment generally does not equate to the revenue of an annual salary and cannot supplant the health-care benefits that often come with employment. The option to work fewer hours and provide more child care is especially important for parents of children who have disabilities, which may require more time-intensive care and is often easier for a parent to provide rather than relying on child-care facilities.

An American Enterprise Institute survey found that 9 in 10 respondents reported that the CTC payments had not affected their employment behavior or the employment of someone in their household. The same percentage of respondents reported in the survey that the CTC payments have helped them work more as those who

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[57] Leah Hamilton et al., "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, April 2022, *https://www.brookings.edu/articles/the-impacts-of-the-2021-expanded-child-tax-credit-on-family-employment-nutrition-and-financial-well-being/*.

[58] George Fenton, "Gains from Expanded Child Tax Credit Outweigh Overstated Employment Worries," Center on Budget and Policy Priorities, June 2023, *https://www.cbpp.org/research/federal-tax/gains-from-expanded-child-tax-credit-outweigh-overstated-employment-worries.*

[59] *Ibid.,* Fenton, "Gains from Expanded Child Tax Credit Outweigh Overstated Employment Worries."

[60] Natasha Pilkauskas et al., "The Effects of Income on the Economic Well-being of Families with Low Incomes: Evidence from the 2021 Expanded Child Tax Credit," National Bureau of Economic Research (NBER) Working Paper 30533, October 2022, *https://www.nber.org/system/files/working_papers/w30533/w30533.pdf.*

[61] Elizabeth Ananat et al., "Effects of the Expanded Child Tax Credit on Employment Outcomes: Evidence from Real-World Data from April to December 2021," Working Paper, Working Paper Series (National Bureau of Economic Research, March 2022), *https://doi.org/10.3386/w29823.*

[62] Megan Curran, "Research Roundup of the Expanded Child Tax Credit: One Year On," Poverty and Social Policy Report Volume 6, No. 9, Center on Poverty and Social Policy at Columbia University, November 2022, *https://static1.squarespace.com/static/610831a16c95260dbd68934a/t/63732dd8efcf0e5c76aea26e/1668492763484/Child-Tax-Credit-Research-Roundup-One-Year-On-CPSP-2022.pdf.*

said it has helped them work less (5 percent), and only 1 percent of respondents said the CTC payments have helped them work not at all.[63]

By contrast, the study that Dr. Kevin Corinth and his colleagues at the University of Chicago published in October 2021—which projected that 1.5 million parents, representing 2.6 percent of all working parents would exit the labor force due to the implementation of a permanent, expanded CTC benefit—is not based on actual data from the CTC expansion but is rather a calculation based on assumed elasticities of labor supply.[64]

This leads to some strange and highly unlikely results: for example, nearly a third of the expected impact under the Chicago study comes from the calculation that about 400,000 parents with earnings of over $50,000 would leave the labor market due to the CTC changes.[65] While we cannot know for certain what will happen under a permanently expanded CTC until the policy is implemented, we can also learn from what has happened in other countries that have implemented permanent child benefits.

Other countries provide child allowance programs for parents with children that are more wide-reaching and that provide a larger benefit than the United States CTC does. Canada, for example, provides families with a credit of about $5,500 per child under the age of 6 and about $4,600 per child ages 6 through 17.[66] This is a permanent program available to families with little to no earnings.

Canada has a higher labor force participation rate than the United States (65.5 percent versus 62.6 percent), as of May 2023. The differences are even larger among working-age women.[67] Research has confirmed that the introduction of the Canada Child Benefit in 2016 and the expansion of the Canadian Universal Child Care Benefit in 2015 did not impact the labor supply for single or married women.[68] While these two programs are different, and the two countries have varying economic and labor market circumstances, it is still significant that the Canada child allowance program has successfully existed for multiple years—at a larger scale and with a greater benefit level than was offered temporarily in the United States—and has not negatively affected the labor market.

The increased income from the monthly CTC payments even helped some parents work more hours. For example, our CLASP-Ipsos survey found that one-quarter of survey respondents who received the monthly payments reported that receiving the monthly payments helped them to work more hours.[69] During phone interviews, parents said that the monthly payments helped them afford transportation costs, such as a necessary car repair, to get to employment. Payments also helped parents afford child care, which is critical for maintaining employment.[70]

Simply put, working can cost money. Without having the emergency funds to cover an unexpected car repair, workers cannot get to their jobs and maintain their employment. The reliability of the monthly CTC payments provides one critical fi-

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[63] Angela Rachidi, "New Survey Data Raises Questions About the Expanded Child Tax Credit," American Enterprise Institute, October 2021, *https://www.aei.org/opportunity-social-mobility/new-survey-data-raises-questions-about-the-expanded-child-tax-credit/.*

[64] Kevin Corinth et al., "The Anti-Poverty, Targeting, and Labor Supply Effects of the Proposed Child Tax Credit Expansion," Becker Friedman Institute for Economics at the University of Chicago, October 2021, *https://bfi.uchicago.edu/working-paper/2021-115/.*

[65] Jacob Bastian, "Predicting the Employment Effects of a Permanent 2020-to-2021 CTC Change: Comparing Bastian (2022), Corinth, Meyer, Stadnicki, and Wu (2021), and Corinth and Meyer (2021)," Rutgers University, November 2022, *https://drive.google.com/file/d/1Aa8XfhJEmSHcCRWs2TyK42OrvkQCDJpK/view.*

[66] These amounts were converted to U.S. dollars by the Center on Budget and Policy Priorities. George Fenton, "Gains from Expanded Child Tax Credit Outweigh Overstated Employment Worries," Center on Budget and Policy Priorities, June 2023, *https://www.cbpp.org/research/federal-tax/gains-from-expanded-child-tax-credit-outweigh-overstated-employment-worries.*

[67] *Ibid.,* Fenton, "Gains from Expanded Child Tax Credit Outweigh Overstated Employment Worries."

[68] Michael Baker, Derek Messacar, and Mark Stabile, "The Effects of Child Tax Benefits on Poverty and Labor Supply: Evidence from the Canada Child Benefit and Universal Child Care Benefit," National Bureau of Economic Research, Working Paper 28556, doi 10.3386/w28556, March 2021, *https://www.nber.org/papers/w28556.*

[69] 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/.*

[70] *Ibid.,* Burnside, "The Expanded Child Tax Credit is Helping Families, But National Survey Shows Continued Outreach Remains Essential."

nancial cushion for families to afford these essential costs. Without reliable and sufficient child care, an underfunded resource in our country, many parents are also left without a pathway to maintain employment opportunities. Paid family leave is another critical work support that is too often unavailable to parents as they seek employment while taking care of their families. If lawmakers want to promote work among families, it is essential that they invest in child care and paid family leave, in addition to a fully refundable CTC.

Regardless of any changes in employment that may stem from the permanent distribution of the expanded CTC payments, the purpose of the program is to invest in the next generation of children. Research has repeatedly confirmed the positive impacts on a child's education, health, and long-term economic outcomes when families have additional income during a child's early stages of development.[71] The expanded CTC also reduces child poverty at high rates, which has a large payout for our society overall—more than $9 returned to society for each dollar spent.[72] These positive outcomes are worth any minor cost of the changed employment behavior among a small share of parents.

NEXT STEPS FOR THE CHILD TAX CREDIT

At the end of 2025, major provisions of the TCJA, including those that expanded the CTC in 2017, expire. This creates an opportunity to permanently improve the CTC, drawing from the lessons of the 2021 expansion as well as the 25-year record of experimentation and evidence. Of course, Congress need not wait until 2025 to make these improvements.

The single most important thing for Congress to do in revising the CTC is to make it fully refundable on a permanent basis, as recommended by the 1991 National Commission on Children. The evidence for such an approach is even stronger than it was at that time. In this testimony, I have shared just a small sample of findings from the vast array of rigorous empirical studies demonstrating that providing cash to families with low incomes improves child health, stabilizes their lives, and provides the foundation so that children can thrive. The CTC can only achieve these critical outcomes if it is fully refundable so that it reaches the lowest-income families, who need it the most. It is worth noting that a fully refundable credit is important not just because it reaches the lowest-income families, but because it makes automatic monthly payments feasible, as the total benefit is more predictable. Monthly payments are important for helping families meet ongoing basic needs, like paying rent and preventing material hardship. People will be afraid to accept monthly payments if it puts them at risk of owing money back to the IRS at tax time. A hold-harmless provision that protects people who lose their jobs could reduce this concern, but not completely eliminate it.

A fully refundable credit also allows families who are not otherwise required to file tax returns to claim the credit without income reporting. This is important for ensuring that the benefit actually gets to the families who need it. For people without experience of filing—many of whom have multiple small-dollar sources of income—tax filing can be a significant barrier to claiming credits. Code for America found in a 2022 experiment that of nearly half a million clients who used the simplified portal—GetCTC—to claim the Child Tax Credit and were offered the opportunity to also claim the EITC by reporting income data, less than 67,000 started a return claiming the EITC and just 1,019 successfully submitted a return claiming the EITC.[73]

I also urge Congress to improve upon the 2021 CTC in certain respects:

- Make monthly payments available for parents of newborns. The IRS was never able to create a way for people who had babies in 2021 to register for the monthly payments—ultimately, these parents had to claim the credit

[71] Arloc Sherman and Tazra Mitchell, "Economic Security Programs Help Low-Income Children Succeed Over Long Term, Many Studies Find," Center on Budget and Policy Priorities, July 2017, *https://www.cbpp.org/research/poverty-and-inequality/economic-security-programs-help-low-income-children-succeed-over.*

[72] Irwin Garfinkel et al., "The Benefits and Costs of a Child Allowance," *Journal of Benefit-Cost Analysis,* Volume 13, Issue 3, doi: 10.1017/bca.2022.15, September 2022, *https://www.povertycenter.columbia.edu/news-internal/2021/child-allowance/cost-benefit-analysis.* This analysis looks at the cost and benefits of an enhanced CTC compared to the current policy baseline (*e.g.,* assuming that the changes made by the TCJA are not allowed to expire after 2025).

[73] "The Importance of Simplified Filing," Code for America, February 2023, *https://files.codeforamerica.org/2023/02/13122111/importance-of-simplified-filing-getctc-2022-learnings-report.pdf.*

when they filed their taxes in 2022. Given what we know about the importance of income in the early years, this is deeply problematic. Congress should authorize data sharing between IRS, Social Security, and State Medicaid agencies for the purpose of automatically providing credits to families of infants.

- Examine ways to include children in foster care or otherwise ineligible to be claimed by any taxpayer as a dependent due to their unstable living arrangements. These are some of the most vulnerable children in our society, and it makes no sense for them to be excluded. It is worth noting that the 1991 Commission report that first recommended the creation of a CTC urged that "when children are living apart from their parents, the adults who are primarily responsible for their care, whether members of the extended family or foster parents, should be eligible to collect the refundable child tax credit."[74] Congress should also provide families with protections against owing money due to changing circumstances. Changing custody arrangements mean that children may live part of the year with family members who are ultimately not eligible to claim them as tax dependents; it's important that they not be put at risk of having to repay monthly payments received when the child lived with them.
- Continue to support the IRS in easing the burden of filing for people with low incomes, including continuing work on developing and implementing the pilot for an IRS-run free file site, investing in the Volunteer Income Tax Assistance (VITA) program and other supports that provide free assistance to people filing their taxes, investing instead of depleting funding for the IRS, and exploring opportunities to make payments automatically, as was done with the stimulus payments and 2021 CTC. It is also critical to address the disproportionate risk of audits for taxpayers with low incomes (especially those claiming the EITC) and taxpayers of color.[75]

Congress should also include all children living in the United States regardless of immigration status.[76] Additionally, children living in Puerto Rico are eligible for the CTC, but their families must file a Federal tax return to claim the credit, posing a barrier for families on the island. These changes are necessary for the CTC to achieve its anti-poverty and racial equity goals.

CONCLUSION

The 1991 National Commission on Children's report was entitled *Beyond Rhetoric.* It is way past time to make our support for children more than rhetoric. One evidence-based way to do so is by making a fully refundable CTC permanent. The Census Bureau estimates that the 2021 CTC kept 2.9 million children out of poverty, including 716,000 Black children, 1.2 million Hispanic children, 820,000 White, non-Hispanic children, and 111,000 Asian children.[77] Moreover, as discussed earlier, such an investment would reap social returns that dwarf the initial fiscal cost. We can—and should—be doing this every single year, throughout the business cycle. The right time to have started such an investment would have been no later than 1991 when the bipartisan commission that was established in 1987 by President Reagan and both houses of Congress recommended doing so. This Congress has an opportunity to help guarantee every child a fair chance, starting with a policy that's as proven as it is powerful.

PREPARED STATEMENT OF KATHERINE MICHELMORE, PH.D., ASSOCIATE PROFESSOR, GERALD R. FORD SCHOOL OF PUBLIC POLICY, UNIVERSITY OF MICHIGAN

Chairman Bennet, Ranking Member Thune, and distinguished members of the subcommittee, thank you for the opportunity to testify. My name is Katherine Michelmore, and I am an associate professor at the Gerald R. Ford School of Public

[74] *Beyond Rhetoric,* p. 95.

