Debunking Arguments Against the Advanced Child Tax Credit

Lucy Smart

The American Rescue Plan (ARP) Act of 2021 authorized a temporary expansion and advancement of the Child Tax Credit (CTC), a long-standing component of the tax code aimed at offsetting the cost of raising children. After the first month of Advanced CTC (ACTC) payments alone, three million fewer children were living in poverty than in the prior month [4]. The ARP's changes to the CTC were temporary, ending with the 2021 tax year. While an extended ACTC was included in drafts of the Build Back Better Act, the legislation was the subject of significant debate and any extension of the ACTC has not yet been passed into law. Opponents of the ACTC claim that the expanded and advanced credit disincentivized work [2], that the amount was too generous and wide-reaching [5], and that recipients would spend the funds "inappropriately" [6].

In this policy analysis, I provide an overview of the history of the Child Tax Credit and explore the impacts of the 2021 expanded and advanced credit. After introducing three of the most frequently argued claims against the Advanced Child Tax Credit, I use data from the Bureau of Labor Statistics, the Treasury's Office of Tax Analysis, and the Census Bureau to demonstrate that these claims are unfounded. I conclude by recommending that the 2021 ACTC be introduced as permanent legislation.

History of the Child Tax Credit

The Child Tax Credit was first enacted in 1997, and, throughout the past two decades, has undergone several changes that created a pathway to the Advanced Child Tax Credit that was introduced for the 2021 tax year. Under the Taxpayer Relief Act of 1997, the CTC was created to provide a nonrefundable[1] $400 credit. The benefit was considered modest and primarily benefited middle-income[2] taxpayers with children under age 17. The original CTC increased to $500 per child the following year. The Economic Growth and Tax Relief Act of 2001 introduced a gradual increase in the value of the credit from $600 to $1,000 per child over the next ten years. The CTC also became partially refundable, resulting in low-income taxpayers with incomes of at least $10,000 to receive part or all of the credit as a tax refund. In 2009, the American Recovery and Reinvestment Act further lowered this refundability threshold to $3,000 of income [8].

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[1] Nonrefundable tax credits can lower a taxpayer's tax liability until it reaches $0 but do not result in a refund. Therefore, they do not provide a benefit for low-income Americans who do not have a tax liability [7].

[2] The credit was not available for Single or Head of Household taxpayers with incomes above $75,000 or Married Filing Jointly taxpayers with incomes above $110,000. The CTC is not available to Married Filing Separately taxpayers [8].

In 2017, the Tax Cuts and Jobs Act introduced several changes to the Child Tax Credit. The maximum credit value increased to $2,000 per child, the refundability threshold decreased to $2,500 of income, and the phase-out income level increased to $200,000 for Single and Head of Household taxpayers and $400,000 for Married Filing Jointly taxpayers. The Child Tax Credit's transformation from a modest nonrefundable tax credit in 1997, primarily benefiting middle-income families, to a significant, partially-refundable credit available to most taxpayers with children with incomes between $2,500 and $400,000 in 2017 resulted in a "near-universal child benefit" for families with children [8]. This 20-year transformation of the CTC laid the groundwork for the introduction of the Advanced Child Tax Credit in 2021.

