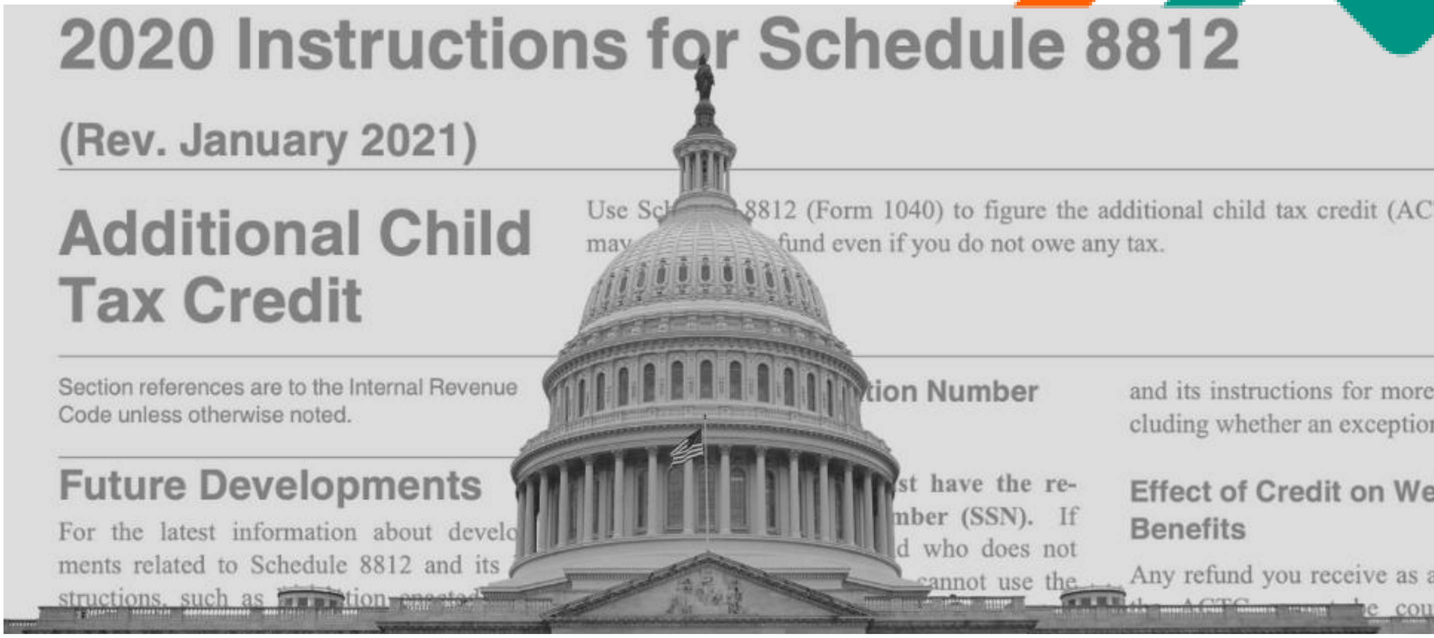

The Progressive Case for a Unified Child Benefit

By Shawn Fremstad *
April 2021

Center for Economic and Policy Research
1611 Connecticut Ave. NW
Suite 400
Washington, DC 20009

Tel: 202-293-5380
Fax: 202-588-1356
https://cepr.net

*Shawn Fremstad is a Senior Policy Fellow at the Center for Economic and Policy Research CEPR.

Contents

Acknowledgments

My thanks to Matt Bruenig, Alex Coccia, Alix Gould-Werth, Indi Dutta-Gupta, Elaine Maag, Emma Mehrabi, Elisa Minoff, and Max B. Sawicky for comments on an earlier draft of this report.

Introduction

The United States provides two major child benefits through the individual income tax system: the Child Tax Credit (CTC) and the Earned Income Tax Credit (EITC). The American Rescue Plan Act ("American Rescue") improved the adequacy and inclusiveness of the Child Tax Credit, but these changes expire after 2021. The American Rescue Plan Act generally does not change the structure of the EITC for families with qualifying children.[1] It does, however, increase the value of the EITC for adults without qualifying children, but, again, for one year only.

Before getting to the substance, a note on terminology. This paper generally uses the term "American Rescue" to refer to the American Rescue Plan Act and "American Rescue CTC" to refer to the temporarily expanded CTC created by that Act. It also generally distinguishes between the EITC for adults without qualifying children in their filing unit — commonly referred to as the "childless EITC", although this is a misnomer in many cases[2] — and the EITC for adults with qualifying children in their filing unit. The term "EITC child benefit" is used to refer to the additional maximum EITC benefit available to an adult if they have one or more children, compared to the childless adult EITC.

Congressional Democrats have proposed legislation that would effectively make these changes permanent. President Biden has yet to propose an expansion beyond 2021, although his Administration has sent encouraging signals.[3] This paper reviews the goals and of a broad-based child benefit and identifies four criteria that should guide its design: universality, adequacy on an annual and monthly basis, simplicity, and visibility. It then uses these criteria to assess the EITC and American Rescue CTC provisions. It also assesses two recent plans, from the right and left respectively, to create a unified child benefit: Senator Romney's Family Security Act and the People's Policy Project's American Child Benefit.

1 American Rescue does modify the EITC's "disqualified-investment-income" test for workers generally. Before American Rescue, otherwise eligible workers with investment income over $3,650 in 2020 and 2021 were ineligible for the EITC. American Rescue permanently increases this amount to $10,000 and increases it annually for inflation. For a summary of this and other tax provisions related to "promoting economic security" in American Rescue, see Sherlock, Gravelle, Crandall-Hollick, "American Rescue Plan" ...

2 It can be a misnomer because eligible claimants can include one of the parents in an unmarried couple living with one or more of their own children (where the other parent is claiming the standard EITC), parents who share custody of a child with a parent they do not live with, and noncustodial parents.

3 Kuttner, "Will Biden Make Permanent" ...

The last section of the paper proposes a plan that would build on the strengths of all three plans discussed above, while remaining politically feasible in the near-term. This plan would consolidate and simplify the CTC and EITC to create: (1) a Unified Child Benefit paid on a monthly basis by the Social Security Administration (SSA), (2) supplemental benefits for children with disabilities and solo parents, and (3) a simplified individual worker credit that is not tied to the presence of children.

