

Reducing Wealth Inequality through our Tax System: The Case for an Inclusive Child Tax Credit and Earned Income Tax Credit

The improvements made in 2021 to the Child Tax Credit (CTC) and Earned Income Tax Credit (EITC) through the American Rescue Plan Act (ARPA) have been the most progressive to date. Together, these credits are among our nation's most powerful poverty-reducing tools. They are creating opportunities for millions of hardworking families in the U.S. and Puerto Rico, after decades of exclusion and underinvestment, by providing additional take-home money to families that qualify when they submit a tax return in the form of a refund.

When deployed equitably, the CTC alone has the potential to cut Latino child poverty by more than a third and has kept millions of children out of poverty. Research shows that families with low income use their CTC payments for basic household expenses—food, clothing, shelter, and utilities—or education. This is especially important for Latino children, who make up 26% of all children in the U.S. but 41% of children living in poverty.¹ We also know that such credits can improve health and developmental outcomes,² and even improve academic achievement for kids.³

The ARPA expanded the CTC and EITC for the 2021 tax year, which in turn reduced poverty for Latino families.

Specifically, ARPA improved the CTC by:

- Increasing the maximum credit to \$3,600 for children under 6 years old and \$3,000 for children between 6 and 17 years old
- Including 17-year-old children
- Making the credit fully refundable with no work requirement
- Providing advance monthly payments
- Extending the credit to all families with children in Puerto Rico

Improvements to the EITC include:

- Making the credit available for childless taxpayers who are 19 to 24 years old and 65 years old and over
- Increasing the maximum credit for childless workers from \$538 to \$1,502
- Providing \$600 million in federal funds to Puerto Rico to enhance the local EITC program through a matching grant

The expanded credits are working. Evidence shows that the CTC is reducing child poverty; helping families pay for food and other basic needs; and reducing food insufficiency and financial stress.⁴ Furthermore, economists are finding no real-world evidence indicating that advance monthly payments for the CTC issued from last summer through December 2021 are reducing families' willingness to work.⁵ To the contrary: families reported that they feel better supported to find work by using the advance payments for child care, transportation, and clothing costs which are strongly associated with removing barriers for low-income families to find work.

The CTC improvements are also providing critical support for Latino and Black children and those in families with very low levels of income. An examination of the impact of the credit through December 2021 showed that the CTC reduced child poverty among Black children by 26% and among Latino children by 30%.⁶ The credit also reduced the monthly child poverty rate from 15.9% to 12.2% between June and November of 2021.⁷

Stunningly, as many as 3.7 million children were kept out of poverty thanks to the advance monthly payments, as measured in December 2021.⁸ More recently, researchers at the Center on Poverty and Social Policy at Columbia University estimated that last March 2022, at the height of the tax season, overall monthly poverty fell from 14.4% to 10.8% and monthly child poverty fell from 16.7% to 9.9% thanks to the CTC and EITC. This translates to roughly 1,838,000 Latino children, 1,073,000 Black children, and 224,000 Asian children lifted out of poverty.⁹

These investments represent a value to society that yields approximately eight times their annual costs, measured in terms of children's health, education, and future earnings and decreased health, child protection, and criminal justice costs.¹⁰ At a time when the pandemic has impacted so many families and inflation is affecting households' ability to keep up with expenses, this benefit allowed families to spend money on food and other basic needs.¹¹

Of course, the work is not done. The implementation of these programs requires an overhaul of the tax system with an equity lens. Too many Latino and Black families might be at risk of leaving thousands of dollars on the table due to a lack of information or mistrust in government programs, which have been used to stigmatize the community. Latinos are less likely to claim the CTC on their tax return (64% of tax filers), when compared to white and Black parents (76% among tax filers) and are less likely to report receiving the monthly CTC payments (61%) compared to white respondents (67%).¹² Furthermore, the ARPA design did not restore eligibility to children with Individual Taxpayer Identification Numbers (ITIN), leaving thousands of children out of this benefit.

Critical improvements are essential to ensure that equity and economic inclusion are driving these policy designs—including timely data collection on race and ethnicity, deepening a culturally competent outreach strategy, access to simplified filing tools, reducing administrative burdens, and modernizing and streamlining the overly complicated process for people who need an ITIN. Unfortunately, the expansion and refundability of the credits are temporary and end this tax year, which means that Congress must act to make permanent key features of the ARPA changes to the credits—including the expanded amounts and refundability—that are driving substantial reductions in poverty for communities of color.

