



Bipartisan Policy Center

How to Sensibly and Permanently Expand the Child Tax Credit and Earned Income Tax Credit

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AUTHORS

Shai Akabas

Director of Economic Policy

Nicko Gladstone

Policy Analyst

Rachel Snyderman

Associate Director of Economic Policy

Andrew Carothers

Research Analyst

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Table of Contents

4 EXECUTIVE SUMMARY

7 INTRODUCTION

9 The Child Tax Credit

11 The Earned Income Tax Credit

17 BPC'S RECOMMENDATIONS

17 Enhancing the Child Tax Credit

21 Expanding the Earned Income Tax Credit for Childless Adults

23 Expanding the Earned Income Tax Credit for Workers with One Child

25 Reducing Improper Payments of Refundable Tax Credits

26 Permanent Policies Should Be Paid for

26 Effects of BPC's Proposal

32 CONCLUSION

33 APPENDIX: IMPACT OF BPC'S PROPOSAL ON DEEP POVERTY

Executive Summary

The Child Tax Credit (CTC) and Earned Income Tax Credit (EITC) support American workers and families by easing the high cost of raising children and the difficulty of making ends meet with low or moderate wages. These credits are effective anti-poverty and family-support policies that have historically earned strong bipartisan support.

With temporary CTC and EITC expansions expiring as early as next year, lawmakers face time-sensitive decisions.^a Working with experts from both parties, the Bipartisan Policy Center has developed a package of permanent reforms that would produce lasting benefits on which Americans can count.

This issue brief recommends 13 changes to the CTC and EITC that would create a more secure safety net, reward work, ensure fiscal sustainability, reduce payments made in error, and strengthen the foundation of bipartisan support for these two programs.

Among its long-term impacts (measured in 2031), BPC's proposal would:

- Reduce the number of Americans in poverty by 4.1 million, reduce the number of children in poverty by 2.3 million, and reduce the number of children in deep poverty by more than 800,000.
- Increase the labor supply by 0.3% among households in the lowest-income quintile.
- Improve the cost-effectiveness of these poverty-reducing credits, as measured by the number of children and adults lifted from poverty per federal dollar. BPC's proposal is significantly more cost-effective than a permanent extension of the CTC expansion enacted under the Tax Cuts and Jobs Act of 2017 (TCJA), and has comparable cost-effectiveness to permanently extending the CTC and EITC changes under the American Rescue Plan Act of 2021 (ARP).

BPC'S RECOMMENDATIONS

Permanently Enhance the Child Tax Credit

- Increase the maximum credit amount per child to \$2,200, make the first \$1,200 fully available regardless of earnings, phase in the remainder starting

^a Temporary expansions to the CTC under the Tax Cuts and Jobs Act of 2017 will expire at the end of 2025, while additional temporary expansions to both the CTC and the EITC enacted by the American Rescue Plan Act of 2021 will expire at the end of 2021.

at the first dollar of earnings, and eliminate the cap on refundability.^b

- For children under age 6, increase the maximum credit amount per child to \$2,800 and make the first \$1,800 fully available regardless of earnings.
- Raise the age of eligible children to 17.
- Pay the fully available portion of the CTC periodically throughout the year.
- Lower the income threshold for the CTC phaseout.

Permanently Expand the Earned Income Tax Credit for Childless Adults and Workers with One Child

- Double the maximum credit and phase-in rate and expand the income eligibility range for childless adults.
- Lower the minimum eligibility age for the childless EITC to 19, excluding full-time students.
- Increase the maximum eligibility age for the childless EITC to 66 and link it to the Social Security Full Retirement Age (FRA).
- Raise the maximum credit for workers with one child to \$5,248 in 2022 and accelerate the phaseout rate to match the rate applied for two-child families.

Reduce Improper Payments of Refundable Tax Credits

- Authorize the IRS to regulate unenrolled tax preparers.
- Adequately fund the IRS and improve the audit process.
- Expand support for Volunteer Income Tax Assistance (VITA) sites.

Pay for Permanent Policies

- Ensure sustainability of permanent policies by raising revenue or redirecting spending toward more efficient programs for needier groups.

BPC's proposal produces a more optimal combination of poverty reduction, work incentives, and overall cost than other proposals, including permanent extension of the TCJA or ARP.

^b While no minimum earnings are required to qualify for the \$1,200 fully available portion of the credit, it phases out (along with the rest of the credit) for those with higher incomes.

	Current Law	TCJA Extension	ARP Extension	BPC's Proposal
10-year cost (2022-2031)^c	-	\$495 billion	\$1.660 trillion	\$1.002 trillion
2026-2031 cost	-	\$495 billion	\$1.171 trillion	\$769 billion
Change in hours worked (2031)	-	0.0%	-0.2%	-0.1%
Change in hours worked for lowest-income quintile (2031)	-	0.1%	0.0%	0.3%
Poverty rate (2031)^d	11.8%	11.4%	9.8%	10.5%
Child poverty rate (2031)^d	12.8%	12.0%	7.9%	9.6%
Child deep poverty rate (2031)^e	3.5%	3.5%	1.9%	2.4%
Cost per person lifted from poverty (2031)^{d,f}	-	\$73,071	\$31,530	\$31,637
Cost per child lifted from poverty (2031)^{d,f}	-	\$144,710	\$56,778	\$56,846

Note: Baseline is current law, with TCJA in effect through 2025 and pre-TCJA law in effect thereafter. "TCJA Extension" models a permanent extension of the CTC expansion enacted in the TCJA. "ARP Extension" models a permanent extension of the CTC and EITC expansions enacted in the ARP. See **Table 8** for further details.

c Cost compared to current law, which includes the TCJA through 2025. Thus, the TCJA's cost row only includes costs from 2026-2031, while the ARP and BPC cost rows include costs compared to a TCJA baseline from 2022-2025 and a permanent-law baseline from 2026-2031.

d Poverty defined using the Supplemental Poverty Measure. All poverty rate estimates are static and do not reflect poverty reduction from increased hours worked.

e Deep poverty is defined as household income below 50% of the Supplemental Poverty Measure.

f Cost is annual in 2031, not adjusted for inflation. It equals $\frac{\text{Proposal's cost in 2031}}{\text{Number of people lifted from poverty in 2031}}$

$\frac{\text{Proposal's cost in 2031}}{\text{Number of people lifted from poverty in 2031}}$

Introduction

The COVID-19 pandemic and recession exacerbated two problems that have long plagued American families and workers: the high cost of raising children and the difficulty of making ends meet with low or moderate wages. Two tax credits that ease these problems are the Child Tax Credit (CTC) and the Earned Income Tax Credit (EITC).

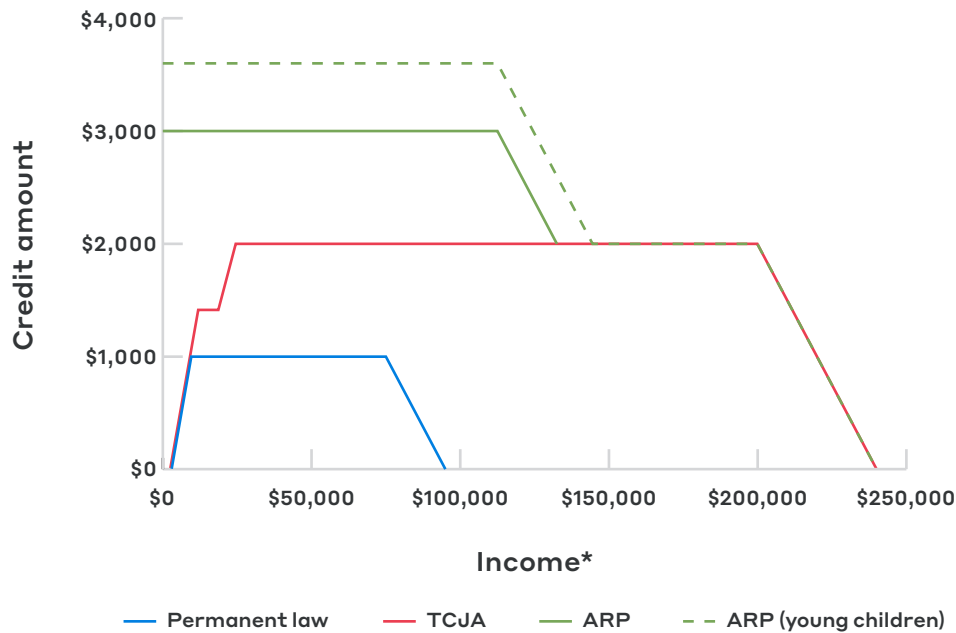
Each of these credits is currently governed by overlapping layers of permanent law and temporary expansions. In the case of the CTC, the Tax Cuts and Jobs Act of 2017 (TCJA) temporarily expanded the credit for all eligible families, while the American Rescue Plan Act of 2021 (ARP) built atop the changes in the TCJA to temporarily make the credit more generous for all families except those with higher incomes. **Table 1** shows the three legal layers of the CTC, while **Figure 1** illustrates how much a typical household with one child receives under each law.