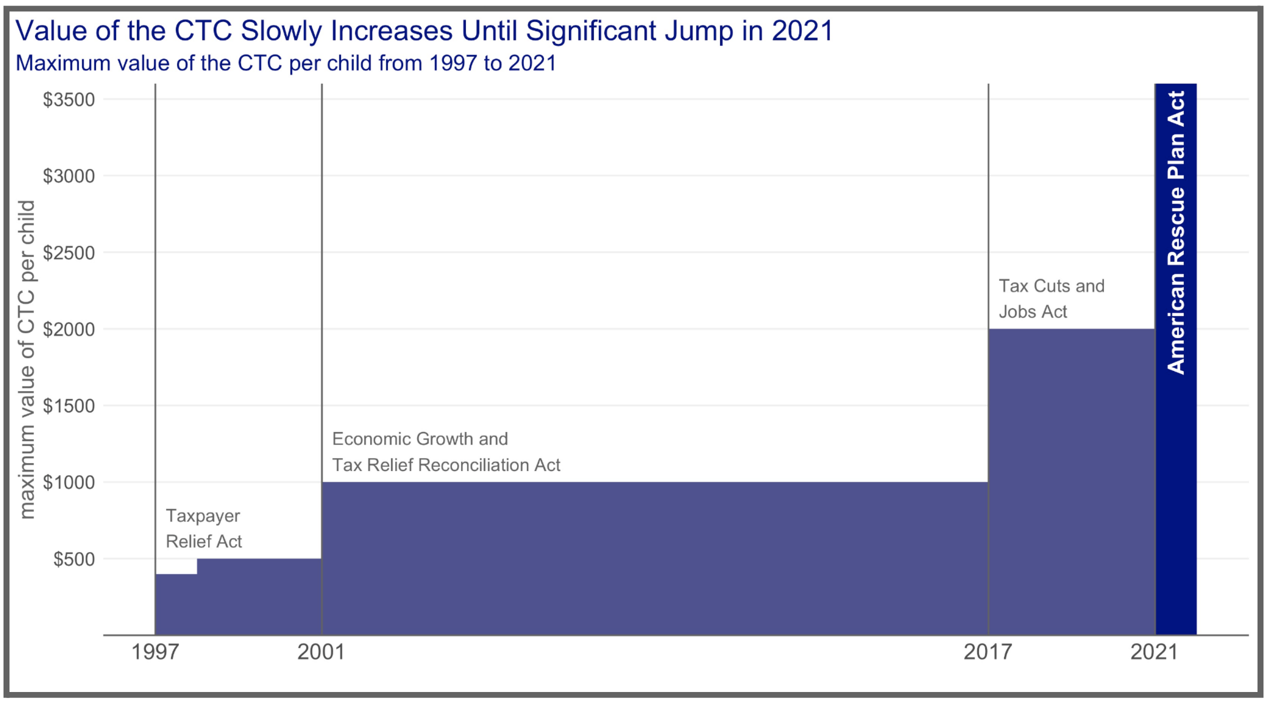

Figure 1. *Congressional Research Services*, 2021 [2].

As a response to the COVID-19 pandemic, the American Rescue Plan Act (ARPA) of 2021 introduced several temporary changes to the CTC for one tax year. The value of the credit increased to $3,600 per child age 0-5 and $3,000 per child age 6-17. The refundability threshold was completely eliminated, making the credit fully refundable and available to families with no taxable income. The legislation expanded the definition of eligible children to include 17-year-olds. Finally, the ARPA converted the CTC to the Advanced CTC, giving taxpayers the option to claim the credit in monthly installments from July to December 2021 and to claim the remaining half of the credit on their 2021 tax return [8].[3]

[3] Tax credits are typically claimed on an Individual Income Tax Return during the tax season following the end of the tax year [7].

The impact of the ACTC –and its expiration–on child poverty

While the Child Tax Credit has positively affected child poverty throughout its existence, its impact after the introduction of the Advanced CTC in 2021 was considered monumental. After just one month of ACTC payments, three million children moved out of poverty. The child poverty rate[4] decreased from 15.8% in June 2021 to 11.9% in July 2021 [4]. By the end of December 2021, after the final advanced CTC payment was issued, the child poverty rate was 12.1%. By the end of January 2022, after just one month of the expiration of monthly ACTC payments, child poverty had risen to 17.0% [3]. Researchers at the Urban Institute estimate that extending the ARPA's changes to the CTC through 2025 would reduce child poverty to 8.4% in just one year [1].

