

## Equalizing the Child Tax Credit for Babies: How the 2023 American Family Act Treats Infants

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### Key Points

- Evidence shows families face an increased poverty risk around the time of birth, but that cash delivered around birth and in children’s early years can produce lasting positive effects.
- The Child Tax Credit, both under current law and under prior proposals for expansion, creates inadvertent and sizable variation in the payments received by infants around the time of birth and within their first year of life based on children’s month of birth.
- To rectify any inequity, the 2023 American Family Act provides the same benefit to children, no matter when in the year they are born: offering a lump-sum payment of \$2,000 (the size of the current benefit) at birth followed by monthly installments of \$300 thereafter.

Since its enactment in 1997, the federal Child Tax Credit has been expanded multiple times to deliver more resources to families and include more children. The 2021 American Rescue Plan represented the most meaningful—albeit temporary—expansion. Past proposals to permanently expand the Child Tax Credit in a similar way and pay it out monthly would have created sizable inequities in credit payment amounts for newborns depending on their birth month. These included both the amount a newborn child received at the time of birth and the amount received within their first year of life.

To address this, the 2023 version of the American Family Act provides an initial payment of \$2,000 at birth to all eligible newborns, before transitioning into \$300 monthly payments until age 6 and \$250 monthly payments thereafter. This structure aims to ensure that—no matter what month they are born—all eligible newborn children are treated the same at the time of birth, within their first year of life, and throughout childhood. It also ensures children are not worse off than under current policy.

**This policy memo identifies how inadvertent inequities in payment timing for newborns arose in current law and in some prior versions of proposals for permanent expansion. It explains how the 2023 American Family Act—a proposal relevant to the forthcoming 2025 federal tax debate—would deliver monthly Child Tax Credit benefits to all eligible newborns moving forward.<sup>1</sup>**

### Policy context

The 2021 American Rescue Plan made three major—albeit temporary—changes to the [Child Tax Credit](#):

- Increasing the maximum annual credit to \$3,000/child aged 6-17 and \$3,600/child under 6.
- Making the full credit available to families with low and moderate incomes, thereby closing the gap that [previously excluded one-third of all children](#).
- Delivering monthly payments up to \$250 per older child and \$300 per younger child.

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<sup>1</sup> The American Family Act benefit values here are presented in 2021 dollars and thus do not represent the current value of the proposed credits, which would maintain their real value from 2021 in future years.

The monthly payments were advance installments of a family's 2021 tax credit. Because the American Rescue Plan passed in spring 2021, only six months of payments were able to go out between July 2021 through December 2021. The rest of the 2021 credit was paid out in a lump-sum payment at tax time in spring 2022.

For families who had filed taxes in recent years, advanced payments were based on the number of qualifying children claimed on their most recent federal tax return. Because new babies born in 2021 had not yet been claimed on their families' federal tax return when the monthly payments began—and because the expansion was only temporary—newborns were not included in the six-monthly payments.<sup>2</sup> Rather, families would receive the full expanded credit for new babies born in 2021 after filing their federal return in spring 2022.<sup>3</sup>

If the Child Tax Credit is expanded permanently, it is envisioned that monthly payments would be available to all qualifying children year-round, beginning from the time of birth. **But under current law and prior proposals to permanently expand the credit, the month in which a child is born creates inadvertent and significant variation in the size of the payments delivered at birth and within the first year of life.**

### Inequities in payment timing with the current Child Tax Credit

The current Child Tax Credit, delivered annually, inadvertently creates disparities for children according to the month they were born. Current policy (here: the Tax Cuts and Jobs Act of 2017) offers eligible families up to \$2,000 per qualifying child upon filing a federal tax return, which means that a child born in December can see this benefit as early as February the following year, while a child born in January will not see this benefit until tax time the following year. The structure of current policy, therefore, is akin to a birth grant arriving in infancy for an eligible child born late in the calendar year, whereas an eligible child born early in the calendar year is missing the benefit for their entire first year of life.

### Inequities for newborns in earlier versions of the American Family Act

The 2021 temporary Child Tax Credit expansion enacted through the American Rescue Plan was modeled on the American Family Act, which has been introduced in successive Congresses since 2017.<sup>4</sup> In contrast to current law, the American Family Act would permanently increase annual maximum credit amounts, expand eligibility to [children in families with low and moderate incomes currently left out of the full credit](#), and deliver the credit in monthly installments. For eligible children under age 6, this would equal up to \$300 per month per young child, totaling \$3,600 per year. The bill's language also entitles each child to their full \$3,600 annual credit in the first *calendar year* that they are born. **However, the interaction between the amount due to a child in the first calendar year they are born and monthly payment delivery creates another inadvertent inequity among newborns, depending on what month in the year a baby was born.**

A child born in January, for example, would have twelve months to receive their full \$3,600 due in the first calendar year they were born and would therefore be eligible for \$300 per month spread out across the entire year. A child born in December, however, would receive their entire \$3,600 in their first month in order to ensure they received their full credit amount in the first calendar year they were born. As a result, the pre-American Rescue Plan versions of the American Family Act would have offered an initial payment to

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<sup>2</sup> Conversation with Treasury Department.