Table 1: The CTC's Permanent Law and Temporary Expansions

	Permanent Law	Tax Cuts and Jobs Act	American Rescue Plan Act
Expiration	-	End of 2025	End of 2021
Maximum credit	\$1,000 per child	\$2,000 per child	\$3,000 per child; \$3,600 per child age 5 or younger
Phase-in rate and threshold	15% of earnings over \$3,000	15% of earnings over \$2,500	No minimum earnings requirement to receive full credit
Refundability	If credit exceeds tax liability, difference is issued as a refund	Same as permanent law, with refunds capped at \$1,400 per child	If credit exceeds tax liability, difference is issued as a refund, with half distributed in monthly payments throughout the year and the rest claimed during tax season
Phaseout rate and threshold^g	5% starting at income of \$75,000 (single or head of household) or \$110,000 (married filing jointly)	5% starting at income of \$200,000 (single or head of household) or \$400,000 (married filing jointly)	\$3,000/\$3,600 credit phases down to \$2,000 at a rate of 5% starting at income of \$75,000 (single), \$112,500 (head of household), or \$150,000 (married filing jointly); then TCJA schedule
Maximum age of qualifying children	16	16	17
Refund timing	Annual	Annual	Half paid throughout year; half paid annually during tax season
Marginal annual cost (approximate)^h	\$54 billion	\$64 billion more than permanent law	\$105 billion more than permanent law + TCJA

g For a married couple filing jointly with two children under age 17 (permanent law, TCJA) or between ages 6 and 17 (ARP), the CTC is fully phased out at the following income limits: Permanent law – \$150,000; TCJA – \$480,000; ARP – \$480,000.
 h Cost estimates come from Joint Committee on Taxation for most recent year in which relevant law applied: Permanent-law cost is from 2017, TCJA cost is from 2020, and ARP cost is projection for 2021 and 2022.

Figure 1: The CTC's Schedule for a Single Parent of One Child, Under Permanent Law and Temporary Expansions



*The CTC phases in with earnings but phases out with modified adjusted gross income. **Note:** TCJA is the Tax Cuts and Jobs Act of 2017. ARP is the American Rescue Plan Act of 2021. Graph assumes single parent takes the head-of-household deduction and no other tax benefits before applying the CTC. The TCJA schedule shows what would have applied in 2021 had the ARP not been enacted.

The CTC assists families with the cost of raising children and helps kids grow up in homes with additional financial resources for healthy development. Since children can be a daunting expense for households throughout much of the income distribution, the CTC helps nearly all families in America, the vast majority of which receive a flat benefit. The EITC, by contrast, is meant to raise the incomes of low-earning workers and incentivize work, so it subsidizes earnings near the bottom of the income distribution.

Ideally, if reconstructed from scratch, the two separate credits would accomplish two separate goals: The CTC would assist families and help children grow up with the financial resources for a secure and healthy childhood, while the EITC would reward low-wage work. In practice, both credits mingle family support and work incentives as the CTC phases in with earnings, while the EITC offers larger credits to workers with more children.

Amid an unprecedented public health and economic crisis, Congress and the Biden-Harris administration passed expansive one-year extensions of the CTC and the EITC for childless workers. However, these changes are temporary fixes that will expire on December 31, 2021, and the chronic struggles of families and low-wage workers will remain.

Long-term systemic problems require long-term permanent solutions, not bursts of spending that turn on and off intermittently. With emergency assistance expiring in a matter of months, Congress should create lasting reforms that

produce tangible benefits for the American people.

Five principles ought to guide expansions of these credits. First, expansions should create a more secure safety net that will help Americans in need. Second, reforms should maintain—or ideally strengthen—existing work incentives, particularly for those near the bottom of the income distribution. Third, expansions need to be fiscally reasonable, with new spending targeted to the Americans who need it most and at least partially offset by other tax or spending changes. Fourth, expansions to eligible Americans should be combined with reforms to curtail payments made in error. Finally, to be politically secure—rather than at risk of repeal as soon as another party controls Congress and the White House—these reforms should be passed in a bipartisan manner.

Working with experts from both parties, the Bipartisan Policy Center has developed such a package. Our recommendations create permanent solutions to chronic problems, achieve a high bang for the buck, balance the safety net with rewarding work, reduce improper payments, and set these reforms on the durable political foundation of bipartisanship.

THE CHILD TAX CREDIT

The CTC was established by the Taxpayer Relief Act of 1997 and has been expanded under every president since.¹ Under permanent law, the CTC gives parents a tax credit worth up to \$1,000 per child, phasing in with parental earnings and phasing out at higher incomes. If a parent’s credit exceeds their tax liability, they receive the difference as a payment.ⁱ Recently, this underlying law has been superseded by a temporary credit expansion under the TCJA. The TCJA increased the maximum credit to \$2,000 per child (while limiting the refundable portion to \$1,400 per child), reduced the start of the credit’s phase-in from \$3,000 of earnings to \$2,500, and increased the income at which the credit phases out to a modified adjusted gross income (AGI) of \$200,000 for single filers and \$400,000 for married couples (**Table 1**).^j Prior to the COVID-19 pandemic and recession, 89% of families with children received the CTC, with an average household benefit of \$2,310.^{k,2} The CTC can help parents pay for critical needs like child care, school tuition, books, healthy food, medical care, and housing. These necessities give children more stable, economically secure childhoods, thereby promoting healthy development that benefits them in the long term.

i The refundable portion of the CTC is technically known as the Additional Child Tax Credit. For simplicity, we refer to both the refundable and nonrefundable credit as the “Child Tax Credit.”

j Adjusted gross income (AGI) is calculated by subtracting certain adjustments (e.g., self-employed retirement plan contributions and student loan interest) from total income. Modified adjusted gross income adds back in some of the income that was deducted when calculating AGI.

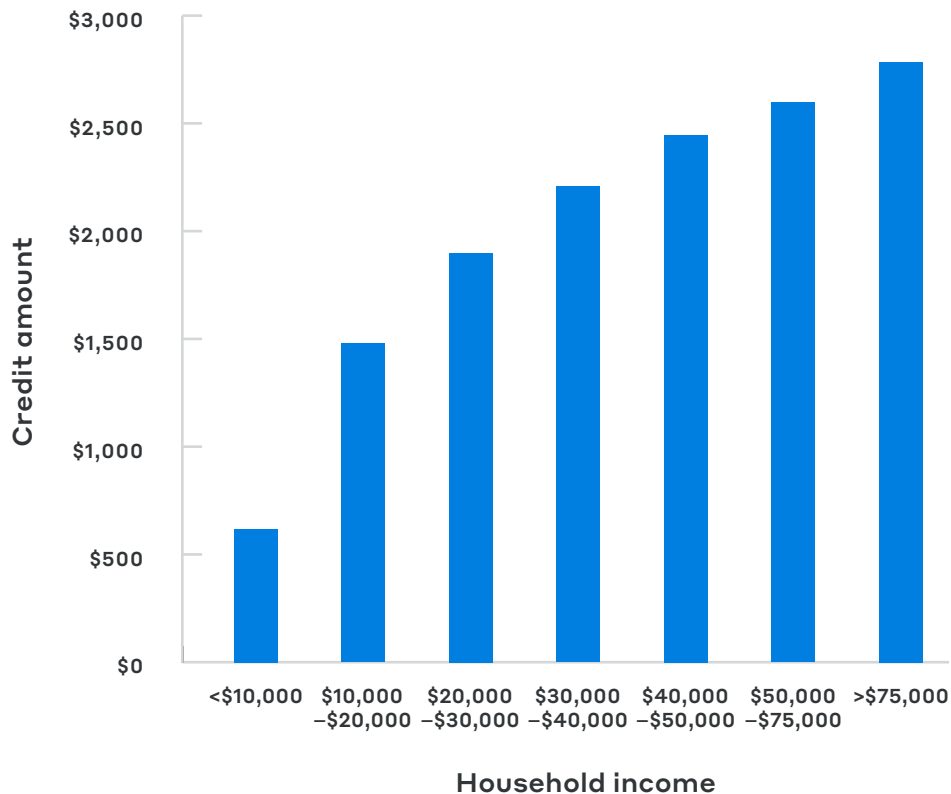
k Under the ARP, the Tax Policy Center estimates that 90% of families with children will receive the CTC, with an average household benefit of \$4,380 for tax year 2021. See Elaine Maag and Nikhita Airi, “The Child Tax Credit Grows Up to Lift Millions of Children Out of Poverty,” Tax Policy Center, March 16, 2021.

While the CTC has lifted millions out of poverty, it has historically given the most help to households that are middle class or higher (except those with the very highest incomes, for which the credit phases out). Many of these parents near the middle of the income distribution need assistance defraying the high cost of raising children, and the CTC should continue to benefit them. It has long been clear, however, that the CTC could do more to extend the same help to the most vulnerable families.

Historically, parents with low incomes have been ineligible for the full credit—and many were not eligible for any credit at all. Even after the TCJA expanded the credit for most families, 6.7 million children lived in low-income families ineligible for the credit, and another 17.1 million lived in low-income families eligible for only a partial credit. In total, 35% of all children lived in families with incomes too low to qualify for the full CTC.³

Even when eligible, the lowest-earning families received the smallest credit on average (**Figure 2**). For example, after 2017, the CTC provided \$2,000 per child to a married couple earning \$400,000, but less than \$950 per child to a single mother employed full time at the federal minimum wage. The CTC could also amplify the economic vicissitudes to which families were exposed: When a parent with very low earnings was laid off, she would lose earnings, then the loss would be compounded by loss of income support from the CTC.¹ The credit, in short, has historically offered little or no help to the families who need it most (**Table 2**).

Figure 2: Average CTC by Household Income in 2019



Note: Graph shows average credit among households that receive the CTC. It therefore does not account for families with very low or very high incomes, which are ineligible for the credit.

Source: Joint Committee on Taxation.

