

# CORD

## The Expanded Child Tax Credit Dramatically Reduced Child Poverty in 2021

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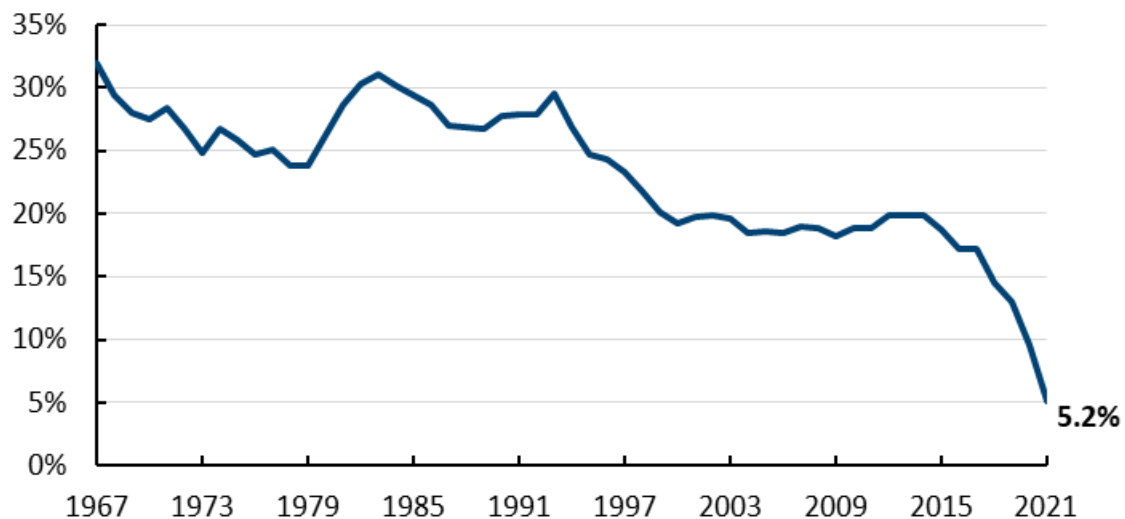
## The Expanded Child Tax Credit Dramatically Reduced Child Poverty in 2021

*The expanded Child Tax Credit helped drive child poverty to a record low in 2021, even amid the pandemic and resulting economic crisis*

Child poverty in 2021 [fell](#) to 5.2%, the lowest rate [on record](#) according to Census Bureau measures.<sup>1</sup> The child poverty rate was cut almost in half from the previous year's rate of 9.7%. This drop was the largest single-year decline in child poverty on record and was driven primarily by the expanded Child Tax Credit (CTC) included in the American Rescue Plan.

### Child Poverty Fell to the Lowest Level on Record in 2021

Anchored SPM child poverty rate (2021) with taxes and transfers, 1967 to 2021



Source: Center on Budget and Policy Priorities

Note: Data are anchored to 2021 poverty thresholds and adjusted backwards for inflation.



Overall, the CTC [lifted](#) 5.3 million people—including 2.9 million children—out of poverty in 2021. Just the expansion of the CTC alone lifted 2.1 million children out of poverty, and were the tax credit not expanded, the child poverty rate would have only fallen to 8.1% and these 2.1 million children would have [remained](#) in poverty. The CTC also helped [reduce](#) the percentage of children living in near-poverty by one-third.

<sup>1</sup> As shown by the Supplemental Poverty Measure (SPM), which is a broader measure of poverty than the Official Poverty Measure (OPM). It accounts for cash and noncash benefits, federal and state taxes and work and medical expenses, as well as geographic variation in poverty thresholds.

The [expansion](#) of the CTC as part of the American Rescue Plan made the credit fully refundable, which enabled previously ineligible low-income families to receive the full credit. Full refundability was the main driver of the expanded CTC's child poverty reduction and [helped](#) 19 million more children—including 45% of Black children and 39% of Hispanic children—become eligible for the full credit. These children previously could not receive the full credit or received no credit at all because their families' incomes were too low. According to a Center on Budget and Policy Priorities model, making the credit fully refundable [accounted](#) for 80% of the reduction in child poverty.

