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. 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.

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. 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.

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.

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.
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.

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Average Payment to Missouri Households Receiving Stimulus Check, Child Tax Credit (CTC) of American Rescue Plan

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

Source: Institute of Taxation and Economic Policy