

The New Federal Child Tax Credit: A Historic Achievement in Cutting Child Poverty

By Peter Chen, Policy Counsel

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As the nation continues to dissect what is included in the American Rescue Plan COVID-19 relief bill, one lesser-known tax provision will potentially [cut child poverty by one-third in New Jersey](#). Tax credits are often mysterious and technical, but in practice, they can serve as a powerful tool for getting money back in the hands of taxpayers and workers, recognizing the minimum basic needs to help all children grow up healthy and safe - no matter their circumstances.

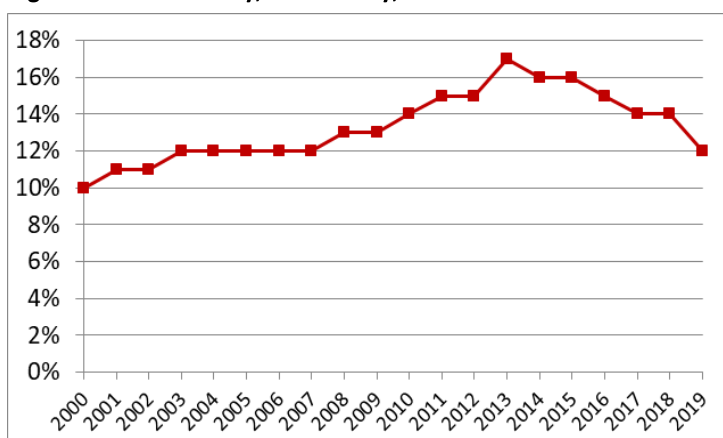
The Child Tax Credit has been the focus of proposals from both Republicans and Democrats to reduce child poverty and assist families in making ends meet. But the new plan makes dramatic changes that will benefit almost all families with children nationally. According to the Center on Budget and Policy Priorities, increasing the Child Tax Credit and making it fully refundable will lift [4.1 million children above the poverty line, including 89,000 New Jersey children](#). That is an astounding statistic, lifting more children out of poverty than the [entire child population of Mercer County](#) in one fell swoop.

To show the impact of these credits, Table 1 here are a few scenarios for sample New Jersey families. For comparison, the USDA estimates that in the urban Northeast, annual housing costs for children are roughly [\\$4,380 per child in a middle-income family](#).

The Problem: High Child Poverty

Child poverty has remained a persistent problem in New Jersey, despite our state [ranking 2nd nationally](#) for median family income for households with children at \$108,400. Meanwhile, as of 2019, [roughly 12 percent of New Jersey children live in households in poverty](#), defined as [an annual household income around \\$25,700 for a family of four or \\$21,330 for a family of three](#).

Figure 2: Child Poverty, New Jersey, 2019



Source: [KIDS COUNT Data Center](#)

Although child poverty has declined since its peak during the last recession, more New Jersey children still live in poverty today than did in 2002. As these data are prior to 2020, they do not account for the huge economic impact of the COVID-19 pandemic on families and children.

Poverty for children, especially in early childhood, can cause negative child outcomes for health, educational attainment and eventual lifetime earnings. Early-life economic circumstances may even affect brain development.

Child poverty in New Jersey is also disproportionately concentrated in Black and Hispanic/Latino children. Black and Hispanic/Latino children are roughly three times more likely to experience child poverty than non-Hispanic white or Asian/Pacific Islander children.

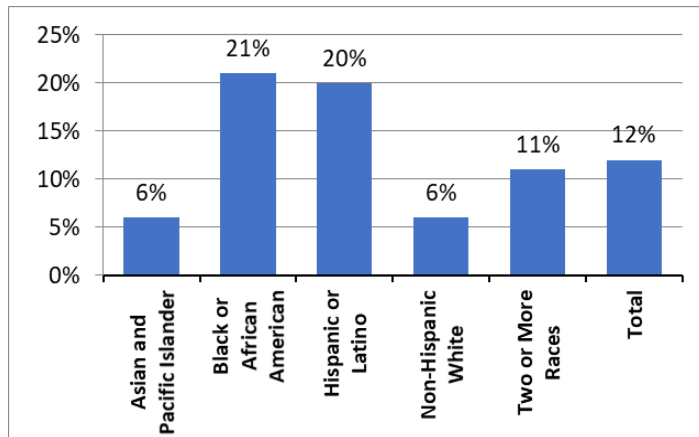
The new changes would improve financial stability for almost all Black and Hispanic/Latino children in New Jersey. Although the proposed changes would benefit most children in New Jersey (around 82 percent of