[75] Hadi Elazyn, et al., "Measuring and Mitigating Racial Disparities in Tax Audits," Stanford Institute for Economic Policy Research (SIEPR), January 2023, *https://siepr.stanford.edu/publications/measuring-and-mitigating-racial-disparities-tax-audits.*

[76] For State-by-State estimates of those left out due to immigration status, *see* Guzman, Marco, "Inclusive Child Tax Credit Reform Would Restore Benefit to 1 Million Young 'Dreamers,'" ITEP (blog), April 27, 2021, *https://itep.org/inclusive-child-tax-credit-reform-would-restore-benefit-to-1-million-young-dreamers/.*

[77] Kalee Burns, Liana Fox, and Danielle Wilson. "Expansions to Child Tax Credit Contributed to 46% Decline in Child Poverty Since 2020," September 13, 2022, *https://www.census.gov/library/stories/2022/09/record-drop-in-child-poverty.html.*

Policy at the University of Michigan. I have dedicated my career to studying low-income families and the role of public policy in mitigating the short-and long-term consequences of growing up poor. The views expressed here are my own and should not be attributed to the University of Michigan as a whole.

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

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

One of the central debates about making the ARPA reforms to the CTC permanent at the end of 2021 was about how the reforms might reduce parents' incentives to work. However, recent evaluations of the ARPA reforms found no evidence that the credit caused parents to work less,[2] with survey evidence suggesting that the credit actually helped some parents work more.[3] More importantly, the ARPA reforms to the CTC contributed to a historic decline in child poverty and also reduced food insecurity and other forms of material hardship.[4] While it is too soon to tell how these reforms will benefit children in the long term, history tells us that the societal benefits are likely to be enormous. Children who receive more income in early childhood through tax credits like the Earned Income Tax Credit (EITC) and other social programs like Food Stamps go on to have higher test scores in school, have better health outcomes, complete college at higher rates, and have higher earnings in adulthood.[5] They are also less likely to live in poverty and less likely to receive public assistance as adults.[6] In short, the evidence is clear that a permanent expansion of the CTC is likely to pay off several times over, for both the beneficiaries themselves, as well as society at large.

THE CURRENT CHILD TAX CREDIT LEAVES OUT 19 MILLION OF THE POOREST CHILDREN IN THE U.S.

The Child Tax Credit is the single largest Federal expenditure program for children in the U.S.[7] Despite its scope, prior to the historic expansion of the CTC as part of the 2021 American Rescue Plan Act, only two-thirds of children in the U.S.

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

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

[3] Saving, J. and Zhang, X. 2023. "Did Expanded Child Tax Credit Enable Parents in Financially Vulnerable Households to Work During Pandemic?" Dallas Federal Reserve, *https://www.dallasfed.org/cd/communities/2023/2301,* accessed July 2023.

[4] Creamer, J., Shrider, E.A., Burns, K., and F. Chen 2022. "Poverty in the United States: 2021. Current Population Reports P60–277." Washington, DC: United States Census Bureau, *www.census.gov/content/dam/Census/library/publications/2022/demo/p60-277.pdf,* accessed July 2023. Pilkauskas, N., Michelmore, K., Kovski, N. and Shaefer, H.L., 2022. "The effects of income on the economic well-being of families with low incomes: Evidence from the 2021 expanded Child Tax Credit," National Bureau of Economic Research Working Paper No. 30533. Parolin, Z., Ananat, E., Collyer, S., Curran, M. and Wimer, C., 2023. "The effects of the monthly and lump-sum Child Tax Credit payments on food and housing hardship." In *AEA Papers and Proceedings* (Vol. 113, pp. 406–412). American Economic Association.

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

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

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

were eligible for the full benefit ($2,000 per child under the age of 17).[8] Today, more than one in four children who are not eligible for the full benefit represent the poorest children in the U.S.[9] Nearly all children living in the bottom 10 percent of the income distribution are not eligible for any CTC benefit (see Figure 1).[10] On the other end of the distribution, nearly all children residing in households in the top half of the income distribution are eligible for the full benefit.[11]

Eligibility for the CTC is racially and geographically concentrated. As of 2023, nearly half (46 percent) of Black and more than one-third (37 percent) of Hispanic children resided in households that were not eligible for the full credit, compared to just 17 percent of White children.[12] Children living in rural areas are also less likely to receive the full benefit compared to children living in metro areas. More than 40 percent of children living in rural areas are not eligible for the full benefit because they live in households that do not have sufficient earnings.[13]

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

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

HISTORICAL CTC REFORMS HAVE CONSISTENTLY EXPANDED ELIGIBILITY

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

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

In 2001, as part of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) reform, the per-child CTC benefit increased from $500 to $1,000 and the credit was made partially refundable by the creation of the Additional Child Tax

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

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

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

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

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

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

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

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

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

Credit (ACTC). Because the 2001 reform did not make the CTC fully refundable and included a $10,000[17] minimum earnings threshold, the CTC continued to exclude the vast majority of low-income households.[18] At the time, the nonpartisan Joint Committee on Taxation (JCT) estimated that EGTRRA reforms to the CTC would cost about $25 billion each year for the first 10 years.[19] An analysis by the Urban Institute estimated that just 6 percent of that benefit went to families with income below the poverty line, while nearly half went to households with income above 300 percent of the Federal poverty line.[20]

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

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

The next major reform to the CTC occurred in 2017 as part of the Tax Cuts and Jobs Act (TCJA). The TCJA doubled the size of the credit to $2,000 per child and greatly extended the upper income range to qualify for a full benefit, increasing the phase-out threshold from $75,000 for unmarried filers to $200,000, and increasing the threshold for married filers from $110,000 to $400,000. This reform primarily benefited households in the top income quintile, resulting in all but the richest 2 percent of children qualifying for the full benefit.[23]

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

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[17] Indexed to inflation beginning in 2002.

[18] Burman, Maag, Rohaly 2002. "The Effect of the 2001 Tax Cut on Low- and Middle-Income Families with Children." Urban Institute Report.

[19] Joint Committee on Taxation. 2001. "Estimated Budget Effects of the Conference Agreement for H.R. 1836." JCX–51–01, May 26.

[20] Burman, Maag, Rohaly 2002. "The Effect of the 2001 Tax Cut on Low- and Middle-Income Families with Children." Urban Institute Report.

[21] Burman, Leonard and Wheaton, Laura. 2005. "Who Gets the Child Tax Credit?" *Tax Notes.*

[22] More children became partially or completely ineligible at the top of the income distribution because the phaseout thresholds are not indexed to inflation, thus more children live in households with incomes above $75,000 (unmarried) and $110,000 (married). Harris, David. 2012. "The Child Tax Credit: How the United States Underinvests in its Youngest Children in Cash Assistance and How Changes to the Child Tax Credit Could Help." Columbia University dissertation.

[23] Collyer, Sophie; Harris, David; Wimer, Christopher. "Left Behind: The One-Third of Children in Families Who Earn Too Little to Get the Full Child Tax Credit." Columbia University Center on Poverty and Social Policy Brief. Goldin, J. and Michelmore, K., 2020. "Who benefits from the child tax credit?" National Bureau of Economic Research Working Paper No. 27940.

[24] Author's calculations using the National Bureau of Economic Research's TAXSIM v35 for tax years 2017 and 2019 for a married filer with two children.

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

THE 2021 AMERICAN RESCUE PLAN ACT (APRA) REFORM DRAMATICALLY EXPANDED ELIGIBILITY

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

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

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

THE ARPA CTC DRAMATICALLY REDUCED CHILD POVERTY AND OTHER HARDSHIPS

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

Expenditures

Consumer credit data from JP Morgan Chase suggest that families spent a large portion of their monthly credits within 1 week of receiving the payments. Overall, about 40 percent of CTC payments were spent within the first week, rising to 80 percent among low-income, low-liquidity households.[32] Only a small fraction of CTC

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[25] Collyer, Sophie; Harris, David; Wimer, Christopher. "Left Behind: The One-Third of Children in Families Who Earn Too Little to Get the Full Child Tax Credit." Columbia University Center on Poverty and Social Policy Brief. Goldin, J. and Michelmore, K., 2020. "Who benefits from the child tax credit?" National Bureau of Economic Research Working Paper No. 27940.

[26] In cases where households did not file 2020 tax returns, 2019 returns were used. The IRS also set up an online portal for families to provide information regarding their eligibility for those without a record of tax filing in 2019 or 2020 or for those with changes to their income or living arrangements.

[27] Families who did not receive advance monthly payments could claim the full amount upon filing their 2021 taxes. The reform also increased the upper age limit from 16 to 17 years old.

[28] Tax Policy Center 2021. "T21-0045—Tax Benefit of the Child Tax Credit, by Expanded Cash Income Percentile 2021." Washington, DC. *https://www.taxpolicycenter.org/model-estimates/tax-benefits-provisions-affecting-children-march-2021/t21-0045-tax-benefit-child-tax.*

[29] U.S. Department of Treasury. "Treasury and IRS Disburse Sixth Monthly Child Tax Credit to Families of 61 Million Children." *https://home.treasury.gov/news/press-releases/jy0533,* accessed July 2023.

[30] Sherman, A., Marr, C., and Hingtgen, S. 2021. "Earnings Requirement Would Undermine Child Tax Credit's Poverty-Reducing Impact While Doing Virtually Nothing to Boost Parents' Employment." CBPP Policy Brief.

[31] For an extensive discussion of the research on the impacts of the ARPA CTC as of November, 2022, *see* Curran, M. 2022. "Research Roundup of the Expanded Child Tax Credit: One Year On." Poverty and Social Policy Report.

[32] JP Morgan Chase and Co. "How Families Used the Advanced Child Tax Credit." *https://www.jpmorganchase.com/institute/research/household-income-spending/how-families-used-advanced-CTC.*

payments went towards savings, particularly for low-income households. This suggests that the CTC payments, in addition to providing much-needed financial relief to low-income families, could generate positive, macroeconomic growth.[33]

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

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

Poverty and Material Hardship

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

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

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

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[33] Sahm, C. 2021. "Model Behavior: A Critical Review of Macroeconomic Models for Guaranteed Income and the Child Tax Credit." New York: The Jain Institute. *http://www.jainfamilyinstitute.org/projects/parts/a-critical-review-of-macroeconomic-models-for-guaranteed-income-and-the-child-tax-credit,* accessed July 2023.

[34] Schild, Jake; Collyer, Sophie; Garner, Thesia; Kaushal, Neeraj, Lee, Jiwan; Waldfogel, Jane; Wimer, Christopher. 2023. "Effects of the Expanded Child Tax Credit on Household Spending: Estimates Based on U.S. Consumer Expenditure Survey Data." National Bureau of Economic Research Working Paper No. 31412.

[35] Michelmore, Katherine and Pilkauskas, Natasha. 2023. "The 2021 Child Tax Credit: Who Received it and How Did they Spend it?" *AEA Papers and Proceedings* 113: 413–419.

[36] Schild, Jake; Collyer, Sophie; Garner, Thesia; Kaushal, Neeraj, Lee, Jiwan; Waldfogel, Jane; Wimer, Christopher. 2023. "Effects of the Expanded Child Tax Credit on Household Spending: Estimates Based on U.S. Consumer Expenditure Survey Data." National Bureau of Economic Research Working Paper No. 31412.

[37] Creamer, J., Shrider, E.A., Burns, K., & F. Chen 2022. "Poverty in the United States: 2021. Current Population Reports P60–277." Washington, DC: United States Census Bureau. *www.census.gov/content/dam/Census/library/publications/2022/demo/p60-277.pdf,* accessed July 2023.

[38] Parolin, Z., Collyer, S., and M. Curran 2022. "Absence of Monthly Child Tax Credit Leads to 3.7 Million More Children in Poverty in January 2022." Poverty and Social Policy Brief, 6(2). New York: Center on Poverty and Social Policy at Columbia University. *https://www.povertycenter.columbia.edu/s/Monthly-poverty-January-CPSP-2022.pdf,* accessed July 2022.

[39] Pilkauskas, N., Michelmore, K., Kovski, N. and Shaefer, H.L., 2022. "The effects of income on the economic well-being of families with low incomes: Evidence from the 2021 expanded Child Tax Credit." National Bureau of Economic Research Working Paper No. 30533. Parolin, Z., Ananat, E., Collyer, S., Curran, M. and Wimer, C., 2023. "The effects of the monthly and lump-sum Child Tax Credit payments on food and housing hardship." In *AEA Papers and Proceedings* (Vol. 113, pp. 406–412). American Economic Association.

