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Should the Federal Government Permanently Expand the Child Tax Credit?

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Under the American Rescue Plan Act in 2021, Congress voted to temporarily expand the federal Child Tax Credit. This expansion made the credit refundable, meaning that Americans in the lowest-income brackets, who previously could not access the credit, were now able to receive the entire benefit. Additionally, the expansion increased the amount of the credit, expanded the age range of children eligible, and made the payments monthly as opposed to a one-time payment during tax-filing season.

Since the end of the temporary expansion, there have been several failed attempts in Congress to permanently expand the credit. Most recently, the Working Families Tax Relief Act, which would make the 2021 expansion permanent, was introduced in the Senate in June 2023. Should the federal government create a permanent expansion of the Child Tax Credit similar to the very generous expansion of the credit in 2021? What do we know about the effects of that expansion, and what might be the likely effects?

The 2021 Child Tax Credit Expansion: What the Evidence Shows

In the past 18 months, a number of rigorous studies have examined the impacts of the 2021 Child Tax Credit expansion on both child and family well-being and parental employment.

Each of these studies finds **major declines in material hardship and/or food insecurity for poor children and families as a result of the Child Tax Credit expansion.** Evidence from monthly data strongly suggests that the expansion reduced child poverty quite dramatically in 2021, while its expiration increased child poverty from roughly 12 to 17 percent between 2021 and early 2022, using the Supplemental Poverty Measure.

The studies listed above also find no evidence of declining employment among parents in response to the expansion, as had been strongly predicted by a group of scholars at the University of Chicago. On the other hand, virtually all analysts acknowledge that the evidence on employment from this one-year expansion tells us very little about what the effects would be of a permanent change, especially if parents had more time to learn about the Credit and adjust their employment behavior in response. Also, since the labor force in 2021 was still recovering from the pandemic recession of 2020, any effects of the Credit might be swamped by broader improvements that were occurring.

What Would be the Effects of a Permanent Child Tax Credit Expansion?

A permanent expansion of the Child Tax Credit, along the lines of the 2021 expansion, would no doubt continue to alleviate material hardship and food insecurity among lower-income families with children. This, in turn, would likely lead to permanent improvements in educational attainment and earnings among such children, since a body of research shows that major improvements in nutrition associated with the expansion of food stamps in the 1960s and beyond led to long-term improvements in adult outcomes for poorer children.

Overall, parental employment may very modestly decline if the Child Tax Credit were made permanent. Some studies suggest declines of under 1 percentage point for the overall U.S. labor force.

Of course, the increases in income generated from the Credit would be substantially larger for lower-income families and/or those with more children. In such cases, the improvements in income would be substantially greater, especially for families with no earnings for whom a fully refundable credit would now be available.

This, in turn, could generate somewhat larger employment losses for these subsets of families. In other words, there might be a tradeoff between greater income security for poor families and children and the employment rates of parents in these families.

On the other hand, it is also possible that the higher incomes associated with the more generous Child Tax Credit could *raise* work effort among low-income families, which could now afford more child care and transportation, perhaps offsetting any potential losses of work effort among these parents. Evidence from the Canada Child Benefit also shows little loss of employment among parents there.

The Costs of a Permanent Child Tax Credit

Unfortunately, the fiscal costs of a permanent Child Tax Credit expansion would be substantial. The Congressional Budget Office and the Joint Committee on Taxation project that the budgetary costs of such an expansion would be approximately $1.6 T over the next decade. In an era where federal budget deficits are already a major policy concern, especially as Baby Boomers retire, adding such expenditures to the budget would not be trivial. And, if either taxes must rise or other government spending fall to finance these expansions, their potential effects on economic outcomes would have to be considered as well. Overall, the combination of larger budget deficits and even modestly lower employment has reduced the political appetite for a permanent Child Tax Credit expansion in the near future.

Because of these concerns, more modest proposals for expansion have been developed. For instance, one proposal from Edelberg and Kearney suggests an expansion which would be only partially refundable for families with no or low earnings, they would receive only half of the credit in this plan. Credits would also phase out at lower income levels, but more slowly as income rises. This strategy might ultimately generate smaller potential effects on labor supply and would cost less.

Policy Recommendations

The improvements in child and family well-being associated with the temporary Child Tax Credit expansion in 2021, and the reductions in child poverty, were substantial, while no employment losses among parents were observed. At the same time, making such an expansion permanent–as proposed in the Working Families Tax Relief Act–might very modestly reduce overall U.S. employment, and more so in poor families. Additionally, the proposal would be quite expensive at around $1.6 T.

The partially refundable plan discussed above is quite appealing in many respects; however, given the clear evidence on the positive impacts of the refundable Child Tax Credit, and uncertainty surrounding impacts on employment, a fully refundable credit should be thoroughly considered by Congress–along with the earlier phasing out of benefits as income rises in the Edelberg-Kearney plan. **The research clearly indicates that by making the Child Tax Credit accessible to Americans with the lowest incomes, Congress can protect children from food insecurity and material hardships that would otherwise occur.**