

U.S. Tax Policy Brief

January 2023

Tax policy can reduce child poverty

In 2021, Congress enacted historic legislation that cut child poverty by more than 40 percent, then they let it lapse. Congress must grow that success by furthering economic justice through the tax code.

For too long, tax policy has been a driver of social injustice—providing benefits and incentives for those who are wealthy while often failing to focus on reducing hardship and creating opportunity for the lowest-income families. At RESULTS, we're working with Congress to create a fairer tax code to end poverty, address the housing crisis, and achieve economic justice for all.

The Child Tax Credit (CTC) helps offset the costs of raising kids and has had bipartisan support for decades. However, the CTC's structure leaves out millions of families with the lowest incomes and provides too little relief for millions more. These gaps disproportionately affect households of color (see below).

The 2021 American Rescue Plan fixed key policy gaps and expanded the CTC for millions, while also slashing the child poverty rate. [According to the Census Bureau](#), child poverty dropped by 46 percent in 2021—and the CTC was the primary reason why. Unfortunately, despite the ongoing committed efforts of RESULTS advocates and Congressional allies, those important provisions expired at the end of 2021 and were not renewed in 2022. Now, even those working full-time at minimum wage do not get the full benefit of the CTC. RESULTS has a long history of building bipartisan support in Congress for refundable tax credits, and we're not backing down now. We are doing what it takes this year to make large-scale reductions in poverty via lasting changes to our tax code.

Why tax policy?

Are my taxes going up or are they going down? That's the big question most people have. But there's a lot more to it. *Whose* taxes are going up or down? And why? Policymakers in Washington make decisions that affect us all by shifting how taxes are collected, who owes them, and what they pay for.

The tax code reflects the sometimes contradictory priorities of our nation. Aspects of the tax code favor the wealthy. For example, wealth (e.g., money made on the stock market) is taxed at a lower rate than wages. The tax code rewards homeownership with mortgage

interest deductions while leaving out renters. But the tax code can also act as an instrument of economic justice.

For example, when made accessible to those who need them most, the Earned Income Tax Credit (EITC), Child Tax Credit (CTC), and burgeoning proposal for a Renter Tax Credit can provide support to those struggling to make ends meet. Our partners at Prosperity Now call these credits the “[right-side up](#)” parts of the tax code.

However, when tax policies exclude those who need them most, the tax code can make racial and ethnic disparities far worse. Because of systemic racism and other forms of oppression, Black families and other people of color are overrepresented in low-paid work, often making them ineligible for tax credits like the CTC that exclude families with little to no formal income. The expanded CTC reached families with the lowest or no formal income, creating a positive impact for Black and Latinx families especially. [According to the National Bureau of Economic Research](#), the expanded CTC made 99 percent of Black and Latino families eligible and “eliminate[d] racial inequities in the CTC”. However, this important step to close racial poverty gaps expired at the end of 2021, leaving [one in four children](#) including approximately 45 percent of Black children, 39 percent of Latino children, and 38 percent of American Indian/Alaskan Native children without access to the full CTC. With the temporary CTC expansion lapsed, millions of families including those who work full time at the federal minimum wage are left out of the full CTC. The tax code has profound power and can make the difference between merely surviving or thriving for children and families.

Key Point: When it's written fairly, the tax code can help achieve economic justice and lift millions above the federal poverty line.

Earned Income Tax Credit and Child Tax Credit: How they work

The Child Tax Credit (CTC) and Earned Income Tax Credit (EITC) boost income to pay for basic needs like housing, utilities, and food.

Earned Income Tax Credit (EITC)

To get the EITC, you have to be working. For someone earning money (but not a lot), the EITC provides another boost in income by paying them a small percentage on top of what they make at work. Based on what they earned in the previous year, the credit comes as a

lump-sum check at tax time. Workers can then use their EITC to keep housing costs affordable, catch up on bills, make household repairs, or pay for other basic needs.