Goals and Design Criteria for a Unified Child Benefit

Because it offsets a portion of the costs of raising children, a well-designed child benefit increases the income and economic security of all families with children. Because it includes children regardless of their parents' current employment status and earnings, a well-designed child benefit reduces the extent and depth of income poverty among children living in low-income families. Over the long term, a well-designed child benefit is a form of public "investment" in children that will provide social benefits — not just individual benefits to those families that receive it — that far exceed its costs.

A well-designed child benefit isn't merely a value-free, technocratic mechanism to increase children's economic security while providing the public with a "return on investment" in the long run. It is a "just institution" that treats children and parents with equal concern and respect.[4] It does this by publicly recognizing the essential work that all parents do in raising children, and the equal value of all children.[5] It also recognizes that children are largely, and quite properly, excluded from the labor market, and have a right to a decent childhood that includes education, rest and leisure, play and recreational activities, and free participation in cultural life and the arts.

To best accomplish these objectives, a well-designed child benefit should be (1) broadly universal, (2) adequate on both an annual and monthly basis, (3) simple, and (4) visible in a way that creates positive "policy feedback loops" over time.

A child benefit designed in this way will build public trust and reduce class divisions, minimize the burdens that parents must endure to claim it, and be politically stable over time.

4 On well-designed universal child benefits as an example of a "just institution", see Rothstein, Just Institutions Matter ...
5 Folbre, Valuing Children ..., 3. As economist Nancy Folbre puts it: "Children ... provide benefits to their future fellow workers and taxpayers. The contributions they make to the economy can easily exceed the cost of the resources devoted to raising them. Those who enjoy those contributions are not necessarily those who paid the costs."

Assessing the EITC and American Rescue CTC

How do the temporary CTC created by American Rescue and the existing EITC fare when judged by these criteria?

Universality

This section discusses four dimensions of universality: (1) income, (2) family relationship and residency, (3) citizenship and immigration status, and (4) children's age.

In general, American Rescue made the CTC much more universal by providing low-income children with the same flat benefit amount as middle-income and upper-middle-income children, and by including 17-year-olds. But it did less to address the CTC and EITC's limitations in other dimensions of universality.

Income

Children are only eligible for the EITC if they are claimed as part of a tax filing unit with earned income. Once a filing unit has at least $1 in earned income, the EITC provides a credit for each dollar of earnings that varies by marital status, number of qualifying children, and the amount of earnings. The EITC is "refundable," meaning it is not limited to the amount of income taxes a filing unit owes (as long as they have earned income). American Rescue did not eliminate the earnings test for the EITC's child benefit.

Before American Rescue, children were generally ineligible for the CTC if they were part of a tax filing unit with less than $2,500 in wages or other earnings. For children in units with earnings above this level, the maximum CTC was $2,000, but was limited to the amount of federal income tax the family owed. For units that were not able to claim the full $2,000 per child CTC, a separate credit (the Additional Child Tax Credit) provided a "fully-refundable" benefit equal to 15 percent of earnings above $2,500, not to exceed a maximum of $1,400 per child. In addition to directly excluding children who were part of a tax filing unit that had no or very low earnings, this structure had the effect of disproportionately excluding or providing a reduced benefit to Black and Hispanic children, children living with disabled parents, children in solo-mother families, children living with parents attending college, young children, and children living in rural areas.[6]

The American Rescue CTC provides a $3,000 per child credit ($3,600 per child under age 6) to all qualifying children in filing units with incomes below $75,000 (if an unmarried parent and not filing as a Head of Household), $112,500 (if an unmarried parent filing as a Head of Household), or $150,000 (if married, filing jointly). Above these levels the credit phases down as income increases and then generally plateaus at $2,000 per child until a second phase out threshold is reached ($200,000 if unmarried, and $400,000 if married).[7]

Family Relationship and Residency

The CTC and EITC can only be claimed by a child's parent (including a stepparent, adoptive parent, and foster parent), grandparent, aunt or uncle, or sibling (including half and stepsiblings). This person must have lived with the child in the United States for more than half of the calendar year in which the child is claimed. (As discussed below, both this person and the child must also meet certain identification number requirements).[8] Thus, if the child lives with a guardian who provides all of their care but does not have one of the specified blood or legal relationships with the child, the child is ineligible for the credits unless they have also lived with a parent or other specified relative for at least six months during the year.

These rules reduce the inclusiveness of the credits and increase the costs to beneficiaries of claiming them. In a recent working paper looking at the pre-American Rescue CTC, Goldin and Michelmore (2020) conclude that "the relationship test disproportionately limits [CTC] benefits for Hispanic children and mainly excludes children who live in low-income households."[9] Their estimates suggest that about 330,000 children will be excluded from the American Rescue CTC because of the relationship test.

6 Callyer, Harris, Wimer, Left Behind ...; Davis, Schieder, Wamhoff, "Child Tax Credit" ...
7 For additional detail See Crandall-Hollick, Child Tax Credit ...
8 If the child is living with one of these relatives, but temporarily away from home for special circumstances, that time will count toward the half-year residence test. This includes temporary absence due to illness or hospitalization, school attendance, and detention in a juvenile facility. See Internal Revenue Service, Qualifying Child Rules.
9 Goldin and Michelmore, Who Benefits...

Moreover, the interaction of the tax code's filing unit rules and the earnings test in the EITC means households with the same earnings can end up being treated very differently. Suppose a household that consists of one adult with earnings of $25,000, one adult with no earnings, and one child. If the two adults are married, they receive the maximum EITC ($3,584 in 2020). But if the two adults are not married, the child will only receive the EITC if the adult who has earnings also had one of the specified legal or blood relationships with the child for at least six months during the year.

Some families can overcome issues like this by shifting who claims the child. Research using administrative data suggests that a substantial number of children receiving the EITC are claimed by different tax units over time, and some of this is due to decisions to ensure that children are eligible for the EITC (and maximize the amount they are eligible for) on an annual basis.[10] But a family's ability to do this kind of shifting is limited by the CTC and EITC's family relationship, residence, and identification number rules as well as by the cost of learning the EITC's rules well enough to know how to ensure children are able to be claimed.

