

Tax Credits Can Help Lift Families Out of Poverty

Reducing poverty increases child well-being and public safety

Congress created the Child Tax Credit (CTC) in 1997 to help families offset the cost associated with raising children. The Earned Income Tax Credit (EITC), established in 1975, helps offset federal payroll and income taxes for low- and moderate-income working individuals and families. The EITC encourages work, as the amount of the credit increases as earnings increase, up to a maximum, and both credits raise family income. Research has shown that policies that lift children and families out of poverty, such as the CTC and EITC, can lead to improved school performance, increased educational attainment, fewer risky behaviors, and less crime. Law enforcement leaders see the negative impacts of children living in poverty and understand that alleviating poverty will help more children reach their full potential.

The American Rescue Plan Act of 2021 (ARPA) expanded the CTC and made it fully refundable for the first time. This is especially important for low-income families with children, who often do not have any federal income tax liability. The credit amount was increased from \$2000 per child to \$3000 per child for children ages 6-17 and \$3600 per child for children under age 6. Additionally, families can now receive advance payments on their credit. **This CTC expansion only extends to the end of 2021.** Congress must act to ensure continuation of the enhanced CTC.

Estimates suggest that these changes to the CTC may reduce the total number of children in poverty by 35 to 45 percent. Before the passage of the ARPA, 27 million children (including approximately half of all Black, Latino, and rural children) did not receive the maximum credit, because their parents did not earn enough to incur tax liability. However, families with higher incomes received the full amount, because their incomes were above the tax liability threshold. The new refundability of the CTC will allow lower income families to receive the full amount for which they are eligible, regardless of the amount of taxes they pay.

The EITC is the largest needs-tested antipoverty program that provides cash to families. The amount is determined by the number of dependent children, along with interest and earned income, meaning that workers with children receive the majority of the benefit. Importantly, it is designed to increase annual benefits and income phase-out thresholds with inflation. In 2018, the EITC raised 3 million children out of poverty, and reduced the severity of poverty for an additional 6.1 million children. Without the EITC, the number of children in poverty would have been 25 percent higher. Prior expansions also increased employment rates among single mothers, helping to further lift families out of poverty.

ARPA temporarily expanded EITC to more workers without qualifying children, increased the rate, and included several permanent changes to assist families with children, like modifying the amount of interest income allowable for maximum benefit pay out.

Income supports improve child outcomes

Research shows that increasing working families' incomes, such as through the CTC and EITC, is associated with improved educational outcomes for children, thereby improving their future opportunities. One study estimated that a \$1,000 increase in income due to the EITC raised math and reading test scores, particularly for children from disadvantaged families. Another study estimated that such increases in test scores increase adult income. The EITC can also increase the likelihood of completing both high school and college, preparing youth for productive employment. Additionally, research has found that programs that reduce childhood poverty, such as the EITC and CTC, improve children's long-term health outcomes.

There is also evidence that income assistance policies can reduce risky behaviors like substance abuse and decrease the likelihood of criminal behavior. In sum, policies that increase family income, including the CTC and EITC, can help children from disadvantaged families both in childhood and in the long term.

Conclusion

Many families in the United States experience financial hardships, a situation which has been exacerbated by the COVID-19 pandemic. The CTC and EITC are two of the strongest anti-poverty tools that have proven effective in helping low-income families escape poverty. ARPA's temporary CTC and EITC provisions expire at the end of 2021. Congress must act to make permanent the expansion and refundability of CTC and the expansion and maximum benefit of EITC. These changes will help lift millions out of poverty and strengthen our public safety by creating better outcomes for children and families.

Fight Crime: Invest in Kids

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