Critically, the EITC is “refundable,” which means workers can get the EITC as a payment, even if they owe little or no federal income tax. This makes it particularly helpful for low-wage earners. As people earn more, the credit grows. Then, once a worker’s income reaches a certain level above the poverty line, the credit holds constant, and then starts to decrease as wages increase. This ensures that the EITC is targeted to those for whom it was intended – low-wage workers.

Child Tax Credit (CTC)

The CTC helps offset the cost of raising children. Taxpayers can claim a break on their taxes each year based on the number of children in their household and the household’s earnings. Traditionally, it’s only available when workers file taxes every year (like the EITC), but COVID relief legislation temporarily allowed families to receive half of it as a monthly payment in the second half 2021. The 2021 legislation also made the CTC “fully refundable” for even the lowest income families, who previously were left out altogether (more below).

Key Point: The Child Tax Credit and Earned Income Tax Credit boost income to pay for basic needs and reduce poverty. These credits have long had bipartisan support as one of the country’s most effective tools for reducing poverty.

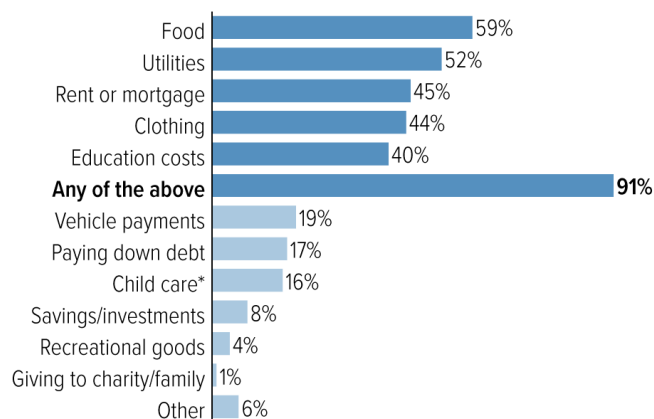
Dramatic reductions in poverty in 2021

At present, the CTC operates as it has traditionally, leaving out millions of low-income workers and families. An estimated [19 million](#) children miss out on the full CTC in its current (and traditional) form. The families with the lowest or no formal wages receive the least help, and in some cases, none at all.

The temporary changes passed in March 2021 resolved these gaps in policy, but only for one year. The American Rescue Plan Act (ARPA) made the full CTC available to all low-income families for the first time. This change alone helped reduce the number of children living below the federal poverty line by almost half. The CTC expansion reduced [poverty for children of color](#) even more. This is because Black, Latinx and other families of color are more likely to work in low-wage jobs, which is the result of past and existing systemic inequities that have force them into low-paid work. The 2021 expanded CTC also came in monthly payments, so families could use it to meet recurring basic needs like food, housing, heat, and clothing (which is difficult to address with an annual lump sum

payment—see the summary of CTC uses below). The maximum CTC amount also increased to \$3,600 per child for kids under 6 and \$3,000 per child for kids 6-17.

Percent of households with incomes below \$35,000 who spent their credit payments on:



Source: CBPP analysis of U.S. Census Bureau's Household Pulse Survey collected between July and September 2021

Food insecurity and other material hardship dropped after the CTC payments started (see data from the [Census, Columbia University](#), and [Journal of the American Medical Association](#)). Children's Health Watch notes that the CTC payments [reduced hunger and improved health](#) in families who received them. ARPA showed that investing a modest amount in children and families (\$250-\$300 per child each month) made a huge difference. [Families caught a break and even thrived](#). Not only could they pay the bills, they ate

healthier, invested in education, and avoided payday loans.

Still no re-expansion of the CTC...yet

Over the past two years, RESULTS advocates organized hundreds of meetings with members of Congress and their staff. In many of these meetings, you shared personal experiences of how the tax credits helped you. After Congress passed temporary CTC and EITC expansions in 2021, RESULTS advocates pushed to continue expansions through direct conversations with policymakers and their staff and over 500 pieces of media over the past two years.

