

## The Potential Employment and Poverty-Reduction Effects of an Expanded Child Tax Credit

The United States implements major elements of social policy through the tax code. Programs like the Child Tax Credit (CTC) help reduce child poverty and support millions of American families by helping them offset the cost of raising children, but some policymakers and experts worry that large expansions to these benefits will disincentivize work.

The expiration of a temporary expansion enacted under the American Rescue Plan Act of 2021 has generated concerns over rising child poverty levels, and the impending expiration of provisions under the Tax Cuts and Jobs Act of 2017 adds further uncertainty to the CTC's future. As policymakers continue to debate how to best enhance the CTC while mitigating negative effects on labor force participation, new Bipartisan Policy Center research offers a nuanced, objective look at the impact of CTC expansion on child poverty and employment to catalyze bipartisan discussions on how to durably reform the credit.

### Evaluating the Enhanced CTC's Impact on U.S. Labor Supply

BPC examined five recent, highly cited academic studies projecting the labor supply effects of an expanded CTC.

*The clear academic consensus is that an expanded CTC with no earnings phase in would lead to at least some decline in employment alongside reductions in poverty.*

Study	Change in Employment (number of U.S. workers exiting the workforce)	Change in Child Poverty (% Change, Dynamic)
<a href="#">NASEM</a> (2019)	-149,000	-41%
<a href="#">Brill et al.</a> (2021)	-296,000	-22%
<a href="#">Corinth et al.</a> (2021)	-1,460,000	N/A
<a href="#">Goldin et al.</a> (2021)	-386,000	N/A
<a href="#">Bastian</a> (2023)	-354,000	-30%

Key methodological differences, however, generate varying job loss estimates:

- *Assessing the strength of labor response:* An important difference in labor supply estimates stems from how strong the labor response to a change in tax policy will be. The authors generally agreed on the strength of this response in their projections—called *elasticities*—with the exception of [Corinth et al.](#), who projected a notably high labor force exit rate among low-income single mothers in response to a larger CTC.



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- *Accounting for both substitution and income effects:* Economists generally consider [substitution effects and income effects](#) important when measuring the labor supply response to changes in tax policy. The National Academies of Sciences, Engineering, and Medicine ([NASEM](#)) was the only study to exclude substitution effects, and [Bastian](#) was the only author to exclude income effects. Most academics and experts consider substitution effects to be more impactful.
- *Simulating employment decisions:* When measuring labor response in a two-parent household, simulating the labor supply decisions of both parents is critical. In response to an expanded CTC, Corinth et al. assumed both parents would either exit or remain in the workforce together whereas other studies modeled independent parental decisions (one parent exits while the other remains). Under the latter model, the potential employment loss was not only smaller (in the hundreds of thousands of workers rather than a million-plus) but also likely more reflective of how parents decide to participate in the labor force.
- *Measuring effects on child poverty:* Poverty reduction estimates can be heavily affected by methodological decisions as well, specifically the construction of baseline incomes and assumptions about parental employment decisions. Estimates that allow for individual parental decision-making show child poverty decreasing by approximately one-third in the dynamic estimates. Particularly for [deep child poverty](#), assumptions about parental work decisions can greatly influence whether a family is pulled above or below the poverty threshold by an expanded CTC.
- *Evaluating time horizons:* Some experts have pointed to labor-supply and anti-poverty data stemming from the temporary 2021 expansion of the CTC in support of its permanent expansion, but short-term time horizons are not an appropriate window to predict the impact of a permanent change in policy. Policymakers should use caution when drawing conclusions on employment effects from temporary policy changes.

### **Policy Implications for CTC Reform**

Further expansion of the CTC will require trade-offs, as the literature suggests that it would prompt at least some decline in both employment and child poverty.

***It is, however, possible to boost the per-child amount and the refundable portion of the CTC while actually increasing work incentives, so long as lawmakers maintain a phase-in for the credit.***

BPC's [CTC reform](#) recommendations, for example, would significantly reduce child poverty while retaining and even enhancing incentives that keep parents in the workforce. Such an approach would not require abandoning all that was learned from recent expansions, but rather encompasses the evidence surrounding these new policies to determine the most effective and politically feasible trade-offs for a permanent, bipartisan solution.