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## **A Top Priority to Address Poverty: Strengthening the Child Tax Credit for Very Poor Young Children**

By Chuck Marr, Chloe Cho, and Arloc Sherman

With a growing body of research showing that boosting the incomes of poor families can yield important long-term benefits for young children, policymakers should make it a priority to strengthen the Child Tax Credit (CTC) for the poorest young children. Today, the poorest children qualify for only a very small CTC or no tax credit at all (as explained below under “How the CTC Works Now”), even though they are the children who need it most and for whom it would have the largest beneficial impact.

Research indicates that the income that the CTC and Earned Income Tax Credit (EITC) deliver provides important benefits for children, improving their health and education and their expected earnings as adults.<sup>1</sup> The positive effects of such income support in both the short term and the long term are clearest for the poorest and youngest children.

The research also shows that what scientists call “toxic stress” can pose serious risks for young children, whose brains are in a critical stage of development. As leading researchers at Harvard’s Center on the Developing Child have explained, the early years of life are a “period of both great opportunity and great vulnerability.”<sup>2</sup> The research indicates that poor children have significantly higher rates of toxic stress than other children.

Moreover, families with young children are poorer than other families, partly because parents with very young children can have trouble affording full-day child care and often can’t work full time. Young children are likelier to live in poverty than older children or than adults in any age group.

Thus, policymakers can increase the potential for young children to succeed in life, and may reduce their risks of experiencing toxic stress that limits their brain development, by strengthening

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<sup>1</sup> Chuck Marr *et al.*, “EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children’s Development, Research Finds,” Center on Budget and Policy Priorities, updated October 1, 2015, <http://www.cbpp.org/research/federal-tax/eitc-and-child-tax-credit-promote-work-reduce-poverty-and-support-childrens>.

<sup>2</sup> Center on the Developing Child at Harvard University, “From Best Practices to Breakthrough Impacts: A Science-Based Approach to Building a More Promising Future for Young Children and Families,” May 2016, <http://developingchild.harvard.edu/resources/from-best-practices-to-breakthrough-impacts/>.

the CTC for the poorest young children. The full CTC should be available to *all* low-income children. The fact that a child's parents have fallen into desperate times and may have little or no earnings should not cause the child to be denied the CTC, as is the case today. In tax parlance, this means the credit should be made “fully refundable” so all poor children can qualify.

This could be done either of two ways — by making the *current* CTC fully refundable for families with a young child or by creating a fully refundable *supplement* to the CTC just for families with young children (an option that is more expansive because it boosts the tax credit for all families with young children that receive the CTC, not just those at lower income levels).

Legislation (H.R. 4693) recently introduced by Rep. Rosa DeLauro (D-CT) does this. It follows the second approach, creating a fully refundable CTC supplement of \$1,500 per child for all children under age 3 with incomes up to the CTC income limits. That would have a large impact on child poverty; we estimate it would lift nearly 8 million people, including 2.2 million children under age 3, above or closer to the poverty line. And it would benefit nearly 5 million people, including 1.5 million children under 3, who live in *deep* poverty (i.e., below *half* of the poverty line).<sup>3</sup>

Senator Michael Bennet (D-CO) has also introduced legislation (S. 2264) that would expand the CTC for very poor young children. For families with a child under 6, the Bennet bill would both start to phase in the credit with the first dollar of earnings and phase it in at a much more rapid rate than at present. The bill would also raise the credit to \$3,000 for these children.<sup>4</sup> In addition, Senators Tammy Baldwin (D-WI) and Cory Booker (D-NJ) have introduced anti-poverty legislation that includes provisions extending the CTC to more very poor children.<sup>5</sup>

Based on the research in the field, strengthening the CTC for very poor young children should be among policymakers' highest tax-policy priorities, and their highest CTC priority. Policymakers should look for every opportunity to make progress on this front.

## **Research Strongly Supports Raising Child Credit for Young Children, Particularly in the Lowest-Income Families**

Income-support programs reduce child poverty markedly. The EITC and CTC, for example, kept more than 5 million children above the poverty line in 2014. Yet children under age 6 remain considerably more likely to be poor than older children or adults, as Figure 1 shows.

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<sup>3</sup> Rep. DeLauro has also introduced a bill (H.R. 1286) that would eliminate the current \$3,000 earnings threshold for the regular CTC, increase the CTC phase-in rate to 25 percent (from its current 15 percent), and index the regular \$1,000 maximum CTC amount to inflation.