Table 2: The Unequal Benefits of the CTC Under the TCJA

Income	When splitting American families into quintiles (fifths) based on income, families in the bottom quintile were least likely to be eligible for the CTC. Even when eligible, they received the smallest credit, on average. ⁵
Race	More than half of Black and Hispanic children were left out of the full CTC. Children of color were twice as likely as white children to be completely ineligible for the CTC because their parents had insufficient earnings. ⁶
Family structure	Single mothers were four times as likely as married couples to be ineligible for the CTC. ⁷
Geography	Families in rural areas were less likely to be eligible for the CTC than families in urban areas. ⁸

The ARP addressed this problem directly. For one year only, the law eliminates the CTC's refundability cap as well as its phase-in, allowing families to receive the full credit even if they have little or no earnings. The ARP also temporarily increases the maximum credit to \$3,000, introduces a larger credit of up to \$3,600 for children age 5 or younger, and raises the maximum age of qualifying children to 17. Half of the credit is being delivered in advance monthly payments that began on July 15, while the other half will be claimed when families file 2021 income tax returns.⁴

The ARP commendably reforms the CTC to help the low-income families who had long been denied the credit's assistance. The changes, however, also raise serious questions about severing the credit's connection to work, the expansion's substantial cost, and the political durability of an emergency expansion passed along party lines. Looking ahead, the ARP's credit expansion will expire at the end of the year, and the expansion under the TCJA will expire after 2025.

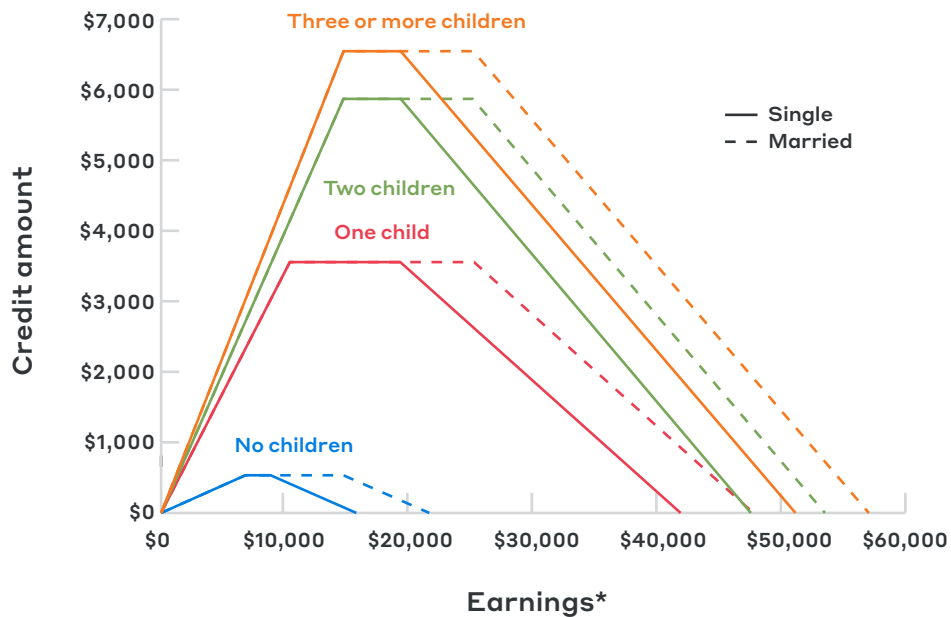
Policymakers need to find a path forward that allows the CTC to reach the families who need help most, balances assisting low-income families with preserving work incentives, makes the credit better-targeted, and is enshrined in permanent law so that families can count on the assistance they need without periodic shut-offs looming every few years.

THE EARNED INCOME TAX CREDIT

The EITC raises the after-tax income of workers with low earnings. The credit phases in with a worker's earnings, plateaus, then phases out at higher incomes (**Figure 3**). Workers with more children see their credit phase in faster, can receive a larger maximum credit, and remain eligible for the credit at somewhat higher income levels.

¹ One way to prevent this would be to determine eligibility using multiple years of earnings, which would also help new parents who briefly drop out of the labor force to spend time with their young children. This approach, however, could create additional administrative complexity.

Figure 3: EITC Schedule for Tax Year 2020



*The EITC phases in with earnings but phases out with AGI.

Note: We show tax year 2020 to present relative credit values under permanent law, as opposed to the one-year expansion for tax year 2021 created by the ARP.

Source: Internal Revenue Service.

The EITC can significantly raise a worker's after-tax income: In 2020, it paid recipients an average of \$2,461.⁹ The credit also lifts more than 5 million people out of poverty every year.¹⁰ By supplementing wages, the EITC draws people with low incomes into the labor force and incentivizes them to increase their earnings.¹¹ Thus, the credit creates a double benefit for recipients: It gives them a large transfer and amplifies the income gain by encouraging them to earn more in the labor market.^{12,13} Because the EITC increases earnings, it also raises revenue for the federal government and reduces spending on other benefit programs; after accounting for these savings, one study finds that each \$1 of net spending on the EITC creates more than \$3 of near-term benefits to its recipients.^{m,14}

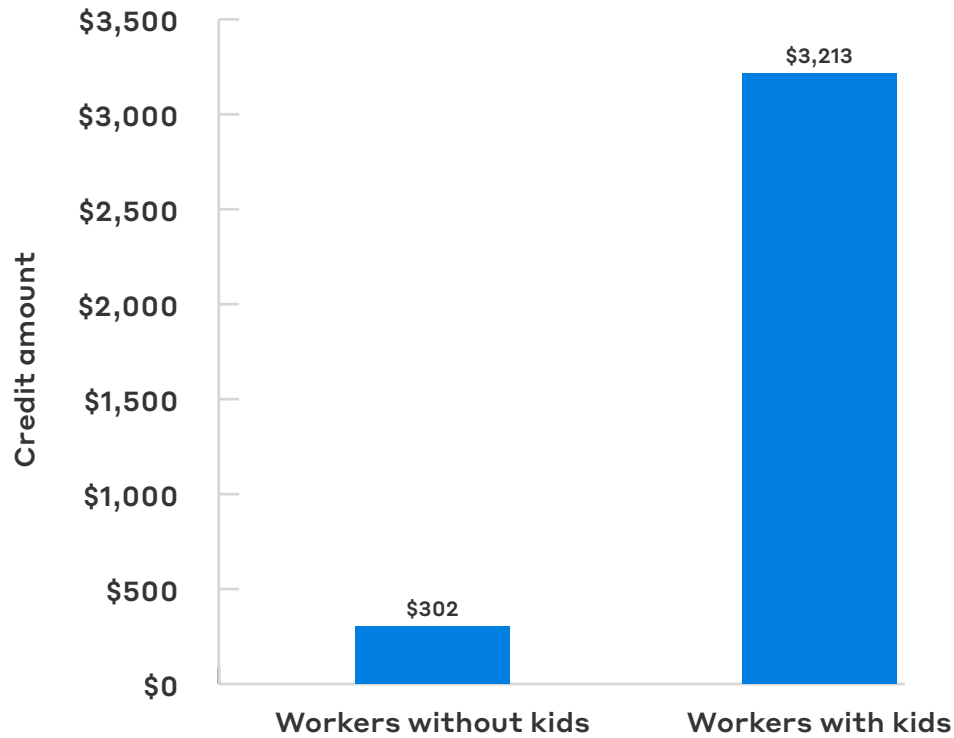
While the EITC greatly benefits parents, it has historically offered little help to low- and moderate-income workers who cannot claim child dependents. In tax year 2020, childless workers could receive a maximum credit of only \$538, compared to \$3,584 for a worker with one child.¹⁵

Considered as a safety-net program to raise low-income workers' standard of living and incentivize work, the average childless credit is too small to make much difference, with the maximum credit of just over \$500 per year (**Figure 4**). Moreover, the childless EITC, as it existed before this year, phased out at such a low level of income that if a typical unmarried childless worker were offered a full-time job at his local minimum wage, he would not be eligible for any EITC—

^m We specify that these costs and benefits are in the near term, because the EITC, like other transfers to low-income families, delivers enormous long-term benefits for children.

hardly an effective work incentive.ⁿ Even childless adults employed part time at low or moderate wages had little incentive to work and earn more because their EITC phased out so quickly.

Figure 4: Average EITC in Tax Year 2018



Source: Tax Policy Center.

The ARP addressed these flaws with a dramatic one-year expansion of the EITC for childless workers, shown in **Table 3**.

As with its expansion of the CTC, the ARP's expansion of the EITC for childless workers is a commendable step toward solving a long-standing flaw in the tax code. But, similar to the CTC expansion, this is a one-year solution to a long-term problem. Lawmakers should develop a permanent and sustainable fix to the EITC's inadequate aid to childless workers.

ⁿ We calculate the local minimum wage that a typical worker faces as the median minimum wage across all states, weighted by total employment in each state.

Table 3: The EITC for Childless Workers—Permanent Law, Temporary Expansion

	Permanent Law	American Rescue Plan
Phase-in rate	7.65%	15.30%
Maximum credit^o	\$543	\$1,502
Phaseout start^{o,p}	\$8,880	\$11,610
Phaseout rate	7.65%	15.30%
Phaseout end^{o,p}	\$15,980	\$21,430
Minimum eligibility age	25	19, excluding full-time students
Maximum eligibility age	64	None
Expiration	--	December 31, 2021

Source: Congressional Research Service.

^o Values rise each year with inflation. “Permanent Law” values are the amounts that would have resulted for tax year 2021 had the ARP not been enacted.

^p Values shown are for single filers. Credit phases out at higher levels of income for married filers.