Despite these ardent efforts and increased bipartisan support, Congress failed to include an expanded CTC in any of the major legislative packages of 2022, including the 2022 end-of-year omnibus package to fund the federal government.

By not including tax provisions in the year-end deal, Congress dealt a devastating blow to many families grappling with higher food and housing costs. We know that tax policy can further economic justice—now it's time for a renewed push in 2023.

Our short-term goal: extend the expanded monthly CTC, especially for families with no or low formal income

Since the monthly CTC payments stopped in January 2022, families are facing increased hardship. The monthly child poverty rate [increased 41 percent from December 2021 to January 2022](#). Researchers at Children’s Health Watch found that the ending of monthly CTC payments caused [family food insufficiency to increase by 12 percent](#). 3 million children fell back into poverty in 2022 as 19 million children in low-income families lost all or part of the CTC (see [CBPP data on the children left out in each state](#)).

Black and other families of color are disproportionately harmed by the lapsed CTC expansion; 45 percent of Black children and almost 40 percent of Latino and American Indian & Alaskan Native children are [left out of the full CTC. 25 percent of all families ineligible for the full CTC are Black \(despite being only 14 percent of our population\) and another 30 percent are Latino \(despite being only 26 percent of our population\)](#).

This loss of monthly CTC payments and full refundability came at the worst possible time—when families are facing higher costs from inflation. Moody’s Analytics says the average household is spending an [extra \\$433 per month](#) due to inflation, with a [steep rise in rents](#) fueling increased costs. The 2021 CTC monthly payments averaged \$444 per month per household. The math is simple; if you want to help families with higher costs, extend the CTC.

In April, more than [130 economists wrote](#) that, “the expanded Child Tax Credit is one of the easiest, most effective, and direct tools currently at our disposal to help families deal with the impact of inflation on family budgets.” There is no evidence that the increased CTC in 2021 contributed to rising costs. [As noted by CBPP](#), the expanded CTC would contribute “little or no inflationary pressure”, and two former Treasury Secretaries made a similar point in a [May 2 New York Times op-ed](#). The current Treasury Secretary [Janet Yellen agrees](#), telling Sen. Sherrod Brown that inflation has “utterly nothing to do with the Child Tax Credit”. When a politician says that inflation is hurting families, the response should be, “Then why haven’t you extended the Child Tax Credit payments?”

In 2021, CTC payments contributed to a 46 percent reduction in child poverty. Congress made history and can do that again this year. You can make a large impact on important conversations by meeting with Senators and Representatives, urging them to prioritize expanding the CTC in any tax legislation this year. While we build momentum for permanent changes to our tax code that will reduce child poverty long-term, **our job is to make sure that any expansion of the Child Tax Credit (CTC) that is as refundable as possible, to as many as possible, is included in any tax package**. Many in Congress want to reduce taxes on large corporations in this same bill, and it is up to us to let them know that struggling families should be prioritized.

For Democratic offices, ask them to hold the line, and continue to **tell leadership that the CTC should be prioritized over tax breaks for large corporations** in any tax legislation. Sen. Sherrod Brown led the way saying that he would [“lay down in front of a bulldozer”](#) before he would allow large corporations to receive tax breaks with an expansion of the CTC. In late 2022, Democratic policymakers stood firm on this approach – that Congress must prioritize the CTC and they oppose any tax business provisions unless that same bill includes a CTC expansion. With increased pressure from corporate lobbyists this year, it will be crucial that policymakers hold the line. Ask them to communicate this directly to their party’s leadership along with the tax writing committees—the Senate Finance and House Ways and Means Committees.

For Republican offices, you could say that CTC expansion is connected to other efforts to fix provisions in the 2017 Tax Cuts and Jobs Act (TCJA, which included an increased CTC but focused on higher-income families), and that it is important that we fix the tax code not just for corporations, but for low-income families too. Ask them to **tell leadership that families should be included in the fixes to the TCJA, and that they should prioritize an extended CTC that reaches low-income families in any tax deal**. Also, see below for more ideas for speaking with conservative Members about expanding the CTC.

