Lifting children out of poverty

The Brief Expansion of the Child Tax Credit

by Dana Goldstein, staff attorney

While the COVID-19 pandemic was a dark spot in our world's recent history, it did bring some unexpected silver linings. Perhaps, as Plato said, necessity was the mother of invention for us all in the face of this terrifying public health emergency. And many of the new things we tried - in an attempt to meet basic needs, to stay healthy, to stay connected - worked! Hybrid work schedules, virtual meetings, deeper connections between neighbors, and even our pandemic pets are all here to stay.

Unfortunately, some of the benefits that made the most change for Americans in need are not here to stay. As we enter 2023, the array of benefits created or made more broadly available by government agencies in response to the emergency are fading. These practices not only helped Americans weather the pandemic, but in some cases helped them meet their basic needs and rise above the poverty level for the first time.

As these benefits disappear, and in conjunction with National Poverty in America Awareness Month, we can study the impact of these pandemic-induced practices - and perhaps learn some lessons.

A prime example is the one-year expansion of the federal Child Tax Credit (CTC) implemented mid-pandemic as a result of the American Rescue Plan. Traditionally, to qualify for this credit, households need to meet a certain “earned income” threshold. “Earned income” must come from employment - and does not include other sources of income common in most homes living at or around the poverty level such as unemployment compensation, social security, and food assistance.

In an attempt to help families weather the pandemic, Congress increased the value of the Child Tax Credit, increased the age limit of qualifying children, and eliminated the income requirements for tax year 2021. **The removal of income requirements meant for the first time ever, the Child Tax Credit reached children it never before reached - those living in the deepest poverty and in families where there is no possibility of receiving earned income.**

The results were wildly successful.

While the CTC had already helped lift millions of children out of poverty every year pre-pandemic, some studies found the **one-year loosening in qualifications resulted in an additional 25% decrease in child poverty rates nationwide in 2021.** Had everyone who qualified actually accessed this benefit, the drop would have been closer to 40%. This tremendous immediate decrease corresponded with reductions in food insufficiency and also helped low-income families pay for rent, utilities, and personal necessities. For this one year, it demonstrated how the CTC could be even more impactful than other strategies like the Earned Income Tax Credit in lifting children and families out of poverty.

Despite the considerable benefits to our youth living in the deepest poverty, Congress eliminated this powerful tool by reinstating income requirements for the Child Tax Credit. **One study found that in the first month after the expanded CTC expired, child poverty immediately increased by over 40%.** For areas like northeast Ohio, this could impact broad swaths of the community as our region is home to some of the highest pockets of childhood poverty. Warren, Ohio in Trumbull County has the highest rate of childhood poverty in the state at 58.2%, and is followed closely by Youngstown (second highest in the state at 54.7%), Canton (5th highest in the state at 48.9%), and Akron (30th highest in the state at 36.1%). Compare these to the nationwide poverty rates of 16.1% in 2020. Long-term poverty is detrimental to these children - stunting their development, creating opportunity gaps, decreasing academic achievement, and increasing the likelihood of their involvement with the juvenile justice system.

Although the expanded CTC is a thing of the past, many unsuspecting caregivers still qualify for the 2021 Child Tax Credit. Potential applicants can claim the credit until 2025 despite misinformation that may suggest the window has closed. For 2021, the CTC was an enhanced $3,000 or $3,600 depending on the age of the child and regardless of income or lack thereof. This may mean $9,000 or more, for example, for a family with 3 children. Advocates and community partners can play an important role in spreading this news to households with children.

Those who don't traditionally file taxes and those who don't earn income from work are most likely to have missed out. This includes grandparent caregivers who subsist on SSI and typically don't even think about filing taxes. It may also include individuals who are homeless, on SSI, receiving workers' compensation, or receiving unemployment benefits. Because filing a tax return can be new for many of these households, and due to complications that can arise in claiming a child, potential applicants are encouraged to seek assistance as needed at VITA (Volunteer Income Tax Assistance) sites.

For a household living in deep poverty with no earned income, this one-time credit might enable them to stay in their home, put more nourishing food on the table, stay current on utility bills, and ultimately reduce the toxic stress associated with chronic poverty. We can only imagine what the impact of an annual expanded credit might be over time. We may look to Canada and European countries who do extend this type of benefit to the poorest of the poor in their nations. And the lesson that came from the fleeting American CTC expansion will stay with us as we continue to consider the best ways to help our poorest American children and families.

This article is part of Legal Aid's "Big Ideas" series.

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