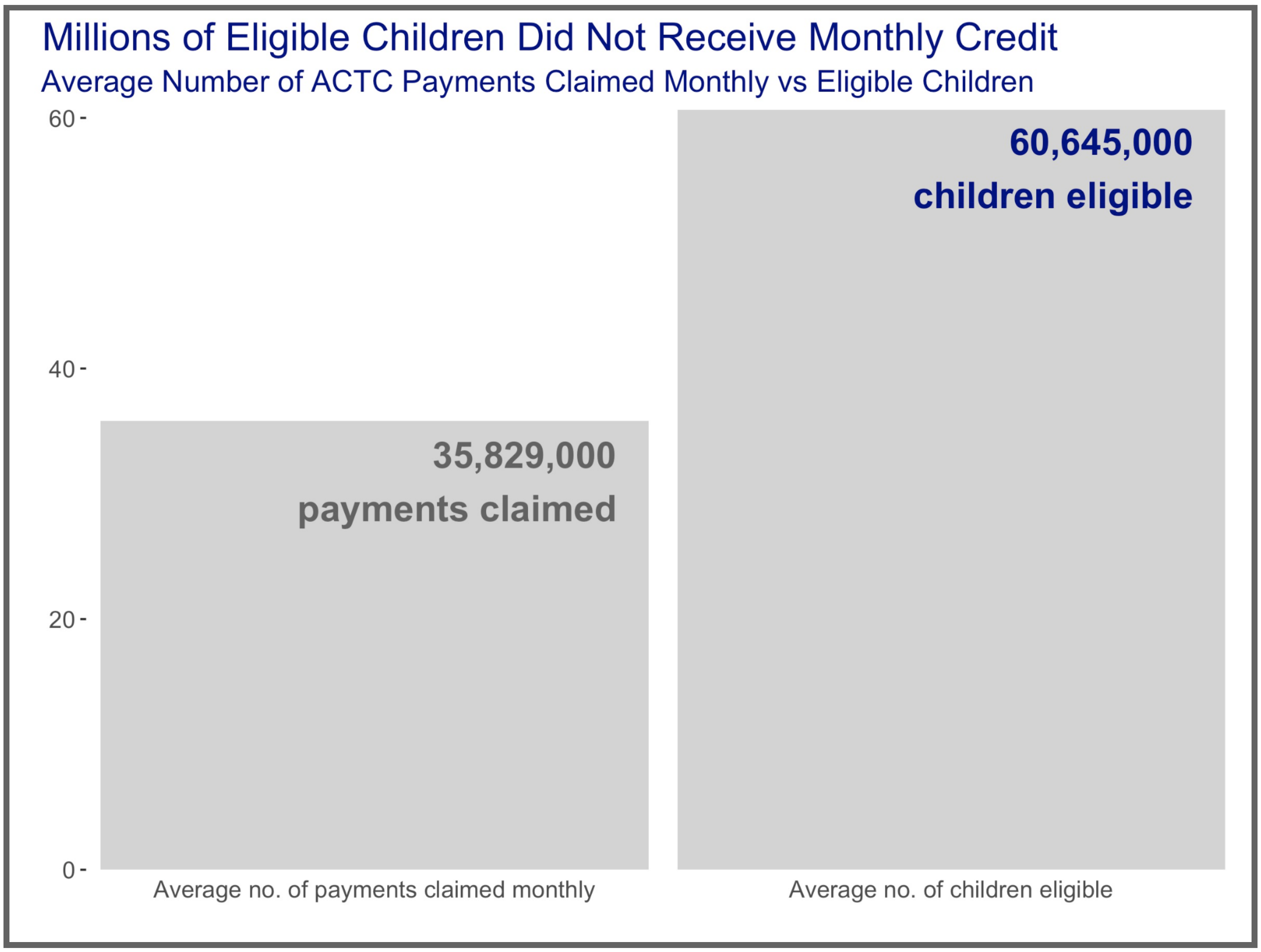

Figure 2. *Office of Tax Analysis*, 2021 [ii]. Data aggregated from monthly counts to means.

The reduction in the child poverty level from June to December only takes into account the effects on those families who elected to claim the ACTC through monthly payments. Under the

[4] The Center on Poverty and Social Policy measures monthly child poverty based on the income a family receives in a month. This operationalization is intentionally used to demonstrate month-to-month effects of the ACTC [4].

ARPA, taxpayers with children were able to opt out of monthly payments, electing to receive the entire CTC on their 2021 tax return. Additionally, taxpayers with children who had not filed taxes in the previous two years could still be eligible for the ACTC but were required to opt in to monthly payments [7]. Due to both of these factors, not all taxpayers who were eligible for the monthly payments received them. As shown in Figure 1, over the six months that monthly payments were available, only an average of about 36 million payments were claimed each month, while approximately 60.5 million children were eligible for the ACTC [ii]. It is likely that the receipt of the remainder of the CTC via 2021 tax returns will further reduce the child poverty level. Further, uptake of a fully-refundable CTC would likely increase over time as previously ineligible families' awareness and understanding of the credit increases.