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

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

Children's Outcomes

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

CONCERNS ABOUT EMPLOYMENT DISINCENTIVES NOT SUBSTANTIATED BY EMPIRICAL EVIDENCE

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

The vast majority of the evidence on the impacts of the ARPA reforms found no effect of the credit on employment during the months in which the credit was distributed. Researchers used a variety of methods to try to causally estimate these employment effects. Comparing families with children to families without children in the months prior to and following the monthly CTC distribution in 2021, researchers found no difference in the employment rates of families with children during the months in which the credit was in place, relative to the employment patterns of families without children over the same time period.[44] Other studies compared the employment patterns of families who received larger CTC benefits relative to those who received smaller benefits, again finding no effect of the payments on employment.[45] Finally, another research team took the approach of comparing the employment patterns of families who received different amounts of CTC benefits relative to their income, finding no impact of receiving a larger credit on employment. These researchers also compared the employment patterns of these families in 2021 to a similar set of families in 2019, finding no evidence that employment rates were systematically lower in 2021, relative to 2019.[46]

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

Several studies attempted to model the longer-term employment effects of the ARPA reform using simulations. In my own work on this topic, my colleagues Jacob Goldin, Elaine Maag, and I estimated the long-term costs and benefits of three dif-

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

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

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

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

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

[47] Kaverman, E., Minoff, E., and J. Kashen 2022. "A 'Godsend': How Temporary Investments in the Child Tax Credit and Child Care Impacted Michigan Families." Washington, DC: Center for the Study of Social Policy. *https://cssp.org/resource/a-godsend-how-temporary-investments-in-the-child-tax-credit-and-child-care-impacted-michigan-families/*. Lens, V., Arriaga, A., Pisciotta, C., Bushman-Copp, L., Spencer, K., and S. Kronenfeld 2022. "Spotlight on the Child Tax Credit: Transforming the Lives of Families." New York City: Robin Hood Foundation. *https://www.robinhood.org/wp-content/themes/robinhood/images/poverty-tracker/pdfs/POVERTY_TRACKER_REPORT32.pdf.*

ferent potential reforms to the CTC, including the ARPA reform. Our simulations suggested that, under common assumptions about how responsive parental employment is to changes in taxes and income (known as a labor supply elasticity), the predicted decline in parental employment as a result of the ARPA CTC were quite modest (on the order of about 0.3 percent of the workforce) relative to the direct costs of the program. We also found that the long-term gains in earnings of the children benefiting from these expansions far outweighed the costs associated with a modest decline in parental employment. In particular, using estimates from the broader literature on the impact of exposure to tax credits in childhood on adulthood earnings, we estimated that the long-term gains in earnings offset the direct costs of the ARPA expansion by about 20 percent.[48] Our calculations did not include an enumeration of other societal benefits of the ARPA expansion such as reducing poverty and public assistance receipt in the long term, but based on previous studies, these long-term benefits are projected to far outweigh any costs associated with modest declines in parental labor supply in the short term.[49]

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

Another study led by economists at the University of Chicago estimated a much larger decline in parental labor supply as a result of the ARPA reform, of about 2.6 percent of working parents.[52] The main discrepancy between this study and the other studies is in the modeling of the responsiveness of parents' employment decisions with respect to the changes in income and marginal tax rates associated with the ARPA reforms. The University of Chicago team relied on estimates based on older data and relied on a much larger labor elasticity for single mothers than typically used in the recent literature.[53] This study also made the seemingly unrealistic assumption that either both parents would choose to remain employed or both parents would choose to drop out of the labor force simultaneously. While modeling joint labor supply decisions is more complicated, a more realistic assumption might be that one parent reduces their labor supply in response to the increased generosity of the credit and changes in marginal tax rates. Based on prior research on how married couples alter their labor supply in response to more generous EITC benefits (which also creates an income effect and a substantial increase in marginal tax rates for secondary workers due to the marriage penalty embedded in the benefit structure), declines in married women's labor supply are likely to be small.[54] Men, regardless of marital status, tend to have a fairly inelastic labor supply.[55]

More broadly speaking, the lack of employment effects found so far in response to the ARPA reforms to the CTC are also consistent with the larger literature on the impacts of cash transfers on employment outcomes. Evidence from the Alaska Permanent Fund, for instance, finds no evidence that the annual cash transfers de-

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

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

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

[51] Bastian, J., 2022, November. "Investigating the effects of the 2021 Child Tax Credit expansion on poverty and employment." In 2022 APPAM Fall Research Conference. APPAM.

[52] Corinth, K., Meyer, B.D., Stadnicki, M. and Wu, D., 2021. "The Anti-poverty, Targeting, and Labor Supply Effects of Replacing a Child Tax Credit with a Child Allowance." National Bureau of Economic Research Working Paper No. 29366.

[53] McClelland, R. and Mok, S., 2012. "A review of recent research on labor supply elasticities." Chetty, R., Guren, A., Manoli, D. and Weber, A., 2013. "Does indivisible labor explain the difference between micro and macro elasticities? A meta-analysis of extensive margin elasticities." *NBER macroeconomics Annual,* 27(1), pp. 1–56.

[54] Eissa, N. and Hoynes, H.W., 2004. "Taxes and the labor market participation of married couples: The earned income tax credit." *Journal of Public Economics,* 88(9–10), pp. 1931–1958.

[55] McClelland, R. and Mok, S., 2012. "A review of recent research on labor supply elasticities."

creased employment among those who received them.[56] Similarly, in Canada, where child benefits are much more generous than the CTC and not contingent on work (though the credits phase out at higher income ranges, which creates both an income and a substitution effect that would predict a decline in employment), there is no evidence that increasing the generosity of child benefits affects parental labor supply.[57]

A PERMANENT EXPANSION OF THE CTC WILL LIKELY GENERATE ENORMOUS SOCIETAL BENEFITS

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

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

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

CONCLUSION

The current CTC benefit structure prevents more than one-quarter of the Nation's poorest children from receiving the full benefit, while nearly all children in the top half of the income distribution were eligible for the full credit in 2023. Black chil-

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[56] Jones, D. and Marinescu, I., 2022. "The labor market impacts of universal and permanent cash transfers: Evidence from the Alaska Permanent Fund." *American Economic Journal: Economic Policy,* 14(2), pp. 315–340.

[57] Baker, M., Messacar, D. and Stabile, M., 2021. "The Effects of Child Tax Benefits on Poverty and Labor Supply: Evidence from the Canada Child Benefit and Universal Child Care Benefit." National Bureau of Economic Research Working Paper No. 28556.

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

[59] Hoynes, H., Miller, D. and Simon, D., 2015. "Income, the earned income tax credit, and infant health." *American Economic Journal: Economic Policy,* 7(1), pp. 172–211. Dahl, G.B. and Lochner, L., 2012. "The impact of family income on child achievement: Evidence from the earned income tax credit." *American Economic Review,* 102(5), pp. 1927–1956. Michelmore, K. and Lopoo, L.M., 2021. "The effect of EITC exposure in childhood on marriage and early childbearing." *Demography,* 58(6), pp. 2365–2394. Bastian, J. and Michelmore, K., 2018. "The long-term impact of the earned income tax credit on children's education and employment outcomes." *Journal of Labor Economics,* 36(4), pp. 1127–1163.

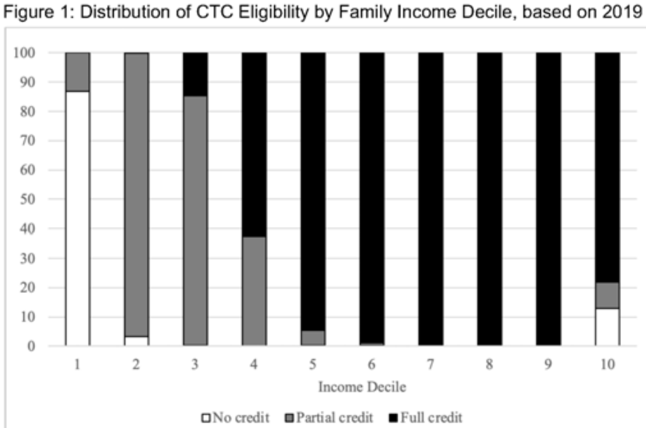
[60] McInnis, N., Michelmore, K., and Pilkauskas, N. 2023. "The Intergenerational Transmission of Poverty and Public Assistance: Evidence from the Earned Income Tax Credit." NBER working paper No. 31429. Barr, A., Eggleston, J. and Smith, A.A., 2022. "Investing in infants: The lasting effects of cash transfers to new families." *The Quarterly Journal of Economics,* 137(4), pp. 2539–2583.

[61] Barr, A., Eggleston, J. and Smith, A.A., 2022. "Investing in infants: The lasting effects of cash transfers to new families." *The Quarterly Journal of Economics,* 137(4), pp. 2539–2583.

[62] Bailey, M.J., Hoynes, H.W., Rossin-Slater, M. and Walker, R., 2020. "Is the social safety net a long-term investment? Large-scale evidence from the food stamps program." National Bureau of Economic Research Working Paper No. 26942. Brown, D.W., Kowalski, A.E. and Lurie, I.Z., 2020. "Long-term impacts of childhood Medicaid expansions on outcomes in adulthood." *The Review of economic studies,* 87(2), pp. 792–821. Barr, A. and Gibbs, C., 2017. "Breaking the cycle? The intergenerational effects of Head Start." Manuscript. Texas A&M University, College Station, TX.

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

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



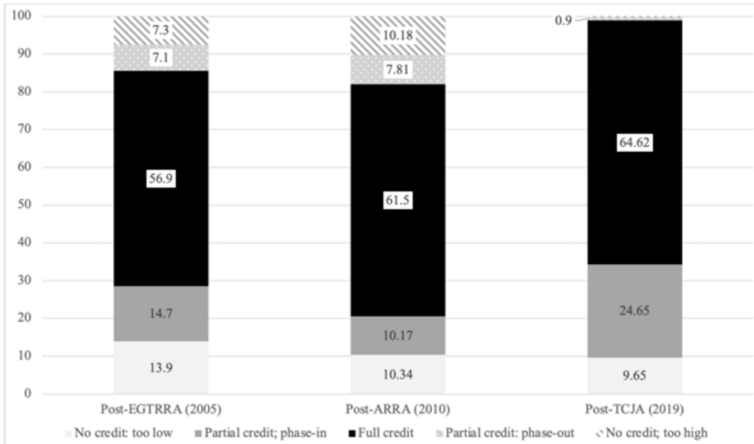
Source: Goldin, J. and Michelmore, K., 2020. “Who benefits from the child tax credit?” *National Bureau of Economic Research Working Paper No. w27940.*

[63] Collyer, Sophie; Harris, David; Wimer, Christopher. “Left Behind: The One-Third of Children in Families Who Earn Too Little to Get the Full Child Tax Credit.” Columbia University Center on Poverty and Social Policy Brief. Goldin, J. and Michelmore, K., 2020. “Who benefits from the child tax credit?” National Bureau of Economic Research Working Paper No. 27940.

[64] Creamer, J., Shrider, E.A., Burns, K., and F. Chen 2022. “Poverty in the United States: 2021. Current Population Reports P60–277.” Washington, DC: United States Census Bureau.

[65] Pilkauskas, N., Michelmore, K., Kovski, N. and Shaefer, H.L., 2022. “The effects of income on the economic well-being of families with low incomes: Evidence from the 2021 expanded Child Tax Credit.” National Bureau of Economic Research Working Paper No. 30533. Parolin, Z., Ananat, E., Collyer, S., Curran, M. and Wimer, C., 2023. “The effects of the monthly and lump-sum Child Tax Credit payments on food and housing hardship.” In *AEA Papers and Proceedings* (Vol. 113, pp. 406–412). American Economic Association.

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



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

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

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

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

PREPARED STATEMENT OF ANGELA RACHIDI, PH.D., SENIOR FELLOW AND ROWE SCHOLAR IN POVERTY STUDIES, AMERICAN ENTERPRISE INSTITUTE

Chairman Bennet, Ranking Member Thune, and subcommittee members, thank you for the opportunity to testify. My name is Angela Rachidi, and I am a senior fellow on poverty and opportunity at the American Enterprise Institute. Before I joined AEI, I was a Deputy Commissioner for the New York City Department of Social Services, where for more than a decade I oversaw the agency's policy research.

My research focuses on the intersection of safety net policy and employment as a path out of poverty.

I want to make three key points in relation to the Child Tax Credit. First, Congress initially created the Child Tax Credit as a tax credit for working families with children, complementing the Earned Income Tax Credit or EITC, which is primarily a refundable tax credit for those who do not owe Federal income taxes. Second, over the years, Congress increased benefits to low-income families by expanding the refundability of the CTC, meaning that it now substantially overlaps with the EITC. Finally, any efforts to turn the CTC into a child allowance would move it away from the positive design features that have made the EITC (and by extension the CTC) one of the most effective anti-poverty policies we have. Policymakers should consider the potential negative implications on employment of changing the CTC, which would make long-term poverty reduction in the U.S. more challenging. This is especially true in light of the poorly targeted nature of proposals expanding the CTC into a child allowance.

First, it is important to acknowledge the history of the Child Tax Credit. The CTC started in 1997 as a modest $500 per child non-refundable tax credit for working families as a way to offset some of their Federal income and payroll tax liability. Over the years and through different congressional sessions and presidential administrations, the CTC has expanded to the point that under current law it is partially refundable, meaning that families without Federal income tax liability can still receive some of the credit as a transfer payment. Eligible families can receive a refundable credit of 15 percent of earnings above $2,500 per year, up to a maximum $1,500 per child in tax year 2022 (the maximum refundable amount increases for inflation each year until it reaches $2,000). The 15-percent phase-in reflects the employee and employer share of payroll taxes. Families with significant Federal income tax liability receive $2,000 per child as a non-refundable credit on their Federal income taxes.

The CTC works in conjunction with the fully refundable EITC, which primarily targets low-income working families without Federal income tax liability. The EITC provided $67 billion to 31 million low-income working families in 2022, of which 86 percent was refundable, while the CTC provided $108 billion in 2022, of which 39 percent was refundable.[1] It remains true that the CTC provides less generous benefits to families with low earnings, but that is because the EITC targets these low-income working families.

Although some policymakers supported a child allowance throughout the 1980s and 1990s, because of concerns over the potential employment disincentives and the overall cost, it failed to garner broad support. However, Congress still believed a need existed for a child-related benefit, passing a nonrefundable CTC through the tax code as a way to support working families and to address concerns over the personal exemption not keeping pace with inflation.[2] By the early 2000s, at the urging of President George W. Bush's administration, Congress expanded this modest CTC, making it partially refundable for families with income at or above the EITC plateau—that is, available to families without income tax liability who had reached the maximum EITC benefit. The policy recognized that these EITC-eligible families faced additional payroll tax liability but were not eligible yet for the full CTC.