Other child benefit programs in the United States, ones that operate outside the tax system, generally do not exclude children for failing to meet these kinds of family relationship and durational residency tests. For example, children's Social Security and Supplemental Security Income benefits are typically paid to "the parent or adult responsible for the child's care."[11] Similarly, inclusive and universal child benefit programs in other countries generally pay the benefit to a child's primary caregiver or legal custodian, regardless of whether they meet a particular blood relationship test.[12]

Citizenship and Immigration Status

10 Tong, "Tracking EITC" ...
11 See SSA's policy on "proper applicants" for child claimants: Social Security Administration, Program Operations...
12 For example, Canada pays the credit to "the parent who primarily fulfils the responsibility for the care and upbringing of the qualified dependant."
Canada Income Tax Act, Canada Child Benefit ...;
In cases, where two parents live apart and share custody and parenting time roughly equally, the benefit is split between the parents equally. In Sweden, if the child has only one person with legal custody, the full benefit goes to that person. If the child has two legal custodians (married or partnered parents) who live together, the benefit is split equally between them unless they opt to have only one parent receive it. If parents do not live together, but the child lives permanently with both of them (alternating residence), each parent is paid half of the benefit.
Sveriges Riksdag, Socialförsäkringsbalk, chap. 16.

The EITC and CTC have identification number requirements that effectively impose citizenship and immigration status requirements on filing units claiming them.[13] To be eligible for the EITC and CTC, a child must have a Social Security Number (SSN) that is "valid for employment."[14] In addition, the family member claiming the CTC for the child must have an SSN or Individual Taxpayer Identification Number (ITIN), and the family member claiming the EITC for the child must have an SSN that is valid for employment.[15] If the family member is married filing jointly, their spouse must have an SSN or ITIN for the filing unit to claim the CTC and a work-authorized SSN for the filing unit to claim the EITC. If a tax filer has an SSN that is valid for employment, but none of their children have an SSN, they are eligible for the (smaller) EITC for people without qualifying children.

This effectively limits EITC eligibility to children who (1) are US citizens (born in the United States, or subsequently naturalized), lawful permanent residents ("green card" holders), or that have some other immigration status that allows them to work in the United States; and (2) live with parents (or other qualifying relatives) who meet these same requirements.

This makes the EITC perhaps the only major child benefit in the United States that some US citizen children are ineligible for based on co-residence with a parent who is not a US citizen or not otherwise authorized to work in the United States.

The CTC is more inclusive, but still requires the child to be a US citizen or have an immigration status that allows them to work in the United States. Thus, both "undocumented" noncitizen children and certain lawfully present immigrant children who are

---

13 The tax code also distinguishes between "resident aliens" and "nonresident aliens." Lawful permanent residents are treated as resident aliens. Other noncitizens must pass a "substantial presence" test (be in the United States for at least 31 days during the current year and at least 183 days during the current and previous two years, counting all the qualifying days in the current year, one-third of the days in the immediate prior year, and one-sixth of the days in the earliest year). Nonresident aliens are ineligible for certain tax benefits, including the EITC and American Opportunity Tax Credit. For more information, see Lunder, "Legal Authority" ...

14 This means an SSN issued to a US citizen or an immigrant lawfully admitted to the United States for permanent residence or under other authority of law permitting them to work in the United States.

15 To be eligible for an ITIN, an individual must be ineligible for an SSN and required to provide an ITIN for US tax purposes. To obtain an ITIN from the IRS, eligible applicants must provide documentation to establish their identity and connection to a foreign country. The documentation must be an original or certified copy, must have a photograph (except for students under age 18), and meet various other requirements.
Internal Revenue Service, Form W-7;
On administrative burdens in the ITIN application process, see: Holland, "Individual Taxpayer" ...; Gleckman, "Why Do We" ...

not work-authorized are excluded from the CTC. Most other benefit programs also exclude these groups, but there are several notable exceptions that include one or both.[16]

Age

Before American Rescue, children were age-eligible for the CTC as long as they were under age 17 at the end of the year. Under American Rescue, children are temporarily age-eligible for the CTC in 2021 as long as they are under age 18 at the end of 2021.

The existing EITC is even more age-inclusive than the American Rescue CTC. Children are age-eligible for the EITC as long as they are under age 19 at the end of the year. Otherwise, qualifying adult children who are over age 19 but under age 24 at the end of year are age-eligible as long as they are also full-time students for at least five months during the year. In addition, adult children of any age can be claimed as a qualifying child for the EITC if they are "totally and permanently disabled" and meet the other requirements.

Adequacy on an Annual Basis

American Rescue made the CTC more adequate on an *annual* basis by increasing the value of the credit from $2,000 per child to $3,600 per child under age 6, and $3,000 per child for ages from 6 through 17, and making it fully refundable without an earnings test. At the same time, the annual adequacy and value of the credits are reduced by the financial costs families must incur to obtain them.[17] Most low-income families appear to rely on private, for-profit tax filing services to access the EITC and CT.[18] As Pamela Herd and Don Moynihan explain in their book on administrative burdens.[19]

16 For example, Medicaid and SCHIP give states the option to extend coverage to otherwise eligible "lawfully residing" children under age 21, notwithstanding the general restriction in federal law on providing benefits to "not qualified" immigrants. National Immigration Law Center, TABLE 1; Morton and Singer, Social Security Benefits ...

17 Herd and Monynihan, Administrative Burden, p. 15, identify three types of costs: compliance costs (such as hiring a tax preparer), psychological costs (including stigma and "the stresses and frustrations of dealing with administrative processes") and learning costs ("engaging in search processes to collect information about public services"). See Ibid., Table 8.1 and accompanying text for their assessment of each of these burdens in the EITC.Moynihan, Donald P.. Administrative Burden: Policymaking by Other Means. United States: Russell Sage Foundation, 2019.]

18 Weinstein and Patten, Price of Paying ...

19 Herd and Monynihan, Administrative Burden, p. 192.

"Tax preparers shift EITC burdens away from recipients and onto themselves in exchange for a fee. At the same time, the tax preparation industry has lobbied to maintain enough documentation requirements to ensure that the EITC remains burdensome enough that low-income workers seek professional tax preparation help."