In addition, the ARP does little to assist efforts aimed at reducing EITC and CTC error rates—a persistent problem that threatens to erode support for the programs.^{16,17} An estimated 24% of EITC payments are improper, according to the IRS.^{q,r,18} In other words, approximately one in four EITC dollars each year may go to either people who are ineligible or to filers who receive more than they should by law. The refundable portion of the CTC is estimated to have an improper payment rate of 12%.¹⁹ The actual net rates of overpayment are less than these figures suggest, because the estimates—which tally gross overpayments—do not account for overpayments that the IRS is able to reclaim.²⁰

Federal law presently bars a taxpayer from claiming the EITC or CTC for two years if the IRS determines that the taxpayer has improperly claimed the credit with “reckless or intentional disregard” for eligibility rules.²¹ If an improper claim is due to fraud, the taxpayer is prohibited from receiving the abused credit for 10 years.²²

While some improper claims are fraudulent, many are honest mistakes by individuals confused by the credits’ complicated rules. The majority of illegitimate EITC dollars

^q Some experts, including former IRS National Taxpayer Advocate Nina Olson, have cautioned that this figure may overstate the true error rate of EITC payments. Olson notes that when an EITC claimant whose credit is denied in an audit seeks assistance from the IRS’ Taxpayer Advocate Service, about 40% of the denials are reversed. She observes that most people whose EITC is ruled invalid do not receive this help, and that the error rate estimate thus reflects some EITC claims that likely would be found valid if the claimants had received this assistance.

^r While the EITC has a high improper payment rate, the program also has much lower administrative costs than other major means-tested programs. EITC administrative costs are estimated to be about 1% of benefit costs. In comparison, administrative costs are estimated to be 7% of benefits for Supplemental Security Income and 4% for Medicaid. While not excusing high improper payments, analysts often note this trade-off between error rate and administrative cost. See Robert Greenstein, “Romney’s Charge That Most Federal Low-Income Spending Goes for ‘Overhead’ and ‘Bureaucrats’ Is False,” Center on Budget and Policy Priorities, January 23, 2012.

are due to improper claiming of children, whose attribution for household tax purposes is governed by enormously complicated rules. The credit's complex child eligibility rules are partly a response to complex family circumstances.²³ Because a child might live with her older sibling, mother, uncle, and grandfather—each of whom may have justification to claim her—Congress created elaborate tiebreaker rules. Ultimately, the program's complexities reflect a fundamental trade-off between targeting and simplicity: To target benefits to exactly the right people, Congress must home in on them with specific and intricate rules. Lawmakers may be reluctant to simplify the credit if the result is less-exact targeting.

Another major cause of improper payments, however, may be easier to address. Illegitimate payments are often the result of error or fraud by a tax preparer. Fifty-three percent of all tax filers used a paid preparer when filing for tax year 2019.²⁴ Further, a majority of CTC and EITC recipients pay a preparer to claim tax benefits on their behalf, and more than three-quarters of paid preparers are so-called “unenrolled preparers,” who are often not subject to any certification, training requirements, ethical standards, or competency tests.²⁵ Indeed, when the IRS tested unenrolled preparers for competence, one in four failed.²⁶

Unenrolled preparers combine this dubious proficiency with little risk of accountability for overclaims; as a result, they have the highest error rate of any type of return preparer. In fact, half of EITC returns submitted by unenrolled preparers claim a larger refund than for which their client is eligible.²⁷

ANOTHER TAX SUPPORT FOR WORKING FAMILIES: THE CHILD AND DEPENDENT CARE TAX CREDIT (CDCTC)

The CDCTC is another important element of the tax policy landscape. The credit helps families offset a portion of child or dependent care expenses—care that many parents need to work or seek employment. Child care is a prerequisite for workforce participation in many households, but the cost burden is steep, and it can often be a barrier to gainful employment. The CDCTC helps alleviate these high costs by reducing federal income tax liability.

Under permanent law, families may claim up to \$3,000 in care expenses per child or dependent (up to a maximum of \$6,000 for two children or dependents), and can receive a percentage of those expenses, based on income, as their credit. The higher the income level, the lower the percentage of expenses the caregiver may receive.

While this structure appears progressive, the credit primarily benefits only a subset of working families—and notably not the low- and moderate-income families in greatest need of support—for three main reasons:

- 1. Lack of refundability:** The existing CDCTC is not refundable beyond a family's federal income tax liability. Because the lowest-income families owe little to no federal income taxes, they typically cannot receive a credit. In 2018, only 6% of CDCTC recipients had a household income under \$25,000, while 57% had an income above \$75,000.²⁸
- 2. Differing Expenses:** Families with higher incomes can afford greater child care expenses, and therefore, get more benefit from the credit. In 2018, taxpayers with incomes between \$15,000 and \$25,000 who claimed the CDCTC received \$347 on average, while the average value of the credit for those with incomes between \$100,000 and \$200,000 was almost double the size (\$603).²⁹
- 3. No Phaseout:** Because there is no phaseout of the credit for higher-income families, they can receive the same credit as households with incomes of \$43,000. In 2018, 44% of aggregate CDCTC dollars went to families with incomes above \$100,000, and just 24% went to families with incomes between \$25,000 and \$50,000.³⁰

After two decades without any improvement, the ARP was the first law to alter the CDCTC, but it only does so for one year. Among other changes, the ARP increased the amount of expenses eligible to be claimed, increased the percentage rate, and made the credit fully refundable.

While the pandemic motivated these changes for 2021, the unaffordability of child care predated the crisis. Building off the ARP's temporary tax provisions, a combination of several key changes to the existing CDCTC structure beyond 2021 can better align the tax credit so that it works best for the families who need it most.

Although this issue brief focuses only on the CTC and EITC, BPC has separately developed recommendations to improve the CDCTC. To learn more about the credit and BPC's proposals, read our 2021 report, [The Effects of the Child and Dependent Care Tax Credit on Child Care Affordability](#).

BPC's Recommendations

ENHANCING THE CHILD TAX CREDIT

Permanently increase the maximum credit amount to \$2,200 per child. Make the first \$1,200 fully available regardless of earnings, phase in the next \$1,000 starting at the first dollar of earnings, and eliminate the cap on refundability

Policymakers should balance guaranteeing an income floor for the most vulnerable families with continuing to reward work. Not all parents can work all the time—for instance, some may be caring for young children—and the CTC should still support children whose parents earn very little or are out of the workforce. A transfer that also encourages work, however, creates the powerful combination of income from the transfer and greater earnings. The EITC demonstrates this clearly: Only half of the poverty reduction generated by that program comes from the direct credit; the other half comes from the greater earnings that the credit produces.³¹ If working leads a parent to gain skills and experience that increase long-term earnings potential—indeed, preliminary evidence suggests the EITC may cause such long-run earnings gains—then making work more attractive in the near term can help families for years to come.^{32,33}

Because earnings rise with experience and age, employment offers a path out of a permanently low income that a tax credit alone cannot. A reformed CTC would help families most if it keeps them on the ladder of rising earnings, and is still there to catch them if they fall off.

To help children in low-income families while preserving work incentives, we recommend making the first \$1,200 per child of the CTC—and the first \$1,800 for each qualifying child age 5 or younger (see next section)—fully available regardless of earnings. This means that even families with no earnings would receive the first \$1,200 of the credit (or, for parents of young children, \$1,800) per child. The credit's next \$1,000 would then phase in at the current 15% rate, starting at the first dollar of earnings. For families with multiple children, the earnings-related portion of the credit would phase in sequentially for each child, as is the case for the full credit under the TCJA and permanent law.

We also call for eliminating the \$1,400 cap on CTC refunds. Neither the safety net nor work incentives are strengthened by creating an arbitrary discontinuity in the CTC's phase-in with a refund limit. Indeed, the limit on refunds creates perverse outcomes. Take two different households, each with the same earnings and number

of children. If one household saves for retirement in a workplace 401(k), that household will lower its tax liability and could thereby receive a smaller CTC than a neighbor who did not save. The refund limit thus results in treating families with the same needs differently. It also causes one part of the tax code to penalize behavior that another part tries to encourage. The same effect means that claiming child care expenses under the CDCTC could result in a lower CTC, forcing two pieces of the tax code that are meant to support families to compete with one another. Eliminating the cap on refunds would solve these illogical outcomes and treat families more fairly.

These reforms strike a balance between providing flexible financial assistance to the most vulnerable families and supporting work to increase financial independence. All parents with low and moderate earnings would receive some support, but at least one parent per household must work to access the full credit. Even so, under BPC's proposal, if a household contains at least one full-time earner, it would almost always qualify for the full CTC no matter how low the worker's wages. The result is a CTC that is nearly universal in part, but under which parents would always do better by remaining employed.

Increase the Child Tax Credit for children age 5 or younger

Families face significant costs during the first years of a child's life. Indeed, in most states, the cost of infant care exceeds the average cost of in-state tuition at a public four-year university.³⁴ Additionally, households generally have fewer resources when children are young. Parents of young children who are in earlier stages of their careers have had less time to build savings, and tend to work less.³⁵ A more generous credit for households with children age 5 or younger would allow cash-constrained parents to make critical investments during their children's early years. Such support would also help new parents afford to stay home with their children longer, fostering an important resource for a child's healthy development: a strong parent-child relationship.⁵

We therefore recommend increasing the maximum value of the CTC to \$2,800 for each child age 5 or younger, with the first \$1,800 fully available regardless of earnings, and the next \$1,000 phased in with earnings.

Permanently raise the age of eligible children to 17

For this year only, the ARP raised the maximum age of children who can be claimed for the CTC from 16 to 17. This is a welcome change that should be made permanent. A dependent who is age 17 costs no less to support than one who is 16; the former is still in important developmental years, when family resources can create long-term benefits. Families should continue to receive the CTC for these older children, who still require support.

