Center for American Progress

A Plan to Enhance the Child Tax Credit

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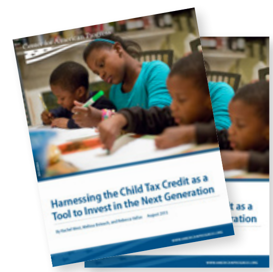


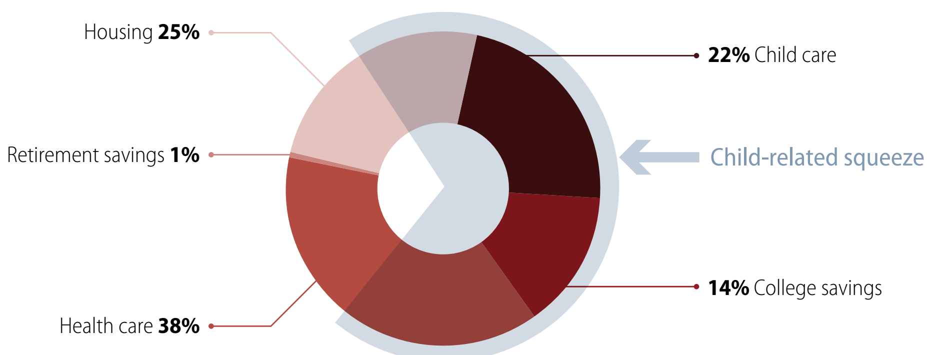
This document summarizes the 2015 CAP report "Harnessing the Child Tax Credit as a Tool to Invest in the Next Generation."

Costs associated with key pillars of middle-class economic security have risen dramatically in recent years, while incomes have stagnated. This has pushed many American families to the financial brink. The middle-class squeeze has hit families with children especially hard: Child-related costs account for nearly 70 percent of these rising costs and have increased at a much faster rate than other costs.

FIGURE 1

Rising costs and stagnant wages have hit families with children particularly hard

Child-related costs account for nearly 70 percent of the middle-class squeeze for the typical two-adult, two-child family



Source: Authors' analysis of cost increases between 2000 and 2012 for the five pillars of economic security, as identified in Jennifer Erickson, ed., "The Middle-Class Squeeze" (Washington: Center for American Progress, 2014), available at https://www.americanprogress.org/issues/economy/report/2014/09/24/96903/the-middle-class-squeeze/.

The problem is particularly acute for families with young children, who, at this age, are in the most critical years for brain development. In 2013, nearly 23 percent of infants and toddlers lived in households with incomes below the federal poverty line.[1] In fact, the birth of a child is one of the leading triggers of a poverty spell in the United States.[2]

Childhood economic insecurity is harmful and costly

Economic insecurity is enormously detrimental to children's long-term health, education, and employment outcomes. What's more, child poverty is detrimental to society as a whole, costing the U.S. economy $672 billion per year.[3] Yet, the United States spends just 1.2 percent of gross domestic product, or GDP, on family benefits, less than half of the 2.6 percent average in other developed nations.[4]

Limitations of the current Child Tax Credit

The Child Tax Credit, or CTC, which provides families with a tax credit of up to $1,000 per child younger than age 17, is an important policy tool to boost family economic security. However, the CTC has several limitations:

- The credit is not fully refundable, preventing it from reaching the lowest-income children, and its minimum earnings requirement excludes many families who experience job loss.
- The credit is not tied to inflation, so its value erodes each year that Congress does not act. As a result, the CTC has lost more than one-third of its value since 2000.
- Families must wait until tax time to claim the CTC, despite the fact that expenses such as diapers, infant hygiene products, and cribs cannot wait until tax time.
- The CTC's modest benefit does not increase when families' needs are greatest—when children are young and parental earnings are relatively low.

Recommended enhancements

In recognition of these limitations, the Center for American Progress' proposal would strengthen the CTC as a tool to invest in the next generation by:

- Eliminating the minimum earnings requirement and making the credit fully refundable to ensure that it reaches all low- and moderate-income families with children
- Indexing the value of the credit to inflation so that it does not continue to lose value over time, even as the costs of reaching or staying in the middle class rise
- Supplementing the CTC with a Young Child Tax Credit of $125 per month for children younger than age 3, available monthly through direct deposit or the Direct Express card[5]

CAP's proposed enhancements would substantially boost the CTC's power as an anti-poverty and economic mobility tool, with especially strong effects for young children and children of color.[6] These enhancements would protect nearly twice as many children younger than age 17 from poverty—and two-and-a-half times more children younger than age 3—compared with current law. The enhancements would also significantly lessen the depth and severity of poverty, closing more than one-quarter of the poverty gap[7] for children younger than age 3 who remain poor.

Endnotes

1 Authors' calculations based on the 2013 March Current Population Survey. See Minnesota Population Center, "Integrated Public Use Microdata Series," available at www.ipums.org (last accessed July 2015).

2 U.S. Department of Health and Human Services, *Welfare Indicators and Risk Factors: Thirteenth Report to Congress* (2014), available at https://aspe.hhs.gov/report/welfare-indicators-and-risk-factors-thirteenth-report-congress.

3 See Rachel West, Melissa Boteach, and Rebecca Vallas, "Harnessing the Child Tax Credit as a Tool to Invest in the Next Generation" (Washington: Center for American Progress, 2015), available at https://www.americanprogress.org/issues/poverty/report/2015/08/12/118731/harnessing-the-child-tax-credit-as-a-tool-to-invest-in-the-next-generation/. Authors' updated estimates based on analysis in Harry Holzer and others, "The Economic Costs of Poverty in the United States" (Washington: Center for American Progress, 2007), available at https://cdn.americanprogress.org/wp-content/uploads/issues/2007/01/pdf/poverty_report.pdf.

4 Organisation for Economic Co-operation and Development, "OECD Family Database: Table PF1.1 Public spending on family benefits," available at http://www.oecd.org/ els/family/database.htm (last accessed July 2015).

5 The proposed Young Child Tax Credit would phase out at high incomes in the same fashion as the current CTC.

6 West, Boteach, and Vallas, "Harnessing the Child Tax Credit as a Tool to Invest in the Next Generation."

7 The poverty gap is the amount by which family income falls short of the poverty threshold.