POVERTY & SOCIAL POLICY BRIEF *Vol. 6 No. 6 May 10, 2022*

The Earned Income Tax Credit and the Child Tax Credit Give Temporary Income Boost to Low-Income Families

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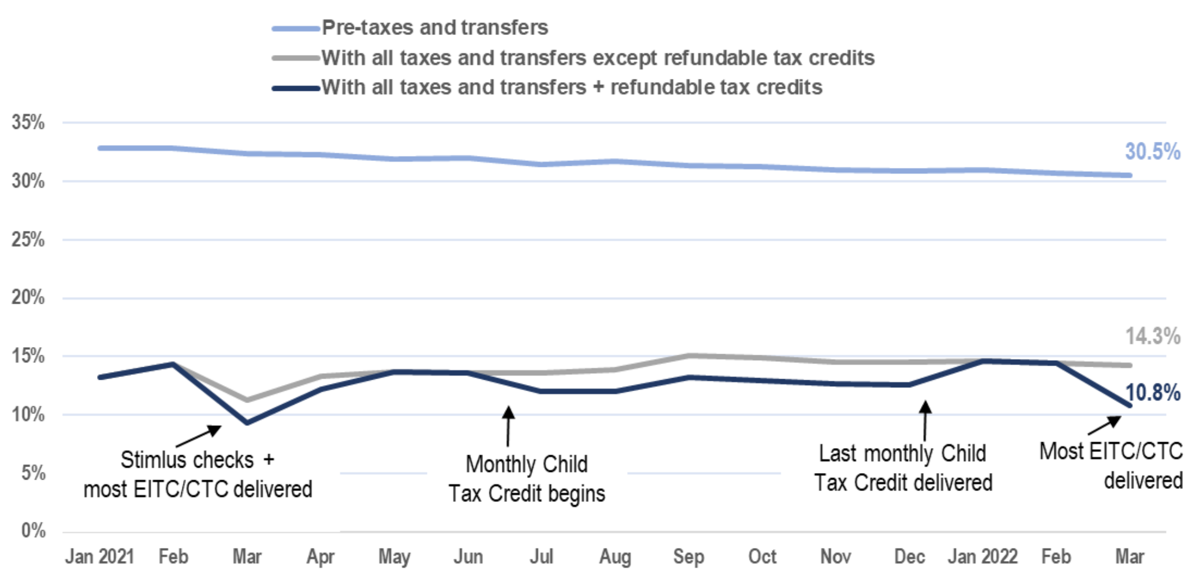
The provision of two refundable tax credits (the Earned Income Tax Credit and the Child Tax Credit) to millions of families across the United States contributed to a decline in the monthly poverty rate in March 2022. Specifically, the overall monthly poverty rate fell from 14.4% in February 2022 to 10.8% in March 2022. For children, the monthly poverty rate fell from 16.7% in February 2022 to 9.9% in March 2022. However, the decline in these monthly poverty rates will be short-lived, as these credits are a one-time lump sum payment and more families receive their tax refunds in March relative to April. Our framework for producing monthly poverty rates only includes resources received in a given month when evaluating poverty status, meaning that refundable tax credits—delivered only once per year, and generally in March and April—have an outsized impact on monthly poverty during the months in which they are distributed.

Figure 1: Monthly SPM Poverty Rates for U.S. Population, January 2021 to March 2022



Source: Center on Poverty and Social Policy (2022). Access data: povertycenter.columbia.edu/forecasting-monthly-poverty-data.

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In March 2022, our estimates include all standard taxes and transfers, and also take into account[1]:

1. Supplemental Nutrition Assistance Program (SNAP) emergency allotments in the states where this form of COVID-19 economic relief remains in place.

2. The American Rescue Plan-expanded Earned Income Tax Credit, under which eligibility was broadened to include those aged 19 to 24[2] and over the age of 64, and the maximum credit value was tripled for workers without children from $538 in 2020 to $1,502 in 2021.