<sup>3</sup> See, for example, QF1 [www.irs.gov/credits-deductions/2021-child-tax-credit-and-advance-child-tax-credit-payments-topic-f-updating-your-child-tax-credit-information-during-2021](https://www.irs.gov/credits-deductions/2021-child-tax-credit-and-advance-child-tax-credit-payments-topic-f-updating-your-child-tax-credit-information-during-2021).

<sup>4</sup> Versions of the Working Family Tax Relief Act that have been introduced since 2019 have the same monthly design structure as the American Family Act, with payments in the first year of life varying by month of birth.

newborns with wide variation in value, ranging anywhere from \$300 to \$3,600, depending on their month of birth, as seen in Table 1.<sup>5</sup>

**Table 1. Payment structure for newborns under earlier versions of the American Family Act: Total benefits received within first year of life vary by month of birth**

Birth month	Value of 1st payment received after birth	Total value of payments received over next 11 months (\$300 per month x 11 months)	Total value of payments received in first 12 months of life
January	\$300	\$3,300	\$3,600
February	\$600	\$3,300	\$3,900
March	\$900	\$3,300	\$4,200
April	\$1,200	\$3,300	\$4,500
May	\$1,500	\$3,300	\$4,800
June	\$1,800	\$3,300	\$5,100
July	\$2,100	\$3,300	\$5,400
August	\$2,400	\$3,300	\$5,700
September	\$2,700	\$3,300	\$6,000
October	\$3,000	\$3,300	\$6,300
November	\$3,300	\$3,300	\$6,600
December	\$3,600	\$3,300	\$6,900

Note: The American Family Act benefit values here are presented in 2021 dollars and thus do not represent the current value of the proposed credits, which would maintain their real value from 2021 in future years.

While children were all entitled to the same \$3,600 in the first *calendar year* they were born, the total amount received in their *actual* first 12 months of life could vary by as much as almost a factor of two – from \$3,600 for children born in January to \$6,900 for children born in December. **This inequity, based solely on the newborn’s month of birth, would create inadvertent disparities among families with newborns. These disparities, in turn, could have implications for family well-being and children’s development.**

### What the 2023 American Family Act would do differently

One way to rectify this inequity is to provide the same monthly benefit to children, no matter their birth month. The most recent American Family Act would do this by providing equal monthly payments while also ensuring that no family receives a smaller future credit than received under current policy.

To do so, the bill offers a lump-sum payment of \$2,000 as the first payment made after the child is born, which would be equal to the maximum value of the current Child Tax Credit. It would then move into regular installments of \$300 per young child per month thereafter, as seen in Table 2, before transitioning into \$250 per child per month once the child reaches age 6.

<sup>5</sup> Previous versions of the American Family Act specified that a baby would receive \$3,600 in the first calendar year they were born, but did not specify how these payments would be divided up within the calendar year. While Table 1 presents one possible payment structure scenario for purposes of illustration, any scenario would lead to the same inequity for babies in terms of resulting in different total amounts received within their first 12 months of life.

**Table 2: Revised payment structure for newborns under 2023 American Family Act: equal benefits no matter month of birth**

Birth month	Value of 1st payment received after birth	Total value of payments received over next 11 months (\$300 per month x 11 months)	Total value of all payments received in first 12 months of life
January	\$2,000	\$3,300	\$5,300
February	\$2,000	\$3,300	\$5,300
March	\$2,000	\$3,300	\$5,300
April	\$2,000	\$3,300	\$5,300
May	\$2,000	\$3,300	\$5,300
June	\$2,000	\$3,300	\$5,300
July	\$2,000	\$3,300	\$5,300
August	\$2,000	\$3,300	\$5,300
September	\$2,000	\$3,300	\$5,300
October	\$2,000	\$3,300	\$5,300
November	\$2,000	\$3,300	\$5,300
December	\$2,000	\$3,300	\$5,300

Note: The American Family Act benefit values here are presented in 2021 dollars and thus do not represent the current value of the proposed credits, which would maintain their real value from 2021 in future years.

Without such a design, children born in December would continue to receive a meaningful economic advantage over children born in January. Evidence shows families face an [increased risk of poverty around the time of birth](#) and also that [poverty experienced in early childhood can have negative effects on children’s development](#), specifically brain structure and function, with lasting negative effects on children’s education outcomes. Cash—for example, a [cash birth grant](#)—can prevent poverty at birth and smooth family income year round. Evidence confirms timing matters; research examining current differences in the amount of child-related tax benefits available in the first year of life found [children who receive more in their first year of life fare better](#) on many later outcomes, including better school performance, higher chances of completing high school, and increased earnings into adulthood.

An expanded Child Tax Credit with provisions similar to those in the 2023 American Family Act that provide higher benefits and include children [historically left out of the full credit](#) would ultimately reach more children in families with low incomes *and* provide more support to many children than the Child Tax Credit under current policy.<sup>6</sup> A monthly payment structure that ensures a child’s month of birth does not determine how much they receive during their first year of life represents another critical step towards promoting equity among children.

<sup>6</sup> This is also true for all versions of the Working Families Tax Relief Act introduced in the Senate since 2019 as well, as they contain Child Tax Credits with similar parameters to those of the American Family Act.