

Six Months of Advance CTC Payments Have Dramatically Reduced Childhood Poverty and Improved Family Finances

The expansion of the CTC, included in President Biden's American Rescue Plan, is one of the largest-ever single-year tax cuts for families with children. It dramatically increased the value of the CTC from \$2,000 per child to up to \$3,600 per child under age 6 and \$3,000 per child between age 6 and 17, putting money in the pockets of low- and middle-income families to pay for household expenses like food, rent, utilities and child care.

As part of the expansion, half of the CTC has been distributed in advance via monthly payments, helping families meet their financial needs in real time. Qualifying families have received monthly checks from July through December, and because the CTC was made fully refundable, previously ineligible low-income families can receive the full credit. Over [36 million families](#) have received advance Child Tax Credit payments in 2021.

The expanded CTC will lead to a historic reduction in childhood poverty, even amid the pandemic and resulting economic crisis

The expanded CTC is expected to reduce childhood poverty by [over 40%](#), lifting more than 4 million children out of poverty. [More than 80%](#) of that poverty reduction comes from making the credit fully refundable for families with little or no income. This is the largest reduction in childhood poverty in the last 50 years, [nearly doubling](#) the number of children lifted out of poverty by the CTC and Earned Income Tax Credit. The expanded CTC is also expected to reduce child poverty to [below 10%](#) in 47 states in a typical year.

Advance CTC payments have helped families meet their household needs in real time

Families are using the advance CTC payments to meet the basic needs of their households on a weekly and monthly basis. Families with incomes [below \\$35,000](#) are particularly likely to spend their monthly payments on the most basic necessities.

Most recipients spend their payments on more than one thing. Food has consistently been the top category for CTC spending, while many also used the payments for [school expenses](#) prior to the start of the 2021-22 school year. According to the latest Census Bureau data for the Household Pulse Survey conducted between September 29 and October 11, 56% of families spent their CTC payment on food, 33% spent it on internet and other utilities, 30% spent it on mortgage/rent, 30% spent it on clothing and 11% spent it on child care. Another survey showed that many households planned to save the CTC for [emergency expenses](#), in addition to using it for essential items and routine expenses.

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Parents have used advance CTC payments to help afford child care

A consistent percentage of CTC recipients report spending their CTC payments on child care: around 11%. [Families with young children](#) are even more likely to spend their CTC payments on child care. For families with children under age 5, one in five families used the CTC to help pay for child care in late July and one in four did so in August and September.

Early advance CTC payments led to sizable declines in financial hardship and food insufficiency

Following the first round of CTC payments in July, there were [sizable declines](#) in financial hardship and food insufficiency for families with children. The share of households with children who reported they sometimes or often did not have enough to eat (food insufficiency) dropped 24%. This followed a [steep rise in food hardship](#) at the beginning of the pandemic, particularly for households with children. Similarly, the share of households with children reporting that it was somewhat or very difficult to pay for their usual household expenses in the previous week (financial hardship) dropped 8%. In subsequent months, the advance CTC payments have continued to boost family finances and food access.

The expanded CTC advances racial and geographic equity

The expanded CTC reaches more Black and Hispanic Americans, as well as rural Americans, than the pre-Rescue Plan version did. While 80% of white children were already receiving the full credit pre-expansion, about [half of Black and Hispanic children](#) received only a partial credit or no credit at all because their family's income was too low to qualify. Similarly, about half of children in rural communities were also excluded from the full credit prior to the CTC's expansion due to their family's low income. In total, [27 million more children](#)—including about half of Black and Hispanic children and half of children in rural communities—who were previously receiving only a partial credit or none at all, are now receiving the full credit. These groups benefit from the expanded CTC's full refundability and increased amount.

The expanded CTC yields a high return on investment

The CTC is estimated to provide [\\$8 in social and economic benefits](#) for every \$1 of investment. The Joint Economic Committee previously estimated the impact of the expanded CTC on local economies and showed that each \$1 in CTC payments will generate [additional spending](#), as recipients use the money to buy goods and services that in turn generate income for other people and businesses. This increased economic activity is a boon to local businesses, creating jobs in communities across the country. Another analysis estimated that the CTC expansion will boost consumer spending by [\\$27 billion](#), generate \$1.9 billion in revenues from state and local sales taxes and support over 500,000 full-time jobs.