A 2016 study concluded that workers claiming the EITC paid $400 on average (Weinstein and Patten 2016) to have their taxes filed by national tax preparation firms in Baltimore and Washington, DC. As long as the credits remain within the tax system and absent considerable simplification and reform, families claiming them will likely continue to rely on private tax preparation services.[20]

Adequacy on a Monthly Basis

The adequacy of a child benefit must also be assessed on a *monthly* basis. Households must pay for most necessary goods and services on a monthly or more frequent basis. This is one reason why employers typically pay workers on a bi-weekly, weekly, or monthly basis, and public agencies almost always pay social security benefits on a monthly basis. If anything, monthly income adequacy has become more important over time. Monthly financial constraints drive many working-class people to rely on high-cost short-term loans — including payday and installment loans, tax refund anticipation loans, and other forms of predatory lending — and high-interest credit cards to make ends meet.[21] Moreover, income volatility appears to have increased among working-class and middle-class families with children, and a growing body of research documents how negative income and earnings shocks reduce family well-being (Hill and others 2017).[22]

Before American Rescue, a tax unit's 2021 CTC and EITC would have been based on their total income and earnings, filing status, and number of qualifying children in 2021, and paid as a lump sum after the tax unit filed their 2021 taxes in 2022. Under American Rescue, the unit's

20 Herd and Monynihan, Administrative Burden, chap. 8. for a discussion of the politics of the EITC and simplification. The IRS does have an Online Free-File Program that involves a partnership with the tax software industry and "makes free online tax preparation and electronic filing available to 70 percent of the taxpaying population." However, the usage rate is very low. For a recent IRS-funded assessment, see Internal Revenue Service, Independent Assessment ...

21 On the extent of consumer debt among low-income households, see Holt and McKay, Consumer Debt ...

22 See Hill, et al., Household Economic Instability, pp. 371-389. In a recent paper, Julie Yixia Cai and I found that about half of all children live in households that experience one or more "negative earnings shocks"--a decline of 20 percent or more in total household earnings from one month to the next--during the year. Cai and Fremstad, Most Children Live ...

2021 CTC and EITC are still ultimately determined when they file their 2021 taxes in 2022 and based on their 2021 income, filing status, number of children, and other factors. However, the law directs the Internal Revenue Service (IRS) to pay *half* of their *estimated* 2021 CTC as an advance on the CTC they would otherwise not receive until 2022. This estimated advance payment is based on the unit's income tax information for 2020, or, if unavailable, 2019, and is supposed to be paid by the IRS on a "periodic" basis between July 1, 2021 and December 31, 2021. The other half of the CTC will not be paid until after 2021 taxes are filed in 2022.

In short, when it comes to monthly adequacy, the American Rescue CTC is a major improvement over the prior CTC. But it has limitations, mostly due to its being an "advanced" partial payment based on an estimate of future earnings and family configuration.

A related concern is that some families will need to repay part or all of the advance periodic payments they received in 2021 when they file taxes in 2022. This could happen if the tax unit ends up having fewer qualifying children in 2021 than it did in 2020, or if the unit's income or filing status changes in certain ways. As a result, the estimated credit they received in advance may end up being more than the actual credit they end up being eligible for after filing taxes in 2022.

If too much is advanced based on a reduction in the number of qualifying children, part or all of the amount incorrectly advanced may be protected from repayment depending on the unit's income and the difference in the estimated and actual number of children in the unit. While providing some protection, this "safe harbor" provision adds considerable complexity to the credit, as illustrated by this page from an instruction pamphlet produced by the Congressional Research Service.[23]

23 Crandall-Hollick, Child Tax Credit ...

Congressional Research Service Table Summarizing Steps for Determining Amount a Single Parent Will Have to Repay if Advance Estimated CTC Exceeds Actual CTC Due to a Change in Number of Qualifying Children

Steps to Reconcile Advanced and Actual Credit	Example 1 Single parent with 2 qualifying young children in 2020 and 1 young child/0 older children in 2021	Example 2 Single parent with 2 qualifying young children in 2020 and 0 qualifying children in 2021
	Maximum projected 2021 credit: $7,200 **Maximum amount of credit advanced in 2021:** $3,600	
Step 1. Determine maximum safe harbor amount. Determine net difference in (a) number of qualifying children used to determine *advanced credit* and (b) number eligible for *actual credit* in 2021. Multiply this amount by $2,000.	The net difference between the (a) number of qualifying children from a 2020 tax return (2 children) used to determine the advanced credit and (b) the number of children claimed on a 2021 tax return (1 child) is **1 child**. $1\ child\ x\ \$2{,}000 = \$2{,}000$	The net difference between the (a) number of qualifying children from a 2020 tax return (2 children) used to determine the advanced credit and (b) the number of children claimed on a 2021 tax return (0 children) is **2 children**. $2\ children\ x\ \$2{,}000 = \$4{,}000$
Step 2: Phaseout maximum safe harbor, if applicable. Depending on **income** and **filing status in 2021**, the maximum safe harbor may be subject to reduction. Safe harbor reduced ratably (i.e., proportionally) between: **$40,000-$80,000** single filers **$50,000- $100,000** head of household filers **$60,000-$120,000** married joint filers	**No phaseout**: If a single parent in 2021 (i.e. head of household filer in 2021) has income under $50,000, their safe harbor is not reduced (i.e., it equals the **maximum safe harbor amount**). **Phaseout:** If a single parent in 2021 has income between $50,000 and $100,000, the maximum safe harbor phases out ratably in relation to income in the phaseout range. For example, if income were **$60,000** in 2021, the maximum safe harbor would be reduced by: $[\frac{\$60{,}000-\$50{,}000}{\$100{,}000-\$50{,}000}]$**=20%** A **$2,000** safe harbor **reduced by 20%** would equal **$1,600.** **No safe harbor:** If a single parent in 2021 has **more than $100,000** in income, their safe harbor amount is **$0**.	**No phaseout**: If a single person in 2021 (i.e. single filer in 2021) has income under $40,000, their safe harbor is not reduced (i.e., it equals the **maximum safe harbor amount**). **Phaseout:** If a single person in 2021 has income between $40,000 and $80,000, the maximum safe harbor phases out ratably in relation to income in the phaseout range. For example, if income were **$60,000** in 2021, the maximum safe harbor would be reduced by: $[\frac{\$60{,}000-\$40{,}000}{\$80{,}000-\$40{,}000}]$**=50%** A **$2,000** safe harbor **reduced by 50%** would equal **$1,000.** **No safe harbor:** If a single person in 2021 has **more than $80,000** in income, their safe harbor amount is **$0**.
Step 3: Calculate the amount that needs to be recaptured (or paid back) on 2021 tax return: Subtract the safe harbor amount (determined after step 2) from the total amount advanced in 2021. If the **safe harbor amount** is greater than or equal to **advanced amount**, none of the advanced amount needs to be paid back.	If income in 2021 for a single parent is: **Under $50,000**: Payback amount is **$1,600.** This amount equals the **$3,600** in total advanced credit they received in 2021 minus the **$2,000** safe harbor. **$50,000+:** Payback amount gradually increases from **$1,600** to the total advanced amount when income is $100,000 or more. *If income was $60,000, the* ***safe harbor*** *would be* ***$1,600****, the single parent would need to pay back* ***$3,600*** *-* ***$1,600*** *or* ***$2,000****. (Since this single parent would generally be eligible to receive $3,600 in the young child credit on their 2021 tax return, this recapture would effectively reduce their 2021 child credit by $2,000.)*	If income in 2021 for a single person is: **Under $44,000:** Payback amount is **$0** since the advanced amount of **$3,600** is less than **$4,000** when income is under $40,000. Between $40,000 and $44,000 the safe harbor gradually declines but is still greater than or equal to $3,600. **$44,000+:** Payback amount equals **$3,600** ***minus* safe harbor** until income iss $80,000 or more at which point the total advanced amount needs to be repaid. *If income was $60,000, the* ***safe harbor*** *would be* ***$1,000****, the single person would need to pay back* ***$3,600*** *-* ***$1,000*** *or* ***$2,600****.*

