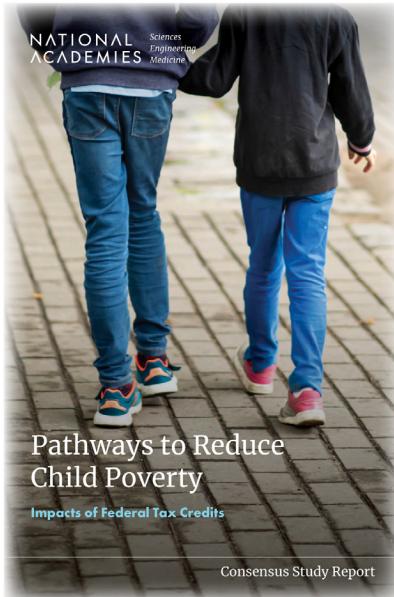




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## This Federal Policy Really Helped Kids. Now, It's Gone.



Shifts in federal policy don't always have clear and quick impacts.

Pandemic-era increases to the child tax credit and earned income credit appear to be exceptions.

According to a [report](#) published last month by the National Academies of Sciences, Engineering and Medicine, the expansion of these two tax credits reduced child poverty rates by more than 50%. (A four-page [summary](#) of the report is also available.)

NEPC Fellow [Diane Whitmore Schanzenbach](#) of Georgetown will moderate a [webinar](#) on this report from 3 to 4:30 p.m. Eastern Standard Time today. Sponsored by the Brookings Center for Economic Security and Opportunity, the free event will feature experts in the field of child poverty and policy, including Dr. V. Joseph Hotz, the Chair of the National Academies Committee that produced the report—along with three other members of that Committee.

Established in 1975, the Earned Income Tax Credit (EITC) reduces the amount of federal taxes that low-income workers are required to pay. It is fully refundable, meaning that households receive a cash payout if the credit exceeds the amount they owe in taxes. The American Rescue Plan Act of 2021 temporarily expanded eligibility for the EITC and also increased the benefit amount for some workers.

The Child Tax Credit (CTC) dates to 1997. Families with children are eligible. Parts of it are refundable for certain taxpayers. The American Rescue Plan Act of 2021 temporarily increased the amount of the CTC and made it fully refundable. For example, a married couple filing jointly with two children, ages 3 and 7, could receive up to \$6,600. That's 65% more than the \$4,000 they could have received absent the change.

Although the two changes, according to the report, "significantly reduced child poverty" by lifting more than 2 million children out of that income range, they might have had an even bigger impact if implemented at a different time. That's because child poverty rates had already declined in 2021 as a result of other temporary, pandemic-era relief programs. The benefits also occurred even though IRS data suggest that nearly one in five individuals who were eligible did not claim them.

The shifts had an especially large impact on reducing poverty for children in single-parent families, young and/or Hispanic children, parents who worked part-time and/or had lower levels of education, and those living in the West, South Central, and Pacific areas of the U.S.

Notwithstanding their clear success, these changes to the child tax credit and earned income credit expired in 2022, and there appears to be no immediate likelihood of their returning.

The report, however, concludes with simulations predicting what would happen if they were reinstated in similar or different forms. All simulated models found that child poverty would decline as a result. The largest estimated impact would result from a potential policy change that combines the 2021 EITC changes with full refundability of CTC benefits, adding \$2,000 per child to the 2021 benefit level, phased in with a work-based add-on. The report estimates that this policy would reduce child poverty to 4.5% and lift 4.9 million children out of poverty.

## NEPC Resources on Poverty

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