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Top Tax Priority: Expanding the Child Tax Credit in Upcoming Economic Legislation

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When the temporary Child Tax Credit expansion under the American Rescue Plan expired at the end of 2021, the credit reverted to the flawed design left in place by the 2017 Trump tax law. As a result, an estimated 19 million children — or more than 1 in 4 children under age 17 — will get less than the full Child Tax Credit or no credit at all this year because their families earn too little, while families with much higher incomes (up to $400,000 for married couples) will receive the full $2,000 credit for each child. Republicans on the House Ways and Means Committee are reportedly preparing tax legislation, and expanding the credit for these children should be the top priority in the bill.[1] Congress should ensure that a robust expansion that would help children in families with low incomes meet their basic needs comes before corporate tax breaks that House Republicans are likely to propose.

Legislation Likely to Include Costly Corporate Tax Breaks

Making the full $2,000 current Child Tax Credit available to children in families with low incomes or without any earnings in the year — ensuring that low-income children would get the same benefit as those in higher-income families — would have a modest cost of roughly $12 billion per year through 2025, according to the Joint Committee on Taxation.[2] This is far less than the combined cost of tax breaks corporate lobbyists are pushing.[3]

The Republican tax package is expected to include several provisions to reduce the taxes that businesses pay. This includes restoring the more generous tax treatment of research and experimentation (R&E) expenses, which the Congressional Budget Office (CBO) estimates would

[1] Laura Weiss, "House GOP Readying Economic Package With Business Tax Breaks," Roll Call, April 26, 2023, https://rollcall.com/2023/04/26/house-gop-readying-economic-package-with-business-tax-breaks/.

[2] Joint Committee on Taxation, "Estimated Budget Effects of the Revenue Provisions of Title XIII - Committee on Ways and Means, of H.R. 5376, The 'Build Back Better Act,'" JCX-46-21, November 19, 2021, https://www.jct.gov/publications/2021/jcx-46-21/.

[3] For further discussion of the cost of the corporate tax breaks, see Chuck Marr and Samantha Jacoby, "Corporate Lobby's New Math Doesn't Add Up for Kids," CBPP, December 8, 2022, https://www.cbpp.org/research/federal-tax/corporate-lobbys-new-math-doesnt-add-up-for-kids.

cost $150 billion over ten years or more than $15 billion per year, on average.[4] In the 2017 tax law, Republican policymakers required companies, starting in 2022, to deduct the cost of their R&E expenses over multiple years (known as amortization) instead of claiming them all in the first year. Republicans put this policy in place starting in 2022 to raise revenues that would help pay for the law's significant cut in the corporate tax rate, which was a far larger rate cut than had been previously contemplated and was made permanent in the 2017 legislation.

Yet now some policymakers are proposing to reverse the R&E provision without a corresponding increase in the corporate tax rate on profitable corporations that, overall, received very large tax cuts from the 2017 law even with the R&E provision that's now gone into effect. Not only would reversing the 2017 R&E provision cost significant revenue, it would undo one of the Republicans' own revenue raisers from the 2017 tax law.

Corporate lobbyists are also pushing policymakers to delay the phase-down of aggressive deductions of businesses' plant and equipment costs. For tax years 2018 to 2022, the 2017 tax law allowed businesses to deduct 100 percent of the cost of equipment in the year that they bought it, known as "full expensing," rather than deducting the cost over a set number of years, to reflect that it provides value to the business over time. The law phased down this benefit to an accelerated or "bonus" depreciation schedule from 2023 to 2026 as a way to raise revenues later in the ten-year budget window, which helped reduce the large cost of the 2017 tax cuts.

Permanently extending full expensing of equipment would run a costly $325 billion over ten years, or an average of $33 billion per year, according to a CBO estimate.[5] Congress should not extend more generous expensing without a corresponding increase in the corporate tax rate to make up for this large revenue loss.

Corporate lobbyists are also pushing for a third tax break that would loosen a limit on the amount of interest certain businesses may deduct. In the 2017 law, congressional Republicans imposed a new limit on business interest deductions, and to raise additional revenue, they tightened the limit starting in 2022. Rolling the interest limit back to pre-2022 rules would cost about $20 billion per year, the Committee for a Responsible Federal Budget estimated.[6]

Reversing this policy is backward and policymakers should reject this provision. A strong interest deduction limit curtails multinational corporations' ability to shift profits overseas by making large interest payments to foreign affiliates. It also lowers the existing subsidy for debt-financed investment, which benefits highly leveraged businesses, such as those owned by private equity funds.

Congress should *tighten* limits on interest deductions, especially if paired with more generous depreciation. That is, if full expensing is combined with interest deductions, businesses that take out loans to buy equipment or other depreciable assets could essentially get a *double* tax benefit: a full

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[4] Congressional Budget Office, Budget and Economic Data, Revenue Projections by Category, May 2022, https://www.cbo.gov/system/files/2022-05/51138-2022-05-Revenue-Projections.xlsx.

