Tax credit changes and expansions in the American Rescue Plan to address childhood poverty amid COVID-19

Background

Prior to the COVID-19 pandemic, the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) combined lifted 5.5 million children out of poverty each year, more than any other program (Marr et al., 2021). The COVID-19 pandemic has created economic hardships that place families with children at a higher risk of rent burden, hunger, and homelessness. The June 2021 Census Pulse Survey showed that one-in-eight adults with children lacked sufficient food over the last seven days and one-in-five renters with children were behind on rent (Center on Budget and Policy Priorities, 2020). Black renters were even more vulnerable, with 27% of adult renters indicating they were behind on rent (Center on Budget and Policy Priorities, 2020). The American Rescue Plan, passed in January of 2021, was an ambitious injection of funding into the American economy to help the country recover from the effects of COVID-19. The plan includes significant spending on families and children, including expansions of the Earned Income Tax Credit (EITC), the Child Tax Credit, and revisions to the Affordable Care Act (The White House a, 2021). These policies could help to ease much of the economic burden felt by families and lessen or eliminate inflows into homelessness. This brief will detail the components of the American Rescue Plan that contribute to stabilizing families and summarize previous research into these tax credits and programs.

Key Takeaways:

- The economic consequences of the COVID-19 pandemic have placed children and their families at higher risk of poverty, rent burden, hunger, and homelessness.
- Before the passage of the American Rescue Plan, the Earned Income Tax Credit and Child Tax Credit were effective in lifting 5.5 million children out of poverty yearly, but left out the most vulnerable families and children due to wage requirements.
- The American Rescue Plan expands both of these tax credits by eliminating wage requirements and including a much broader subset of families and children. These expanded programs have the potential to reduce childhood poverty by 40% and virtually eliminate extreme childhood poverty (families who survive on less than $2 per person per day).

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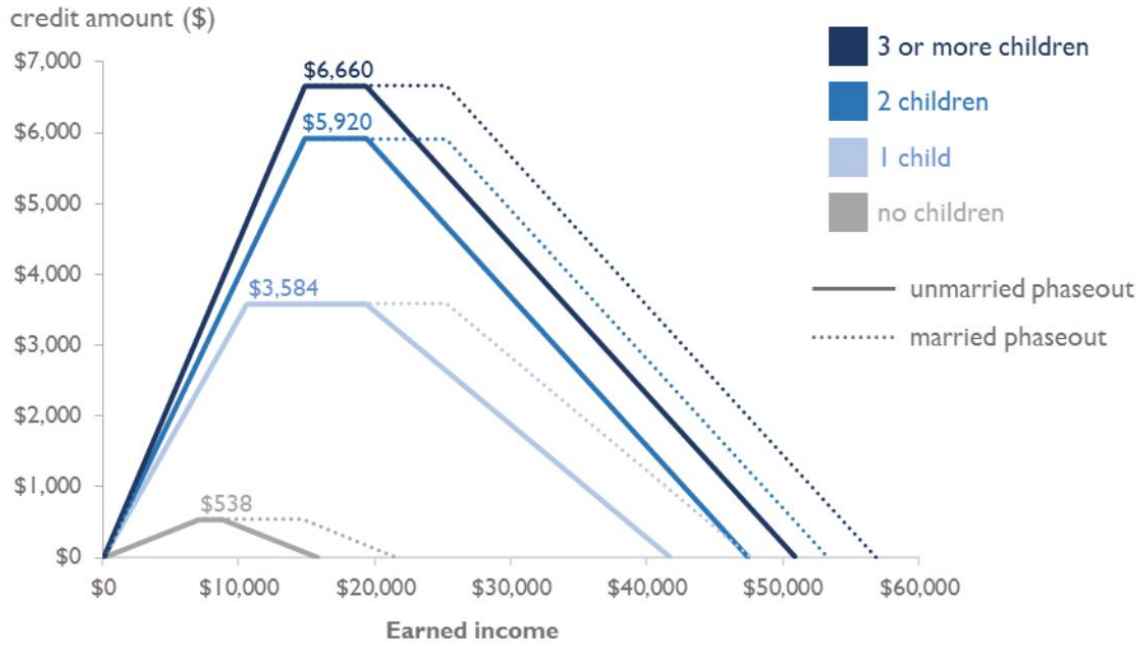
Earned Income Tax Credit