^s We do not see a tension between our belief that the CTC should generally encourage work and our belief that it should help parents of young children stay home. Staying home with young children is a temporary pause from working that can benefit both parent and child. Permanently dropping out of the labor force, however, is clearly a different choice that public policy should discourage.

Pay the fully available portion of the Child Tax Credit periodically throughout the year

While the permanent-law CTC arrives as a lump sum once per year, families have constant needs—from child care to rent to school tuition—that cannot wait until tax refund season. Nor does a lump sum help families smooth unstable or irregular incomes that leave them vulnerable to hardship.³⁶ Because our proposal establishes a portion of the credit that does not depend on a family’s earnings (except for high-income families in the credit’s phaseout range), the IRS can deliver those funds—the first \$1,800 for children age 5 or younger, the first \$1,200 for older children—periodically during the calendar year. Given that the IRS is currently administering monthly CTC payments through the remainder of 2021, making this change permanent would be feasible, and most recipients would not be at risk of owing money to the government at year’s end.[†]

We recommend keeping periodic payment of the fully available portion of the CTC optional. Research on the EITC shows that some beneficiaries use their refundable credit to pay for regular expenses like food or housing, households that would be better served by periodic payments. Others prefer a large, once-a-year payment as a forced saving mechanism to help them cover larger purchases.³⁷ Providing two options would allow families to choose the payment structure that matches their needs.

The remaining credit, which phases in with earnings, would be administered during tax season. Eligible families would use it to reduce their tax liability and, if the credit exceeds their tax bill, receive the difference as a lump-sum refund.

Lower the Child Tax Credit phaseout income threshold

Families making \$400,000 do not need taxpayers to support them. Lawmakers should instead create a more progressive credit by shifting dollars to households who need them most. To effectively target the CTC, we recommend phasing out the credit starting at income of \$150,000 for single filers and \$200,000 for married couples.[‡] This phaseout level (and the corresponding savings) would enable Congress to increase assistance to the neediest families while ensuring that middle- and upper-middle-income families continue to receive support for the very real expenses of raising children.

Table 4 compares our reforms to current law in 2022, and **Figure 5** compares the credit amount for a single parent of one child under BPC’s proposal and under the TCJA.

† To ensure that low-income households owe no money back, Congress should create a safe harbor for families whose child moves out or dies partway through the year.

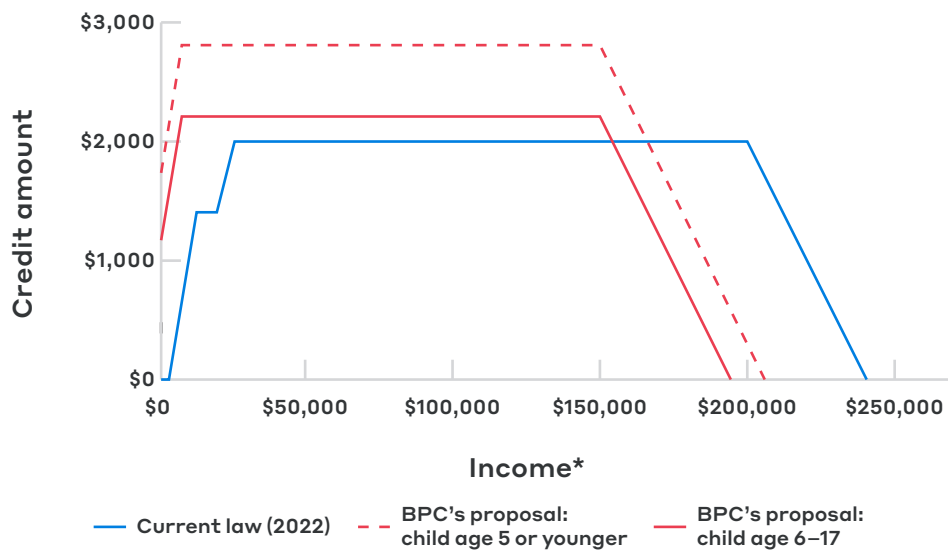
‡ BPC’s proposed phaseouts for single filers and married couples are closer together than under the TCJA. Households with two parents tend to be more financially secure than households run by single parents, and BPC’s phaseout thresholds aim to reflect this reality.

Table 4: Comparing BPC’s CTC Proposal to Current Law (2022)

	Current Law	BPC’s Proposal
Phase-in	Starts phasing in at \$2,500 of earnings	First \$1,200 of credit is fully available regardless of earnings (first \$1,800 for children age 5 or younger); next \$1,000 starts phasing in at first dollar of earnings
Additional credit for children age 5 or younger	None	\$600
Cap on refunds	\$1,400	None
Payment timing	One tax refund per year	Families have option of receiving the fully available portion periodically; rest of credit paid as one tax refund per year
Minimum earnings required to get full credit for one child	Depends on tax liability; for a married couple, \$31,100; for a single parent, \$24,800 ^v	\$6,667, regardless of tax liability and filing status
Maximum age of qualifying child	16	17
Phaseout start^w	\$200,000 for single filers, \$400,000 for married couples	\$150,000 for single filers, \$200,000 for married couples

v Assumes married couples take standard deduction for married filers and single parents take head-of-household deduction, and that neither claims any other tax benefit before applying the CTC.
w For a married couple filing jointly with two children between age 6 and 16 (current law) or 17 (BPC’s proposal), the CTC is fully phased out at the following income limits: Current law (2022) – \$480,000; BPC’s proposal – \$288,000.

Figure 5: CTC Schedule for a Single Parent with One Qualifying Child Under BPC’s Proposal and Current Law (2022)



*The CTC phases in with earnings but phases out with modified AGI.
Note: Graph assumes single parent takes the head-of-household deduction and claims no other tax benefits before applying the CTC.

Administering the fully available portion of the Child Tax Credit

The CTC is currently administered by the IRS, the agency best positioned to map a family's annual income to an annual tax refund. If part of the credit were converted into a flat benefit, however—fully available regardless of earnings and paid throughout the year on a permanent basis—policymakers should reevaluate which agency could best administer it. Some experts have concluded that the most sensible alternative candidate is the Social Security Administration (SSA).

SSA and the IRS each bring advantages and disadvantages. The IRS already delivers child-related tax benefits to 95% of families with children and has a core expertise in tracking families' annual income.³⁸

On the other hand, the IRS exists to collect taxes, not administer nearly universal social benefits. SSA has the expertise and culture of a benefit administrator, including experience determining eligibility each month and sending out monthly payments. Periodic eligibility determination is important because children often change households during the year—for instance, moving from one parent to another—and ideally a child benefit would move with the child (SSA already does this with Supplemental Security Income payments).³⁹ Moreover, claiming a benefit with the IRS requires filing a tax return, which not all parents do even when eligible for refundable tax credits, and which can also entail paying a tax preparer. In contrast, claiming benefits through SSA only requires a Social Security number, which almost all children already have.⁴⁰

In the near term, the fully available portion of the CTC may be easiest to send through the IRS, since the payments merely reflect a reform to a program the agency already administers.⁴¹ With permanent changes under consideration, however, policymakers should study which long-term administrative structure is most effective.

EXPANDING THE EARNED INCOME TAX CREDIT FOR CHILDLESS ADULTS

Double the maximum credit and phase-in rate and expand the income eligibility range for childless adults

We recommend doubling the maximum credit for childless workers relative to permanent law (to \$1,122 in tax year 2022), doubling its phase-in rate to 15.3%, and raising the income level at which the credit starts to phase out to \$12,830 for unmarried filers in tax year 2022.^{x,y}

x Projected EITC parameters for tax year 2022 are based on EITC parameters for tax year 2021 before the enactment of the ARP and adjusted for inflation according to CBO projections for the 2021 Consumer Price Index for All Urban Consumers.

y This phaseout income level matches the one in separate but identical plans to expand the childless EITC released by President Obama and Congressman Paul Ryan, adjusted for inflation since those plans were released in 2014.

Doubling the phase-in rate would provide more assistance to low-income workers without children while creating a stronger incentive for additional earnings. The permanent-law 7.65% phase-in rate for childless workers is significantly lower than what workers with children receive; for instance, the phase-in rate for workers with one child is 34%. Increasing the phase-in rate would make the credit's treatment of childless workers less of an anomaly.

While we suggest doubling the phase-in rate, the permanent-law phaseout rate of 7.65% should remain unchanged. Our plan is meant to strengthen work incentives for childless workers; doubling their implicit marginal tax rate among phaseout income levels would run counter to that goal. Indeed, the EITC for workers with children similarly phases in at roughly twice the rate it phases out, so this change would align the credit's structure for workers with and without kids.

Lower the minimum eligibility age for the childless Earned Income Tax Credit to 19, excluding full-time students

Although workers with children can claim the EITC at any age, childless adults must be between 25 and 64 years old under permanent law. Younger workers, however, may especially benefit from the EITC. Early career years are a critical period for building skills and solidifying attachment to the labor force: 66% of lifetime wage growth occurs during the first 10 years of a worker's career.⁴² Conversely, time spent out of the workforce is especially damaging when it occurs at young ages—particularly for those with low levels of education—leaving scars on young workers' careers that last decades.^{43,44} Moreover, among childless workers who never attended college, workers too young to be eligible for the credit have suffered the greatest decline in labor force participation over the past three decades.⁴⁵

We recommend lowering the minimum eligibility age for childless workers to 19, assuming the IRS is able to accurately identify full-time students and exclude them from the credit. Full-time students who are in the labor force generally have low earnings—and so would otherwise qualify for the EITC—but many come from families who are comfortably middle class or above. Moreover, full-time students already have a path out of low incomes: the degree they are working toward. For both reasons, they do not need taxpayers to supplement their earnings.