Higher family income leads to higher future earnings and other benefits for children

The CTC is an investment in our children's current well-being and [future mobility](#) and success, which also leads to economy-wide returns. Over the long term, research has found that an extra \$3,000 in a family's annual income when a child is younger than age 5 leads to [19% higher](#)

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[future earnings](#). Other research on investments in early childhood finds that increasing family incomes has tangible outcomes for children, including [higher test scores](#), [higher graduation rates](#) for high school and college, [improved health outcomes](#), [lower rates of incarceration](#) and [reduced need](#) for future income support. Overall, a growing body of academic research finds that public investments in children yield [significant long-term returns](#) with economy-wide benefits, as healthier, more educated kids grow up to be more productive workers with higher earnings. This, in turn, also generates higher future revenues. We are all better off when kids are better off.

Parents are continuing to work while receiving advance CTC payments

Research has shown that cash transfer programs including the CTC have minimal effects on unemployment. One analysis found [no difference in employment trends](#) between parents and non-parents, who would not be eligible for the CTC, before and after advance CTC payments were distributed in the first three months. The analysis also examined the employment dynamics of CTC recipients and those who were eligible for the CTC but did not receive it and found that CTC recipients tended to be employed at higher rates than non-recipients. Another study found “very small, inconsistently signed, and [statistically insignificant impacts](#) of the CTC both on employment in the prior week and on active participation in the labor force among adults living in households with children,” leading the researchers to conclude that their analyses “do not support claims that the CTC has negative employment effects that offset its documented reductions in poverty and hardship.”

Passing the Build Back Better Act would extend CTC advance payments for 36 million families

As passed under the American Rescue Plan, monthly CTC payments will stop after December 2021, and more than [65 million children](#) will lose out. Passing the Build Back Better Act would prevent the cessation or [interruption of payments](#) by extending the CTC expansion for another year and continuing monthly CTC payments for low- and middle-income families through December 2022. In addition, if the Build Back Better Act is not passed, child poverty will rise significantly as the CTC reverts to its pre-American Rescue Plan form. [Nearly 10 million children](#) are at risk of slipping back below the poverty line or deeper into poverty.

If the expansion is not extended, the CTC would be only partially refundable again, meaning that millions of families with little or no income would no longer receive the credit. At least [27 million children](#) who are now receiving the full credit would receive only a partial credit or no credit at all. This would erase much of the reduction in childhood poverty as [more than 80%](#) of the CTC’s poverty reduction comes from making the CTC fully refundable.

The Build Back Better Act ensures that even if the size of the credit shrinks in the future, the lowest-income children continue to receive the maximum credit amount by making the CTC fully refundable on a permanent basis. Passing the Build Back Better Act into law would cement the CTC’s historic reduction in child poverty.

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Extending the enhanced CTC under Build Back Better is fully paid for by asking the wealthy and big corporations to pay their fair share and is not expected to impact long-term inflation

Extending the enhanced CTC under Build Back Better is fully paid for by asking the wealthy and big corporations to pay their fair share. Nonpartisan analysis from the [Tax Policy Center](#) and the [Joint Committee on Taxation](#) showed that the House-passed Build Back Better Act would increase revenue from the top 1% in its first year of implementation, while shielding families making under \$500,000 from tax increases. In the second decade of implementation, the House-passed Build Back Better Act will [reduce deficits](#) and generate an estimated \$2 trillion in savings.

The Build Back Better Act is not expected to impact short-term inflation and will reduce long-term inflationary pressures. Investments in the legislation are spread over the course of a decade and are fully offset by additional revenue and savings, minimizing impacts on aggregate demand that can cause price fluctuations. The Build Back Better Act will encourage labor force participation and invest in U.S. infrastructure, improving long-term productivity and sustaining economic growth without impacting inflation.