The Earned Income Tax Credit (EITC) is a refundable tax break for low to moderate wage earners and is particularly beneficial for families with children (Lundstrom, 2017). In 2019, the tax credit provided up to $3,526 annually for families with one child, and up to $6,557 for families with three or more children, as long as the family's Adjusted Gross Income (AGI) was below a certain threshold (In 2019 the income threshold was $41,094 annually for families with one child, $46,703 with two children, and $50,162 for three children) (IRS, 2020). In 2019, over 26 million Americans (17% of taxpayers) received $64.9 billion from the EITC, with 97% of that money going to families with children (Crandall-Hollick & Falk, 2020). One benefit of the EITC is that the amount received does not count as income, and therefore does not affect income eligibility for other programs such as Medicaid (Pilkauskas & Michelmore, 2019). For example, beneficiaries of the EITC need not worry about the EITC pushing them over the income threshold for programs such as Housing Choice Vouchers or other subsidies. According to the Center on Budget and Policy Priorities, the EITC alone lifted 5.6 million people out of poverty in 2018, including 3 million children (Herd & Moynihan, 2019).

EITC Amount by Number of Qualifying Children, Marital Status, and Income, 2020



Source: (Crandall-Hollick & Falk, 2020)

Quantitative studies on housing outcomes related to the EITC are limited, but research has shown that the EITC has a stabilizing effect on families and children. A quasi-experimental study conducted in 2015 showed that a $1,000 increase in EITC was associated with a 7.3% increase in parental employment and a 9.4% decrease in the share of families with incomes below 100% of the poverty level (Hoynes & Patel, 2015). Qualitative interviews conducted in 2016 showed that parents who received the EITC felt that it affirmed their identities as parents and workers (Halpern-meekin et al., 2016). These interviews found that since the tax credit rewards employment and applicants apply through the regular tax filing process, there is less perceived stigma than other welfare programs. The credit is phased to encourage work instead of having sharp drop-offs, which cause disincentives to additional earnings to maintain enrollment in the benefit program. Additionally, a 2012 study found significant improvements in math and reading scores for children whose families received the EITC (Dahl & Lochner, 2012).

However, evidence on the EITC's impact on homelessness and housing outcomes is mixed. In a 2019 study, Pilkauskas and Michelmore found that a $1,000 increase in EITC helps to reduce housing cost burdens (families who spend more than 50% of their income on housing) and decrease crowding and doubled-up living, but does not affect evictions or homelessness (Pilkauskas & MIchelmore, 2019). Though previous studies (Evans et al., 2016) have shown that, more generally, income transfers can reduce homelessness, Pilkauskas and Michelmore hypothesize that these conclusions don't transfer to the EITC since beneficiaries of the EITC must have an income. Those at the highest risk of eviction and homelessness (households lower than 50% of the poverty threshold) wouldn't receive the credit since they are less likely to have an income (Pilkauskas & Michelmore, 2016). Overall, the research shows that the EITC helps to reduce economic uncertainty and decreases poverty, but there is no definitive research on the EITC's impact on housing outcomes.

One challenge with the EITC is that recipients must proactively apply for the tax credit when filing taxes. An increasing number of workers are experiencing homelessness while maintaining employment. These workers could take advantage of the EITC, but several barriers prevent them from doing so. For one, not having a permanent address can make it difficult to receive mail, making it hard to get the necessary paperwork to file (Getitback.org, 2021). Additionally, there is a knowledge gap for low-wage earners. Many people think that they would lose money filing taxes if they have relatively low earning. In reality, because the EITC is refundable, most low-wage earners would receive money by filing. Educating service providers and policymakers on the benefits of EITC for people experiencing homelessness with jobs could help connect these populations to much-needed funds.

The American Rescue Plan (ARP) expands the EITC in several ways that will help stabilize children and families. The plan would expand the EITC to include foster youth over 18 and any 18-year-old experiencing homelessness (Sciamanna, 2021) (Crandall-Hollick & Falk, 2020). The ARP will expand the EITC to low- and moderate-wage earners who are not raising children, nearly tripling the amount of the benefit they will receive (Marr et al., 2021). Additionally, the ARP will expand the age range of wage-earners eligible for the EITC to include workers aged 19-24 and people over 65. These changes will provide increased economic support to over 17 million additional people but won't change the

circumstances for workers with children. However, the child tax credit detailed below (another element of the ARP), will substantially change the circumstances of families with children.