Raise the maximum eligibility age for the childless Earned Income Tax Credit to 66

The permanent maximum eligibility age of 64 for the childless EITC dates from the childless credit's creation in 1993. Three changes since then have made this age limit outdated. First, as life expectancies have risen, Americans have increasingly worked at older ages, and the EITC has excluded a steadily growing share of the workforce.⁴⁶ Second, policymakers have become more focused on helping older Americans build

financially secure retirements. Extending the EITC to older workers encourages them to stay in the workforce, building savings and helping them afford to delay claiming Social Security. Finally, when Congress created the childless EITC in 1993, the maximum eligibility age of 64 meant that workers would become ineligible upon reaching the Social Security Full Retirement Age (FRA), which was then 65.⁴⁷ The FRA has since risen, but the EITC eligibility age has not. As a result, workers age 65 and 66 find themselves in a strange limbo: One law deems them too old to qualify for the “working age” credit while another deems them too young for “normal” retirement age. Congress should fix this glitch by raising the maximum eligibility age for the childless EITC to 66 and permanently linking it to Social Security’s FRA.

Additionally, if Congress includes more older Americans in the EITC, it should change how the credit interacts with Social Security benefits. The EITC phases in with earnings but phases out with AGI—which doesn’t include Social Security benefits. Congress should deem Social Security benefits part of AGI for the purpose of calculating EITC eligibility—keeping the EITC targeted to those with truly low incomes. Fundamentally, the EITC and Social Security are meant to cover different populations—Social Security replaces lost income for retirees, while the EITC supplements earned income for people who are working. The same person shouldn’t receive substantial support from both programs.

EXPANDING THE EARNED INCOME TAX CREDIT FOR WORKERS WITH ONE CHILD

The maximum EITC that a family can receive should be proportional to its needs. According to the federal government’s best measure of low-income families’ needs, two-child families have 19% greater spending needs than one-child families.^z But two-child families can receive a maximum EITC that is 65% greater than their counterparts with one child. By contrast, the change in the maximum EITC between two- and three-child families almost exactly matches their relative needs.⁴⁸

We propose increasing the maximum EITC for workers with one child so that families’ maximum credits are proportional to their needs.⁴⁹ Using the government’s measure of relative needs, this would set the maximum one-child EITC at \$5,248 for tax year 2022. To ensure that the one-child credit phases down to \$0 before the two-child credit does, we also suggest slightly raising the one-child phaseout rate to match the rate for two-child families.

Table 5 shows the combined effect of our proposed changes to the EITC, and **Figure 6** compares the credit that an unmarried childless worker would receive under our proposal and under permanent law.

^z This measure is the equivalence scale used to calculate the Supplemental Poverty Measure.

Table 5: Comparing BPC's EITC Proposal to Permanent Law

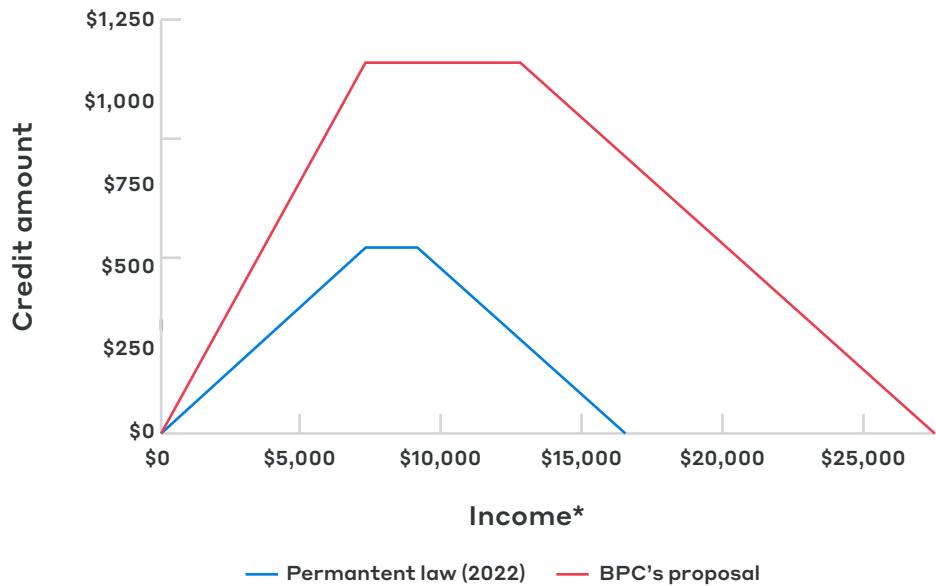
	Worker with No Children		Worker with One Child	
	Permanent Law	BPC's Proposal	Permanent Law	BPC's Proposal
Phase-in rate (from \$0)	7.65%	15.3%	34%	34%
Phase-in end^{aa}	\$7,330	\$7,330	\$10,990	\$15,430
Maximum credit^{aa}	\$561	\$1,122	\$3,737	\$5,248
Phaseout rate	7.65%	7.65%	15.98%	21.06%
Phaseout start^{aa, ab}	\$9,170	\$12,830	\$20,160	\$20,160
Phaseout end^{aa, ab}	\$16,507	\$27,489	\$43,549	\$45,082
Minimum eligibility age	25	19, excluding full-time students	-	-
Maximum eligibility age	64	66	-	-

Source: Permanent-law parameters are based on 2021 parameters from the Tax Policy Center, adjusted for inflation.

aa Values rise each year with inflation.

ab Values shown are for single filers. Credit phases out at higher levels of income for married filers.

Figure 6: EITC Schedule for an Unmarried Childless Worker Under BPC's Proposal and Permanent Law (2022)



*The EITC phases in with earnings but phases out with AGI.

REDUCING IMPROPER PAYMENTS OF REFUNDABLE TAX CREDITS

Authorize the IRS to regulate unenrolled tax preparers

Unenrolled tax preparers have the highest rates of EITC overclaims but, by law, cannot be regulated by the IRS.⁵⁰ Unenrolled preparers can complete returns without being subject to any training and education requirements or other standards of practice. Significant filing errors result.⁵¹ The incompetence and unscrupulousness of unenrolled preparers particularly impacts lower- and moderate-income households: One in four EITC recipients files with an unenrolled preparer, and the IRS estimates that between 33% and 40% of EITC dollars claimed by filers using unenrolled preparers are erroneous overclaims.⁵²

Both the Obama and Trump administrations repeatedly asked Congress to grant the IRS authority to regulate unenrolled preparers.⁵³ We recommend that Congress do so, allowing the IRS to, for example, require unenrolled preparers to pass competency tests, be subject to the same ethical standards as other preparers, and complete continuing education. The budgetary impacts of such a change could be large: In 2018, the IRS saved an estimated \$374 million in improper payments by intervening with those unenrolled preparers generating the highest rates of erroneous EITC claims.^{ac,54}

Adequately fund the IRS and improve the audit process

The IRS' underfunding has weakened its ability to detect and stop overclaims. From 2010 through 2018, the agency's real funding for enforcement fell by 29%, leading to a 31% loss of its enforcement staff. Over the same time period, the examination rate of EITC returns fell by 51%.⁵⁵

Even when the IRS identifies a dubious claim, it often lacks the resources to follow up. Underfunding creates a backlog of unworked cases, and increases the probability that improper payments go through unchecked.^{56,57} In tax year 2018, the IRS failed to review more than 3.5 million returns that had discrepancies of at least \$1,000 between the income reported on tax returns and the income reported on W-2s. These returns were responsible for more than \$8.3 billion of EITC payments.⁵⁸

Underfunding and the loss of IRS enforcement staff have also made audits more punitive for EITC recipients. Staffing challenges have led to delays in the audit process. Indeed, according to lawyers from the Low Income Taxpayer Clinic program, the IRS regularly takes more than a year to release an audited EITC claimant's refund.⁵⁹ This is an eternity for a family trying to make ends meet.

Additionally, many EITC recipients find audits confusing and cumbersome. A 2007 study from the Taxpayer Advocate Service found that less than one-third of audited EITC claimants thought that the IRS notification letter was easy to understand,

^{ac} This intervention consisted of enforcement and educational initiatives, not systematic regulation of the kind the IRS is legally prevented from issuing.

and only about half understood how they needed to respond to the letter.⁶⁰ Further, between 2008 and 2015, 15% of audits of the poorest EITC claimants (those making less than \$10,000) were closed due to undeliverable mail, causing these taxpayers to lose out on their EITC benefit before they even had a chance to respond.⁶¹

Congress should also provide the IRS with adequate funding to improve its customer service. According to the National Taxpayer Advocate Erin Collins, the IRS answered only 24% of the more than 100 million calls it received in fiscal year 2020, with an average hold time of 18 minutes.⁶² In response to service concerns, Congress enacted the Taxpayer First Act in 2019, which directed the IRS to create plans to improve customer service and modernize its IT systems. However, the IRS will be unable to make significant progress toward these objectives without increased funding.⁶³ Equipping the IRS with the resources it needs would not only provide Americans the taxpayer assistance they should expect from their government, but would also help taxpayers claim correctly and potentially reduce improper payments.