[5] Congressional Budget Office, "Budgetary Outcomes Under Alternative Assumptions About Spending and Revenues," May 16, 2023, https://www.cbo.gov/publication/59154.

[6] Committee for a Responsible Federal Budget, "Year-End 'Extenders' Could Worsen Deficits and Inflation," September 20, 2022, https://www.crfb.org/blogs/year-end-extenders-could-worsen-deficits-and-inflation.

deduction for the price of a purchased asset *and* a deduction for interest on the debt used to buy that asset. According to Jason Furman, former chair of President Obama's Council of Economic Advisers, this double benefit is a "nearly fatal problem."[7]

Child Tax Credit Expansion Must Accompany Any Corporate Tax Breaks

Corporate tax cuts are regressive, flowing disproportionately to wealthy and foreign shareholders, and they have a long track record of not trickling down. A tax package that serves corporate interests while leaving families behind, therefore, should be unacceptable. Congress should not expand any business tax breaks without including a robust expansion of the Child Tax Credit that would make the full credit permanently available to children in families with low incomes.

This would substantially reduce child poverty at a modest cost. Making the full $2,000 credit available to children in families with low incomes would cost roughly $12 billion per year through 2025, the Joint Committee on Taxation estimated. This change would reduce the number of children living in a family with income below the poverty line by roughly 16 percent — or about 1.5 million children — in 2023 relative to current law.[8] Increasing the maximum credit *in addition* to making the full credit available to children in families with the lowest incomes would further reduce poverty. Increasing the credit alone without making it more available to children in families with the lowest incomes would lower poverty far less.

While making the full credit available to children in families with low incomes would lower child poverty among all races and ethnicities, it would especially help Black, Latino, and American Indian or Alaska Native (AIAN) children, whose families are overrepresented in low-paid work due to past and present hiring discrimination, inequities in educational and housing opportunities, and other sources of inequality. By lifting larger shares of children of color above the poverty line, the expansion would narrow the gaps in child poverty rates by race and ethnicity.

Because children in families with low incomes currently cannot receive the full credit, roughly 46 percent of Black children, 39 percent of AIAN children, 37 percent of Latino children, 17 percent of white children, and 15 percent of Asian children get less than the full credit or no credit at all. Making the credit more available to these children would push back against long-standing inequities, advance family income security, and broaden opportunity.

Raising income for families with children experiencing poverty can improve children's outcomes in the short and long term. (See Figure 1.) That's because poverty and the hardships that come with it — unstable housing and frequent moves, inadequate nutrition, and high levels of stress in the family — can take a heavy toll on children; they are associated with lower levels of educational

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[7] Jason Furman, "How to Increase Growth While Raising Revenue: Reforming the Corporate Tax Code," Hamilton Project, January 28, 2020, https://www.hamiltonproject.org/publication/policy-proposal/how-to-increase-growth-while-raising-revenue-reforming-the-corporate-tax-code/.

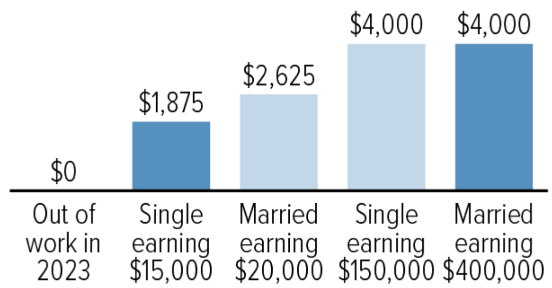
[8] CBPP analysis of U.S. Census Bureau's March 2019 Current Population Survey. We start with data from 2018 because that year's employment rate resembles the employment rate in 2023 more closely than do other recent years. We use 2023 tax parameters, adjust earnings to 2023 dollars based on Bureau of Economic Analysis data on wage and salary growth through 2022 and CBO wage and salary projections for 2023, and adjust all other income for changes in the consumer price index through 2022 and CBO projections of inflation in 2023. SNAP benefits, which are factored into the poverty calculation, are adjusted to account for the Thrifty Food Plan re-evaluation in October 2021.

attainment, poorer health in adulthood, and lower earnings in adulthood, a 2019 National Academies of Science, Engineering, and Medicine report on reducing child poverty found.[9]

FIGURE 1

Families With Low Incomes Receive Smaller Child Tax Credit Than Families With Higher Incomes; the Lowest-Income Families Receive None at All

Child Tax Credit for a family with two children under current law, 2023



19 million children **live in families that earn too little to receive the full credit.** That's more than 1 in 4 children under 17, who are disproportionately Black, Latino, and Native (AIAN). **Providing the full amount to these children should be a top priority.**

Expanding income supports like the Child Tax Credit is likely to provide lasting gains for children and society, studies find.