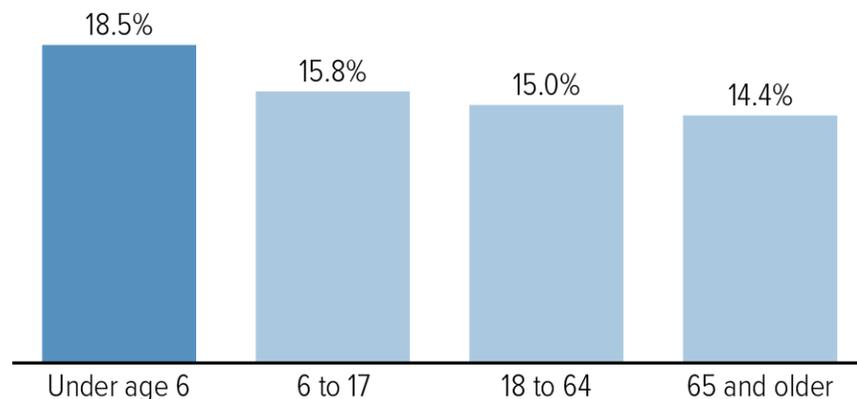
<sup>4</sup> The Bennet bill (S.2264) would raise the maximum CTC for children under 6 to \$3,000 and begin phasing in both this \$3,000 credit for young children and the credit for children 6 and older (which would remain at \$1,000) with the first dollar of earnings. The bill would phase in the \$3,000 young-child credit at a 45 percent rate. The phase-in rate would remain at 15 percent for children 6 and over. The bill also would index the maximum credit amounts.

<sup>5</sup> The Baldwin-Booker bill (S.3231) doesn't specifically target young children. It would eliminate the \$3,000 earnings threshold and index the \$1,000 maximum credit amount.

FIGURE 1

## Poverty Rate Highest For the Youngest Children

Percent in poverty based on Supplemental Poverty Measure, 2014



Source: CBPP analysis of March 2015 Current Population Survey and Supplemental Poverty Measure public use file

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The good news is that compelling evidence indicates that income support during a poor child's early years, such as from the EITC and CTC, can promote later economic mobility. Studies have linked even relatively modest improvements in family income for young children in poor families with lasting differences in health, education, and employment as the children grow up. The impressive findings include the following:

- In a study of 16 demonstration projects in the 1990s, programs that lifted family income starting at ages 2 to 5 boosted children's later academic achievement. (Interestingly, demonstration projects that increased parental employment but *not* family income didn't show such gains.)<sup>6</sup>
- A related analysis found that for every \$3,000-a-year increase in income during the preschool years, poor children made additional academic progress equivalent to about two months of extra schooling.<sup>7</sup>
- Infants born into families that benefited the most from EITC expansions in the 1990s had the greatest improvements in birth weight;<sup>8</sup> an important factor for future health.

<sup>6</sup> Greg J. Duncan, Pamela A. Morris, and Chris Rodrigues, "Does Money Really Matter? Estimating Impacts of Family Income on Young Children's Achievement With Data From Random-Assignment Experiments," *Developmental Psychology* 47, No. 5 (September 2011): 1263–79, <http://www.ncbi.nlm.nih.gov/pmc/articles/PMC3208322/>.

<sup>7</sup> Greg J. Duncan and Katherine Magnuson, "The Long Reach of Early Childhood Poverty," *Pathways*, Winter 2011, pp. 22-27, [http://www.stanford.edu/group/scspi/media/pdf/pathways/winter\\_2011/PathwaysWinter11\\_Duncan.pdf](http://www.stanford.edu/group/scspi/media/pdf/pathways/winter_2011/PathwaysWinter11_Duncan.pdf).

<sup>8</sup> Hilary W. Hoynes, Douglas L. Miller, and David Simon, "The EITC: Linking Income to Real Health Outcomes," Policy Brief Vol. 1, No. 2, *Center for Poverty Research*, <http://poverty.ucdavis.edu/policy-brief/linking-eitc-income-real-health-outcomes>.

- A major study examining the early years of the Food Stamp Program (now called SNAP) in the 1960s and 1970s, when the program operated in some counties but not others, provides further evidence that children’s health is particularly sensitive to safety net assistance in the first several years of life. Disadvantaged children who grew up in counties with access to food stamps showed significant reductions in adulthood in metabolic syndrome, a cluster of conditions including obesity, diabetes, and heart disease, compared to comparable children who lacked access to food stamps. The improvements were greatest for children who gained access to food stamp assistance before age 6. The study also found evidence that access to food stamps in early and later childhood raised children’s high school graduation rate by an impressive 18 percentage points, and for girls, improved a combined measure of adult self-sufficiency based on outcomes such as educational attainment and earnings.<sup>9</sup>
- Another notable study found that higher income during childhood was correlated with greater earnings and employment in adulthood. For families with average incomes of less than \$25,000 when their children were young, a \$3,000 annual income boost (in 2005 dollars) from the children’s prenatal year to age 5 was associated with a 17 percent increase in adult earnings and 135 additional work hours per year after the children reached age 25.<sup>10</sup>
- A recent historical study provides additional evidence of the benefits of increased income to disadvantaged children. The study found that children in families that received monthly cash assistance from the Mothers’ Pensions program as early as the 1910s and 1920s experienced better nutrition, more education, and higher adult income than peers whose mothers applied but were rejected. The children whose families participated in the program were only half as likely to be underweight, more likely to finish high school, had 13 percent higher adult incomes, on average, and lived a year longer.<sup>11</sup>