Key Point: The CTC helps millions of families, but millions of the lowest-income families are once again left out. The 2021 changes fixed holes in the policy and expanded the credits for more people as monthly payments, but those expansions have now expired. In the short-term, we’re pushing for Congress to extend the CTC in any tax package this year.

Let’s reduce child poverty—PERMANENTLY

Advocating for broad bipartisan support for the CTC to reduce child poverty and further economic justice

While in the short-term we want Congress to move quickly to temporarily expand the CTC in a 2023 tax package, RESULTS will also push to enact permanent structural changes that will reduce poverty and hardship in the long-term. We must think beyond this current opportunity that may only pass a CTC expansion for only one or two years and may not include all our priorities. Some in Congress are already talking about major changes to the tax code when many existing tax provisions expire in 2025 – with some calling for action sooner on a large-scale package. **Long-term bipartisan support for the CTC will be key to ensure a permanent expansion of the CTC that reaches all low-income children with no strings attached is part of future tax reforms.**

This is an extraordinary, perhaps once-in-a-lifetime, opportunity to continue historic breakthroughs against poverty. In addition, RESULTS' sustained advocacy with a broad range of policymakers can protect against attacks on the CTC and other polices by future Congresses and ensure Congress enacts a permanent CTC expansion. Our work now is helping lay the groundwork for broader bipartisan support for the CTC.

Advocating with Republicans and Moderate Democrats

It is important in all our lobby meetings to connect with a member's values ([check out this motivational interviewing training recording to learn more about how to do that](#)). Many Republicans and moderate Democrats, for a variety of reasons, may not be moved by poverty statistics alone. It is vital that we use arguments that will resonate with these members. Some examples include strengthening families, parental freedom, bipartisanship, child development, self-sufficiency, and "dignity of work".

To learn more about advocating with Republican and Moderate Democrats, check out the below resources:

- [Blog: Making the Conservative Case for the CTC](#)
- [Policy Forum: Talking with Conservative offices about the CTC](#)
- [Blog: Romney Family Security Act Analysis](#)

A 2015 Redo? RESULTS volunteers made temporary tax credit expansions permanent in a bipartisan package

Back in 2009, in the middle of the Great Recession, RESULTS advocates and others pushed for Congress to expand the EITC and CTC – but Congress made the changes only as a one-time adjustment, set to expire after a year. RESULTS and our partners kept pushing, reminding Congress that poverty was already an emergency before the recession. Returning to the same weaker tax policy that only rewarded the wealthy and made other people vulnerable in the first place didn't make sense. We successfully worked to get those changes to the tax code extended, and then extended again. Then in 2015, Congress finally made the changes permanent as a part of a larger, end-of-year tax bill, [benefiting 50 million people](#) in a package passed with overwhelming bipartisan support.

That lasting victory started – just like we see now – with a short-term emergency response. Then RESULTS advocates kept pushing, with hundreds of meetings with Congress, hundreds of pieces published in their local media, and countless conversations with tax aides on Capitol Hill. **Together we made sure that Congress included key expansions in tax credits for low-income workers and families in a broader bipartisan tax and**

spending package, and we're going to do what it takes to do the same thing again this year.

The takeaway

The Child Tax Credit (CTC) made a historic reduction in child poverty and supported families to pay for rent, food, utilities, and other necessities.

However, because of 51 senators who have refused to support an extension of these changes, 19 million low-income children are now again excluded from the full CTC.

But it is never too late to turn things around. Congress has a choice. They can ignore historic policy changes that dramatically reduced poverty, providing children with food and housing—or they can do what's right and turn 2021's gains into lasting change, furthering economic justice.

Your advocacy will shape the path they choose.