The 2009 American Recovery and Reinvestment Act completely disconnected the CTC from the EITC by reducing the earnings floor from $10,000 to $3,000, essentially duplicating the EITC for low-income families. While President George W. Bush's administration had only made the CTC refundable for low-income families with income high enough to receive the maximum EITC amount, the 2009 ARRA reduced the income necessary to qualify for the CTC, essentially adding refundable benefits on top of the existing EITC. Congress made this change permanent in 2015 and increased the benefit level in the 2017 TCJA. These policy changes essentially expanded the CTC's role as a tax credit for working families, which was complemen-

[1] U.S. Internal Revenue Service, "EITC Reports and Statistics," January 24, 2023, *https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/eitc-reports-and-statistics.*

[2] Angela Rachidi, "America's Path Toward a Guaranteed Income for Families with Children: How Nixon's Family Assistance Plan Shaped Antipoverty Policy," American Enterprise Institute, October 27, 2021, *https://www.aei.org/research-products/report/americas-path-toward-a-guaranteed-income-for-families-with-children-how-nixons-family-assistance-plan-shaped-antipoverty-policy/;* Scott Winship, "Reforming Tax Credits to Promote Child Opportunity and Aid Working Families," American Enterprise Institute, July 29, 2021, *https://www.aei.org/research-products/report/reforming-tax-credits-to-promote-child-opportunity-and-aid-working-families/.*

tary to the EITC, to serve also as a transfer payment to low-income families in addition to the EITC.

This brings me to my second point about the often-overlooked aspects of the CTC's current design. By increasing the refundability of the CTC over the years, policymakers have expanded it into a transfer payment that targets low-income families who also receive several other safety net benefits. The typical working single mother with two children earning $12 per hour for full-time work, would receive the refundable EITC, refundable CTC, and SNAP benefits, totaling more than $12,000 in government benefits per year alone. Additionally, her children would likely receive free school lunches, health insurance through Medicaid, and they could receive housing assistance and child-care assistance that could total another several thousand dollars in assistance per year. Congress should consider any further reforms to the refundable portion of the CTC within this context.

Another crucial point is that even though Congress has expanded the refundability of the CTC over the years, Congress has always kept the key features of the EITC as part of the CTC—such as phasing in the CTC with earnings and requiring some earnings to maintain eligibility. This changed, however, with the temporary 2021 CTC expansion, in which Congress eliminated the phase-in and the work requirement. Although supporters argued that this was necessary as pandemic-related relief, making these policy changes permanent would reduce the labor supply of the most disadvantaged groups, raising questions over its long-term effects on poverty reduction.

Studies of the EITC have found that it reduces poverty, improves child health and educational outcomes, and increases employment among single mothers.[3] The evidence suggests that any efforts to move the CTC away from the EITC's design—such as by removing the phase-in—could counteract these positive aspects and partially reverse decades of progress. Research suggests that labor supply would decline should Congress turn the CTC into a child allowance.[4] This would turn the clock back on 3 decades of social policy success in which single mother employment has increased and child poverty has declined dramatically.[5]

Changing the CTC's design permanently would affect labor supply among those eligible to receive it, even though some analyses of the 2021 temporary CTC expansion suggested that there were no employment effects associated with the fully refundable benefit. The complex policy environment in 2021 during the time of the temporary expansion, severely limits our understanding of the effects of the temporary CTC, especially because researchers were unable to control for many confounding factors that made analyzing the impact of 6 months of payments to families almost impossible. Moreover, because the policy was only temporary, we would not expect any short-term behavioral effects to exist or to be as large as the long-term effects of a permanent policy.

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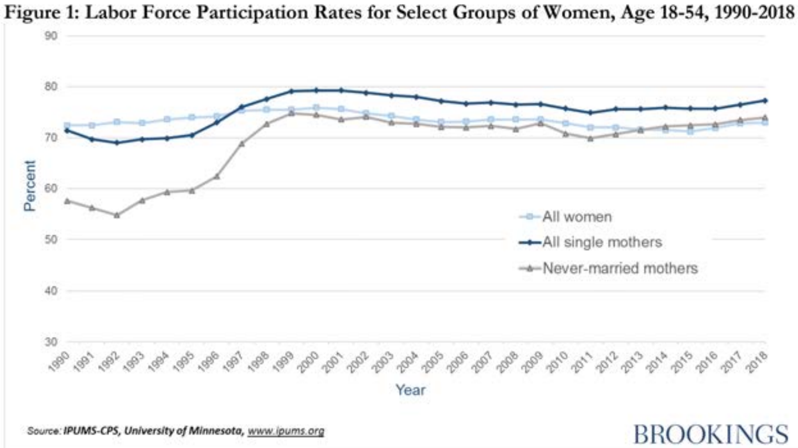
[3] Bastian, Jacob and Katharine Michelmore. 2018. The Long-Term Impact of the Earned Income Tax Credit on Children's Education and Employment Outcomes. *Journal of Labor Economics* 36, no. 4, *https://www.journals.uchicago.edu/doi/epdf/10.1086/697477;* Meyer, Bruce and Dan Rosenbaum, 1999. Welfare, the Earned Income Tax Credit, and the Labor Supply of Low-Income Mothers. National Bureau of Economic Research, *https://www.nber.org/papers/w7363.*

[4] Corinth, Kevin, 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).

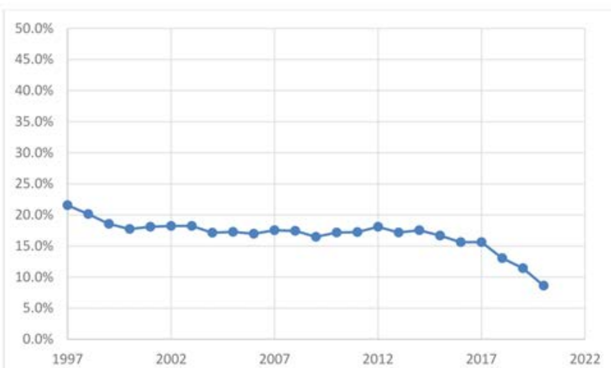
[5] Bruce Meyer, "Testimony on Anti-Poverty and Family Support Provisions in the Tax Code," Senate Committee on Finance, June 15, 2023, *https://www.aei.org/research-products/testimony/testimony-on-anti-poverty-and-family-support-provisions-in-the-tax-code/.*

Figure 1: Labor Force Participation Rates for Select Groups of Women, Age 18-54, 1990-2018



Adapted from Haskins, R., & Weidinger, M. (2019). The Temporary Assistance for Needy Families Program: Time for Improvements. The ANNALS of the American Academy of Political and Social Science, 686(1), 286–309.

Figure 2. Anchored Supplemental Poverty Measure (SPM) for Children



Source: Columbia University Center on Poverty and Social Policy.

For these reasons, we should look to other research to suggest how an expanded CTC might affect families over the long term. As already mentioned, the EITC includes a phase-in and work requirement and research shows that it has resulted in increased maternal employment and positive child outcomes over many years.[6] Rolling back these features in the CTC likely would have effects in the opposite direction. Furthermore, although not a direct comparison, we can look to a recent randomized controlled trial of a child allowance-type policy called Baby's First Years to provide evidence that unconditional payments influence employment behavior. Baby's First Years randomly assigned families with a new baby to a treatment group in which they received $333 per month for 3 years or to a control group in which they received a minimal $20. Researchers compared employment rates and hours worked between the two groups. While there was no statistical difference in

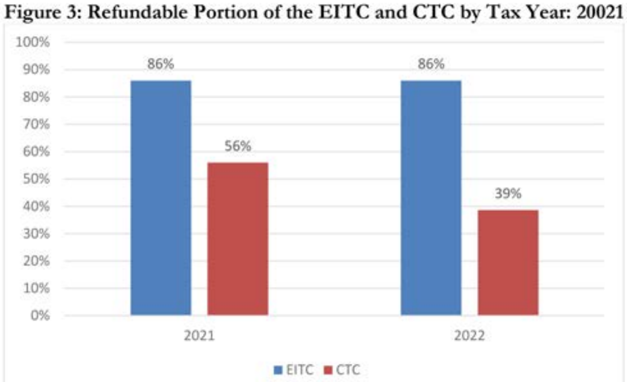
[6] Bastian, Jacob and Katharine Michelmore. 2018. The Long-Term Impact of the Earned Income Tax Credit on Children's Education and Employment Outcomes. *Journal of Labor Economics* 36, no. 4, *https://www.journals.uchicago.edu/doi/epdf/10.1086/697477;* Meyer, Bruce and Dan Rosenbaum, 1999. Welfare, the Earned Income Tax Credit, and the Labor Supply of Low-Income Mothers. National Bureau of Economic Research, *https://www.nber.org/papers/w7363.*

employment rates on the extensive margin (whether a mother worked or not at the time of the survey), the payments reduced full-time employment by 11 percent across the 3 years and hours worked by 12 percent.[7] Because the Baby's First Years payment was on top of the existing CTC, it did not eliminate the CTC's existing incentives, suggesting that replacing the CTC with a similar payment would have an even larger disemployment effect. Although we cannot extrapolate these results to a child allowance that covers all children, it demonstrates the importance of taking seriously concerns over how government payments affect employment. My main concern is that eliminating the phase-in of the CTC and the work requirement will reduce employment and make upward mobility more challenging for low-income families.

My final point is that there are better ways to reduce poverty that address concerns over employment and that better target those who are in need. Turning the CTC into a child allowance has implications beyond simply reducing short-term poverty rates. Nobel Laureate Dr. James Heckman from the University of Chicago made a relevant point when describing Denmark's welfare state, which includes generous universal child benefits. He noted that while Denmark experiences lower income inequality compared to the U.S. because of their universal social policies, lower inequality has not translated into smaller education and skill formation gaps—gaps that still prevent people from progressing over the long term.[8] His point was that imposing income equality through redistribution fails to promote individual advancement.

This is how an expanded CTC would work. Not only would it discourage employment among those who need full employment the most, but an analysis by the Penn Wharton budget model found that only 17.4 percent of new benefits in an expansion like 2021's would go to families in the bottom income quintile, and only 50 percent of benefits to those in the bottom two quintiles.[9] Unlike the EITC, where 86 percent of Federal expenditures are refundable and therefore go to low-income families, only 56 percent of expanded CTC benefits in 2021 were refundable even though the policy extended to nonworking families.

Figure 3: Refundable Portion of the EITC and CTC by Tax Year: 20021 and 2022



Source: Joint Committee on Taxation, Estimates Of Federal Tax Expenditures For Fiscal Years 2022-2026.

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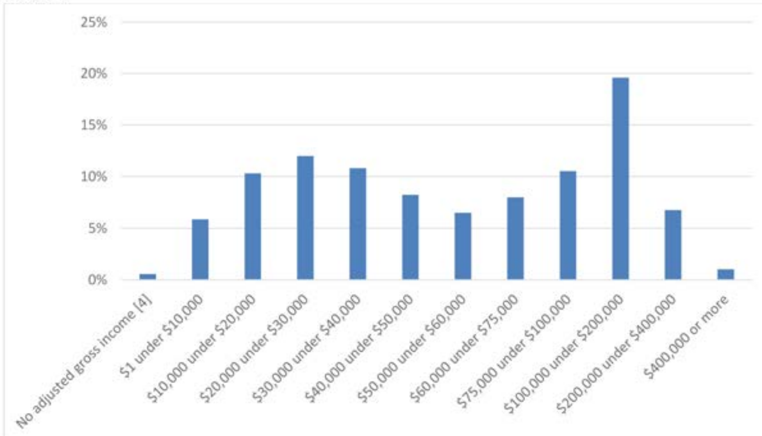
[7] Maria Sauval, Greg J. Duncan, Lisa A. Gennetian, Katherine A. Magnuson, Nathan A. Fox, Kimberly G. Noble, and Hirokazu Yoshikawa, "Unconditional Cash Transfers and Maternal Employment: Evidence from the Baby's First Years Study," November 2022.

[8] Heckman, James and Rasmus Landerso. 2021. Lessons from Denmark about Inequality and Social Mobility, National Bureau of Economic Research, *https://www.nber.org/papers/w28543.*

[9] Penn Wharton Budget Model, "Expanding the Child Tax Credit: Budgetary, Distributional, and Incentive Effects," October 25, 2021, *https://budgetmodel.wharton.upenn.edu/issues/2021/10/25/expanding-the-child-tax-credit-effects.*

Figure 4: Distribution of Qualifying Children Receiving Advance Payments in 2021 by Income



Source: Internal Revenue Service, SOI Tax Stats – Advance Child Tax Credit Payments in 2021.

The Tax Foundation estimated that making the temporary expansion of the CTC permanent would have cost $1.6 trillion over 10 years, which translates into over 1 trillion Federal dollars to support an expanded CTC presumably aimed at reducing child poverty that is not targeted toward low-income families. It would reduce employment for some low-income families making the likelihood of long-term upward mobility more challenging, while increasing benefits for middle- and upper-income households. This is not a winning policy.

To conclude, the CTC has historically served an important tax relief purpose for working families, but expansions to its refundability over the years largely duplicates the EITC. Nonetheless, because it shares the same employment-related design features of the EITC, it contributes to similar positive outcomes such as higher employment levels among low-income families and lower poverty. Proposals to move the CTC away from its original goals of tax relief threaten this progress by discouraging employment and mistargeting important Federal benefits.

Thank you, and I look forward to answering your questions.

QUESTIONS SUBMITTED FOR THE RECORD TO ANGELA RACHIDI, PH.D.

QUESTIONS SUBMITTED BY HON. JAMES LANKFORD

Question. The Child Tax Credit currently aims to provide tax relief for families and act as a work incentive. How does altering its operation to a cash assistance program without work requirements also alter its impact?