Table 1: Child Tax Credit Scenarios

FAMILY AND HOUSEHOLD INCOME SCENARIOS	CURRENT CHILD TAX CREDIT	CREDIT UNDER THE AMERICAN RESCUE PLAN	NET INCREASE
Single parent (laid-off waitress), 1 child age 3, \$2,000 a year	\$0 (does not qualify for minimum income)	\$3,600	+\$3,600
Single parent (cashier), 2 children (ages 8 and 5), \$10,500 a year, receives tax refund	\$2,400 (15 percent of income, over \$2,500 per child)	\$6,600 (\$3,000 for age 8 and \$3,600 for age 5)	+\$4,200
Married couple (warehouse worker and child care worker), 2 children (ages 16 and 14), \$60,000 a year	\$2,800 (maximum of \$1,400 refundable per child)	\$6,000	+\$3,200
Married couple (computer engineer and electrician), 1 child (age 10), \$150,000	\$2,000	\$3,000	+\$1,000

Note that these scenarios are hypothetical! Real-life tax scenarios are often more complicated, so consult your tax preparer, as individual cases may vary based on income, family situation, etc.

Figure 2: Child Poverty by Race and Ethnicity, New Jersey, 2019



Source: National KIDS COUNT, KIDS COUNT Data Center, datacenter.kidscount.org, A project of the Annie E. Casey Foundation

children statewide), [241,000 Black children and 487,000 Hispanic/Latino children would receive additional benefits under the new law](#), according to Center for Budget and Policy Priorities analysis.

The Previous Child Tax Credit: A Good but Limited Benefit

The Child Tax Credit, created in 1997, allowed qualifying families to receive a maximum of a \$2,000 credit per child. This means that when a family filed their taxes, they could reduce their tax owed by \$2,000 depending on how much income they earn. Roughly 90 percent of American children benefitted from the credit.

But the previous Child Tax Credit had serious shortcomings that limited its antipoverty effects:

- First, only \$1,400 per child out of the \$2,000 was “refundable.” This means that for families who got a federal tax refund, the maximum amount of the credit was much lower than it would be for families who still owed federal taxes after deductions and credits.
- Second, the amount of the credit depended on income, meaning that lower-income households actually got less back in credit than higher-income households. On average, [the lowest 20 percent of income earners had a much smaller credit than the highest 20 percent of earners](#).
- Third, there was a minimum income requirement of \$2,500 to qualify for the Child Tax Credit. Children living in these households in extreme or deep poverty likely needed financial support the most to meet their basic needs, yet were shut out of the credit.
- Fourth, because the Child Tax Credit came as part of the annual tax refund check, it was a lump sum payment. But the costs of children, especially emergency costs, occur year-round. Research on other tax credits, such as the Earned Income Tax Credit, [show that periodic payments reduce financial stress](#).

How the New Tax Credit Reduces Poverty

The expanded Child Tax Credit fixes these problems by becoming a more universal program. In short, it reduces child poverty by giving parents an income supplement that more closely matches the real cost of raising a child, which is estimated [at between \\$10,000 and \\$12,000](#) in the urban Northeast. Although the \$3,000 (for children ages 6-17) and \$3,600 (for children 0-5) credit amounts are not close to the real cost of raising children, they more closely approximate basic needs than the previous sliding scale based on income.

This credit helps close some of the gaps in the previous Child Tax Credit and gets more back in the hands of families who need it.

- First, by being fully refundable, the new Child Tax Credit will put the financial support directly in the pockets of families who need it without requiring them to have remaining tax liability at the end of the year. Roughly eight in ten taxpayers [receive a refund](#). In the old system, these taxpayers would not be eligible for the full amount of the Child Tax Credit. Now, all taxpayers with child dependents can claim the full credit amount, regardless of whether they get a refund or not.
- Second, the higher payment amounts (\$3,600 for children under age 6, \$3,000 for children ages 6 to 17) will be fixed and not dependent on income except as a phase-out for higher-earning households (starting at \$75,000 for single taxpayers and \$150,000 for married couples). That means our hypothetical single parent with two children earning \$14,500 would get back \$6,000, just like their married couple counterparts earning \$150,000.
- Third, there will be no minimum income requirement, so any parent can theoretically apply, even if they earn very little income. This will assist parents living in extreme poverty who could not qualify previously.
- Fourth, the Internal Revenue Service will have to determine how to offer the payment “periodically” rather than as a lump sum payment. This means families might receive advance payments starting in July 2021, rather than waiting until they file their taxes in 2022.

What's Next?

The expanded Child Tax Credit is only a one-year proposal, not a permanent one. After 2021, the old structure of the tax credit will return, and these reductions in child poverty could reverse as well.

However, the expanded Child Tax Credit provides a vision for how government supports for families with children could look in the future – less dependent on how much parents earn, and more linked with the basic needs that we know children have to meet in order to grow up healthy and successful.