This research also consistently shows that income matters most for the *poorest* children. “[T]here is very strong evidence that increases in income have a bigger impact on outcomes for those at the lower end of the income distribution,” a systematic review of the research literature on the effects of income during childhood, conducted by researchers at the London School of Economics and Political Science, concluded. All 13 of the relevant studies that the researchers examined supported this finding.<sup>12</sup> One study found, for example, that the EITC’s effect in increasing children’s math and reading test scores was almost three times larger for the lowest quartile of its sample than for

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<sup>9</sup> Hilary Hoynes, Diane W. Schanzenbach, and Douglas Almond, “Long-Run Impacts of Childhood Access to the Safety Net,” *American Economic Review* 106, No. 4 (April 2016): 903–34, <https://www.aeaweb.org/articles?id=10.1257/aer.20130375>.

<sup>10</sup> Greg J. Duncan, Kathleen M. Ziol-Guest, and Ariel Kalil, “Early-Childhood Poverty and Adult Attainment, Behavior, and Health,” *Child Development* 81, No. 1 (February 2010): 306–25, <http://www.ncbi.nlm.nih.gov/pubmed/20331669>; 17 percent figure is a revised figure and appears in Duncan and Magnuson (2011), “The Long Reach of Early Childhood Poverty.”

<sup>11</sup> Anna Aizer *et al.*, “The Long-Run Impact of Cash Transfers to Poor Families,” *American Economic Review* 106, No. 4 (April 2016): 935–71, <https://www.aeaweb.org/articles?id=10.1257/aer.20140529>.

<sup>12</sup> Kerris Cooper and Kitty Stewart, “Does Money Affect Children’s Outcomes? A Systematic Review,” Joseph Rowntree Foundation, October 22, 2013, <https://www.jrf.org.uk/report/does-money-affect-children%E2%80%99s-outcomes>.

other low- and moderate-income families.<sup>13</sup> These findings are consistent with the view of many experts that the adverse effects of poverty on children are most pronounced for children who live below half of the poverty line.<sup>14</sup>

Young children therefore warrant particular attention, both because of their higher poverty rates and because the evidence regarding the beneficial effects of increased income is especially clear for poor children in the first several years of life. Because a number of studies suggest that income effects remain similar over the first six years of life, children under age 6 should be the target of any additional income support.<sup>15</sup> Gordon Berlin, the president of MDRC, a national leader in evaluating welfare-to-work programs and other anti-poverty initiatives, has explained that, “We have reliable evidence involving thousands of families in multiple studies demonstrating that ‘making work pay’ [by supplementing low earnings] causes improvements in young children’s school performance.”<sup>16</sup>

Similarly, the National Center for Children in Poverty at Columbia University notes that the “research is clear that early school success for low-income young children (under age 6) also depends on efforts to increase family economic security,”<sup>17</sup> while researchers Greg Duncan and Katherine Magnuson have observed, “Early childhood is a particularly sensitive period in which economic deprivation may compromise children’s life achievement and employment opportunities.”<sup>18</sup>

The reasons why the safety net produces long-term benefits for young low-income children are likely varied and complex. One may be the influence of adequate family income on brain development in these children. Duncan and Magnuson have noted that, “poverty early in a child’s life may be particularly harmful because the astonishingly rapid development of young children’s brains leaves them sensitive (and vulnerable) to environmental conditions.” Neuroscientists have

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<sup>13</sup> Gordon B. Dahl and Lance Lochner, “The Impact of Family Income on Child Achievement: Evidence from the Earned Income Tax Credit,” *American Economic Review* 102, No. 5 (May 2012): 1927–56. The lowest quartile consisted of families earning less than \$18,031; the middle two quartiles consisted of families earning between \$18,031 and \$41,790, while the fourth quartile including families earning more than \$41,790.