Expand support for Volunteer Income Tax Assistance sites

Audits can stop fraud, but they cannot prevent filers from making mistakes. Instead, the best way to reduce improper claims is to help claimants file properly. IRS VITA sites help low-income Americans file tax returns for free, and these volunteers have some of the lowest EITC overclaim rates of any return preparers—yet only a small share of eligible filers uses the program.^{64,65} Increasing funding for VITA would help claimants avoid errors, prevent preparer fees from eroding refunds meant to support low-income families, and reduce improper payments that waste taxpayer dollars.

PERMANENT POLICIES SHOULD BE PAID FOR

Child poverty and inadequate wages are chronic problems that require permanent policy changes. And permanent policy changes should be paid for to ensure they are sustainable. BPC has put forward bipartisan packages to reduce the deficit, and President Biden has outlined reforms that could help pay for permanent credit expansions.^{66,67} Whether by raising revenue or redirecting spending toward more efficient programs for needier groups, Congress has a menu of ways to help families and workers without saddling them with massive federal obligations in the future.

EFFECTS OF BPC'S PROPOSAL

Reducing poverty

The American Enterprise Institute (AEI) modeled the effects of BPC's proposal on poverty, revenue, employment, and after-tax income. We present these estimates in the tables and figures below.

If implemented beginning in 2022 (i.e., after expiration of the ARP), BPC’s proposal would have an immediate impact on poverty reduction when compared to current law. Specifically, BPC’s package would reduce poverty by 8%, child poverty by 18%, and deep child poverty by 29% (**Table 6**). BPC’s plan would particularly reduce poverty among disadvantaged groups of Americans: women, people of color, and people with low education (**Table 7**). Compared to current law in 2022, our plan would lift 2.8 million Americans—including 1.6 million children, 1 million Hispanic Americans, 772,000 Black Americans, and 72,000 Asian Americans—out of poverty. Actual poverty reduction is likely to be even larger because of the positive impact on hours worked for households currently living in poverty.^{ad}

Table 6: Estimated Poverty Effects of BPC’s Proposal (2022)

	Current Law	BPC’s Proposal
Poverty rate	11.7%	10.8%
Childhood poverty rate	12.4%	10.2%
Childhood deep poverty rate	3.5%	2.5%

Note: Poverty is defined using the Supplemental Poverty Measure. Deep poverty is defined as household income below 50% of the Supplemental Poverty Measure.

Table 7: BPC Proposal’s Poverty Effects by Subgroup (2022)

	Current-Law Poverty Rate	Poverty Rate under BPC’s Proposal	Percent Change	Number of People Lifted from Poverty (thousands)
Overall	11.7%	10.8%	-8%	2,804
Sex				
Male	10.9%	10.1%	-7%	1,242
Female	12.4%	11.4%	-8%	1,563
Age				
Under 18	12.4%	10.2%	-18%	1,571
18-64	11.1%	10.5%	-6%	1,205
65+	12.8%	12.7%	-0%	28
Race				
White	8.2%	7.8%	-5%	839
Black	18.4%	16.4%	-11%	772
Asian	11.8%	11.4%	-3%	72
Hispanic	19.0%	17.2%	-10%	1,039
Education				
No high school diploma	15.9%	13.9%	-13%	1,873
High school, no college	14.2%	13.6%	-4%	401
Some college	11.8%	11.1%	-5%	261
Bachelor’s+	6.0%	5.8%	-3%	158

Note: Poverty defined using the Supplemental Poverty Measure. Numbers may not add due to rounding.

Rewarding work

BPC's package would increase incentives for lower-income households to work and earn, resulting in a 0.3% increase in hours worked among households in the lowest-income quintile. This is particularly notable because the package would dramatically increase cash support to millions of households in that income range. Normally, such payments would reduce work, but combining this support with carefully structured incentives results in a net positive effect on labor supply.

As previously noted, tax credits that pull low-income workers into the labor force can have powerful benefits for families at the bottom of the income distribution. The additional income generated as a result of work incentives provides an additive benefit to the value of the tax credit, enabling low-income families to provide a more secure economic foundation for their children.

While BPC's proposal would incentivize—and is projected to increase—work among lower-income earners, overall hours worked among all workers is projected to slightly fall. This partially results from the provision that would reduce the CTC for higher-income families to better-target benefits. Changes in hours worked among higher-income households are likely driven by second earners in two-earner families. In our view, the cost savings and equity arguments for lowering the CTC phaseout outweigh the small employment losses that would result.

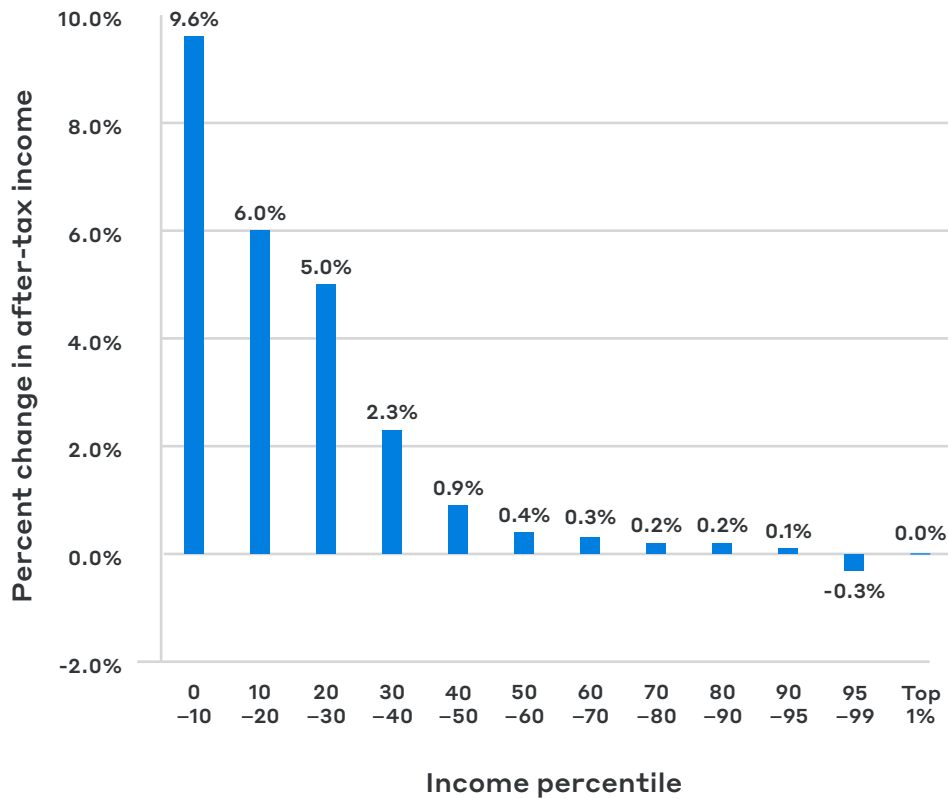
Boosting incomes and improving cost-effectiveness

Figure 7 shows that BPC's proposal would be quite progressive: Compared to current law, in 2022, it would raise the after-tax incomes of Americans in the first, second, and third income deciles by 9.6%, 6.0%, and 5.0%, respectively. Some Americans with very high incomes would see a reduction in after-tax income, but the change would be minor: Households in the top 5% of the income distribution would see a 0.3% decrease in after-tax income, on average. Each income decile in the bottom 90% would see an increase in after-tax income, and the income boost is especially pronounced for lower-income households. The bottom three deciles would receive 54% of the total after-tax income change, and 82% would go to the bottom half.^{ae}

ad AEI's modeling of poverty impacts did not take into account the additional wages from increased labor supply or the larger tax credits that those households would, in turn, receive.

ae The Penn Wharton Budget Model (PWBM) also modeled the effects of BPC's proposal and found that it would have a progressive distributional impact. PWBM estimates that the bottom income quintile would receive 35% of the tax change, and the bottom two quintiles would receive 73%. PWBM will be releasing its full modeling in conjunction with the release of this report.

Figure 7: BPC Proposal's Change in After-Tax Income by Household Income Percentile (2022)



Note: Figure shows change in after-tax income for each income group, compared to current law, in 2022.

The path ahead for policymakers

As temporary expansions to these credits expire, lawmakers face several possible options. Consider three approaches: permanently extending the ARP’s credit expansions, permanently extending the TCJA’s credit expansion, and BPC’s proposal.^{af} **Table 8** compares the effects of these policies over the next 10 years. Note that while the first row of **the table** lists costs compared to current law through 2031, the current-law baseline includes the TCJA through 2025, and thus assigns no cost to the extended TCJA scenario until 2026. To better reflect the permanent cost of these options, the table’s second row compares costs in 2026-2031 only.

As **Table 8** shows, each option entails trade-offs. Extending the ARP’s CTC and EITC expansions would dramatically reduce poverty, but at a high cost. Extending the TCJA’s CTC expansion would cost far less but would be very poorly targeted, with less than half the poverty reduction per dollar spent as the other options.

^{af} These scenarios only extend the ARP’s and TCJA’s provisions governing the CTC and EITC. Results assume all other provisions of both laws expire as scheduled.