Arguments against the extension of the ACTC

As of April 2022, no extension of the 2021 Advanced Child Tax Credit has successfully been passed into law. Various versions of the credit were included in drafts of the Biden Administration's Build Back Better Act (BBBA), but the legislation failed to receive sufficient support from the Senate to become law. The ACTC was a continual topic of debate during legislative hearings and informal negotiations concerning the BBBA as the Administration attempted to secure the 50 votes needed to pass the bill into law.

Persistent opposition to the BBBA in general and the ACTC specifically came from West Virginia Senator Joe Manchin[5], and the bill's failure is regularly attributed to Senator Manchin's objection. During debates and in informal conversations, Senator Manchin put forth three arguments against the extension of the 2021 ACTC that gained traction and are attributed to his decision to vote against Build Back Better legislation:

- **The ACTC discourages work.** Senator Manchin regularly confirms that he will not vote for an extension of an ACTC that does not include a work requirement for recipients, essentially eliminating the full refundability of the 2021 credit. Manchin has asserted that the monthly expanded CTC would disincentivize people from working and encourage families to rely solely on government assistance [2].
- **The ACTC is too generous and too many families are eligible.** Senator Manchin has suggested that the credit is both too large and too universal for a public assistance program. He has informally proposed a child tax credit that is only available to families with incomes of $60,000 or less [5].
- **Recipients of the ACTC spend the payments inappropriately.** Senator Manchin has been reported by multiple sources to have stated that he believes parents would use ACTC payments to purchase drugs [6].

The following sections provide more details on these arguments against the extension of the 2021 Advanced Child Tax Credit and use data collected by the Bureau of Labor Statistics, the Treasury's Office of Tax Analysis, and the Census Bureau to negate the claims.

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[5] Senator Manchin's (D-W.Va.) vote was critical to securing the fifty votes needed to pass the BBBA. In addition to Senator Manchin, all Republican senators voted against the legislation.

The ACTC and Unemployment

Opponents of the Advanced Child Tax Credit have frequently proposed adding work requirements to the credit, citing that the monthly payments will discourage parents from working. Suggestions of work requirements on public benefits are not a new phenomenon; Republican officials have called for such mandates on cash and in-kind benefits for decades. Senator Manchin identified the addition of “a firm work requirement” on the ACTC as a hard line for his support of an expansion of the credit [2].

The ACTC payments in 2021 did not discourage work. As shown in Figure 3, in the first six months of 2021, the national unemployment rate was on an overall decline as the country began to recover from the most severe impacts of the COVID-19 pandemic. Following the issuance of the first ACTC payment, unemployment continued to fall, moving from 5.9% in June 2021 to 5.4% in July. The unemployment rate continued to steadily decrease over the six months during which millions of families received ACTC payments. By the end of the year, the unemployment rate had reached 3.9%. Unemployment continually fell during the distribution of monthly Child Tax Credit payments, not increasing until January 2022, the first month in which no monthly payments were issued [i]. Monthly ACTC payments did not lead to a decrease in employment, and no evidence exists asserting that parents are discouraged from work due to the advanced credit. Proponents of the ACTC assert that imposing work requirements is not only unnecessary but harmful, significantly limiting the number of children eligible for the credit, excluding families with elderly, disabled, and student caregivers [2]. Research shows that the monthly CTC payments actually increase labor force participation, giving parents the financial flexibility needed for childcare and other expenses that previously kept them home [1].