<sup>14</sup> Jeanne Brooks-Gunn and Greg J. Duncan, “The Effects of Poverty on Children,” *The Future of Children*, Vol. 7, No. 2, Summer/Fall 1997.

<sup>15</sup> In one study of 14 welfare-to-work programs, for example, programs that lifted family income had positive effects on children’s academic achievement throughout the first six years of life (effects were virtually the same for ages 0-2 and ages 3-5) but little effect after age 6. See Elizabeth Clark-Kauffman, Greg J. Duncan, and Pamela Morris, “How Welfare Policies Affect Child and Adolescent Achievement,” *The American Economic Review* 93, No. 2 (2003): 299–303.

In another study, which used two separate large national surveys to follow children over time, the timing of income within the first six years of life made little difference in children’s results on intelligence tests, for example; in fact, “the effect of income at age two was quite similar to that found at ages three and five.” See Judith R. Smith, Jeanne Brooks-Gunn, and Pamela K. Klebanov, “Consequences of Living in Poverty for Young Children’s Cognitive and Verbal Ability and Early School Achievement,” in Greg J. Duncan and Jeanne Brooks-Gunn, eds., *Consequences of Growing Up Poor*, p. 165.

<sup>16</sup> Gordon Berlin, “Investing in Parents to Invest in Children,” Testimony at the National Summit on America’s Children, May 2007, <http://www.mdrc.org/publication/investing-parents-invest-children>.

<sup>17</sup> National Center for Children in Poverty, “Early Care and Learning,” <http://www.nccp.org/topics/earlycareandlearning.html>.

<sup>18</sup> Duncan and Magnuson, 2011.

documented that persistently high levels of poverty-related stress — and stress hormones such as cortisol, which poor children tend to experience at unusually high levels — can produce biochemical changes that inhibit children’s brain development.<sup>19</sup>

For example, one study suggests that the “toxic stress” related to poverty impairs working memory, which is critical in language and reading acquisition.<sup>20</sup> Other studies using brain scan technology show that growing up poor can be associated with more neurological shortcomings. One such study reports that low-income children had less gray matter in areas tied to educational functioning, such as the frontal lobe and hippocampus. It also finds that slower brain growth could account for about 20 percent of low-income children’s deficits in test scores.<sup>21</sup> The emerging findings from brain science are one reason many researchers regard the first six years of life as a crucial window of development.

We should note that multiple studies find that income matters for older children as well. The research isn’t conclusive on when in childhood income matters most and does not suggest reducing income support for older low-income children, which would increase those children’s poverty.<sup>22</sup>

Income may play somewhat different roles at different stages of childhood. For example, the youngest children appear to be the most susceptible to poverty’s lasting health effects, with poverty-related stress before age 2 associated with immune-system damage that can appear years later as early-onset arthritis and other health problems that result in lost work hours.<sup>23</sup> Adolescents’ college-going, by contrast, seems to be affected somewhat more directly by *current* income support; for low-income high school seniors, for example, an expanded EITC appears to increase college entry

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<sup>19</sup> Ibid. Also see Center on the Developing Child at Harvard University, “Excessive Stress Disrupts the Architecture of the Developing Brain,” January 2011, and S. J. Lupie *et al.*, “Can Poverty Get under Your Skin? Basal Cortisol Levels and Cognitive Function in Children from Low and High Socioeconomic Status,” *Development and Psychopathology* 13, No. 3 (2001): 653–76.

<sup>20</sup> Gary W. Evans, Jeanne Brooks-Gunn, and Pamela Kato Kelbanov, “The Environment of Childhood Poverty,” *Pathways*, Winter 2011, pp. 18-21, [http://inequality.stanford.edu/media/pdf/pathways/winter\\_2011/PathwaysWinter11\\_Evans.pdf](http://inequality.stanford.edu/media/pdf/pathways/winter_2011/PathwaysWinter11_Evans.pdf).

<sup>21</sup> Nicole L. Hair *et al.*, “Association of Child Poverty, Brain Development, and Academic Achievement,” *JAMA Pediatrics* 169, No. 9 (September 2015): 822–29, <http://archpedi.jamanetwork.com/article.aspx?articleid=2381542>.

<sup>22</sup> Numerous studies find income effects during early childhood, but “evidence is mixed about which stage of childhood is most important. To some extent, income at particular stages seems to be more important for some types of outcome than others,” according to the London School of Economics researchers’ review. Behavior problems, for example, are tied *more* to later childhood poverty than early childhood poverty in a number of studies. Even for cognitive outcomes — where the linkage to early childhood is quite strong — “there are studies pointing to each stage of childhood as the more important.” (Cooper and Stewart, 2013.)