The wealth differences between families of color and white families will not be reduced by only improving the design of these credits. However, it will make our tax system more equitable as it will deliver the maximum credit available for our most vulnerable taxpayers.

Join us in advocating for a fairer tax system and support all families that contribute to our economy. This can be done by using our resources and by supporting family, friends, and neighbors that are eligible to receive these benefits. Help us spread the word and promote the expanded CTC and EITC.

Key Links and Resources:

- <https://www.unidosus.org/publications/2171-hispanic-children-and-the-child-tax-credit/>
- <https://www.unidosus.org/esperanzahopeforall/childtaxcredit/>
- [Apoyando a las familias Latinas: ¿Cómo orientar sobre el crédito tributario por niños? | UnidosUS](#)

- ¹ National Academies of Sciences Engineering and Medicine, “A Roadmap to Reducing Child Poverty,” Unpublished Appendix: TRIM3 Summary Tables. Baseline. Washington, DC: The National Academies Press, 2019.
- ² Whitney L. Rostad et al., *Impact of the United States Federal Child Tax Credit on Childhood Injuries and Behavior Problems Children and Youth Services Review*, 2020, 109, <https://doi.org/10.1016/j.childyouth.2019.104718>; and Raj Chetty, John N. Friedman, and Jonah Rockoff, *New Evidence on the Long-Term Impacts of Tax Credits* (Washington, DC: Internal Revenue Service, 2011), <https://www.irs.gov/pub/irs-soi/11rpchettyfriedmanrockoff.pdf> [Cambridge, MA: National Bureau of Economic Research]
- ³ Raj Chetty, John N. Friedman, and Emmanuel Saez, *Using Differences in Knowledge Across Neighborhoods to Uncover the Impact of the EITC on Earnings*, NBER Working Paper no. 18232 (Cambridge, MA: National Bureau of Economic Research, 2012), p. 4.
- ⁴ Megan A. Curran, *Research Roundup of the Expanded Child Tax Credit: The First 6 Months*, Poverty and Social Policy Report 5, no. 5 (New York: Center on Poverty and Social Policy, Columbia University, December 22, 2021), www.povertycenter.columbia.edu/publication/child-tax-credit/research-roundup.
- ⁵ Elizabeth Ananat et al., *Effects of the Expanded Child Tax Credit on Employment Outcomes: Evidence from Real-World Data from April to September 2021*, Poverty and Social Policy Discussion Paper (New York: Center on Poverty and Social Policy, Columbia University, October 10, 2021), <https://static1.squarespace.com/static/5743308460b5e922a25a6dc7/t/6163c1c81d0509724688fab1/1633927625843/Child-Tax-Credit-Expansion-on-Employment-CPSP-2021.pdf>), accessed January 2022.
- ⁶ Zachary Parolin, Sophie Collyer, and Megan A. Curran, *Absence of Monthly Child Tax Credit Leads to 3.7 Million More Children in Poverty in January 2022*, Poverty and Social Policy Brief 6, no. 2 (New York: Center on Poverty and Social Policy, Columbia University, 2022), www.povertycenter.columbia.edu/publication/monthly-poverty-january-2022.
- ⁷ Ibid.
- ⁸ Ibid.
- ⁹ Parolin, Zachary, Sophie Collyer, and Megan A. Curran. 2022. “The Earned Income Tax Credit and the Child Tax Credit Give Temporary Income Boost to Low-Income Families.” Poverty and Social Policy Brief, vol. 6, no. 6. Center on Poverty and Social Policy, Columbia University. Access at: <https://povertycenter.columbia.edu/publication/monthly-poverty-march-2022>.
- ¹⁰ Irwin Garfinkel et al., *The Costs and Benefits of a Child Allowance*, Poverty and Social Policy Brief 5, no. 1 (New York: Center on Poverty and Social Policy, Columbia University, 2021), <https://www.povertycenter.columbia.edu/news-internal/2021/child-allowance/cost-benefit-analysis>.
- ¹¹ Chuck Marr, *Inflation Report Underscores Urgency to Extend Child Tax Credit Expansion* (Washington, DC: Center on Budget and Policy Priorities, 2022), <https://www.cbpp.org/blog/inflation-report-underscores-urgency-to-extend-child-tax-credit-expansion>.
- ¹² A. Burnside, *Key Findings from National Child Tax Credit Survey: CTC Monthly Payments Are Helping Improve Family Well-Being* (Washington, DC: The Center for Law and Social Policy, November 17, 2021), <https://www.clasp.org/publications/report/brief/key-findings-national-child-tax-credit-survey-ctc-monthly-payments-are>.