Answer. Without work requirements, the Child Tax Credit is no longer primarily tax relief because it is available to nonworking households. This would not only alter its impact, but it would fundamentally change the relationship between the program and recipients and risk reducing employment among some parents. Much of the evidence we have on the work incentives of the Child Tax Credit come from the Earned Income Tax Credit because they share the same features—that is, they phase in as earnings increase and they are only available to working families. The success of both credits relates to their ability to provide financial assistance to low-income families without the work disincentives common in other safety-net programs, such as the Supplemental Nutrition Assistance Program (or Food Stamps) and housing assistance, for example.

Turning the Child Tax Credit into a cash assistance program risks reversing the employment gains among single mothers since the welfare reforms in the 1990s. Those gains resulted from both *work requirements* added to the Temporary Assistance for Needy Families (TANF) program and from the *work incentives* of the Earned Income Tax Credit. Although successful, even those policies were limited in scope because of the work disincentives that remain in other programs. Adding additional work disincentives though the Child Tax Credit on top of the disincentives that already exist in other safety programs will limit the Child Tax Credit's impact by reducing employment among vulnerable populations and contributing to poverty over the long term. It will also reverse poverty gains for low-income families that resulted from welfare reform.

Question. Your testimony emphasizes the complimentary nature of the Child Tax Credit to the Earned Income Tax Credit. How do these tax credits work together to support low-income families? If work requirements were removed from the Child Tax Credit, how would a reduction in the labor supply impact poverty reduction in the long run?

Answer. The Earned Income Tax Credit and the Child Tax Credit share important design features that incentive employment among low-income populations. They work together to offer financial assistance on top of earnings to help families cope with financial challenges. This connection to employment contrasts with other safety-net programs that disincentivize employment by not having a work requirement and phasing out at rates that create high effective marginal tax rates (*i.e.,* "benefit cliffs").

There are several potential ways removing the work requirement from the Child Tax Credit could negatively affect poverty reduction in the end. Research suggests that eliminating the phase-in of the Child Tax Credit could substantially affect labor supply. The changes in employment behavior that might result could also affect benefit receipt from other safety net programs, including the Earned Income Tax Credit and make families financially less stable over time. Eliminating the work requirements in the Child Tax Credit could offset the employment incentives built into the Earned Income Tax Credit, making both policies less effective at increasing employment among low-income populations. Less employment makes it more challenging for families to escape poverty and move up the income ladder over time. Already low-income parents face substantial disincentives to employment through other safety-net programs, such as the Supplemental Nutrition Assistance Program (or Food Stamps), housing assistance, and Medicaid. Eliminating the work incentive of the Child Tax Credit could potentially harm families in the long run by adding to existing work disincentives and making it less likely families will escape poverty through employment over time.

QUESTION SUBMITTED BY HON. STEVE DAINES

Question. As a mother, you understand the planning and preparation that begins when a woman learns she's pregnant. Families incur costs from prenatal care and supplies for their child. How would making pregnant mothers eligible for the child tax credit help alleviate the financial obligations associated with their pregnancy?

Answer. The purpose of the Child Tax Credit is to offset costs associated with child rearing. Expectant mothers incur child-related costs starting during pregnancy. This makes the policy goal of offsetting child-related costs no different during pregnancy than after the birth. The Child Tax Credit can be a useful tool to help parents financially as they bring a new child into the world. There is prenatal care and supplies that require resources. There are also times when pregnant mothers must take time away from work to deal with their pregnancy and some expectant mothers do not have access to paid time off from their employer. A Child Tax Credit during pregnancy could help cover these costs.

Another key point is that a Child Tax Credit during pregnancy because of the timing of the refundable portion of the benefit. The refundable Child Tax Credit covers the tax year of the birth, but parents do not receive it until they file their taxes the following year. This means that for a birth that happens in the first few months of a new tax year, parents will not receive the Child Tax Credit until 1 year or more after the birth. Due to the timing of the benefit, making the parents eligible for the Child Tax Credit during the year of pregnancy will also help cover costs during the first year of the baby's life.

PREPARED STATEMENT OF HON. JOHN THUNE,
A U.S. SENATOR FROM SOUTH DAKOTA

Thank you, Chairman Bennet. I appreciate you convening today's hearing and appreciate the witnesses agreeing to be here to testify.

Today, we are here to discuss the Child Tax Credit and evaluate its 25-year history, review its effectiveness in helping to ease the financial burden on American families, and discuss modifications to the credit that Congress should consider. In 1997, the Child Tax Credit was created as a $400 nonrefundable, per-child tax credit intended to help make life a little easier for working families with children. Over the last 25 years, the Child Tax Credit has expanded and evolved and, unlike some issues we debate on this committee, it continues to have a fair amount of bipartisan support.

Today, as a result of the Tax Cuts and Jobs Act, the credit provides qualifying families with $2,000 per dependent child and $500 per nondependent child, up to the age of 16. And due to this expansion of the Child Tax Credit, families across the Nation are able to reap the benefits of a more lucrative credit. However, this expanded Child Tax Credit is set to expire and revert back to pre-Tax Cuts and Jobs Act levels beginning in 2026. If allowed to happen, families in South Dakota and across the Nation would see their Child Tax Credit benefit cut in half and back to 2017 levels. Therefore, it is my hope that my colleagues on the Finance Committee and in the Senate see the necessity for this expanded Child Tax Credit to not be allowed to simply expire in just a few short years.

As we all know, there is a push by some to reinstate the temporary changes to the Child Tax Credit that were included in the American Rescue Plan Act in 2021 and have since expired. This is an approach that I have serious concerns with, as do many others, including some of our witnesses.

The American Rescue Plan Act went beyond simply increasing the per-child tax credit amount. It extended the credit to children who are almost adults. It adopted a completely new approach by mandating taxpayers who did not opt-out to receive half their credit in advance, significantly straining the IRS's resources and leading to refund delays, surprise tax bills, and lengthy call wait times for two consecutive tax filing seasons, among a host of other administrative challenges.

Though we can debate the merits of any of these changes, in my view the most concerning change was that Democrats eliminated the credit's tie to working and earning a basic amount of income. This single change essentially turned a credit that targets assistance toward working families into universal basic income for anyone with a child. This contentious and expensive change is also completely contrary to the original intent of the Child Tax Credit.

Eliminating the tie between the Child Tax Credit and working takes away a key incentive—a "bonus" of sorts—for certain parents to enter and stay in the workforce. Such an incentive has been part of the Child Tax Credit since its inception and one that is lauded in other income support programs, such as the Earned Income Tax Credit.

While some try to reframe the discussion, the Child Tax Credit originated during the broader "back-to-work" welfare reform push of the 1990s and cannot be understood without comprehending the lessons of this highly successful series of reforms. One primary objective of welfare reform was to get families out of the cycle of perpetual poverty, by providing them with a hand up rather than a handout. That is why the Personal Responsibility and Work Opportunity Reconciliation Act incorporated work requirements into various Federal programs.

These changes were decried by some at the time as being "unfair" or mean-spirited and likely to lead to harm for those who need assistance. In fact, the data is irrefutable to the contrary: welfare reform worked and had amazing and positive outcomes for the most economically vulnerable. By tying government assistance to workforce participation, beneficiaries of various Federal programs are incentivized to get a job, which provides the best pathway out of poverty and a host of other positive outcomes.

Clearly there are certain instances in which a parent does not have the ability to work, but there are current programs like the Earned Income Tax Credit or WIC that do not require one to hold a job in order to reap the full benefits of the program. However, turning the Child Tax Credit into universal basic income is both duplicative and counterproductive. And I believe this is the wrong approach. Instead, I believe that it is imperative for Congress to ensure that we continue to build on the successes of the Child Tax Credit that we have witnessed over its 25-year history rather than "fixing" what is not broken.

I look forward to hearing from our witnesses on this very important issue and look forward to the discussion.

COMMUNICATIONS

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American Citizens Abroad, Inc, and its sister organization, American Citizens Abroad Global Foundation hereby submit our Statement for the Record.

American Citizens Abroad, Inc. (ACA) is a leading advocacy organization representing Americans living and working overseas. Headquartered in Washington, DC, ACA is nonpartisan, non-profit (section 501 (c)(4)), with a 40-plus-year history of advocating on behalf of the community of Americans living and working overseas. Alongside ACA is its sister charitable (section 501(c)(3)) research and educational organization, American Citizens Abroad Global Foundation (ACAGF).

THE CHILD TAX CREDIT AND BENEFICIARIES ABROAD

ACA is grateful to the Senate Finance Committee and its Subcommittee on Taxation and IRS Oversight for their public hearings exploring the proposal to re-establish and make permanent the ARPA Expanded and Advance Child Tax Credit. U.S. parents living abroad benefit from the Child Tax Credit (CTC) in the same ways that parents living in the U.S. do. They can afford more childcare which enables them to work more hours and better provide for their families. They can better manage household budgets and so avoid pay-day loans or other expensive credit arrangements to manage lumpiness of household income. And, overall, the reduction in financial distress results in less family distress.

We are disappointed, however, that the CTC proposal in S. 1992—Working Families Relief Act of 2023 (as well as H.R. 3899—American Family Act) replicates the CTC provisions in the American Rescue Plan Act that deny CTC beneficiaries living abroad access to full refundability and advance payments. This is disappointing and upsetting for non-resident parents who already bear an inordinately costly and complex U.S. tax filing burden.[1]

Research published in 2022 about the U.S. citizens living abroad includes gross household income data that indicates 76% qualify for the whole of the CTC. Up to 96% would be eligible for some portion.[2] Inflationary pressures persist in nations around the world, making this a time of considerable financial distress for middle income U.S. families regardless of where they reside. This cohort of U.S. citizens, already identified as under-served by the IRS, is no less deserving of government assistance and is in genuine need of support.

We ask that the Senate Finance Committee reconsider the U.S. residence requirement included in the bill's eligibility criteria for full CTC refundability. It is not clear to us why, from an equity or a tax administration point of view, the choice was made to include it in S. 1992. We recommend the new IRS portal for administering the CTC enable CTC beneficiaries living abroad to register with their non-U.S. addresses, phone numbers and bank accounts, thus eliminating any obstacle to beneficiaries abroad receiving the CTC advance payments. Providing U.S. parents

[1] Ordinary, middle-class taxpayers filing from abroad need to understand the IRC's arcane provisions for non-resident filers and, further, are required to navigate the convergence of U.S. tax rules and the tax rules of the country where they live, including provisions in the U.S. tax treaty.

[2] Once Uncomfortable, Now Suffocating: A 2022 Update on Tax and Financial Access Issues of Americans Abroad, Democrats Abroad, November 2022. *https://www.democratsabroad.org/2022_report_data.*

abroad access to CTC full refundability and advance CTC payments in S. 1992 and H.R. 3899 by removing the U.S. residency requirement fulfills the obligation of the Congress to observe equal protection provisions in making and implementing law.

Filing From Abroad

As noted, tax-related stress is not new to U.S. families abroad. Organizations representing U.S. citizen abroad have been speaking to Congress for decades about the need for relief from discriminatory tax filing and financial account reporting rules. Complex, costly and confusing tax filing for U.S. citizens living and working outside the U.S. results in onerous taxation of foreign investments considered Passive Foreign Investment Companies (PFICs), involves duplicate reporting regimes like the Foreign Account Tax Compliance Act (FATCA) Form 8938 and the Financial Bank Account Report (FBAR) (FinCEN Form 114), exposes filers to double taxation with the Net Investment Income Tax (NIIT), involves wading through many regulations that overlap with U.S. corporate international tax and, due to legislation like S. 1992 and H.R. 3899, is unfair with regard to the application of certain tax credits for non-residents (CTC and Earned Income Credit),

This is just a sampling of the problems on the individual side of reporting, not taking into consideration the filing requirements for small business operations run by U.S. citizens abroad that need to deal with the Transition Tax and Global Intangible Low-Taxed Income (GILTI) regimes (and are denied access to programs available for small businesses through the U.S. tax code such as the Employee Retention Tax Credit and the CARES Act Paycheck Protection Program).

Residence Based Taxation

ACA has long advocated that the real solution to the problems of overseas taxpayers is the adoption of Residence-based taxation (RBT) which would tax U.S. citizens overseas on the basis of where income is earned, therefore excluding foreign earned income from U.S. taxation and only taxing U.S. sourced income. ACA was the first organization to develop a side-by-side analysis that indicates where in the current tax code changes could be made in a move to a system of taxation based on residence. ACA has fielded two research projects on the subject with District Economics Group (DEG), Washington, DC-based economic consulting firm—one in 2017 and one in 2022—that provide valuable information on the income, asset and taxation of U.S. citizens living and working overseas. This data, one of a kind, supports our position that RBT can be adopted and be revenue neutral and tight against abuse.

ACA's research studies provide invaluable data on the community of U.S. citizens living and working overseas and most importantly, gives Congress an accurate number for the size of the community of U.S. citizens living and working overseas, which ACA estimates at approximately 4 million (excluding U.S. military).[3] Unfortunately, many in Congress continue to source the U.S. State Department figure of 9 million which ACA, through the FOIA, has requested the methodology in calculating (request made 2 years ago with an expected delivery in 2025). The 9 million estimate severely distorts not only government estimates for a change in tax policy but the very nature of the community, putting in question why there are so many citizens living abroad and so few tax returns, further cementing the optic that U.S. citizens overseas are tax evaders.

Congressional Hearings on Taxation and U.S. Citizens Abroad

ACA believes that the time has come for the Congress to hold hearings on the issues affect this very important group of U.S. citizens. ACA has presented our research and data to all the Tax Writing Committees on Capitol Hill, but the time has come for our data and knowledge, and that of other organizations and individuals, be put on official record with Congress. Recently Congresswoman Titus introduced H.R. 2729 which would call for the creation of a commission to begin investigating the concerns of this community.[4] This Commission would be an excellent start to the process of holding hearings which would provide invaluable information and data to help in crafting remedies to some of the problems highlighted in our letter today.