3. The balance of the American Rescue Plan-expanded Child Tax Credit, under which eligibility was broadened to include families with moderate, low, and no earned income formerly left out of the full credit and maximum credit values were increased from $2,000 per child aged under 17 in 2020 to $3,000 per child aged 6 to 17 and $3,600 per child aged under 6 in 2021. Many families received the first half of their credit in monthly installments between July and December 2021; these families will receive the remainder—a maximum of $1,500 or $1,800 per child, depending on age—at tax time.

4. A one-time $1,400 Economic Impact Payment (or stimulus payment) for children born in 2021 to income-eligible families. These infants also receive their full Child Tax Credit (worth up to $3,600) when their families file taxes. This payment reflects the fact that newborns in 2021 did not receive an American Rescue Plan stimulus payment during calendar year 2021, but remain eligible for that payment as their parents file taxes in 2022. Infants born in 2022, however, receive neither the expanded Child Tax Credit nor this back-stimulus payment.

These monthly poverty estimates reflect the assumption that tax filing patterns in 2022 are comparable to prior years, including that approximately three out of every four families will receive these two refundable credits in March and the remaining one-quarter of families will receive them in April. The March 2022 poverty estimates thus reflect only the partial reach of refundable credits in a given month. Our monthly poverty framework is modeled, in large part, on the Census Bureau's Supplemental Poverty Measure (SPM) framework. In calendar years 2020 and 2021, we followed the Census Bureau's tax model that allocates the annual tax-time Earned Income Tax Credit and Child Tax Credit benefits to all who are eligible.[3] In the second half of 2021, when the monthly expanded Child Tax Credit payments were in place, we adjusted take-up to match newly-provided Internal Revenue Service (IRS) information on the monthly distribution of these payments to children by state. For the tax-time period in calendar year 2022, we continue our traditional approach to the Earned Income Tax Credit, in keeping with the Census Bureau SPM approach, and provide estimates of the anti-poverty effects of the credit if

[1] These results do not account for the refundable portion of the expanded Child and Dependent Care Tax Credit (CDCTC). The American Rescue Plan made the CDCTC fully refundable and worth up to half of a family's child care spending with a maximum credit value of $4,000 for one child and $8,000 for two or more children for the 2021 tax year. Modeling the impacts of this tax credit would require more recent data on child care spending, but because we do not have data on changes in child care spending or access in recent months, we cannot accurately model the impact of the fully refundable CDCTC in March 2022.

[2] Homeless youth and former foster youth may qualify if they are at least age 18, but these individuals are not accounted for in the March 2022 monthly poverty estimates due to data limitations.

[3] See: www.census.gov/content/dam/Census/library/working-papers/2011/demo/val-new-cps-esq.pdf.

all eligible workers receive it.[4] For the Child Tax Credit, we first provide an estimate of the anti-poverty effects of the credit if the number of children in receipt of the credit matches the number of children reported in IRS monthly Child Tax Credit payment information from July 2021. Similar to prior work, we also present alternative scenarios for monthly child poverty in March 2022 based on simulations of higher coverage rates in order to illustrate how monthly child poverty rates vary by levels of access to the expanded Child Tax Credit.

The Estimated Anti-Poverty Effects of the Earned Income Tax Credit and Child Tax Credit Across Population Groups

Young adults without children

March 2022 represents the first time that eligible workers without children (sometimes referred to as 'childless adults') will receive the augmented childless Earned Income Tax Credit as expanded under the American Rescue Plan (ARP). To illustrate the effects of this expansion, Table 1 shows the poverty rates of young adults aged 19 to 34 without children[5] under four scenarios:

1. Estimates before any taxes and transfers are included as income
2. Estimates after taxes and transfers, *excluding the childless Earned Income Tax Credit*
3. Estimates after taxes and transfers, *including the pre-ARP childless Earned Income Tax Credit*
4. Estimates after taxes and transfers, *including the ARP-expanded childless Earned Income Tax Credit.*

Before taxes and transfers, the poverty rate for childless young adults stood at 19.9% in March 2022, as seen in Table 1.