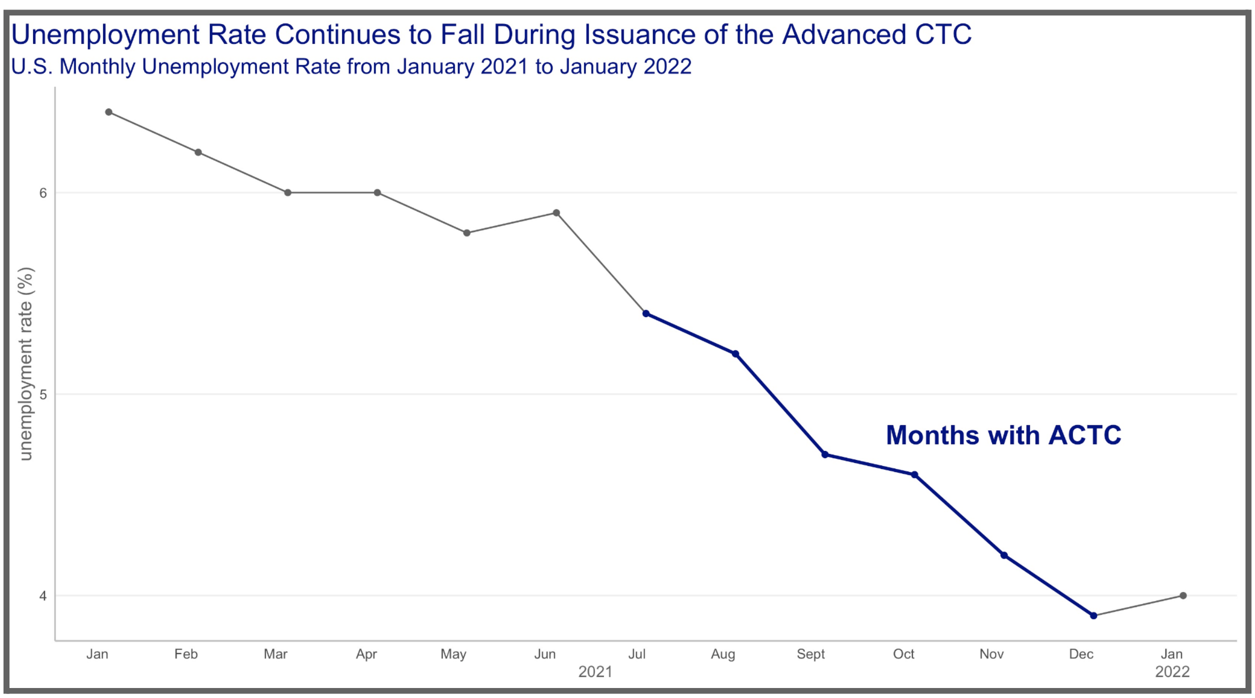

Figure 3. *Bureau of Labor Statistics*, 2022 [i].

The Value and Universality of the ACTC

Opponents of the 2021 version of the Child Tax Credit have claimed that the credit is both too generous and too universal [5]. The ARPA increased the value of the CTC from $2,000 per child to $3,000 or $3,600[6] per child. The six months of available monthly payments amounted to $250 or $300 per child [7]. As shown in Figure 4, the average monthly payments per household ranged from approximately $425 to $450, never approaching $500 [ii]. For comparison, the average U.S. household spent $610 per month on food in 2021 [iv]. Average household ACTC payments did not cover the average food expenditures of a typical U.S. family in any given month. Given that food expenses are only one component of a family's budget, considering the 2021 CTC too generous of a government benefit is a difficult claim to support.

