

Three Proposed Approaches to Expanding the CTC



- 1 Offer benefits to working families only (as the CTC currently does)
- 2 Offer benefits to both working and nonworking families (as the CTC did between July and December 2021)
- 3 Offer some benefits to nonworking families and offer additional benefits to working families

The most recent CTC proposals resemble the first or second approach. The third approach is designed as a bipartisan compromise: a proposal that would reduce child poverty in a big way, but with minimal impact on parental employment.

EXPLAINER

Proposing a Cost-Effective Child Tax Credit that Will Reduce Poverty and Have Bipartisan Appeal

February 2023

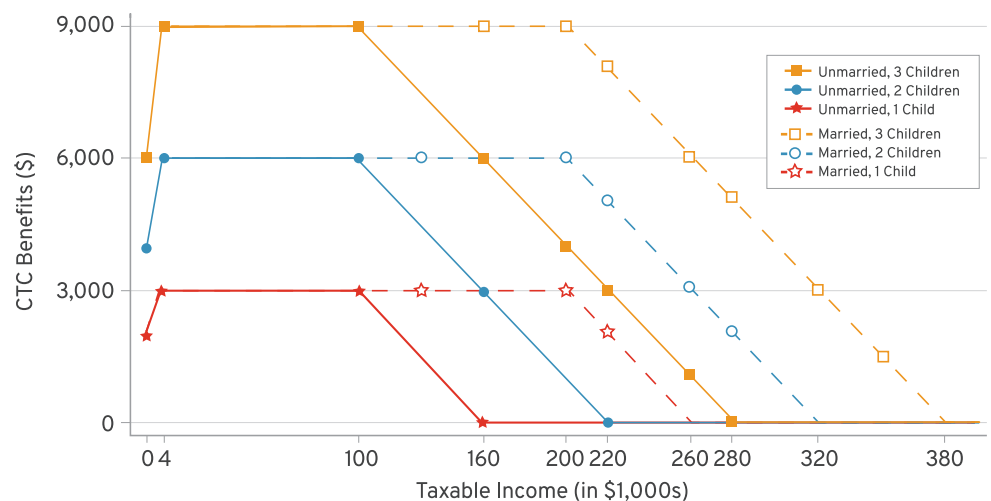
Introduction

The child tax credit (CTC) is at the center of an ongoing debate about optimal strategies to reduce child poverty. Policymakers have been [assessing cost-effective ways](#) to structure the CTC to achieve two key goals: reducing poverty and not discouraging parental employment.

One of the key questions of this debate is whether CTC benefits should be available only to working parents with earnings above a certain level or whether benefits should also be available to the poorest families without working parents. Having benefits that do not depend on working ensures that benefits go to the poorest families, but it also introduces a small work disincentive. In deciding whether and how to expand the CTC, policymakers should balance concerns about the CTC’s fiscal cost with how the CTC would impact family poverty and parental employment.

CTC Schedule Under a Hybrid CTC Proposal

In our recent [policy study](#), we outline a hybrid CTC proposal for families with one, two or three children (see figure below). Parents with no earnings would be eligible for \$2,000 per child and an additional \$1,000 per child that phases in at a 25 percent rate with earned income. Families that earn at least \$4,000 would receive the full \$3,000 per child. Benefits would also begin phasing out at a 5 percent rate for earnings over \$200,000 for a married-parent family (\$100,000 for a single-parent family). The phase out begins at a lower income level than the current CTC to help offset the CTC expansion’s fiscal cost and reduce the cost per child pulled out of poverty.



Static and Dynamic Antipoverty Estimates

To understand how much this new CTC would reduce poverty, it is important to [differentiate](#) between “static” and “dynamic” antipoverty estimates. Static estimates simply calculate poverty rates before and after adding the new CTC benefits to household income. Unlike static estimates, dynamic estimates account for predicted



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changes in parental labor supply. Static estimates give a good approximation of a policy’s antipoverty effect when labor supply responses are small, but overestimate the antipoverty effect when policies lead to large changes in labor supply. Dynamic estimates take evidence about how labor supply responded to previous policy changes and assume a similar response would occur with a future CTC change. Dynamic antipoverty estimates are smaller than static estimates because some parents that choose to stop working would become poor, offsetting the CTC’s antipoverty effect.

Evaluating the Proposed CTC’s Effects on Poverty and Parental Employment

The proposed CTC would have a notable effect on poverty and parental employment. The following table illustrates the CTC’s effect on all children and four subcategories of parents: unmarried mothers, married mothers, fathers and other guardians, and all parents. For each group, it shows the population, baseline employment and poverty rates, and the CTC’s net impact on employment and poverty. Out of all 63.5 million parents, 49.3 million (or 77.7 percent) are employed, and 6.7 million (or 10.6 percent) are poor. The proposed CTC expansion could potentially lead 179,000 parents to stop working. After accounting for parental employment changes, the proposed CTC would pull 3.35 million children out of poverty, decreasing child poverty by 33 percent. The following table shows large poverty decreases among all types of parents and families.

Group	Unmarried Mothers	Married Mothers	Fathers and Other Guardians	Total Parents	Total Children
Population (Millions)	11.7	25.1	26.8	63.5	73.0
Number Employed (Millions)	8.6	16.9	23.8	49.3	—
Employed (%)	73.9	67.3	89.0	77.7	—
Number Poor (Millions)	3.0	1.9	1.8	6.7	10.2
Poor (%)	25.9	7.5	6.8	10.6	13.9
Predicted Employment Change from CTC (1,000s)	-91	-40	-48	-179	—
Dynamic Poverty Reduction (%)	24.8	24.5	24.3	25.9	33.0
Dynamic Poverty Reduction (Millions)	0.75	0.46	0.44	1.73	3.35

A Bipartisan Solution

To summarize, the hybrid CTC proposal outlined here would offer some benefits to nonworking—and very poor—families and would offer additional benefits to working families. While the exact dollar amounts could vary, this structure would help the poorest families while also encouraging parents to work. This CTC proposal is intended as a bipartisan compromise: a roadmap to pulling millions of children out of poverty—while also helping tens of millions more children—in a cost-effective manner that encourages parents to continue working to support their families.

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