ACA would like to thank the Senate Finance Committee for the opportunity to submit this statement. For more information, please visit the ACA website *www.americansabroad.org.*

[3] ACA and District Economics Group estimate that the total number of Americans abroad at present, excluding members of the military and other government employees and contractors, is approximately 3.9 million individuals.

[4] H.R. 2729—118th Congress (2023–2024): Commission on Americans Living Abroad Act of 2023, *Congress.gov,* Library of Congress (The Commission on Americans Living Abroad Act).

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Statement of Michael G. Bindner

Chairman Bennet and the Ranking Member Thune, thank you for the opportunity to submit these comments for the record. These comments restate and expand upon those made to the full committee last month on Anti-Poverty and Family Support Provisions in the Tax Code. I comment today not to praise the Child Tax Credit, but to reform it.

I would make the Child Tax Credit generous enough to abolish Food Stamps for families with children. The Child Tax Credit should provide adequate income to feed, clothe and house an additional child, which can be up to $1,000 per month. The current amount, which is set to expire in 2025, is $2,000 per year. It will revert to $1,000 per year, or less, because it is non-refundable. During the pandemic, it was $3,000 per year, or $3,600 for younger children. The President's Budget proposes this amount be restored and made permanent. It is not adequate, but it's a start.

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. Again, 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. Some of the bipartisan opposition in the Senate came from those who consider direct subsidies from the IRS to have the "stink of welfare" that the Gentleman from West Virginia so objects to. I advise such Senators in both parties to raise the minimum wage so that no one is having to work just to receive this credit and that the best way to distribute the credit is with 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.

Students with families in government funded training programs, from ESL to the last two years of high school to an associates degree, with families would also receive the Child Tax Credit. The credit in these cases, along with training stipends, should receive their credits through the training institution.

Additionally, for people receiving Unemployment Insurance, there should be just one check and it should include the Child Tax Credit. The Credit should also replace dependent payments under Social Security Survivors and Disability Insurance programs, which will increase their solvency.

Tax reform can be used to facilitate the reform 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.

One of the central proposals in this plan is the creation of a Subtraction Value-Added Tax (Net Business Receipts Tax), which would replace the corporate income tax and filing of business taxes as part of the personal income tax. The difference between changing quarterly withholding and enacting a subtraction VAT is six of one and a half dozen of the other.

The reason for this is that the proposed subtraction VAT is based on the notion that employers would be responsible for paying and reconciling the taxes now filed by employees. This would add little additional burden to employers (especially the self-employed) but end the burden of filing taxes for all but the highest salaried employees.

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. Again, the government should not be the national paymaster for every family.

These reforms MUST be scored as pro-life legislation and be funded more broadly than the President has promised. We are all for raising taxes on the wealthy, but these funds should be targeted to national defense, net interest payments and debt reduction (starting with the Social Security Trust Fund). An asset value-added tax (which is described below with our employer-paid subtraction VAT) should be the primary way the wealthy are taxed—along with surtaxes on middle- ($85,000–$200,000) and upper-income salaries ($200,000+).

Having served on the staff of a major abortion rights organization in the past, I can assure you that no such organization **would ever oppose higher living standards for women and their families!**

The chief obstacle for funding families is not the feminist movement. It is the so-called right to live movement who would rather women be penalized for having abortions than subsidized so that they are not necessary. Over the course of many decades, I have had conversations with conservative members of the pro-life community. When push comes to shove, they oppose the measures above because their objections to abortion are more about sexuality than the welfare of children.

In the pro-choice movement, many jump to the defend women's bodies argument before first addressing the need for adequate family income. Doing so now will shame the leadership of the pro-life movement into supporting these provisions to Build Back Better.

Many in the pro-life movement already do. Catholic Charities USA, NETWORK and the Catholic Health Association all stand with working and poor women. They must be very publicly leveraged to get the U.S. Conference of Catholic Bishops behind them as well—and to have the bishops insist that these measures be considered must-pass legislation for the computation of pro-life voting records.

Catholic members of Congress and the President should also lead on this effort. It is time to stop grandstanding on this issue. The movement got what it wanted in *Dobbs* (although to speak frankly, the states which banned abortion were not friendly to it to begin with). Eventually, some form of compromise between a national ban and nationally guaranteed rights must take place in Congress. This was always inevitable. **For the present, however, the primary pro-life issue must be to assure that, now that abortion is now illegal in some places, it must be made rare by adequate support of families with children.**

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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Chair Bennet, Ranking Member Thune, and Members of the Subcommittee:

Thank you for convening the recent subcommittee hearing, "Assessing 25 Years of the Child Tax Credit (1997–2022)," to evaluate the effectiveness of the Child Tax Credit (CTC) and consider policy changes based on this evidence. 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 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.

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.

By putting money back into families' pockets, family tax credits are an effective tool that help families meet basic needs and protect against material hardship, which in turn protects all family members' health across the lifespan. Boosting income through these credits maintains families' freedom to prioritize their own basic needs and to make choices that are best for their family. A significant body of research demonstrates that the temporarily expanded 2021 CTC reduced child poverty, buffered family incomes and helped meet basic needs, reduced financial stress and hardship—including food insufficiency, and promoted racial equity.[1, 2, 3, 4]

Children's HealthWatch research similarly found that the expanded CTC helped families with young children catch up on rent, improved food security, protected parents' health, and supported mothers' mental health.[5, 6] Our qualitative research also revealed, consistent with other reports, that the boosted and advance payments allowed families breathing room to afford bills, basic needs, and essentials for their growing children.[5] However, once the payments expired, food insufficiency in families with children returned to pre-expansion levels.[7] Furthermore, our research showed notable disparities in health outcomes based on which families received the CTC, demonstrating opportunities for future improvement to the credit structure and implementation.[5]

The 2021 CTC temporarily removed extensive barriers to receiving the credit for millions of families, including working families whose incomes were too low to qualify for the full benefit under the 2017 tax law. Prior to the 2021 expansion, low-wage working families were largely left out of the credit due to the phase-in requirements. For example, a single parent working full-time at minimum wage would still not earn enough to receive the full credit.[8] We are concerned with comments made by members and witnesses during this Subcommittee hearing demonstrating a lack of understanding of the robust evidence base about the CTC expansion's effects and an attitude that lacks insight into the hard work performed by families caring for children or earning minimum wage. The expanded credit does not and cannot replace a job, and research shows that the payments did not lead to employment declines among those we expect to be working.[9, 10] To the contrary, making the credit fully refundable actually encourages parents to seek and maintain employment by helping pay for essential work supports like child care and transportation.[11]

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 other evidence-based family tax credits, namely the Earned Income Tax Credit (EITC). By reaching overlapping but different populations, these tax credits provide targeted relief to low-wage workers and caregivers of children. **How-**

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[1] Burns, K., Fox, L., Wilson, D. Expansions to the Child Tax Credit contributed to 46% decline in child poverty since 2020. United States Census Bureau. 2022. Available at: *https://www.census.gov/library/stories/2022/09/record-drop-in-child-poverty.html.*

[2] Curran, M.A. Research roundup of the expanded Child Tax Credit: The first 6 months. Center on Poverty and Social Policy at Columbia University. 2021. Available at *https://static1.squarespace.com/static/610831a16c95260dbd68934a/t/61f946b1cb0bb75fd2ca03ad/1643726515657/Child-Tax-Credit-Research-Roundup-CPSP-2021.pdf.*

[3] Shafer, P.R., Gutiérrez, K.M., Ettinger de Cuba, S., Bovell-Ammon, A., Raifman, J. Association of the Implementation of Child Tax Credit Advance Payments With Food Insufficiency in U.S. Households. *JAMA Network Open.* 2022;5(1):e2143296.

[4] 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.*

[5] 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.*

[6] 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.

[7] Bovell-Ammon, A., McCann, N., Mulugeta, M., Ettinger de Cuba, S., Raifman, J., Shafer, P. Food insufficiency in families with children increased after expiration of Child Tax Credit monthly payments. White paper. 2022. Available at: *https://childrenshealthwatch.org/wp-content/uploads/Post-CTC-food-insufficiency-brief-vf.pdf.*

[8] 2017 tax law's child credit: A token or less-than-full increase for 26 million kids in working families. Center on Budget and Policy Priorities. 2018. Available at: *https://www.cbpp.org/sites/default/files/atoms/files/8-27-18tax.pdf.*

[9] Roll, S., Hamilton, L., Chun, Y. Expanded Child Tax Credit payments have not reduced employment: Evidence from Census data. Washington University in St. Louis, Social Policy Institute; Appalachian State University. 2022. Available at: *https://humanityforward.com/wp-content/uploads/2022/01/CTC-and-Employment-012620221.pdf.*

[10] Ananat, E., Glasner, B., Hamilton, C., Parolin, Z. Effects of the expanded Child Tax Credit on employment outcomes. Center on Poverty and Social Policy, Columbia University. 2021. Available at: *https://static1.squarespace.com/static/610831a16c95260dbd68934a/t/61ef91c98d4e3a1f8b42e2d6/1643090378593/Child-Tax-Credit-Expansion-on-Employment-CPSP-2021.pdf.*

[11] Ain, J. Work requirements for the child tax credit are draconian and counterproductive. *The Hill.* 2021. Available at *https://thehill.com/opinion/finance/578285-work-requirements-for-the-child-tax-credit-are-draconian-and/.*

ever, we are disappointed that the bill does not restore CTC eligibility to the estimated 1 million children who have an Individual Tax Identification Number (ITIN), who were eligible prior to the 2017 tax law, 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 CTC is effective at reaching communities of color, and expansions have historically had a larger net positive impact for people of color—particularly Black and Latinx women and families—who are overrepresented among low income workers and disproportionately experience higher rates of poverty and associated poor health outcomes compared to white families and men.[12] 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).[5, 13] Furthermore, when immigrant children and families are left out of benefits or face threats or harmful consequences for participating, immigrant family participation across public assistance programs among those eligible declines.[14, 15] An inclusive CTC that ensures all children are eligible regardless of immigration status would begin to address this and would also enhance the health, anti-poverty, and equity impact of the credit.

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.

We thank the Subcommittee for convening this important hearing and holding bipartisan discussions on opportunities to improve and strengthen the CTC.

Sincerely,

Stephanie Ettinger de Cuba, Ph.D., MPH
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Research Associate Professor, Boston University School of Public Health and Chobanian and Avedisian School of Medicine
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July 26, 2023

The Honorable Michael F. Bennet Chairman United States Senate Subcommittee on Taxation and IRS Oversight	The Honorable John Thune Ranking Member United States Senate Subcommittee on Taxation and IRS Oversight

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[12] 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.*

[13] 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.*

[14] Bovell-Ammon, A., Ettinger de Cuba, S., Coleman, S., Ahmad, N., Black, M.M., Frank, D.A., Ochoa, E., Cutts, DB. Trends in food insecurity and SNAP participation among immigrant families of U.S. born young children. Children. 2019.

[15] 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.

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RE: July 13, 2023 Hearing entitled, "Assessing 25 Years of the Child Tax Credit (1997–2022)"

Dear Chairman Bennet and Ranking Member Thune:

Thank you for the opportunity to comment on the Child Tax Credit, which is an important benefit for both stateside and American families living abroad.

We ask that the Committee ensure a residency requirement is not applied when the Child Tax Credit is renewed.

We would also like to highlight the obstacles and burdens faced by Americans abroad, specifically working and middle-class families benefiting from the Child Tax Credit.

While Americans abroad suffer from the stereotype that they are high-net-worth individuals, 2020 IRS data showed that 60% of returns filed from abroad yielded no revenue.

This categorizes a majority of overseas filers as working or middle-class.

Financial Burden to Qualify for Child Tax Credit

To qualify for the Child Tax Credit from abroad, individuals must be below a certain income and file Form 1116 (Foreign Tax Credit), which the IRS estimates requires 6 hours to complete.[1]

The cost of paying a professional to prepare Form 1116 can exceed the benefit of the Child Tax Credit itself, which is why many families abroad miss out on this important credit.

Many international taxpayers opt for an alternative route by filing Form 2555 (Foreign Earned Income Exclusion) with an estimated 2.5-hour burden. Filing this form instead prevents families from obtaining the Child Tax Credit.

Our 2022 tax and financial-access survey of Americans abroad found that—because of the disproportionate complexity involved in filing when living abroad—a majority of respondents who paid for tax preparation services spent $1,001–$5,000 (for some, a whole month's salary) to engage a specialist tax return preparer.[2] Compared to stateside tax preparation costs, this is at least three times more.

The current excessive tax-filing burden on Americans abroad fuels the private tax compliance industry, while yielding little tax revenue for the U.S. Government. This is why we recommend policies enabling the government to clamp down on overseas tax evasion without harming the estimated nine million Americans living abroad.[3]

Sincerely,

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Rebecca Lammers
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Cc:

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[1] *https://www.irs.gov/instructions/i1116.*
[2] *https://www.democratsabroad.org/2022_report.*
[3] *https://travel.state.gov/content/dam/travel/CA-By-the-Number-2020.pdf.*

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FIRST FOCUS ON CHILDREN

Statement of Bruce Lesley, President

Chairman Bennet and Ranking Member Thune, on behalf of First Focus on Children, I am writing to provide further context and the perspective of how a Child Tax Credit incrementally improved over the course of 1997 to 2022 in a manner that ultimately led to a Child Tax Credit that benefited nearly every child in this country in a fashion that, if the 2021 expansion were extended, would positively impact every aspect of the lives of children, improve the well-being and future of children, and benefit our entire country by significantly reducing the costs that are encumbered by society as a result of policy choices that lead to crippling child poverty rates in the United States that are among the highest of all wealthy nations.