Table 1: Effects of Expanded EITC on Monthly Poverty of Adult Workers Aged 19 to 34 Without Children (March 2022)

	Monthly SPM Poverty Rate
Pre-taxes and transfers	19.9%
With all taxes and transfers except the EITC	13.3%
With all taxes and transfers + *standard EITC*	12.3%
With all taxes and transfers + *expanded EITC for childless workers*	11.4%

[4] Note that in the CPS-ASEC data, the total dollar value of income from the EITC allocated to workers is less than reported as paid out by the Internal Revenue Service (IRS). Thus, even when assuming that all eligible workers in the data receive the credit, we may be underestimating its full effects. For example, in 2018, the IRS reported distributing $64.9 billion EITC refunds, but in the CPS-ASEC data representative of that year, the total income from the EITC amounts to $41.2 billion (authors' calculations).

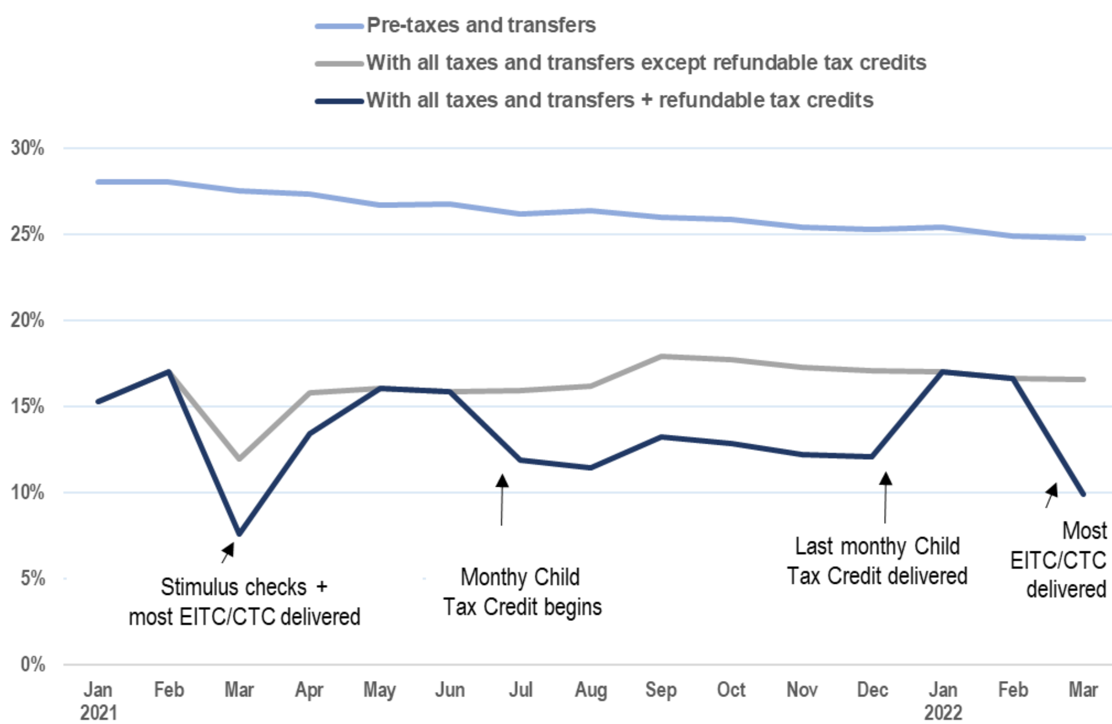
[5] We define childless young adults here as young adults aged 19 to 34 with no children under the age of 18 living in their family (i.e., their SPM resource sharing unit).

This falls to 13.3% after including standard taxes and transfers, including the range of safety net programs and the temporary COVID-19 SNAP emergency allotments. Monthly poverty for young adult workers without children would fall to 12.3% after including the pre-ARP childless Earned Income Tax Credit, but falls further to 11.4% after adjusting for the ARP Earned Income Tax Credit expansions. Put another way, the standard childless Earned Income Tax Credit has the potential to reduce monthly poverty at tax-time by about 7.5% (1 percentage point) among childless young adults if all who are eligible receive it, but the expanded version increases this potential anti-poverty effect to 14.3% (1.9 percentage points)—in other words, its anti-poverty effect for this population group nearly doubles.