- Lower neo-natal mortality
- Greater health and longevity for children and parents
- Higher future earnings of child beneficiaries
- Lower costs of protecting children from abuse & neglect
- Greater safety from reductions in crime
- Increased future tax payments by child beneficiaries
- Reduced expenditures on children's and parents' health care costs

Source: CBPP calculations; Tax Policy Center estimate for 2022 and shares of children by race or ethnicity based on CBPP analysis of American Community Survey data for 2017-2019; Irwin Garfinkel et al., "The Benefits and Costs of a U.S. Child Allowance," NBER Working Paper No. 29854, 2022

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[9] National Academies of Sciences, Engineering, and Medicine, *A Roadmap to Reducing Child Poverty*, National Academies Press, 2019, https://www.nap.edu/catalog/25246/a-roadmap-to-reducing-child-poverty.

Rescue Plan's Child Tax Credit Expansion Was a Success

The temporary expansion of the Child Tax Credit for tax year 2021 in the American Rescue Plan was a striking success. The expansion drove down child poverty sharply that year to historic lows. The expansion also narrowed differences in poverty rates between children of different races and ethnicities. The vast majority of families with low incomes spent their monthly Child Tax Credit payments on basic needs — housing, food, clothing, and utilities — and educational expenses.

Parents continued to re-enter the workforce and take jobs while the expanded Child Tax Credit was in effect. Employment among both parents and non-parents rose by 1.7 percentage points in 2021, according to Bureau of Labor Statistics data. Numerous studies looking at the real-world evidence from the temporary expansion of the Child Tax Credit suggest the expanded credit did not meaningfully discourage work among parents. For example, researchers at the University of Michigan examined part- and full-time employment and also labor force participation and found "no significant employment effects for any outcome" — with several other research teams reaching similar conclusions.[10]

The expanded credit expired at the end of 2021. As a result, 3.7 million children fell below the monthly poverty line in January 2022, according to the Center on Poverty & Social Policy at Columbia University.[11]

As policymakers craft tax legislation, they should not put corporate interests ahead of the needs of children. If they don't act, 19 million children in families with low incomes will continue to get a smaller Child Tax Credit than children in families with higher incomes — or even no credit at all. (See Table 1 below for state-specific estimates by race and ethnicity.) All children should be given the opportunity to thrive, and expanding the Child Tax Credit would take an important step in that direction.

[10] Natasha Pilkauskas *et al.*, "The Effects of Income on the Economic Wellbeing of Families with Low Incomes: Evidence From the 2021 Expanded Child Tax Credit," NBER, October 2022, https://www.nber.org/system/files/working_papers/w30533/w30533.pdf.

[11] Zachary Parolin, Sophie Collyer, and Megan A. Curran, "Absence of Monthly Child Tax Credit Leads to 3.7 Million More Children in Poverty in January 2022," Center on Poverty & Social Policy, February 17, 2022, https://www.povertycenter.columbia.edu/publication/monthly-poverty-january-2022.

TABLE 1

Estimated Children Under 17 Left Out of the Full $2,000 Child Tax Credit, by State, Race, and Ethnicity

State	Total	Latino	White	Black	American Indian or Alaska Native	Asian	Another race or multiple races
Total U.S.	18,662,000	6,595,000	6,009,000	4,274,000	576,000	498,000	872,000
(Of all children in racial/ethnic group, percent left out)	(27%)	(37%)	(17%)	(46%)	(39%)	(15%)	(26%)
Alabama	361,000	39,000	137,000	167,000	4,000	2,000	13,000
Alaska	37,000	N/A	10,000	N/A	17,000	N/A	N/A
Arizona	477,000	278,000	102,000	28,000	64,000	5,000	14,000
Arkansas	233,000	37,000	112,000	68,000	5,000	N/A	10,000
California	2,310,000	1,619,000	294,000	165,000	64,000	133,000	77,000
Colorado	224,000	114,000	75,000	15,000	12,000	4,000	9,000
Connecticut	144,000	68,000	35,000	28,000	3,000	4,000	7,000
Delaware	48,000	11,000	14,000	19,000	N/A	N/A	2,000
District of Columbia	41,000	5,000	N/A	34,000	N/A	N/A	N/A
Florida	1,176,000	437,000	310,000	352,000	12,000	16,000	54,000
Georgia	735,000	155,000	181,000	350,000	12,000	12,000	32,000
Hawai'i	60,000	14,000	6,000	N/A	N/A	8,000	31,000
Idaho	96,000	27,000	62,000	N/A	5,000	N/A	2,000
Illinois	664,000	217,000	199,000	198,000	6,000	18,000	29,000
Indiana	396,000	64,000	217,000	79,000	3,000	7,000	27,000
Iowa	136,000	24,000	79,000	20,000	3,000	N/A	8,000
Kansas	150,000	43,000	74,000	16,000	4,000	4,000	10,000
Kentucky	304,000	24,000	216,000	42,000	2,000	4,000	17,000
Louisiana	402,000	28,000	118,000	232,000	6,000	4,000	14,000