That version of the Child Tax Credit, which was adopted from Sen. Michael Bennet's and Rep. Rosa DeLauro's American Family Act and included as part of the American Rescue Plan Act (ARPA) that was signed into law on March 11, 2021, increased the Child Tax Credit to $3,600 for children under the age of 6 and to $3,000 for children over the age of 6, expanded the credit to 17-year-old who were previously denied the credit, and made the credit fully refundable to all children on a monthly basis. Unfortunately, APRA's provision was temporary and so expired at the close of 2021.

Prior to 2021 and now again under current policy due to the expiration of the improved Child Tax Credit, one-third of our nation's children are tragically "left behind" by the Child Tax Credit. The reason is that their parents make *too little* to qualify for the full credit.[1] This policy is an unfortunate choice, as it excludes the nation's poorest children from reaping the full benefit of the Child Tax Credit. With the exception of 2021, this policy contributes to child poverty rates in this nation that have been more than 50% higher than adult poverty.[2]

The consequence of this policy is that it compounds the negative impact that child poverty has on nearly every aspect of the lives of children, including their health, education, hunger, housing, and incidents of child abuse and neglect and engagement with the criminal justice system.[3] Furthermore, child poverty has life-long and intergenerational consequences. In fact, evidence shows that money matters and supports like the Child Tax Credit are effective in improving children's long-term

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[1] Collyer, Sophie, David Harris, and Christopher Wimer (2019, May 13), *Left Behind: The One-Third of Children in Families Who Earn Too Little to Get the Full Child Tax Credit,* Columbia University's Center on Poverty and Social Policy, Vol. 3, No. 6.

[2] Schrider, Emily A., Melissa Kollar, Frances Chen, and Jessica Semega (2021, September), *Income and Poverty in the United States: 2020,* U.S. Census Bureau.

[3] *See, for example,* First Focus on Children (2023, June), "Child Investment Research Hub."

success, which leads to better health outcomes, higher educational attainment, and increased earnings as adults.[4]

Moreover, the cost to society of child poverty in this nation is estimated by the National Academy of Sciences, Engineering, and Medicine (NASEM) to be as much as $1.1 trillion annually.[5]

So, whose children are we devaluing? According to a May 2021 study by the Center on Poverty and Social Policy at Columbia University, those "left behind" by the lack of refundability of the Child Tax Credit were disproportionately: (1) children under the age of 6 (40% receive only partial or no credit); (2) Black and Hispanic children; (3) children in single parent households ("70% of children in families headed by single parents who are female do not receive the full credit"); and, (4) children in rural communities.[6]

As a nation, we should not tolerate child poverty and the harm it inflicts on our nation's kids. For many children, its impact is akin to a form of violence[7] created by policy choices, but it does not have to be this way. Other nations, such as Canada and the UK, have successfully cut child poverty and we even nearly cut child poverty in half in 2021, despite a global COVID–19 pandemic and worldwide recession.[8]

Furthermore, as a nation, we also dramatically cut poverty for our nation's elderly when our nation decided to make it a priority. The contrast is acute. As NPR's Greg Rosalsky reports:

> Our welfare system has long spent generously on the old, but it has consistently skimped on the young. While America spends about as much, or even more on the elderly than many other rich nations, it spends significantly less on kids. Among the almost 40 countries in the OECD, only Turkey spends less per child as a percentage of their GDP. It's a big reason why the United States has a much higher rate of child poverty than most other affluent countries—and even has a higher rate of child poverty than some not-so-affluent countries.[9]

More than 30 years ago, the bipartisan National Commission on Children was established in 1987 under President Ronald Reagan and tasked with the goals of improving the lives and well-being of our nation's children. As a major part of its final report sent to President George H.W. Bush in 1991, the bipartisan commission recommended the creation of a fully refundable Child Tax Credit that would go to *all* families with children and not be withheld in whole or in part from the poorest children.[10]

As the bipartisan commission explained in its report entitled *Beyond Rhetoric: A New American Agenda for Children and Families:*

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[4] National Commission on Children (1991), *Beyond Rhetoric: A New American Agenda for Children and Families;* Greg J. Duncan and Jeannie Brooks-Gunn (1997), *Consequences of Growing Up Poor,* Russell Sage Foundation; National Academy of Sciences, Engineering, and Medicine (2019), *A Roadmap to Reducing Child Poverty,* eds. Greg Duncan and Suzanne Le Menestrel; First Focus on Children (2023, June), "Child Investment Research Hub."

[5] National Academy of Sciences, Engineering, and Medicine (2019), *A Roadmap to Reducing Child Poverty,* eds. Greg Duncan and Suzanne Le Menestrel.

[6] Collyer, Sophie, David Harris, and Christopher Wimer (2019, May 13), *Left Behind: The One-Third of Children in Families Who Earn Too Little to Get the Full Child Tax Credit,* Columbia University's Center on Poverty and Social Policy, Vol. 3, No. 6.

[7] Allen, Josephine A.V. (2001), "Poverty as a Form of Violence," *Journal of Human Behavior in the Social Environment,* Vol. 4, No. 203, 45–59.

[8] Waldfogel, Jane (2010), *Britain's War on Poverty,* Russell Sage Foundation; Shadi Houshyar and Jane Waldfogel (2010, December), *Tackling Child Poverty and Improving Child Well-Being: Lessons from Britain,* First Focus on Children; Joshua T. McCabe and Elizabeth Popp Berman (2016), "American Exceptionalism Revisited: Tax Relief, Poverty Reduction, and the Politics of Child Tax Credits," *Sociological Science,* 540–567; Ron Haskins and Timothy Smeeding (2019, March 8), "How to cut child poverty in half," *The Hill;* Sophie Collyer, Megan A. Curran, Irwin Garfinkel, David Harris, Mark Stabile, Jane Waldfogel, and Christopher Wimer (2020, July 21), "What a Child Allowance Like Canada's Would Do for Child Poverty in America," Century Foundation.

[9] Rosalsky, Greg (2022, February 22), "Why America Has Been So Stingy in Fighting Child Poverty," NPR; *see also,* Hilary W. Hoynes and Diane Whitmore Schanzenbach (2018, May), *Safety Net Investments in Children,* National Bureau of Economic Research, Working Paper 24594; Anna Aizer, Hilary W. Hoynes, and Adriana LLeraas-Muney (2022, February), *Children and the US Social Safety Net: Balancing Disincentives for Adults and Benefits for Children,* National Bureau of Economic Research, Working Paper 29754.

[10] National Commission on Children (1991), *Beyond Rhetoric: A New American Agenda for Children and Families.*

> The United States is the only Western industrialized nation that does not have a child allowance policy or some other universal, public benefit for families raising children. . . . Other nations that have adopted child allowances policies regard such subsidies as an investment in their children's health and development and in their nation's future strength and productivity.[11]

As a reminder, this recommendation was made in 1991. Since then, opponents of making the Child Tax Credit fully refundable have attempted to make "deservedness" arguments, as if children are somehow undeserving of equitable support due to their family's hardship, lower economic status, or zip code. Not only do such policies target certain children for harm, they also penalize parents who choose to do the hard work and "stay at home and care for their children."

Again, as the bipartisan commission explained:

> Because it would assist all families with children, the *refundable* child tax credit would not be a relief payment, nor would it categorize children according to their "welfare" or "nonwelfare" status. In addition, because it would not be lost when parents enter the work force, as welfare benefits are, the refundable child tax credit could provide a bridge for families striving to enter the economic mainstream. It would substantially benefit hard-pressed single and married parents raising children. It could also help middle-income, employed parents struggling to afford high-quality child care. Moreover, because it is neutral toward family structure and mothers' employment, it would not discourage the formation of two-parent families or of single-earner families in which one parent chooses to stay at home and care for the children.[12]

The first draft of legislation to create a Child Tax Credit by Republican leadership in Congress in 1995 would have, as Niskanen Center's Josh McCabe explains, made the Child Tax Credit refundable by "providing families relief from both income and payroll taxes."[13]

McCabe adds this would have "granted more relief to working-class families who tend to pay more in payroll taxes than income taxes," but unfortunately, "the credit was ultimately made nonrefundable to make more room for other tax cuts."[14]

Over the years, after passage of the initial Child Tax Credit by a Newt Gingrich-led Congress and signed into law by President Bill Clinton in 1997, incremental improvements have been made to the Child Tax Credit over time. For example, the Child Tax Credit was first made partially refundable by legislation signed into law by President George H.W. Bush in 2001. The Child Tax Credit was improved further and made more equitable (or less discriminatory toward children living in poverty) during the presidencies of Barack Obama (2009) and Donald Trump (2017).[15]

Moreover, as part of the 2017 tax bill, amendments by Senators. Marco Rubio and Sherrod Brown to further expand and improve the refundability of the Child Tax Credit were supported in some form by 68 senators, more than two-thirds of senators, but were not passed as votes in favor were unfortunately split between the two amendments.[16]

And yet, parallel efforts to cut child poverty were in the works due to a bipartisan amendment to the FY 2016 Labor-HHS Appropriations bill by Reps. Lucile Roybal-Allard and Barbara Lee with the support of Chairman Tom Cole asked NASEM to study ways to cut the crushing and unacceptable levels of child poverty, which hovered close to 20 percent, by half.[17]

In its final report in 2019, the non-partisan NASEM highlighted the enormous negative consequences of child poverty to both children and society. NASEM's final re-

[11] *Ibid.*
[12] *Ibid.*
[13] McCabe, Josh (2023, June 2), "Reclaiming the GOP legacy on the child tax credit," *Washington Examiner.*
[14] *Ibid.*
[15] Crandall-Hollick, Margot L. (2021, December 23), *The Child Tax Credit: Legislative History,* Congressional Research Service, R45124.
[16] Gerson, Michael (2017, December 4), "Republicans had a chance to reject their inner plutocrat. They blew it," *Washington Post; see* U.S. Senate Roll Call Votes #295 and #296 in the 115th Congress.
[17] First Focus Campaign for Children (2015, June 24), "House amendment would fund landmark child poverty study."

port, *A Roadmap to Reducing Child Poverty,* recommended improving the Child Tax Credit to increase its value and to make it fully refundable, as was initially recommended back in 1991.[18]

Fortunately, a majority in the House and Senate voted to adopt these recommendations as part of ARPA. Therefore, the U.S. Census Bureau estimates that child poverty was cut by 46% in 2021, and the Child Tax Credit alone lifted nearly 3 million children out of poverty.[19]

The impact of the improved Child Tax Credit cannot be overstated. The number of children it lifted out of poverty is equivalent of filling Ball Arena, home to the NBA champion Denver Nuggets, to capacity nearly 152 times or Dykhouse Stadium, home to the FCS football champion South Dakota State Jackrabbits to capacity 150 times.

Across our great nation, families with children benefitted greatly from the improved Child Tax Credit.[20] The American people recognized the benefits. In a May 2022 poll by Lake Research Partners, American voters surveyed favored an extension of the Child Tax Credit by a wide 72–21% margin.[21]

Furthermore, by an overwhelming 83–13% margin, the American people expressed concern (60% very concerned) about the negative consequences to children of having poverty rates 59% higher than adult poverty. By an 86–12% margin, respondents also were concerned that “child poverty costs our society up to $1.1 trillion a year.”[22]

Although the House of Representatives responded to the concerns of voters by including an extension of the improved Child Tax Credit as part of the Build Back Better Act (BBBA) on August 12, 2022, the Senate allowed it to expire. This has been devastating to millions of families and children across the country, as it resulted in a tax increase to families of anywhere between $1,000 to $3,600 per child. The consequence was that more than 3 million children were pushed back into poverty because, once again, their parents made *too little* to qualify for the full Child Tax Credit.[23]

Importantly, there are a range of proposals to expand the Child Tax Credit from both Democrats and Republicans in this Congress and the previous one. For example, Senator Sherrod Brown introduced S. 1992, the Working Families Tax Relief Act of 2023, during Children’s Week this June.[24] His bill would improve and extend the Child Tax Credit and has 41 Senate cosponsors. Furthermore, Rep. Rosa DeLauro introduced H.R. 3899, the American Family Act, which has 209 cosponsors.

We would urge the Senate Finance Committee to take up and pass this legislation as soon as possible. The bicameral bills would help the families of more than 60 million children in this nation and would lift more than 3 million children out of poverty by restoring the Child Tax Credit to 2021 levels and making it fully refundable.[25]

Furthermore, as Irwin Garfinkel and his colleagues at Columbia University find, “Our estimates indicate that making the $2,000 Child Tax Credit fully refundable

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[18] National Academy of Sciences, Engineering, and Medicine (2019), *A Roadmap to Reducing Child Poverty,* eds. Greg Duncan and Suzanne Le Menestrel; Barbara Lee (2019, February 28), “Reps. Roybal-Allard and Lee Celebrate Release of Landmark Child Poverty Study They Led the Effort to Fund.”

[19] Bruns, Kalee, Liana Fox, and Danielle Wilson (2022, September 13), “Expansions to Child Tax Credit Contributed to 46% Decline in Child Poverty Since 2020,” U.S. Census Bureau.

[20] Hamilton, Leah, Stephen Roll, Mathieu Despard, Elaine Maag, Yung Chun, Laura Brugger, Michal Grinstein-Weiss (2022, April), *The impact 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),* Working Paper #173.

[21] First Focus on Children (2022, June 30), “Fact Sheet: Voters Strongly Support Making Investments in Our Children and Grandchildren” (citing poll by Lake Research Partners).

