

Child Tax Credit Enhancements Under the American Rescue Plan Act

In recent years, there has been a renewed demand for offering direct benefits to families with children to reduce child poverty in the United States.¹ The federal American Rescue Plan Act (ARP), which became law on March 11, 2021, expands the Child Tax Credit (CTC) scope to benefit more families.

This tax credit can significantly reduce child poverty, build racial equity, and create a public investment for the good of all children.²

The CTC is an annual tax refund available to eligible families with children. The United States has had a version of the CTC since 1997. Since then, it has undergone a few expansions, including an increase in 2017. The 2017 legislation provided \$2,000 per child per year for children up to age 16 and was available to families with children with a household income of up to \$400,000.³ The CTC lifted approximately 4.3 million people out of poverty in 2018, including 2.3 million children, and lessened poverty for another 12 million people, including 5.8 million children.⁴

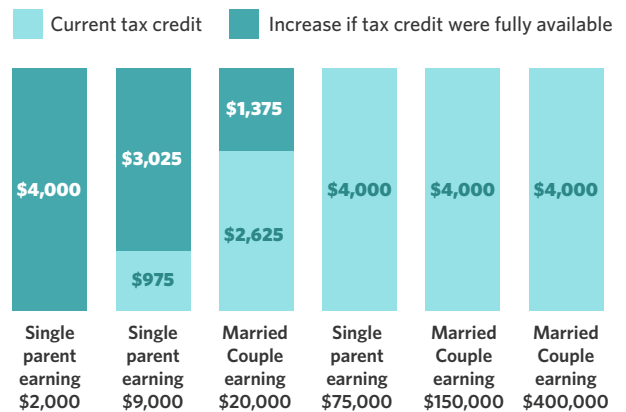
Tax refundability is calculated by household income and the amount of taxes paid by the individual. If the value of the CTC surpasses the amount of federal income tax a family owes, the family may receive a portion of that value or the real difference in the form of a refund check. Refundability has been limited previously to families with \$2,500 in taxable income. The bottom 10% of families did not meet that threshold and received no credit as a result, while the bottom 25% only received partial refunds.⁵

Changes Under the ARP

The American Rescue Plan Act is making significant changes to the CTC. First, the credits begin to decrease at incomes above \$112,000 for single filers and \$150,000 for married couples. The ARP increases the CTC for 2021, temporarily expands eligibility for children up to age 17, and eliminates the requirement for taxpayers to have at least \$2,500 in earned income to claim the refundable credit. Under the current expansion, the maximum credit increased from \$2,000 for each child aged 16 and under to \$3,000 for children ages 6-17 and \$3,600 for children under 6. This expansion is temporary and only applies to the tax year 2021.⁶

Poorest Children Would Benefit Most From Making Full Child Tax Credit Available to All Low-Income Children

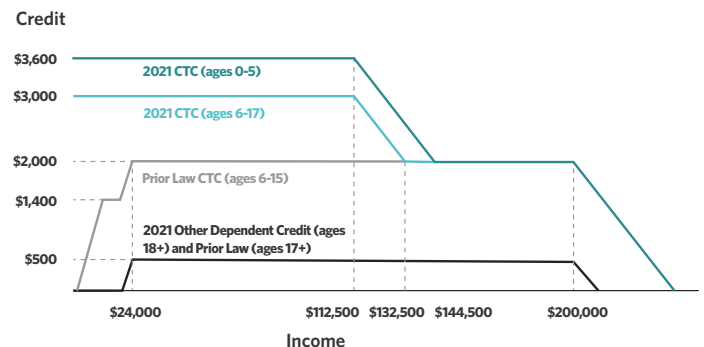
Tax credit for families with two children



Note: The full tax credit is unavailable to poor and low-income taxpayers because children in families with earnings below \$2,500 are ineligible; the credit phases in at a 15 percent rate above that threshold; and the credit is capped at \$1,400 per child for families earning too little to owe income tax.

Source: Internal Revenue Service and CBPP

American Rescue Plan Act Expands 2021 Child Tax Credit



Note: CTC= Child Tax Credit. Proposal makes credit fully refundable; prior law limited the refundable portion to \$1,400. Illustration assumes all income comes from earnings, taxpayer is head of household, and child meets all tests to be a CTC-qualifying dependent. Credit for married couples begins first phase out at \$150,000 of income until credit reaches pre-2021 level; begins second phase out at \$400,000 of income. Under prior law, credit for other dependents applied to dependents ages 17 and up.

Source: Urban-Brookings Tax Policy Center calculations.