The American Rescue Plan also dramatically increased the value of the CTC from \$2,000 per child to up to \$3,600 per child under age 6 and to \$3,000 per child between age 6 and 17 in 2021. This increase put significantly more money in the pockets of low- and middle-income families to pay for household expenses. Half of the CTC was distributed in advance via monthly payments from July through December 2021, which helped families meet their financial needs in real time. Over 36 million families with more than 61 million children [received](#) monthly payments in 2021, and qualifying families received the remainder of the credit when they filed their 2021 taxes.

### *The expanded CTC yielded a high return on investment*

The Joint Economic Committee [estimated](#) that the expanded CTC created significant benefits for local economies. Specifically, the analysis found that each \$1 in CTC payments generated \$1.25 in local economic activity, as recipients used the money to buy goods and services that in turn generated income for other people and businesses. This increased economic activity was a boon to local businesses and helped create jobs in communities across the country. A study from Columbia University reached a similar conclusion and [estimated](#) that the CTC provided \$8 in social and economic benefits over the long term for every \$1 of investment. In addition, an analysis from the nonpartisan Niskanen Center [estimated](#) that the CTC expansion would boost consumer spending by \$27 billion, generating \$1.9 billion in revenues from state and local sales taxes and supporting over 500,000 full-time jobs.

### *The expanded CTC reduced financial hardship and food insufficiency*

Financial hardship and food insufficiency fell almost [immediately](#) following the initial disbursement of monthly CTC payments in July 2021. Annual data [show](#) that food insecurity among households with children fell by more than 15% from 2020 to 2021, with nearly 2.5 million fewer children experiencing food insecurity. One study [found](#) that the monthly CTC payments reduced food hardship for families with children by 19%.

Similarly, the lump-sum payments at tax time reduced housing hardship by 10%, with households more likely to use these payments to catch up on housing payments. Another study [found](#) the monthly CTC payments reduced medical hardship, reduced reliance on friends and family for food assistance and increased families' ability to pay utility bills in full. Overall, the monthly CTC payments greatly [improved](#) the financial security of households. Specifically, the payments increased the ability of households to pay for routine expenses and manage emergency expenses and decreased reliance on credit cards and high-risk financial services, like payday loans.

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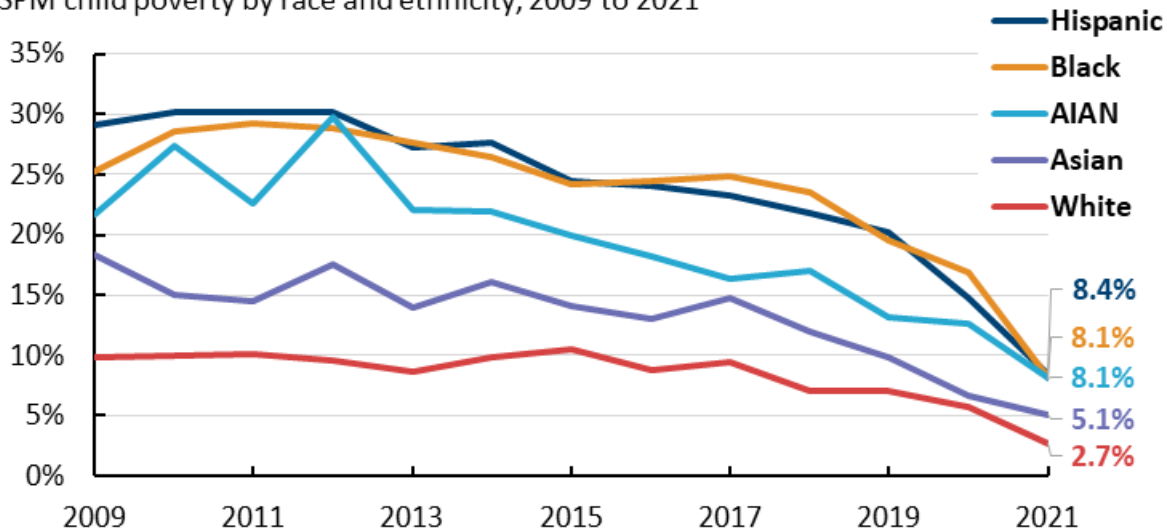
Data from the Census Bureau's Household Pulse Survey [showed](#) that across the six months of monthly CTC payments families primarily [used](#) the money for food, internet and other utilities, mortgage and rent payments, clothing and education costs, among other household needs. In fact, [91% of families](#) with incomes below \$35,000 used their monthly payments for these necessities, demonstrating the effectiveness of the expanded CTC to improve the material well-being of many families, particularly those with low incomes.