Table 8: Comparing Alternative Approaches on Tax Credits

	Current Law	TCJA Extension	ARP Extension	BPC's Proposal
10-year cost (2022-2031)^{ag}	-	\$495 billion	\$1.660 trillion	\$1.002 trillion
2026-2031 cost	-	\$495 billion	\$1.171 trillion	\$769 billion
Change in hours worked (2031)	-	0.0%	-0.2%	-0.1%
Change in hours worked for lowest-income quintile (2031)	-	+0.1%	+0.0%	+0.3%
Poverty rate (2031)^{ah}	11.8%	11.4%	9.8%	10.5%
Child poverty rate (2031)^{ah}	12.8%	12.0%	7.9%	9.6%
Child deep poverty rate (2031)^{ai}	3.5%	3.5%	1.9%	2.4%
Cost per person lifted from poverty (2031)^{ah, aj}	-	\$73,071	\$31,530	\$31,637
Cost per child lifted from poverty (2031)^{ah, aj}	-	\$144,710	\$56,778	\$56,846

Note: “ARP extension” is a permanent extension of the American Rescue Plan Act of 2021’s expansions of the CTC and EITC. “TCJA extension” is a permanent extension of the Tax Cuts and Jobs Act of 2017’s expansion of the CTC. Neither scenario assumes an extension of any other provisions in either law.

ag Cost compared to current law, which includes the TCJA through 2025. Thus, the TCJA’s cost row only includes costs from 2026-2031, while the ARP and BPC cost rows include costs compared to a TCJA baseline from 2022-2025 and a permanent-law baseline from 2026-2031.

ah Poverty defined using the Supplemental Poverty Measure. All poverty rate estimates are static and do not reflect poverty reduction from increased hours worked.

ai Deep poverty is defined as household income below 50% of the Supplemental Poverty Measure

aj Cost is annual in 2031, not adjusted for inflation. It equals $\frac{\text{Proposal's cost in 2031}}{\text{Number of people lifted from poverty in 2031}}$

Number of people lifted from poverty in 2031

BPC’s proposal threads the needle. Over the next 10 years, it would cost only 60% as much as an extension of the ARP’s credit expansions. Compared to extending the TCJA’s credit changes, BPC’s proposal would lift more than three times as many Americans overall (4.1 million vs. 1.2 million) and children (2.3 million vs. 587,000) out of poverty. Due to improved targeting, BPC’s proposal produces a similar poverty reduction bang for the buck to an extension of the ARP—and at a much lower overall cost.^{ak} As a result, BPC’s proposal would require a smaller amount of offsetting revenue to maintain its fiscal sustainability.

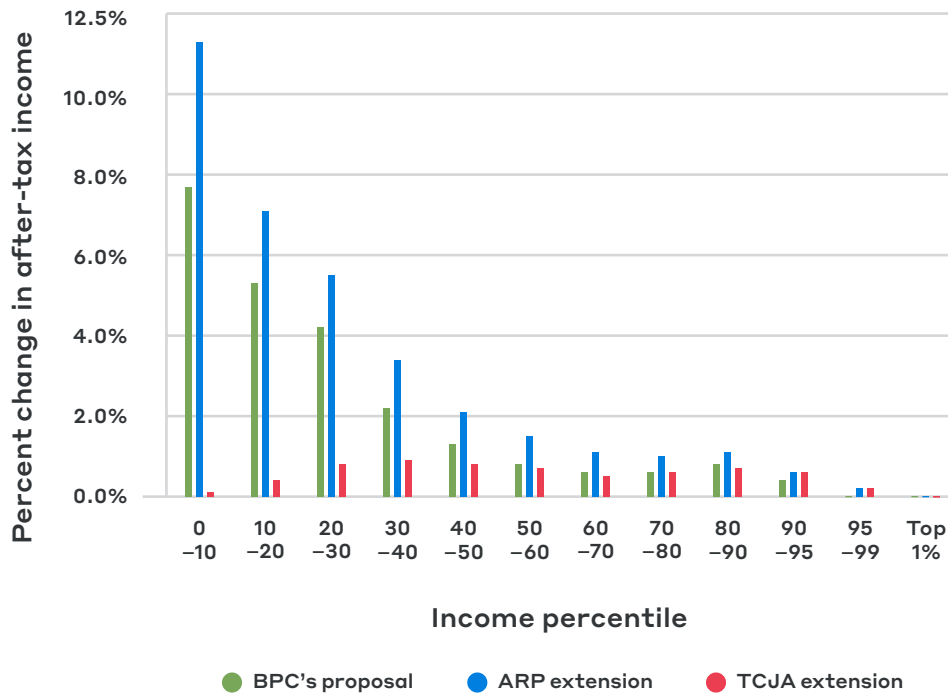
Figure 8 and **Figure 9** show the distributional effects of each policy option. An extension of the ARP or BPC’s proposal would be quite progressive. By contrast, the TCJA’s changes to the CTC would produce much smaller benefits, especially for those

ak BPC’s proposal, as well as the TCJA and ARP extensions, have relatively high costs per person and per child lifted from poverty. However, poverty reduction is not the sole purpose of the CTC and EITC—or the additional dollars that would flow into them—which also aim to support the costs of raising children for families across the income distribution and incentivize low-income work. Within the context that these tax credits are not singularly poverty reduction tools, BPC’s proposal would efficiently lift a significant number of workers and children from poverty.

at the bottom; most benefits would go to the upper-middle class. Notably, however, neither figure shows the effects of tax increases that might be necessary to finance these permanent policies. For example, the larger tax increases required to pay for extending the ARP would reduce after-tax incomes in ways that **Figure 8** omits.

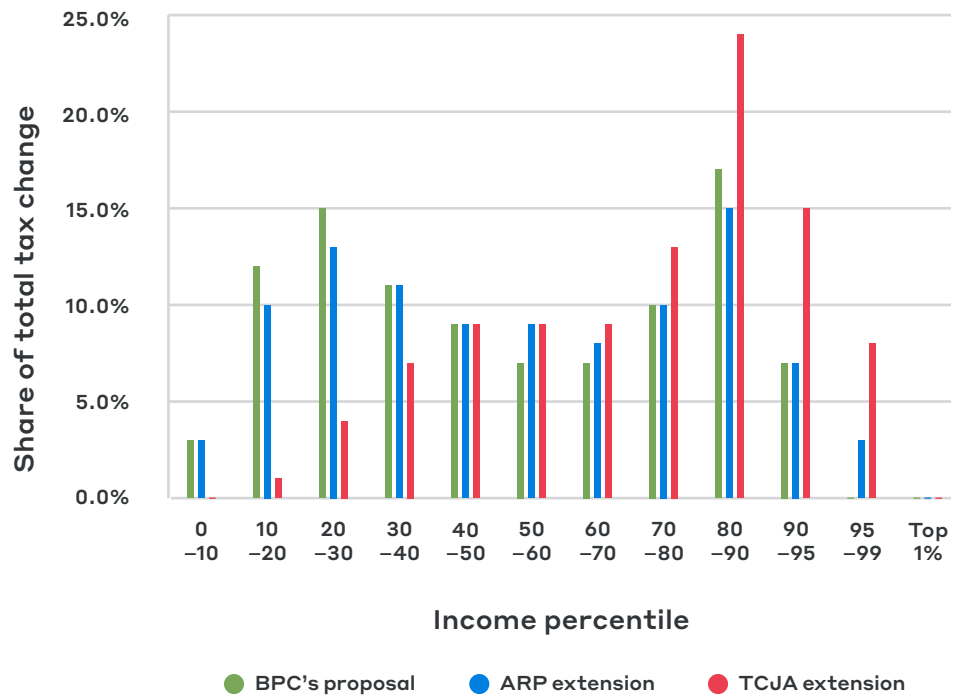
On balance, BPC’s proposals have a relatively modest cost, a significant effect on poverty, a high bang for the buck, and strong incentives to encourage work.

Figure 8: Change in After-Tax Income by Household Income Percentile (2031)



Note: “ARP extension” is an extension of the American Rescue Plan Act of 2021’s expansions of the CTC and EITC. “TCJA extension” is an extension of the Tax Cuts and Jobs Act of 2017’s expansion of the CTC. Neither scenario assumes an extension of any other provisions in either law. Graph shows change in after-tax income in 2031 compared to current law.

Figure 9: Share of Total Tax Change by Household Income Percentile (2031)



Note: Graph shows share of total change in taxes due to CTC and EITC reforms in 2031 compared to current law.

Conclusion

COVID-19 plunged the American economy into a deep recession. The current crisis, however, only exacerbated problems that have plagued Americans for decades: Millions of families with children lack adequate resources, and working at low wages often does not pay enough to deliver household financial stability. These problems predate the recession and will not disappear after the current health crisis is over. Once temporary expansions to low-income tax credits expire, Americans will still need financial support that both rewards work and helps cover the cost of raising children. To make these reforms last, Congress should set them on the politically stable foundation of bipartisan compromise.

Appendix: Impact of BPC's Proposal on Deep Poverty

BPC's Proposal – Deep Poverty Effects by Subgroup in 2022

	Current-Law Poverty Rate	Poverty Rate under BPC's Proposal	Percent Change	Number of People Lifted from Poverty (thousands)
Overall	3.9%	3.5%	-10%	1,308
Sex				
Male	3.7%	3.3%	-10%	578
Female	4.2%	3.7%	-11%	730
Age				
Under 18	3.5%	2.5%	-29%	720
18-64	3.9%	3.6%	-7%	568
65+	4.6%	4.6%	-1%	19
Race				
White	3.2%	2.9%	-8%	491
Black	5.9%	5.1%	-14%	325
Asian	4.6%	4.5%	-4%	35
Hispanic	4.9%	4.2%	-15%	430
Education				
No high school diploma	4.5%	3.6%	-21%	885
High school, no college	4.6%	4.4%	-5%	164
Some college	4.6%	4.3%	-6%	114
Bachelor's+	2.8%	2.7%	-4%	96

Note: Deep poverty is defined as household income below 50% of the Supplemental Poverty Measure. Numbers may not add due to rounding.

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Bipartisan Policy Center

1225 Eye St NW, Suite 1000
Washington, DC 20005

bipartisanpolicy.org

202 - 204 - 2400

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