

Five Elements for an Effective Child Tax Credit

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The Child Tax Credit (CTC) reduces child poverty by providing direct financial support to low- and middle-income families. It improves economic stability and well-being for millions of children, helping ensure they have enough food, clothing, school supplies, and stable housing. For many families, the cash provided through CTC is an irreplaceable economic lifeline for ensuring their children can continue to grow and develop, succeed in school, and thrive later in life.

What is the CTC?

- The CTC is a tax credit for individuals who claim an [eligible child](#) as a dependent on their tax return. Under current law, the [CTC provides up to \\$2,000 per eligible child](#).
- Since 1997, the CTC has provided essential cash-based support to American families raising children. The [CTC has also garnered bipartisan support](#), leading to expansions of the credit on [multiple](#) occasions since its enactment.
- The 2017 Tax Cuts and Jobs Act (TCJA) included some modestⁱ [changes](#) to the CTC that are [set to expire](#) in 2025 unless Congress acts.
- The most recent and significant expansion occurred under the temporary American Rescue Plan Act ([ARPA](#)) for 2021 only. It [boosted](#) the maximum credit amount to \$3,600 for children below age 6 and \$3,000 for children aged 6-17, among other improvements.
- 1 in 4 [children under age 17 \(17 million\)](#) were left out of the CTC in 2023. This includes nearly one-third ([27 percent](#)) of children in rural areas and nearly one-quarter ([22 percent](#)) of children in metro areas.

Benefits of the CTC

1. **Reduces poverty:** In 2021, the expanded CTC [brought 5.3 million people](#), including 2.9 million children, above the poverty line. It [cut child poverty by 46 percent](#) and slashed [food insufficiency by 26 percent](#).
2. **Cash is king:** The CTC's flexibility and refundability through its cash form is [a crucial lifeline](#)—families [know best](#) how to use the credit to support their own children and household's needs. (See Box 1 for more information.)
3. **Supports working families:** The CTC [supports](#) working families and may even [promote work](#). In one [study](#), 94 percent of expanded CTC recipients reported that they “would work as much **or more** as a result of the payments.” Another study in New York City found parents reported a slight [increase in hours worked](#).
4. **Provides long-term returns:** Investing in children and families is an investment in our country's future success and well-being. The 2021 expanded CTC [improved](#) children's health, behavioral, and academic outcomes. A cost-benefit analysis found that renewing the 2021 expanded CTC would generate a nearly [10-fold return on investment](#). Children who received the strengthened credit would be more likely to

ⁱ 2017 TCJA rules set a “credit of up to \$2,000 per child, a refundable portion of up to \$1,600, and a wider range of income eligibility [on both ends]” than before—although it is not fully refundable.

achieve bachelor's degrees and earn [7 to 12 percent higher incomes](#) by age 30—if the 2021 expansion were permanent.

5. **Advances racial & economic equity:** A strengthened CTC [increases economic security and stability for all families](#), but [especially](#) for people who experience structural disparities and who are especially likely to be in low-paid, precarious jobs—including people of color, women, disabled people, immigrants, and people with limited English proficiency.

BOX 1

CASH IS KING

The CTC's refundability directly to families in the form of cash supports family stability, choice, and well-being.

- **Families use cash for essentials & building financial security:** In 2021, most families [overwhelmingly](#) reported using CTC payments to meet basic needs including food, clothing, school supplies, utilities, rent, child care, transportation, and paying off debt.
- **Cash helps families weather unexpected life expenses**, like a car repair or health emergency. A survey found that [60 percent of Americans experienced an unexpected expense in the past year](#), but [42 percent](#) lacked emergency savings. Getting cash in families' pockets gives them a fair chance to [navigate](#) inevitable life surprises, and their children a fair chance at a [healthy childhood](#).
- **Many families, especially low-income families, cannot afford child care.** An adult working full-time, year-round, in a federal minimum wage job to earn a [poverty wage](#) will not be able to [afford](#) consistent child care. The CTC [helps parents afford](#) child care and stay connected to the labor market.

An Effective CTC Needs Five Elements

Five elements are essential for an effective CTC that supports working, not just wealthy, families.

They include:

1. **Full refundability & availability to all children:** To [reach children who would benefit the most](#), the credit should be universal and fully refundable to reach all children in all families—including children with Individual Tax Identification Numbers (ITINs), and regardless of parent earnings and formal work history.
2. **Matches timing with need:** The [2021 monthly payment model successfully](#) helped families manage expenses throughout the year. A permanent periodic payment option is essential to [match the timing](#) of the credit to families' needs.
3. **Ensures smooth delivery & access:** Under the 2021 temporary CTC expansion, the IRS successfully delivered funds to [61 million](#) children's families—with a [98 percent](#) payment accuracy rate. Sustaining IRS funding levels is [crucial](#) for supporting the administration of the CTC, including through continued IRS [modernization efforts](#), widely supported [direct deposit](#) and [direct file](#) options, and other improvements.
4. **Guards against ineffective & harmful proposals including work requirements:** Work documentation requirements and unnecessary red tape would undermine the success of the CTC, and narrowing access would undercut the [most powerful societal effects](#) of a permanently expanded CTC—including [reductions in crime](#), [better education and earnings outcomes](#), [decreased national health spending](#), and more.
5. **Keeps up with costs & inflation:** The CTC should be increased to [at least \\$500 per month per child](#) and indexed to inflation to keep up with the climbing costs of raising a family.