

Child Tax Credit Concludes

Was the expanded child tax credit overly generous?

By Ryan James Boyle



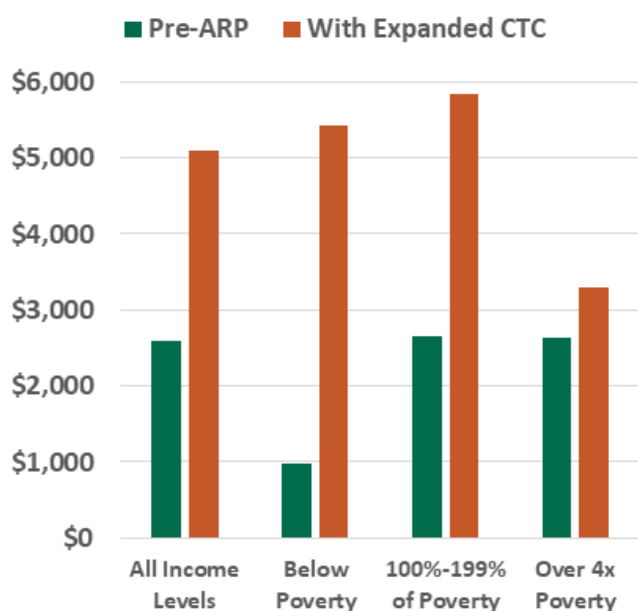
Last week, we explored the drivers of **elevated savings**: steady income and lower expenses. For the second half of 2021, some parents enjoyed one additional income stream: an expanded child tax credit (CTC), paid in advance in monthly installments.

As part of the March 2021 American Rescue Plan (ARP) Act, the **CTC grew larger**, both in size and eligibility. Positive outcomes of the program emerged quickly, especially for families living on the margin. Payments reached households covering **61.3 million children**, lifting 3.8 million

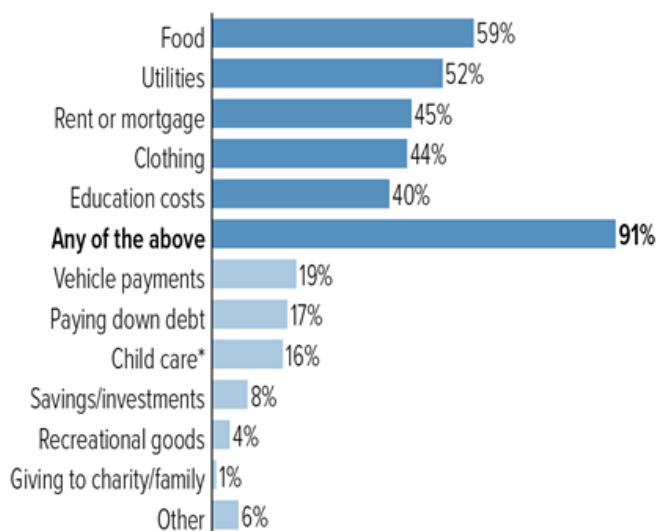
of them out of poverty and **reducing food insufficiency by 25%**. Payment recipients had a high propensity to spend on essential expenses, boosting **local economies and sales tax revenues**. In hindsight, the program was too generous. The full benefit of the expanded CTC was paid to all households earning up to \$150,000, with prorated sums given to those earning up to \$400,000. Higher-income families did not need support, and increasing their disposable income likely added to demand-driven inflation. And the relief came at a steep cost. The one-year CTC expansion added **\$109 billion** to the cost of the ARP, which was financed by debt.

Paying the tax credit as a monthly advance was a lifeline for some, an indulgence for others.

Average Value of Child Tax Credits by Household Income



Use of Child Tax Credit Payments Households Under \$35,000



Sources: Congressional Research Service, Census Bureau, Center on Budget and Policy Priorities

The CTC was expanded under the auspices of COVID-19 relief, but its structure and benefits had little to do with the virus. If its advocates intend to continue the program as way of relieving poverty, it should be argued on those merits. Income thresholds can be adjusted to better target those in need. Proposals have also been made to require parents to work in order to receive the benefit, but that is effectively just an expansion of the **Earned Income Tax Credit**. Absent further action from Congress, the CTC has returned to its less generous, pre-stimulus level and structure. Whether and how to continue the expanded credit was a major roadblock for **Build Back Better (BBB) plan negotiations**.

One additional lump sum will be paid imminently: Only half the CTC value was advanced, with the remainder to be paid in 2021 income tax filings, the last vestige of COVID-19 relief funds to consumers. The end of this stimulus will present a headwind to consumer spending and could put some lower earners back into poverty. A return to normal is a worthy vision and will help fight inflation, but some households will not welcome going back to their pre-crisis incomes.

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