Sources: CRS analysis of P.L. 117-2.
Notes: Assumes advanced payment that would be received in 2021 would be based on 2020 income and family structure (number of qualifying children and marital status). Broadly, income is assumed to be the same between 2020 and 2021 to isolate the impact of a changing number of qualifying children.

Moreover, the safe harbor has the potential to reduce public trust in the credit because it may appear to allow some lower-income parents (and other qualifying adults) who live apart to each receive separate partial credits for the same child. Suppose a child's parents live apart. Parent 1 received the CTC for tax year 2020 and is thus eligible for, and receives, an estimated advance payment of the 2021 CTC between July and December 2021. But if the child ended up living for more than six months in 2021 with Parent 2, they would be eligible for the entire amount of the 2021 CTC once they file taxes in early 2022. Normally, Parent 1 would be required to repay the amount they received in advance, but if they are eligible for the safe harbor, there would be no repayment requirement. In the short term, this is a pragmatic response to dealing with unanticipated changes, but it will likely be portrayed as "fraud and abuse" by opponents of the expanded CTC.

Further limiting monthly adequacy, the advanced, periodic, partial payment requirement only applies to the CTC. All of the EITC will continue to be paid as a lump sum after taxes are filed. Because the EITC varies by each dollar of earned income, designing a workable advance monthly payment option is even more complex than it is with the CTC. The EITC previously had an advance payment option, but it was little used and had high levels of "noncompliance" among users.[24] It was repealed by Congress in 2010.

The Affordable Care Act's Advanced Premium Tax Credit (APTC) is currently the only monthly tax credit that is provided on an advanced, estimated basis. People who sign up for a qualified health insurance plan in a health insurance exchange may apply for the APTC to directly offset the cost of their plan. The advanced amount is based on anticipated household income and family size and paid directly to the health insurer. When the family subsequently files taxes, their Premium Tax Credit (PTC) is determined based on their income and family composition at the end of the tax year. If their PTC ends up being less than their APTC, they must repay the overpaid amount, subject to limits on repayment based on their income. For a married couple with income under 200 percent of the federal poverty guidelines, the amount they are required to repay is capped at $650.

Just over 9 million people benefitted from APTC payments made to their insurers in 2020.[25] At the same time, the Government Accounting Office (GAO) has documented a number of

---

24 On the problems, see Government Accountability Office, Advance Earned Income ...
25 Kaiser Family Foundation, "Estimated Total" ...

issues with "control activities related to preventing and detecting improper payments of advance PTC, such as verifying individuals' eligibility" and concluded that the Department of Health and Human Services (HHS) "is at increased risk of making improper payments of advance PTC to issuers on behalf of individuals."[26] HHS has only partially implemented various recommendations made by GAO.

In short, American Rescue is improvement when it comes to monthly adequacy, but only a partial improvement. Moreover, paying the CTC in advance on an estimated basis increases the complexity of the CTC and requires features that may undermine public trust and support for it overtime. Paying the EITC child benefit in advance would be even more complicated.[27] To pay the full combined child benefits of the CTC and EITC on a monthly basis, and without the complications created by the current structure, the child-related credits should be consolidated and simplified.

Simplicity and Visibility

American Rescue leaves the CTC and EITC submerged in the tax system. Families who aren't otherwise required to file taxes (typically because they have gross income below a threshold that varies by age and filing status) will need to file in order to receive the CTC.

The complexity of the EITC and CTC contribute to a substantial number of payments that are officially designated as "improper" as well as a substantial amount of payments that go unclaimed. According to the IRS, about one-quarter of the EITC payments claimed in recent years were improperly paid, and for every dollar of the EITC paid improperly, about 40 cents went unclaimed by "taxpayers who appear to be eligible for the credit."[28] As the Center on Budget and Policy Priorities has noted, "EITC errors occur primarily because of the complexity of the rules surrounding the credit," particularly the rules related to qualifying children, and "mostly reflect unintentional errors not fraud."[29]

26 Government Accountability Office, Improper Payments ...
27 For a comprehensive proposal to pay the EITC and other refundable credits on an advanced, periodic basis (without making the kinds of structural changes proposed in this paper), see Holt, Grant, Aderounmu, Matching Timing ...
28 Wielobob, et at., Improper Earned ...
29 Greenstein, Wancheck, Marr, Reducing Overpayments ...

Yet the methods the IRS uses to collect EITC and CTC payments thought to be improper impose unfair burdens on a substantial number of filers and likely result in substantial bureaucratic disentitlement. For example, the IRS conducts roughly 500,000 "EITC correspondence audits" per year. These audits are conducted by mail and do not involve direct contact or assistance. Roughly 80 percent of such audits result in EITC benefits being disallowed due to undelivered mail, nonresponse or passive agreement. Only 15 percent of audits result in an actual confirmation by the IRS of ineligibility. Recent research concludes "some audited taxpayers may leave benefits on the table by foregoing potentially legitimate EITC claims or not claiming tax refunds based on excess withholding" and that "qualifying children on audited tax returns are often claimed by other taxpayers after the audits."[30]

To be sure, the changes to the CTC will increase its salience and positive visibility for families with children, but a unified child benefit paid in full on a monthly basis would be more salient and seems more likely to create positive "policy feedback loops" that lead to further improvements.[31] It will also make it easier to reduce administrative burdens that the current EITC and CTC place on families and be easier for people who are not otherwise required to file taxes to claim.