Child Tax Credit

Perhaps more substantial for the stability of families and children is the expansion of the Child Tax Credit (CTC) in the American Rescue Plan. Like the EITC, the CTC is a refundable tax credit paid to families on a per-child basis (Shaefer et al., 2018). Until the passage of the American Rescue Plan, the CTC was only paid to wage-earning families, meaning that many of the most vulnerable families and children don't receive the payment (Hoynes Diane Whitmore Schanzenbach et al., 2018) (Shaefer et al., 2018). One study found that about three-quarters of White and Asian families received the full child tax credit, but only about half of Black and Hispanic families received the CTC (Goldin & Michelmore, 2020). Additionally, the CTC was administered annually around tax time, meaning that families couldn't rely on these payments year-round, which is unhelpful for rent or monthly expenses. However, one study noted that a yearly lump sum payment was helpful for large-scale housing costs such as security deposits or even a down payment on a house (Pilkauskas & Michelmore, 2019).

The American Rescue Plan substantially expands the CTC, allowing all families to receive the payment regardless of income (The White House a, 2021). Additionally, the plan increases the amount from $2,000 to $3,600 for each child under six and $3,000 for each child from 6 to 17. The plan also includes the option to distribute payments over monthly installments; families began receiving monthly payments of up to $300 per child starting in July 2021 (The White House b, 2021).). Approximately 88% of families with children in the United States will receive these payments as part of the new plan.

Similar to the EITC, research on the impact of the Child Tax Credit on housing and homelessness is limited. Still, studies on similar income transfer programs can provide insight into the effects of the CTC on family stability. A 2021 study on Temporary Assistance to Needy Families (TANF), a similar income support program, showed that increasing the accessibility of TANF in school districts was associated with a decrease in student homelessness (Parolin, 2021). Other studies, more specific to the CTC, have shown that the CTC reduces material hardship, allows families to cover core expenses, and improves child health and development (Shaefer et al., 2018).

Other Components of the ARP

In addition to the changes in the EITC and CTC, several other components of the American Rescue Plan could contribute to the stabilization of families and prevent inflows into homelessness. The U.S. Department of Education will distribute $800 million in funding to school districts to identify and support students experiencing homelessness and re-integrate them back into the school community after reopening in the fall (U.S. Department of Education, 2021). This money will go to enrichment and summer learning programs to help ensure that students experiencing homelessness are set up for success when school returns. Additionally, the American Rescue Plan includes billions of dollars in funding to Headstart, The Child Care Development Block Grant, as well as $5 billion for tenant-based rental

assistance, affordable housing development, supportive services, and the acquisition of shelters and permanent affordable housing (such as the hotels purchased for Project Home Key in California) (H.U.D., 2021).

American Families Plan

In addition to the American Rescue Plan, President Biden has proposed the American Families Plan (AFP) and investment into education, health care, and child care, which would expand upon the social safety net created in the ARP. The AFP would make permanent all of the changes to the EITC and CTC previously outlined in the ARP (The White House b, 2021). Additionally, the AFP would introduce many other programs and reforms that could help to stabilize families and prevent inflow into homelessness, including universal pre-kindergarten for 3- and 4-year old's, childcare subsidies, paid family leave, and expanded nutrition assistance, including school meals. However, with strong Senate Republican opposition, it is unclear if this plan will get passed (King, 2021).

Conclusion

Together, the changes to the EITC and CTC combined are predicted to lift an additional 4.1 million children above the poverty line immediately, reducing child poverty in the United States by 40% (Crandall-Hollick & Falk, 2020). A 2018 study that helped inspire the CTC expansion and changes in the American Rescue Plan estimated that making the CTC universal and not tied to income would cut "deep" child poverty (50% of the poverty line) by nearly half and effectively eliminate "extreme" child poverty (income below $2 per person per day) (Luke Shaefer et al., 2018). By expanding the eligibility criteria of the EITC and removing the earned income requirement of the CTC, these changes ensure that the most vulnerable families and children will receive these payments.

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