[22] *Ibid.*

[23] Curran, Megan A. (2022, November 15), *Research Roundup of the Expanded Child Tax Credit: One Year On,* Columbia University’s Center on Poverty and Social Policy, Vol. 6, No. 9; Elise Gould (2022, September 22), “Child Tax Credit expansions were instrumental in reducing poverty rates to historic lows in 2021,” Economic Policy Institute; Chris Stein (2022, December 8), “ ‘Huge flip of circumstances’: end of US child tax credit pushing kids into poverty,” *The Guardian.*

[24] Lesley, Bruce (2023, June 13), “The Child Tax Credit: Boosting the Lives and Well-Being of Our Children,” First Focus on Children via Medium.

[25] *See, for example,* John Carr and Kim Daniels (2022, December 13), “What can bring together pro-life Republicans and progressive Democrats? Expanding the child tax credit,” *America: The Jesuit Review.*

and increasing benefits to $3,000/$3,600 [as the Brown and DeLauro bills do] would cost $97 billion per year and generate social benefits of $929 billion per year."[26]

Other bills to expand the Child Tax Credit have been proposed or introduced by:

- Senator Mitt Romney (see the Family Security Act);[27]
- Senator Marco Rubio (S. 74, Providing for Life Act of 2023);[28]
- Senator Chuck Grassley (S. 4589, the Family and Community Inflation Relief Act of 2022);[29]
- Senator Josh Hawley (S. 1426, the Parent Tax Credit, which was introduced in 2021); and
- Senator Steve Daines (S. 2092, the Child Tax Credit for Pregnant Moms Act of 2023).[30]

With respect to the bills by Senators. Rubio, Romney, and Daines, they would all seek to expand the Child Tax Credit in various ways to pregnant women.

Maternal and child health issues have always been a priority of mine. For example, I worked for Sen. Jeff Bingaman when he introduced the bipartisan Start Healthy, Stay Healthy Act with Senators. Richard Lugar, John McCain, Jon Corzine, and Blanche Lincoln.[31] That legislation, which added pregnant women coverage as an option to the Children's Health Insurance Program (CHIP), was enacted into law in 2009.

Furthermore, in my current capacity at First Focus Campaign for Children, we have long been supportive of Medicaid, CHIP, WIC, the Maternal Child Health Block Grant, Healthy Start, etc.

With respect to Sen. Daines's Child Tax Credit bill, he argues, "Whether it's prenatal care or stocking up on baby supplies, parents know better than anyone that providing for their child begins the minute they learn they're expecting a baby."[32]

A few Republican senators have expressed support for that legislation. In a press release in favor of the bill, Sen. James Lankford said, "Federal benefits available to moms should be available to all moms. I'm glad to join Senator Daines and our colleagues to ensure the federal government treats all moms the same, no matter how small or young her baby is."[33]

However, despite well-intentioned rhetoric, the legislation by Sen. Daines does not support "all moms the same, no matter how small or young her baby is" precisely because the underlying Child Tax Credit discriminates against low-income children and families.

Under Senator Daines's bill, a pregnant woman with income of $400,000 a year would receive the full credit, but millions of low-income pregnant women and their babies would not. The inequities under the Daines, Rubio, and Romney proposals would be profound, as pregnant women often experiences financial hardship due to both the costs of having a baby and the complications that can arise, such as losing income because of physician-advised best rest, or leaving employment or going unpaid during pregnancy, labor or deliver of a child.

Young women are particularly vulnerable and are more likely in a moment of their life-course in which they have fewer resources (*e.g.,* in school, changing jobs, have lower income jobs, etc.), and thus, have greater hardship than wealthier families. Both the women and their babies would be left behind under these bills. In fact, although several of these bills attempting to add pregnant women to the Child Tax

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[26] Garfinkel, Irwin, Laurel Sariscsany, Elizabeth Ananat, Sophie Collyer, Robert P. Hartley, Buyi Wang, and Christopher Wimer (2022), "The Benefits and Costs of a Child Allowance," *Journal of Benefit-Cost Analysis,* Vol. 13, No. 3, 335–262.

[27] Orr, Robert (2022, July 26), "Comparing Rubio and Romney's child benefit proposals," Niskanen Center; Bruce Lesley (2022, August 17), "The Child Tax Credit Must Not Treat Children as an Afterthought," First Focus on Children via Medium; *see also,* Naaz Modan (2022, July 8), "Republican proposal reignites child tax credit expansion plans," K–12 Dive.

[28] *Ibid.*

[29] McCabe, Joshua (2022, July 25), "Indexing the Child Tax Credit is long overdue," Niskanen Center.

[30] Lesley, Bruce (2023, June 30), "Who's Child Matters?", First Focus on Children via Medium.

[31] Bingaman, Jeff and Jon S. Corzine (2002, February 7), "Health of the Mother," *New York Times;* Kaiser Family Foundation (2001, June 11), "Bipartisan Bill Introduced in Senate Would Extend CHIP, Medicaid Coverage, Particularly for Pregnant Women, Infants."

[32] Daines, Steve (2023, June 21), "Daines, Miller-Meeks Lead Colleagues in Effort to Provide Tax Relief for Pregnant Moms."

[33] Daines, Steve (2023, January 2022), "Daines, Senate Colleagues Fight for Pregnant Moms to Receive Tax Relief."

Credit try to address some of these problems by using a prior tax year for eligibility, they may compound problems for some families, particularly younger families who are in school, change jobs, or experience income interruptions.

As Robert Orr explains, some of these bills would "do little for a 19-year-old woman with an unplanned pregnancy and limited work experience." As he adds, "Removing the child benefit's income phase-in entirely for infants and young children would be immensely helpful for families navigating the income disruptions and associated stresses common to the period surrounding the birth of a child."[34]

Denying these mothers and their babies the Child Tax Credit compounds their financial burdens and clearly does not treat "all moms the same" nor their babies. In fact, it disfavors and penalizes those moms and babies. I would hope we could all agree that Congress should always refrain from adopting policies that disproportionately harm babies, particularly those most in need.

Furthermore, to provide the full Child Tax Credit to a pregnant woman whose income is $400,000 a year while denying one-third of our nation's children the same benefit is simply wrong. Therefore, if you truly want to help families overcome financial hurdles and the health care costs of having a child, the only fair solution is to make the Child Tax Credit fully refundable, as was recommended in 1991 by the bipartisan National Commission on Children.

Today, our nation's children stand at a crossroads.[35]

In recent years, every aspect of their lives was negatively impacted by the twin disasters of the COVID–19 pandemic and the worldwide economic recession. We are witnessing a tragic and troubling increase in child mortality in this country that is associated with rising gun violence and suicide rates.[36] Families are struggling with rising inflationary food, energy, and housing costs.[37] Unplanned births are on the rise, and they will be, as Melissa Jeltsen writes, "concentrated in some of the worst states for infant and maternal health."[38]

Congress should be doing many things to address the myriad of problems facing our nation's children.[39] With respect to the Child Tax Credit, it is well past time to put aside ideological differences, notions of "deservedness" related to adults that impose harm to millions of children, and the decades of failure to fully address the needs and concerns of children and families in this country.[40]

Child poverty is a policy choice. We know how to significantly reduce it. Furthermore, the American people—across partisan, racial, gender, regional, and generational lines—all agree by overwhelming margins that Congress should extend and improve the Child Tax Credit. This is in the best interest of children and our nation's future.

As to the question, "Who's child matters?" The short answer is that they all do, and another generation of children can no longer wait for us to understand that fundamental point.

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[34] Orr, Robert (2022, July 26), "Comparing Rubio and Romney's child benefit proposals," Niskanen Center. *See also,* Josef Zweimuller, Andreas Steinhauer, Camille Ladais, Johanna Posch, and Henrik Kleven (2019, May 14), "Child penalties across countries: Evidence and explanations," Centre for Economic Policy Research/VoxEU.

[35] Lesley, Bruce (2022), "Making Children a National Priority: Overcoming the Marginalization and Invisibility of Children," in *Our Children Can't Wait: The Urgency of Reinventing Education Policy in America,* ed. Joseph P. Bishop, Teachers College Press.

[36] Woolf, Steven H., Elizabeth R. Wolf, and Frederick P. Rivara (2023, March 13), "The New Crisis of Increasing All-Cause Mortality in US Children and Adolescents," *Journal of the American Medical Association,* Vol. 329, No. 12, 975–976; Adrianna Rodriguez (2023, March 17), "After years of medical progress, American children are now less likely to reach adulthood," *USA TODAY*.

[37] Sawhill, Isabel V., Morgan Welch, and Chris Miller (2022, August 30), "It's getting more expensive to raise children. And government isn't doing too much to help," Brookings.

[38] Jeltsen, Melissa (2022, December 16), "We Are Not Prepared for the Coming Surge of Babies," *The Atlantic.*

[39] First Focus Campaign for Children (2023), *A Children's Agenda for the 118th Congress.*

[40] Hoynes, Hilary W. and Diane Whitmore Schanzenbach (2018, May), *Safety Net Investments in Children,* National Bureau of Economic Research, Working Paper 24594; Committee for a Responsible Federal Budget (2018, August 16), *Budgeting for the Next Generation: Does the Budget Prioritize Children?;* First Focus on Children (2020), *Children's Budget 2020;* Heather Hahn, Cary Lou, Julia B. Isaacs, Eleanor Lauderback, Hannah Daly, and C. Eugene Steuerle, *Kids' Share 2020,* Urban Institute; Anna Aizer, Hilary W. Hoynes, and Adriana LLeraas-Muney (2022, February), *Children and the US Social Safety Net: Balancing Disincentives for Adults and Benefits for Children,* National Bureau of Economic Research, Working Paper 29754.

NATIONAL PARENTS UNION
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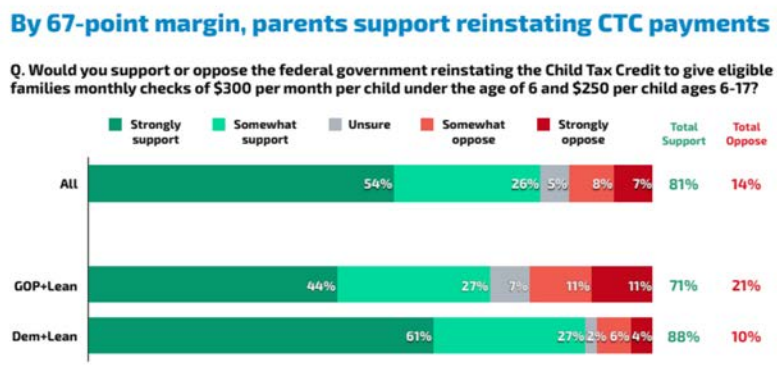
National Parents Union represents more than 1,000 affiliated parent organizations in all 50 states, Washington, DC and Puerto Rico, the National Parents Union is the united, independent voice of modern American families. We channel the power of parents into powerful policies that improve the lives of children, families and communities across the United States.

Over the past 6 months, National Parents Union has confirmed the popularity of the Child Tax Credit expansion and the necessity for the continuation of the program. The Child Tax Credit resulted in the largest reduction of childhood poverty in our country's history and we know that it would alleviate the persistent economic stress that hard working American families are under. Bringing back the Child Tax Credit expansion would help American Families and set our children up for a future in which they can thrive.

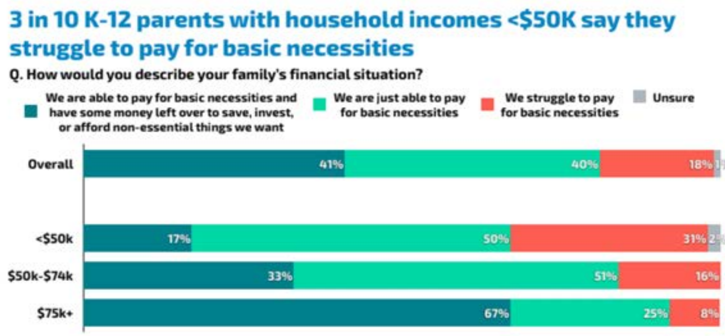


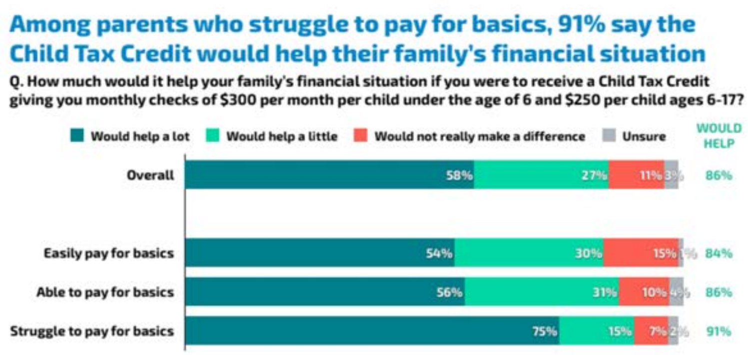
81% of Parents strongly support or somewhat support bringing back the Child Tax Credit in our latest May polling- including 81% of Democrats and 71% of Republicans.

86% of Parents say that receiving the child tax credit would help their financial situation significantly.

The fact of the matter is, American families are reaching their breaking point—the cost of everyday goods and housing are still through the roof paired with the expiration of poverty reduction programs like SNAP and the Child Tax Credit—are creating a situation where parents are struggling to make ends meet every month.

We urge members of Congress to support the Bipartisan effort to solve childhood poverty in our country and insure that every family across this country has some breathing room so that they can raise the next generation of leaders, doctors, teachers and engineers for our communities.





The data presented are from our national parent survey conducted by Echelon Insights on behalf of NPU. The survey was fielded online from May 1–3, 2023 in English among a sample of 1,036 parents of public school students in grades kindergarten through 12th grade.

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