30 Guyton, et al., Effects of EITC ...
31 On policy feedback loops, see Hertel-Fernandez, How Policymakers ...

Senator Romney's Family Security Act and People's Policy Project's American Child Benefit

Senator Mitt Romney' Family Security Act would replace the Child Tax Credit with an inclusive child benefit paid monthly by the Social Security Administration.[32] The Romney Child Benefit is $4,200 ($350 per month) for children under age 6, and $3,000 ($250 per month) for children ages 6 through 17. The benefit would be phased out for higher-income families, but this income test would be applied by the IRS when a family files their year-end taxes, rather than by the SSA on the front end.[33]

The EITC would be simplified by providing a maximum credit of $1,000 to single filers with no qualifying children, $2,000 to married filing units with no qualifying children, $2,000 to single filers with one or more qualifying children, and $3,000 to married filers with one or more qualifying children. The child benefit would be paid for by eliminating various other benefits including Head of Household filing status, the Child and Dependent Care Credit, and the Temporary Assistance for Needy Families (TANF) block grant program.

The main strength of the Romney plan is that it provides an inclusive and substantial child benefit that is paid in full to all low- and middle-income families on a monthly basis by the Social Security Administration in a simple, visible fashion without an employment test or an upfront means test. The fundamental weakness of the Romney plan is that it provides lower annual benefits than American Rescue to a substantial number of lower-income families with earnings, particularly working solo parents with no children under age 6, and higher benefits to a substantial number of higher-income families.[34]

The People's Policy Project has proposed an American Child Benefit that has the strengths of the Romney plan without most of its weaknesses.[35] Under this proposal, "...the Social Security Administration [would] provide the exact same $374 monthly payment to every parent for every child..." The plan would eliminate the CTC and most of the EITC for families with

32 For more on the Romney plan, and a "philosophically conservative" case for it, see Hammond and Orr, Conservative Case ...
33 By $50 for every $1,000 above $200,000 for unmarried, single filers and $400,000 for married, joint filers.
34 Sawicky, "New Horizons" ...
35 Bruenig, Now Is the Time ...

qualifying dependents but doesn't include the Romney plan's cuts to other programs. However, some employed parents who have one child and currently receive both the maximum EITC and the CTC would receive a lower child benefit under the People's Policy Project plan than they do under the American Rescue's CTC.

A Better Plan: The Unified Child Benefit

A better child benefit plan would build on the strengths of all three plans discussed above, while addressing their weaknesses, and remaining politically feasible in the near-term.[36]

A Single Unified Child Benefit

The child benefits provided by the CTC and EITC should be consolidated into a single "Unified Child Benefit." This benefit should be a flat per-child amount, paid monthly by the Social Security Administration without an income test, and without any subsequent reconciliation required. Adding an upfront income test would make the benefit more progressive in a pure distributional sense, but it would also make obtaining the benefit more burdensome for working-class and middle-class families. Concerns about progressivity would be better addressed by making the benefit taxable for families above a certain income level and otherwise increasing taxes on high-income people.

Children living with their parents should remain eligible for the credit until the month after they turn 19 or finish high school, whichever is later. Consideration should be given to extending the credit beyond a child's 19th birthday as is the case in some other countries. For example, Australia's child benefit includes 18-to-19-year-olds as long as they meet certain "study requirements." Italy's Parliament recently approved a new universal child allowance that includes children up to age 21 who meet these kinds of requirements.

Ensuring the Unified Child Benefit is Adequate, Including for Solo Parents and Parents Caring for Children with Disabilities

The amount of the child benefit should be roughly equal to one-third of the average amount that middle-income families spend per child. Tying the benefit to a share of middle-income expenditures on children would reinforce the message that the benefit is universal (and not

36 For a very basic plan that is very similar to the more detailed one laid out here, see Matthews, "What Democrats" ...

merely a "poverty" program) and make clear that it only covers a portion of the typical costs of raising a child.

According to US Department of Agriculture (USDA) estimates, a two-adult family with two children will spend $14,410 on their youngest child in 2020.[37] Setting the benefit equal to one-third of this amount would result in a monthly per-child benefit of about $400 per month. The benefit should be adjusted annually to keep pace with annual changes in average family incomes. In other words, the benefit shouldn't just keep pace with price changes, it should also keep pace with increases in mainstream living standards for children.

Alternatively, the benefit amount could be tied to an amount derived from poverty guidelines. In the People's Policy Project plan, the child benefit is equal to the difference between the HHS poverty line for one adult living alone ($12,880 in 2021) and the same poverty line for one adult and one child ($17,420). This produces an annual per-child benefit of $4,540 or $378 a month in 2021. Bruenig (2021) argued that this would guarantee that "no family is ever pushed into poverty merely because they had a child."[38]

Tying the guidelines to a modern estimate of the income needed for a minimally adequate standard of living might make sense, but the HHS guidelines are neither modern nor adequate. The HHS guidelines were established in federal statute during the Reagan administration. They are tied to a poverty line developed in the 1960s and made "official" by the Nixon administration's Bureau of Budget. They have not been meaningfully updated since then. There is broad agreement that the HHS guidelines fall short of the income needed to live at a minimally decent level and need to be replaced with a modern measure.[39]

To further ensure the child benefit is adequate for all families, at least two kinds of supplemental benefits should be considered: (1) a supplement for parents caring for a child with a disability, and (2) a supplement for solo parents, defined as parents who are neither married nor living with a domestic partner. Both kinds of supplements are common in other countries with a universal or otherwise inclusive child benefit program.

Finally, the child benefit should not be taxable (except for high-income families), should not be counted as income in Medicaid, Supplemental Nutrition Assistance Program (SNAP), and

37 Lino, et al., Expenditures on Children ...
38 Bruenig, Now Is the Time ...
39 Fremstad, Defining Down ...

other means tested benefit programs, and children should not lose eligibility for the credit because they live with a noncitizen parent or other relative who is not authorized to work in the United States.

Keeping It Simple and Visible

The Social Security Administration, rather than the IRS, should administer the Unified Child Benefit. A child benefit should be primarily thought of as a "social security" benefit rather than a tax benefit. While the term "social security" is now typically used in the United States to only refer to certain benefits for the elderly and disabled, the idea of social security is much broader. The idea of social security is the fundamental human right that all people have to social protection against common risks to income security across the lifecycle, including during childhood, and is essential to long-term social and economic development.