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State	Total	Latino	White	Black	American Indian or Alaska Native	Asian	Another race or multiple races
Maine	49,000	N/A	41,000	N/A	3,000	N/A	N/A
Maryland	245,000	54,000	56,000	110,000	3,000	9,000	15,000
Massachusetts	243,000	101,000	81,000	32,000	4,000	13,000	14,000
Michigan	579,000	67,000	285,000	172,000	14,000	9,000	35,000
Minnesota	214,000	34,000	83,000	60,000	15,000	13,000	12,000
Mississippi	269,000	13,000	75,000	168,000	3,000	N/A	7,000
Missouri	350,000	31,000	205,000	81,000	7,000	3,000	25,000
Montana	55,000	4,000	34,000	N/A	15,000	N/A	N/A
Nebraska	88,000	28,000	39,000	9,000	4,000	3,000	5,000
Nevada	184,000	94,000	37,000	32,000	6,000	6,000	12,000
New Hampshire	39,000	5,000	30,000	N/A	N/A	N/A	N/A
New Jersey	373,000	165,000	93,000	85,000	3,000	14,000	15,000
New Mexico	172,000	116,000	23,000	N/A	36,000	N/A	N/A
New York	1,075,000	393,000	327,000	229,000	17,000	75,000	41,000
North Carolina	654,000	161,000	205,000	225,000	22,000	11,000	32,000
North Dakota	26,000	N/A	13,000	N/A	8,000	N/A	N/A
Ohio	698,000	64,000	370,000	189,000	10,000	8,000	60,000
Oklahoma	276,000	64,000	108,000	37,000	58,000	3,000	14,000
Oregon	186,000	59,000	98,000	8,000	10,000	5,000	9,000
Pennsylvania	632,000	143,000	280,000	151,000	9,000	17,000	35,000
Rhode Island	45,000	21,000	14,000	6,000	N/A	N/A	2,000
South Carolina	340,000	42,000	108,000	167,000	4,000	2,000	18,000
South Dakota	45,000	3,000	18,000	N/A	23,000	N/A	N/A

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State	Total	Latino	White	Black	American Indian or Alaska Native	Asian	Another race or multiple races
Tennessee	461,000	62,000	231,000	137,000	5,000	3,000	23,000
Texas	2,120,000	1,380,000	322,000	322,000	21,000	40,000	48,000
Utah	152,000	51,000	81,000	N/A	6,000	N/A	9,000
Vermont	20,000	N/A	17,000	N/A	N/A	N/A	N/A
Virginia	367,000	63,000	133,000	133,000	5,000	10,000	25,000
Washington	315,000	110,000	130,000	22,000	21,000	13,000	24,000
West Virginia	123,000	3,000	103,000	7,000	N/A	N/A	8,000
Wisconsin	250,000	48,000	115,000	57,000	11,000	7,000	13,000
Wyoming	23,000	6,000	14,000	N/A	3,000	N/A	N/A

Notes: Children under 17 left out of the full $2,000 Child Tax Credit are eligible for less than the full $2,000 per child because their families lack earnings or have earnings that are too low. Figures are rounded to the nearest 1,000. N/A indicates reliable data are not available due to small sample size. Figures may not sum to totals due to group overlap, lack of reliable data in certain cells, and/or rounding. Percentages in the “Total U.S.” row represent the share of all children under 17 in that racial/ethnic group left out of the full $2,000 Child Tax Credit. Estimates reflect a pre-pandemic economy (which resembles the 2023 economy more closely than recent data), using tax year 2023 tax rules and incomes adjusted for inflation to 2023 dollars. Individuals are classified as Latino (any race); white only, not Latino; Black only, not Latino; American Indian or Alaska Native alone or in combination with other races, regardless of Latino ethnicity (AIAN); Asian only, not Latino; or another race or multiple races, not Latino. Latino includes all people of Hispanic, Latino, or Spanish origin regardless of race. AIAN estimates are particularly sensitive to definition; AIAN figures here include those who share another race or ethnicity. (A total of 1.5 million children under 17 are identified as AIAN alone or in combination with other races, regardless of Latino ethnicity. If we apply the non-overlapping categories this report uses for other groups, about 520,000 children under 17 are considered AIAN alone, not Latino; an estimated 237,000 of these children are left out of the full Child Tax Credit.)

Source: Tax Policy Center national estimate for 2022 allocated by state and race or ethnicity based on CBPP analysis of American Community Survey (ACS) data for 2017-2019. Percentages listed in the U.S. total row are shares of the average 2017-2019 ACS population under 17 in each racial/ethnic group.