Children

Figure 2 depicts monthly poverty trends for children in the U.S. Child poverty fell from 16.7% in February to 9.9% in March 2022, again almost entirely due to the temporary effect of the Earned Income Tax Credit and Child Tax Credit payments delivered in March.

Figure 2: Monthly SPM Poverty Rates for Children, January 2021 to March 2022



Source: Center on Poverty and Social Policy (2022). Access data: povertycenter.columbia.edu/forecasting-monthly-poverty-data.

Table 2 provides the monthly child poverty rates and number of children, by race and ethnicity, in poverty in March, as well as the absolute and relative reductions in poverty as a result of the Earned Income Tax Credit and Child Tax Credit.

Table 2: Effects of EITC and CTC on Monthly Poverty in March 2022 by Children's Race & Ethnicity

MONTHLY SPM POVERTY RATE (%)

Children	Pre-taxes and transfers	With all taxes and transfers, without EITC + CTC	With all taxes and transfers, with EITC + CTC	Percentage pt. reduction (EITC + CTC only)	Percent reduction (EITC + CTC only)
All	24.8%	16.6%	9.9%	6.7%	40.3%
Asian	18.2%	14.2%	9.0%	5.2%	36.4%
Black	37.6%	24.4%	14.8%	9.6%	39.4%
Latino	32.8%	23.4%	13.7%	9.7%	41.6%
White	18.0%	11.4%	7.1%	4.3%	37.4%

NUMBER OF CHILDREN IN POVERTY

Children	Pre-taxes and transfers	With all taxes and transfers, without EITC + CTC	With all taxes and transfers, with EITC + CTC	Number moved out of poverty by EITC + CTC
All	18,287,000	12,237,000	7,312,000	4,926,000
Asian	791,000	617,000	392,000	224,000
Black	4,193,000	2,721,000	1,649,000	1,073,000
Latino	6,190,000	4,416,000	2,578,000	1,838,000
White	6,631,000	4,203,000	2,631,000	1,571,000

Our primary estimates assume that the Child Tax Credit reached tax units covering 59.3 million children in either March or April of 2022, the same number as who received the first monthly payment in July 2021. This is a conservative assumption given that we do not currently have data on the exact number of children whose families filed taxes and received the second half of their Child Tax Credit in March 2022. If we instead assume that 61.2 million children received the credit in either March or April (i.e., the number of children who received payments in December 2021), the child poverty rate would have fallen further in March to 9.6%. And if we assume 65 million eligible children will receive payments (e.g., those who were convinced to file between the end of 2021 and March 2022), this rate would fall further still to 9.2% in March.

Conclusion

The tax filing season is an important one for families. Refundable credits like the Earned Income Tax Credit and Child Tax Credit provide meaningful boosts to family income for those who receive them. The provision of these credits results in a substantial, but temporary, dip in monthly poverty rates across population groups, specifically in March and April. Following the conclusion of tax season, however, it is likely that monthly child poverty rates could be persistently high through the rest of 2022 absent the continuation of an expanded Child Tax Credit, further policy interventions, or strong improvements in the labor market.

Methods

Our monthly poverty framework estimates monthly child poverty rates based on the income a family unit (as defined by the Supplemental Poverty Measure) receives in a given month. For full methodological details on our framework for measuring monthly poverty rates, please see Parolin, Curran, Matsudaira, Waldfogel, and Wimer 2022.

Suggested Citation

Parolin, Zachary, Sophie Collyer, and Megan A. Curran. 2022. "The Earned Income Tax Credit and the Child Tax Credit Give Temporary Income Boost to Low-Income Families." Poverty and Social Policy Brief, vol. 6, no. 6. Center on Poverty and Social Policy, Columbia University. Access at: povertycenter.columbia.edu/publication/monthly-poverty-march-2022

Acknowledgments

This policy brief is made possible with the support of the Bill & Melinda Gates Foundation, The JPB Foundation, the Annie E. Casey Foundation, and Charles and Lynn Schusterman Family Philanthropies.

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