SSA is better positioned to deliver a broad-based monthly child benefit than the IRS. As Madrick and Kaverman (2021) argue, "while the IRS makes sense in the short-term to get the CTC payments out to families by July [2021], it's not the most natural fit for a long-term child allowance program, especially given families don't generally interface with the actual agency, nor does it have the most user-friendly reputation."[40] As Matt Bruenig and Paul Williams have noted, SSA has 1,500 local field offices and already administers other monthly benefits for children.[41] SSA is also likely to provide greater due process in cases where there are disputes about eligibility for a Unified Child Benefit, including disputes between potential "proper applicants" for the benefit and between SSA and the applicant[42]

For newborn children, the child's parents should start receiving the credit automatically after the birth is registered. For existing children, an initial application would be required. The credit should generally be paid to a parent who has legal and physical "custody" of the child. As long as a parent continues to have legal and physical custody of a child, they generally should not be required to reapply for the benefit on an annual or other periodic basis. SSA should be directed to develop rules and procedures to address situations where a child's

40 Madrick and Kaverman, "Where Should" ...
41 Bruenig and Williams, Who Should ...
42 For legal perspectives on due process problems with the EITC, see Book, "Bureaucratic Oppression," 567; Newman, Low-Income Tax, 719-46; Chilton, Schneller, Boehm, "Earned Income Tax," 176.

custody effectively changes and a different parent or guardian believes that they should be receiving the credit, and cases for splitting the credit where a child has two parents who live apart, but the child spends equal time residing with each of them.

Turning the EITC into a Simplified Worker Credit

The EITC should be restructured as an individual worker credit with a maximum credit of at least $1,500 and that doesn't start phasing out until individual earnings exceed roughly $20,000. The individual worker credit would be similar to the temporary expansion of the childless EITC in American Rescue. However, unlike the current childless EITC: (1) it would use the same credit structure for all individual workers regardless of filing status or presence of children; (2) it would be paid automatically to employees as an offset to withholding with an option to opt-out of automatic payment; and (3) it would be treated as taxable income for tax units with incomes about the median or some similar level. While this leaves the worker credit much more "submerged" than the Unified Child Benefit, the practical advantages to poorly compensated workers of receiving the worker credit in their regular paychecks likely outweigh the more general advantages of visibility. The worker credit would have the added benefit of reducing "second-earner" penalties in the tax code for married couples.

Conclusion

A well-designed child benefit should be (1) broadly universal, (2) adequate on both an annual and monthly basis, (3) simple, and (4) visible in a way that creates positive "policy feedback loops" over time. A child benefit designed in this way will build public trust and reduce class divisions, minimize the burdens that parents must endure to claim it, and be politically stable over time. When judged by these criteria, the temporary CTC created by American Rescue is a major improvement on the existing CTC, but more needs to be done to turn the child benefits currently provided by EITC and CTC into a simple, universal, and adequate child benefit that is visible in a way that builds public trust and reduces class divisions.

References

Book, Leslie. "Bureaucratic Oppression and the Tax System." *The Tax Lawyer* 69, no. 3 (2015).

Bruenig, Matt, and Paul Elliott Williams. Web log. *Who Should Administer a New Child Benefit Program?* (blog). People's Policy Project, February 15, 2021. https://www.peoplespolicyproject.org/2021/02/15/who-should-administer-a-new-child-benefit-program/.

Bruenig, Matt. Rep. *Now Is The Time For An American Child Benefit*. PEOPLE'S POLICY PROJECT. Accessed April 10, 2021. https://www.peoplespolicyproject.org/wp-content/uploads/2021/01/AmericanChildBenefit.pdf.

Cai, Julie Yixia, and Shawn Fremstad. Rep. *Most Children Live in Households That Experience One or More Substantial Declines in Earnings During the Year: The Child Tax Credit Should Be Restructured to Help Them*. Center for Economic and Policy Research, March 2, 2021. https://cepr.net/report/most-children-live-in-households-that-experience-one-or-more-substantial-declines-in-earnings-during-the-year-the-child-tax-credit-should-be-restructured-to-help-them/.

Canada Income Tax Act, SUBDIVISION A.1 Canada Child Benefit § (2021). https://laws-lois.justice.gc.ca/eng/acts/I-3.3/page-122.html#h-299563.

Chilton, Adam S, Jonathan P Schneller, and Joshua L Boehm. "The Earned Income Tax Credit, Low-Income Workers, and the Legal Aid Community." *Columbia Journal of Tax Law* 3, no. 176 (2012). https://chicagounbound.uchicago.edu/cgi/viewcontent.cgi?article=8189&context=journal_articles.

Collyer, Sophie, David Harris, and Christopher Wimer. Rep. *Left Behind: The One-Third of Children in Families Who Earn Too Little to Get the Full Child Tax Credit* 3. Vol. 3. New York, New York: Columbia Population Research Center, 2019.

Crandall-Hollick, Margot L. *The Child Tax Credit: Temporary Expansion for 2021 Under the American Rescue Plan Act of 2021 (ARPA; P.L. 117-2)*. Washington DC, DC: Congressional Research Service, 2021.

Davis, Aidan, Jessica Schieder, and Steve Wamhoff. Child Tax Credit Enhancements Under the American Rescue Plan. Institute on Taxation and Economic Policy, January 26, 2021. https://itep.org/child-tax-credit-enhancements-under-the-american-rescue-plan/.

Folbre, Nancy. *Valuing Children: Rethinking the Economics of the Family*. Harvard University Press, 2010.

Fremstad, Shawn. Rep. *The Defining Down of Economic Deprivation: Why We Need to Reset the Poverty Line*. The Century Foundation, September 30, 2020.

https://tcf.org/content/report/defining-economic-deprivation-need-reset-poverty-line/?session=1.

Gleckman, Howard. "Why Do We Make It So Hard For Immigrants To Pay Their Taxes?" Web log. *TaxVox: Individual Taxes* (blog). Urban Institute and Brookings Institution Tax Policy Center, October 17, 2017. https://www.taxpolicycenter.org/taxvox/why-do-we-make-it-so-hard-immigrants-pay-their-taxes.

Goldin, Jacob, and Katherine Michelmore. Working paper. *WHO BENEFITS FROM THE CHILD TAX CREDIT?* NATIONAL BUREAU OF ECONOMIC RESEARCH, October 2020. https://www.nber.org/system/files/working_papers/w27940/w27940.pdf.