<sup>23</sup> See Ziol-Guest *et al.*, “Early Childhood Poverty, Immune-Mediated Disease Processes, and Adult Productivity,” *Proceedings of the National Academy of Sciences* 109, No. Supplement 2 (October 16, 2012): 17289–93. “[T]hese relationships and particularly arthritis partially account for the associations between early childhood poverty and adult productivity as measured by adult work hours and earnings,” the study finds.

simply by making college more affordable.<sup>24</sup> Thus, as economist and child development expert Greg Duncan and his colleagues have noted, “investments later in life ... may also be well advised.”<sup>25</sup>

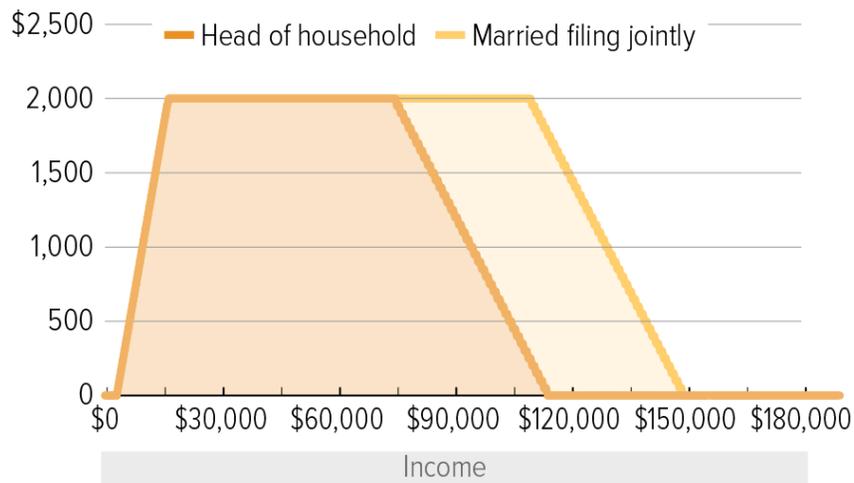
But because income support’s powerful positive effects are clearest and best documented for the poorest and youngest children, policymakers should make it a priority to strengthen support for them. The CTC presents an excellent opportunity for making important progress.

## How the CTC Works Now

First enacted in 1997, the CTC now provides a maximum tax credit of \$1,000 per eligible child. To be eligible, a child must be under age 17 at the end of the tax year. The CTC phases in for low-income working families with earnings of more than \$3,000 and phases out at higher income levels (see Figure 2).

FIGURE 2

### Child Tax Credit for Households with Two Children, 2016



Note: Assumes all income is from earnings (as opposed to investments, for example). Low-income working families can receive their credit as a refund equal to 15 percent of their earnings above \$3,000, up to the credit’s full \$1,000 value per child.  
Source: Internal Revenue Service

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The low-income component of the CTC works in the following way: once a taxpayer’s earnings reach \$3,000, the CTC phases in at a rate of 15 cents for each additional dollar of earnings until it reaches the \$1,000-per-child maximum. A single mother with two children and earnings of \$7,500 thus is eligible for a CTC of \$675 [(7,500-3,000)\*.15]. Because of this slow phase-in, families with two children do not receive the full tax credit of \$1,000 per child until their earnings reach \$16,333.

<sup>24</sup> Dayanand S. Manoli and Nicholas Turner, “Cash-on-Hand & College Enrollment: Evidence from Population Tax Data and Policy Nonlinearities,” *NBER Working Paper*, January 2014, <http://www.nber.org/papers/w19836>.

<sup>25</sup> Greg J. Duncan *et al.*, “The Importance of Early Childhood Poverty,” *Social Indicators Research* 108, No. 1 (May 25, 2011): 87–98, <http://link.springer.com/article/10.1007/s11205-011-9867-9>.

The CTC phases out at a rate of five cents on the dollar when a family's income exceeds \$110,000 for married couples and \$75,000 for single parents. Hence, a married couple with two children and a \$120,000 income is eligible for a CTC of \$1,500 [ $2,000 - (120,000 - 110,000) \cdot 0.05$ ].

## **Strengthening the CTC for Poor Young Children**

The current practice of excluding children in families with \$3,000 or less in earnings — and of failing to provide the full \$1,000 per-child credit until the earnings of a family with two children reach \$16,333 — results in children in the poorest families receiving no CTC and many other children who live in deep poverty receiving only a small, partial child credit. Since income can have particularly large impacts on young children in the lowest-income families, the first dollars of any CTC improvement should go to where they can do the most for young children's brain development, health throughout life, and ability to live up to their potential. Accordingly, the first priority for CTC improvement should be to boost the credit for young children in the lowest-income families.