### *Black and Hispanic child poverty fell significantly due to the expanded CTC*

In 2021, child poverty rates [fell](#) to record lows across racial and ethnic groups: 8.4% for Hispanic children, 8.1% for Black children, [8.1%](#) for American Indian and Alaska Native children, 5.1% for Asian children and 2.7% for white children. Child poverty rates [fell](#) by more than half among Black children and more than 40% among Hispanic children from 2009 to 2021.

### Child Poverty Rates Have Fallen Across All Races and Ethnicities

SPM child poverty by race and ethnicity, 2009 to 2021



Source: Census Bureau

Note: "Hispanic" refers to Hispanic, Any Race; "Black" refers to Black, Alone; "AIAN" refers to American Indian and Alaska Native, Alone or in Combination; "White" refers to White Alone, Not Hispanic; "Asian" refers to Asian, Alone.



Making the expanded CTC fully refundable made it particularly effective at boosting the finances of low-income households. Black and Hispanic children are overrepresented among low-income households, so the credit's full refundability was especially powerful at reducing poverty among Black and Hispanic children and addressing pervasive racial inequality. By itself, the CTC [reduced](#) both the Black child poverty rate and the Hispanic child poverty rate by 6.3 percentage points each. Altogether, the CTC lifted 716,000 Black children and 1.2 million Hispanic children as well as 820,000 white children and 110,000 Asian children out of poverty.

### *Higher family income leads to higher future earnings and other benefits for children*

In addition to helping meet short-term needs, the CTC is an investment in children's well-being over the long term. Research has found that an extra \$3,000 in a family's annual income when a child is younger than age 5 leads to 19% higher [earnings](#) when they grow up. Other research on

investments in early childhood finds that increasing family incomes has tangible outcomes for children, including higher [test scores](#), higher high school and college [graduation rates](#), improved [health outcomes](#), lower rates of [incarceration](#) and reduced need for future [income support](#).

One study showed that the monthly CTC payments improved the ability of households—particularly low-income households and Black and Hispanic families—to invest in their children’s education and long-term [development](#). By increasing families’ ability to pay for items like tutoring and extracurricular activities, the expanded CTC improved future [mobility](#) and lifetime success, which creates economy-wide benefits that last for generations.

### ***Parents continued to work while receiving monthly CTC payments***

Research has shown that cash transfer programs including the CTC have minimal effects on employment. One analysis from the Social Policy Institute [found](#) no difference in employment trends between parents (who were eligible for the CTC) and non-parents (who were ineligible for the CTC) when monthly CTC payments were distributed. In other words, CTC recipients were working at nearly identical rates as those who were ineligible for the CTC. The same analysis also looked at both CTC recipients and those who were eligible for the CTC but did not receive it and found that CTC recipients tended to be employed at *higher* rates than non-recipients. Consistent with the body of research that shows no negative employment effects from the CTC, a study from Columbia University [found](#) “statistically insignificant impacts of the CTC” on both employment and labor force participation.

A more recent study from October 2022 looked at all six months of CTC payments and [found](#) no effect of the payments on overall, full-time or part-time employment or on labor force participation. Another study from April 2022 that also looked at all six months of CTC payments [found](#) “no statistically significant changes in employment” between households eligible for the CTC and those who were not.

At the same time, research has shown the positive impacts of the CTC on the labor market. One study [found](#) that households eligible for the monthly CTC payments were more likely to learn new professional skills, implying that they were motivated to develop themselves and seek a higher quality job. This would improve their own financial situation and lead to a better match with an employer, improving productivity.

### ***Expanding the CTC will provide increased resources and opportunities for American families***

Expansion of the Child Tax Credit reduced child poverty to a record low, making it one of the most impactful policies from the American Rescue Plan. It provided American families and their children with critical resources and opportunities that are key for household success and economy-wide strength in both the near and long term. Importantly, the expanded credit supported broad economic growth, as it encouraged additional spending and investments. To continue to drive economic growth and shared prosperity, Congress should extend the credit’s expansion, with an emphasis on full refundability to ensure the credit is available to those most in need. These types of investments in children have been proven to more than pay for themselves with improved educational attainment, better health outcomes and higher future earnings.