What's at Stake?

When Congress passed the expanded Child Tax Credit (CTC) as part of the American Rescue Plan Act of 2021, it accomplished something remarkable: the child poverty rate dropped significantly to 5.2 percent—its lowest point on record. The CTC also made significant strides in reducing the racial wealth gap for Black and Hispanic/Latino children. As a result of the expanded CTC, child poverty rates among Black and Hispanic/Latino children shrank by a **stunning 8.8 percentage points and 6.3 percentage points**, respectively, from 2020 to 2021.

Unfortunately, the expanded and fully refundable child tax credit expired in December 2021. Since then, we have seen a sharp rise in child poverty with more than 5 million kids allowed to fall back into poverty. The expanded Child Tax Credit accomplished something extraordinary, and we can continue to build on this progress by making it permanent.

> **Since the end of the expanded *fully refundable* child tax credit in 2021, we've seen a sharp rise in child poverty with more than 5 million kids pushed back into poverty.**

A family's income during the prenatal and early years of a child's life **plays a significant role** in her health, well-being, and brain development. The harsh realities of today's low-wage labor market— with the norm being little paid time off and unpredictable and unstable schedules—ratchet up the stress and make it harder for parents to fulfill their dual roles as wage-earners and caregivers. Yet, early childhood is also the time when **household incomes can become more volatile**.

Cash supports for families lead to better birth outcomes, greater educational attainment, and **improved overall health**. Research also shows that this assistance reduces involvement in **the child welfare system**, lowering the risk of children being separated from their families.

Recent Progress: 2021 Improvements Caused Historic Gains

The 2021 temporary improvements to the CTC raised 2.9 million children (about the population of Connecticut) out of poverty, **cutting the child poverty rate by nearly half**—from 9.7 percent in 2020 to 5.2 percent in 2021, the largest one-year decline in the child poverty rate on record. But once the expanded CTC ended, the child poverty rate as measured by the Supplemental Poverty Measure more than doubled, from 5.2 percent in 2021 to 12.4 percent in 2022, the largest one-year increase on record.

Change in Number of Children in Poverty in 2021
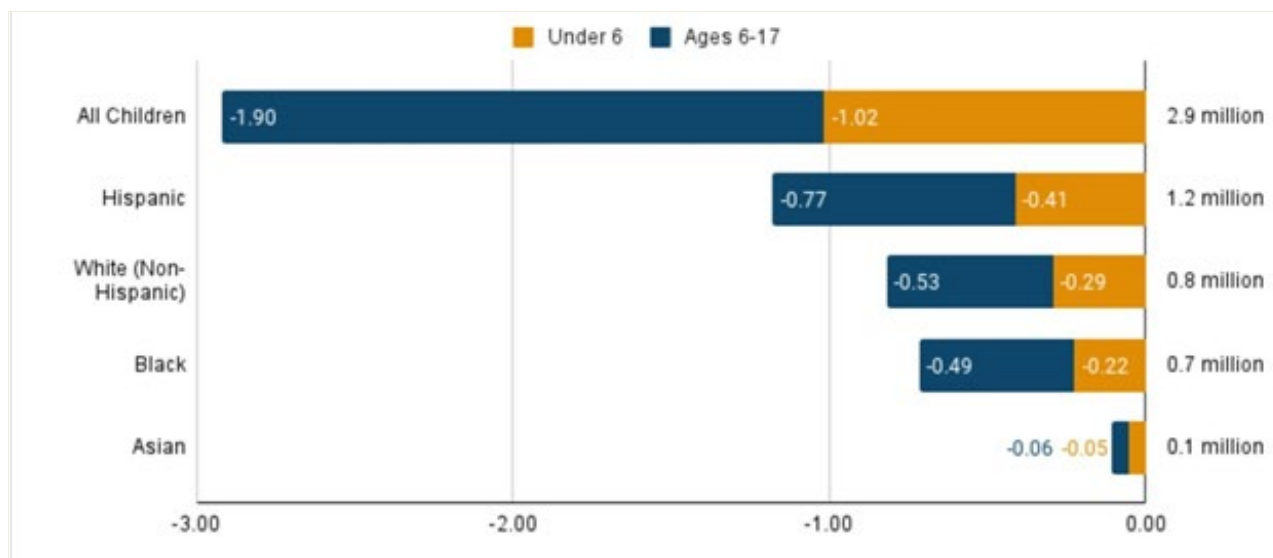
Families also reported reduced rates of food insecurity, less financial stress, and increased ability to purchase essentials while receiving the monthly CTC payments. Black and Hispanic/Latino children disproportionately benefited in part because previous versions of the CTC did not allow families with low to no earnings to claim the credit. Black and Hispanic/Latino families are more likely to have low incomes due to labor market discrimination, occupational segregation, systemic racism, and other structural barriers.

Despite the positive outcomes for many families and dramatic reductions in child poverty, the temporary expansion to the CTC expired in 2022, and we have reverted to the policy passed as part of the 2017 Tax Cut and Jobs Act (TCJA). This less-effective version offers up to $2,000 annually per child and is not fully refundable, meaning working-class families who need the income boost the

most aren't benefiting at all or as much. A fully refundable tax credit means that all families, including those who have little to no earnings, can access the credit. Refundable tax credits boost family incomes, increase child well-being, and help reduce racial and economic inequities. The Center on Budget and Policy Priorities estimates that **19 million children under 17 do not receive the full credit**, including 45 percent of Black children, 39 percent of Hispanic/Latino children, and 38 percent of American Indian/Alaskan Native children, because of a lack of full refundability. The TCJA also **denied the CTC to children in immigrant families who have Individual Taxpayer Identification Numbers** (ITINs) instead of Social Security numbers, a blatantly xenophobic and racist departure from the pre-2017 CTC that undermines our own communities and national potential.

Potential Threats

If the TCJA expires, the CTC would revert to a credit of up to $1,000 per child and **the modest reduction of the phase-in threshold** would expire, increasing from $2,500 to $3,000. One risk is that these changes will be allowed to expire, meaning less support for families with children. There is also the risk of Congress extending the CTC as it was passed under the TCJA and missing the opportunity to make the credit fully refundable, among other key improvements. This would leave out the families who need it the most while benefiting families with incomes of $400,000 or even higher.

The Path Forward

Many provisions of the 2017 Trump-era tax bill, including huge tax cuts for corporations and wealthy individuals, are scheduled to expire at the end of 2025. These should be allowed to end, and instead, we should build an equitable tax system where everyone pays their fair share to support needed public investment.

This creates a moment to restore the 2021 version of the CTC and go beyond, to reach children who were left out in 2021:

- The CTC should be permanently fully refundable. A fully refundable CTC without a work requirement provides a consistent benefit to families and has a powerful antipoverty effect, especially among Black and Hispanic/Latino families.
- Families should automatically receive monthly payments but have the option to opt out for a single annual payment.
- Families should be able to sign up for the CTC through a simplified filing tool in case they don't normally file a federal tax return.
- Families left out in 2021, including children in foster care and immigrant children who file taxes with an ITIN, should be included.

For discussion of the broader implications of the 2025 tax debate, see:

Let's Promote—Not Reduce—Equity in Our Tax Code