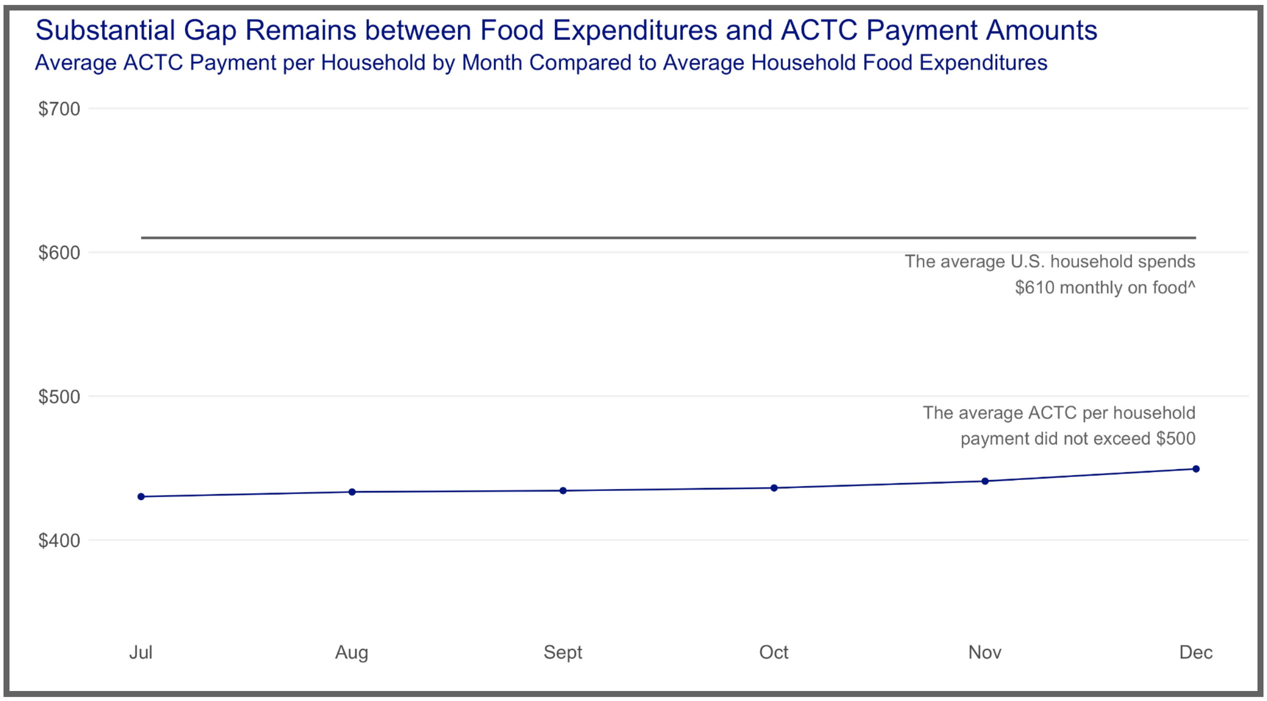

Figure 4. *Office of Tax Analysis*, 2021 [ii]. Data aggregated from state to country level.
^ *U.S. Bureau of Labor Statistics*, Dec. 2021 [iv].

ACTC opponents who cite the universality of the credit as a reason for opposing any extension have called for an income cap on eligibility for the credit. Senator Manchin publicly proposed a $60,000 cap [5]. The CTC is currently available to Single and Head of Household taxpayers with incomes up to $200,000 and Married Filing Jointly taxpayers with incomes up to $400,000. These phase-out levels were not a component of the 2021 expansion of the CTC; the 2017 tax law changes by the Trump Administration increased the income cap limit from $75,000 (Single or Head of Household) and $110,000 (Married Filing Jointly) [7]. The current opponents of the current income cap limit are primarily responsible for passing it into law. Limiting the availability of the credit to households with $60,000 in yearly income or less would not only minimize the

[6] The 2021 CTC is worth $3,000 for children ages 6-17 and $3,600 for children ages 0-5 [7].

overall effect of the CTC on child poverty; it would likely reduce the number of still eligible families from accessing the credit going forward. Research indicates that imposing low-income thresholds on benefits invokes a negative connotation of the benefits as “welfare”, increasing administrative burden and reducing favorability and uptake [1].

ACTC Spending

Opponents of the Advanced Child Tax Credit argue that families receiving the credit will spend the payments “inappropriately.” Several sources claim that Senator Manchin has repeatedly asserted a belief that parents spend the monthly CTC payments on drugs. Like work requirements, assumptions that recipients of government assistance will spend funds on vice goods are nothing new. Several states mandate drug tests to determine eligibility for public benefit programs [6]. No evidence exists of such patterns. As shown in Figure 5, families reported[7] spending monthly[8] ACTC payments on basic needs, overwhelmingly on housing, utility, and car payments and food expenses. The data shows that funds from ACTC payments also went to child-specific expenses, such as childcare and educational costs, and investments in family economic stability; parents put money towards pursuing education[9], repaying debt, and building savings [iii].