For 2021 only, the credit amount will be fully refundable for all eligible filers regardless of their earned income amounts. This expansion will aid families that were previously unable to receive the maximum credit because their incomes were too low to be eligible. The total credit will be made available to 27 million children, including roughly half of all Black and Latino children nationwide who previously did not benefit from the full credit. Approximately 94% of children who live in rural areas will also benefit from the expansion.⁷

The ARP directs the Internal Revenue Service to provide advance credit payments for eligible filers each month from July to December 2021.⁸ The remaining amount of credit can be claimed on families' 2021 tax return. Parents have the option to choose whether to receive advance payments for the first six months or to receive payment as one lump sum when they file taxes. The monthly CTC payments will provide a safety net for low-income and working-class families by assisting with monthly income stability.⁹

Child Poverty in Missouri

In Missouri, 14% of the population is at or below the poverty level, and approximately 261,000 children, or 19.2% of all children in the state, live in poverty. An estimated 1,262,000 Missouri kids would benefit from the expanded CTC, with 505,000 children becoming newly eligible for the full credit. The estimated average payment for households receiving the CTC is \$2,850. The CTC expansion is expected to lift 73,000 Missouri children out of poverty.¹⁰

A Sound Investment in the Future

The temporary changes to CTC will result in the most significant reduction in child poverty to date.¹¹ As the changes to the CTC are implemented, lawmakers should carefully evaluate the impact on child health and well-being. Research shows that investments in resources for children at an early age leads to improvements in overall well-being, including in education, lifetime earning potential, and health in adulthood.¹² The expansion of the CTC lays a critical foundation to reduce child poverty, improve family stability, and promote racial equity.

Average Income	Income Group	Stimulus Payment	CTC
\$11,700	Poorest 20%	\$2,230	\$4,450
\$28,500	Second 20%	\$2,530	\$3,580
\$48,500	Middle 20%	\$2,560	\$2,200
\$79,300	Fourth 20%	\$3,030	\$2,120
\$137,200	Next 15%	\$2,830	\$2,020
\$296,300	Next 4%	\$310	\$1,610
\$1,363,000	Richest 1%	\$30	\$1,010

Average Payment to Missouri Households Receiving Stimulus Check, Child Tax Credit (CTC) of American Rescue Plan
Source: Institute of Taxation and Economic Policy

¹ Meyer, Laura, Floyd, Ife. Center on Budget and Policy Priorities. Cash Assistance Should Reach Millions More Families to Lessen Hardship. (2020). <https://www.cbpp.org/research/family-income-support/cash-assistance-should-reach-millions-more-families-to-lessen>

² Goldin, Jacob and Michelmore, Katherine "Who Benefits from the Child Tax Credit?" National Bureau of Economic Research. (2020). <https://www.nber.org/papers/w27940>

³ U.S. Department of Treasury. The American Rescue Plan Will Deliver Immediate Economic Relief to Families (Fact sheet). (2021). <https://home.treasury.gov/news/featured-stories/fact-sheet-the-american-rescue-plan-will-deliver-immediate-economic-relief-to-families>.

⁴ Center on Budget and Policy Priorities. American Rescue Plan Act Will Help Millions and Bolster the Economy. Center on Budget & Policy Priorities. (2021). <https://www.cbpp.org/research/poverty-and-inequality/american-rescue-plan-act-will-help-millions-and-bolster-the-economy>

⁵ Batchelder, Lily L., Fred T. Goldberg, and Peter R. Orszag. "Efficiency and Tax Incentives: The Case for Refundable Tax Credits." (2006).

⁶ Wheaton, Laura, Minton, Sarah, Giannarelli, Dwyer, Kelly. 2021 Poverty Projections: Assessing Four American Rescue Plan Policies. (2021). https://www.urban.org/sites/default/files/publication/103794/2021-poverty-projections-assessing-four-american-rescue-plan-policies_0_0.pdf

⁷ Rescue Plan's Expansion of Earned Income Tax Credit, Child Tax Credit Will Benefit Rural Residents (Fact sheet). (2021). <https://www.cbpp.org/research/federal-tax/rescue-plans-expansions-of-earned-income-tax-credit-child-tax-credit-will>

⁸ Marr, C., Hingtgen, S., Windham, K., & Sherman, A. House COVID Relief Bill Includes Critical Expansions of Child Tax Credit and EITC. Center on Budget & Policy Priorities. (2021). <https://www.cbpp.org/research/federal-tax/house-covid-relief-bill-includes-critical-expansions-of-child-tax-credit-and>

⁹ King, Kathleen. What the American Rescue Plan Act Means for Children and Families. Children's Defense Fund. (2021). <https://www.childrensdefense.org/blog/american-rescue-plan-act/>

¹⁰ Missouri Budget Project, American Rescue Plan: Direct Assistance for Missourians. (2021). <https://www.mobudget.org/arp-mofamilies/>

¹¹ Marr, Chuck., Cox, Kris., Hingtgen Stephanie., Windham, Katie., Sherman, Arloc. Center for Budget on Budget and Policy Priorities. American Rescue Plan Act Includes Critical Expansions of Child Tax Credit and EITC. (2021). <https://www.cbpp.org/research/federal-tax/american-rescue-plan-act-includes-critical-expansions-of-child-tax-credit-and>

¹² Marr, Chuck. Countdown to Tax Day: Permanent EITC and CTC Improvements Are an Anti-Poverty Achievement. Center on Budget & Policy Priorities. (2016). <https://www.cbpp.org/blog/countdown-to-tax-day-permanent-eitc-and-ctc-improvements-are-an-anti-poverty-achievement>