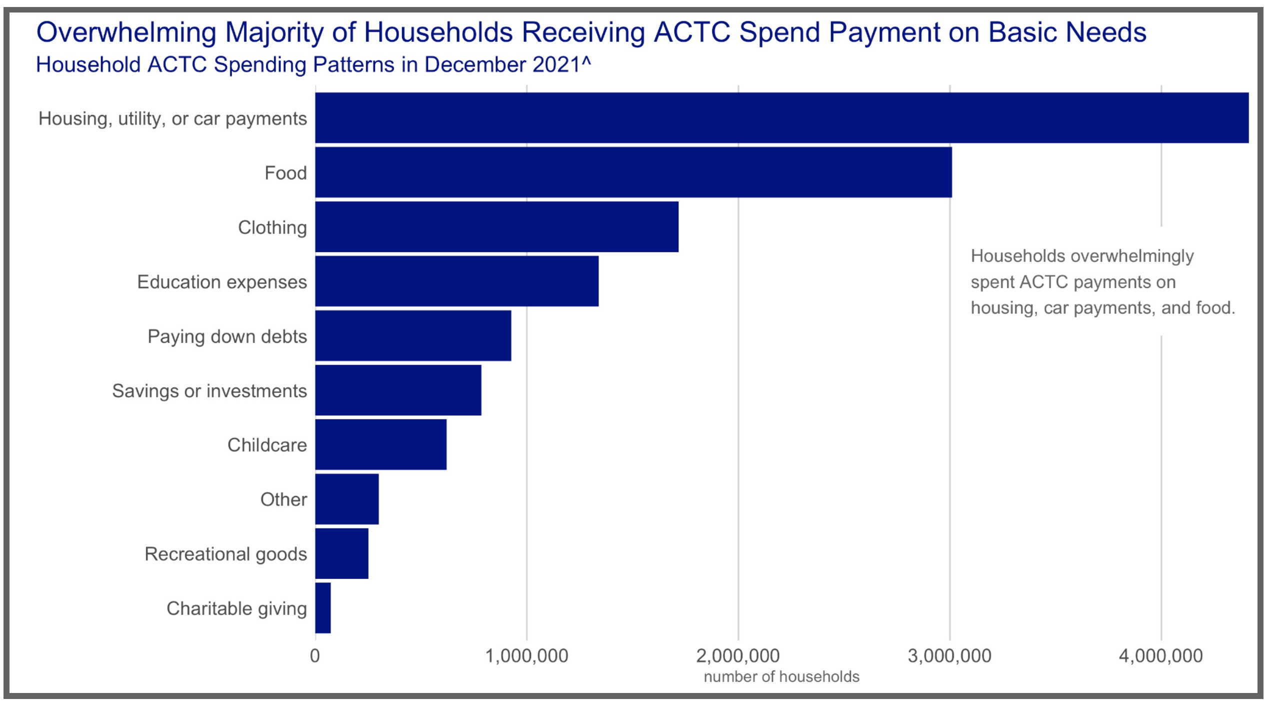

Figure 5. *U.S. Census Bureau*, Dec. 2021 [iii].
^ Spending patterns as reported on Week 40 (December 1 - 13, 2021) of the Household Pulse Survey.

[7] Data are self-reported.
[8] Data in Figure 5 solely reflect survey responses from Week 40, but survey findings from prior weeks indicate very similar spending trends.
[9] Spending on education includes both children’s and parents’ educational expenses.

Recommendation

The American Rescue Plan Act's expansion and advancement of the 2021 Child Tax Credit, in addition to other pandemic relief included in the legislation, contributed to a significant drop in the monthly child poverty rate in the United States. The issuance of monthly ACTC payments coincided with a shrinking unemployment rate, the changes to the credit provided a small, monthly cushion to households with children across a wide range of income levels, and parents spent monthly payments to meet their families' basic needs, support their children, and strive for economic stability. January 2022, the month in which families stopped receiving monthly ACTC payments, saw a rise in both unemployment and child poverty.

Given its overwhelming positive impacts and the lack of evidence to support any of the primary arguments against the ACTC, I recommend that Congress pass an extended and advanced Child Tax Credit, modeled after the 2021 version, into permanent legislation. Data from the past year and future projections indicate that replication of the 2021 Child Tax Credit is an extremely effective way to reduce child poverty across the country. Research from the Urban Institute shows that an expanded CTC would result in "4.3 million fewer children in poverty in a typical year[10]." Further, racial disparities in poverty would shrink and the percentages of children living in both deep poverty[11] and near poverty[12] would decrease. An expanded CTC would positively affect child poverty rates in metropolitan and rural areas and across all states [1]. The 2021 Advanced Child Tax Credit should be replicated for tax year 2022 and beyond in order significantly reduce the number of children living in poverty across the country.

[10] A typical year is defined as a year not facing direct impacts of the COVID-19 pandemic. The cited research modeled their findings on 2018 data.
[11] Deep poverty is defined as children living below 50% of the supplemental poverty level.
[12] Near poverty describes children who face a higher potential of falling below the poverty line, living below 200% of the supplemental poverty level.

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Data

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