Government Accountability Office, Advance Earned Income Tax Credit: Low Use and Small Dollars Paid Impede IRS's Efforts to Reduce High Noncompliance § (2007). https://www.gao.gov/products/gao-07-1110.

Government Accountability Office, IMPROPER PAYMENTS Improvements Needed in CMS and IRS Controls over Health Insurance Premium Tax Credit § (2017). https://www.gao.gov/assets/gao-17-467.pdf.

Greenstein, Robert, John Wancheck, and Chuck Marr. Rep. *Reducing Overpayments in the Earned Income Tax Credit*. Center on Budget and Policy Priorities, January 31, 2019. https://www.cbpp.org/research/federal-tax/reducing-overpayments-in-the-earned-income-tax-credit.

Guyton, John, Kara Leibel, Dayanand S Manoli, Ankur Patel, Mark Payne, and Brenda Schafer. Working paper. *THE EFFECTS OF EITC CORRESPONDENCE AUDITS ON LOW-INCOME EARNERS*. NATIONAL BUREAU OF ECONOMIC RESEARCH, December 2019. https://www.nber.org/system/files/working_papers/w24465/w24465.pdf.

Hammond, Samuel, and Robert Orr. Rep. *The Conservative Case for a Child Allowance*. Niskanen Center, February 4, 2021. https://www.niskanencenter.org/report-the-conservative-case-for-a-child-allowance/.

Herd, Pamala, and Donald P Moynihan. Essay. In *Administrative Burden: Policymaking by Other Means*, 15. Russell Sage Foundation, 2019.

Hertel-Fernandez, Alexander. Rep. *How Policymakers Can Craft Measures That Endure and Build Political Power*. Roosevelt Institute, June 2020. https://rooseveltinstitute.org/wp-content/uploads/2020/07/RI_How-Policymakers-Can-Craft-Measures-that-Endure-and-Build-Political-Power-Working-Paper-2020.pdf.

Hill, Heather D, Jennifer Romich, Marybeth J Mattingly, Shomon Shamsuddin, and Hilary Wething. "An Introduction to Household Economic Instability and Social Policy." *Social Service Review* 91, no. 3 (September 2017): 371–89. https://doi.org/https://doi.org/10.1086/694110.

Holland, Debra. "Taxpayer Advocate Service — 2016 Annual Report to Congress — Volume One." INDIVIDUAL TAXPAYER IDENTIFICATION NUMBERS (ITINs): IRS Processes for ITIN

Applications, Deactivations, and Renewals Unduly Burden and Harm Taxpayers. Internal Revenue Service, 2016. https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/08/ARC16_Volume1_MSP_18_ITINS.pdf.

Holt, Steve, and Katherine Lucas McKay. Rep. *CONSUMER DEBT: A PRIMER*. Aspen Institute, 2018. https://www.aspeninstitute.org/wp-content/uploads/2018/03/ASPEN_ConsumerDebt_06B.pdf.

Holt, Steve, Kali Grant, and Funke Aderonmu. Rep. *Matching Timing to Need: Refundable Tax Credit Disbursement Options*. Georgetown Center on Poverty and Inequality, November 2020. https://www.georgetownpoverty.org/wp-content/uploads/2020/11/MatchingTimingtoNeed-Nov2020.pdf.

Internal Revenue Service, Independent Assessment of the Free File Program § (2019). https://www.irs.gov/pub/newsroom/exec-summary-free-file-program-assessment-100319.pdf.

Internal Revenue Service, Instructions for Form W-7 (09/2020) § (2020). https://www.irs.gov/instructions/iw7.

Internal Revenue Service, Qualifying Child Rules § (2021). https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/qualifying-child-rules.

Kaiser Family Foundation. "Estimated Total Premium Tax Credits Received by Marketplace Enrollees." Kaiser Family Foundation, 2020. https://www.kff.org/health-reform/state-indicator/average-monthly-advance-premium-tax-credit-aptc/

Kuttner, Robert. "Will Biden Make the Child Tax Credit Permanent?" Web log. *The American Prospect* (blog). The American Prospect, April 5, 2021. https://prospect.org/blogs/tap/will-biden-make-the-child-tax-credit-permanent/.

Lino, Mark, Kevin Kuczynski, Nestor Rodriguez, and TusaRebecca Schap. Rep. *Expenditures on Children by Families, 2015*. US Department of Agriculture, March 2015. https://fns-prod.azureedge.net/sites/default/files/crc2015_March2017.pdf.

Lunder, Erika K, Legal Authority for Aliens to Claim Refundable Tax Credits: In Brief § (2015). https://fas.org/sgp/crs/misc/R44290.pdf.

Madrick, Jeff, and Ellie Kaverman. Where Should the Administrative Home for the Child Tax Credit Be? The Century Foundation, March 16, 2021. https://tcf.org/content/commentary/administrative-home-child-tax-credit/.

Matthews, Dylan. What Democrats can learn from Mitt Romney The government shouldn't just be generous. It should be simple too. Vox, February 23, 2021. https://www.vox.com/future-perfect/22280404/mitt-romney-child-allowance-tax-credit-biden.

Morton, Morton R, and Audrey Singer. Rep. *Social Security Benefits for Noncitizens*. Congressional Research Service, November 17, 2016. https://crsreports.congress.gov/product/pdf/RL/RL32004/20.

National Immigration Law Center. TABLE 1 Overview of Immigrant Eligibility for Federal Programs, October 2011. https://www.nilc.org/issues/economic-support/table_ovrw_fedprogs/.

Newman, Megan. *The Low-Income Tax Gap: The Hybrid Nature of the Earned Income Tax Credit Leads to Its Exclusion from Due Process Protection* 64, no. 3 (November 3, 2011): 719–46. https://www.americanbar.org/groups/taxation/publications/tax_lawyer_home/11spr/ttl-spr11-newman/.

Rothstein, Bo. *Just Institutions Matter The Moral and Political Logic of the Universal Welfare State*. Cambridge: Cambridge University Press, 1998. https://doi.org/10.1017/CBO9780511598449

Sawicky, Max B. "New Horizons for a Children's Allowance." Web log. *MaxSpeak, You Listen!* (blog). Max B. Sawicky, March 21, 2021. https://maxspeak.net/new-horizons-for-a-childrens-allowance/.

Sherlock, Molly F, Jane G Gravelle, and Margot L Crandall-Hollick. Rep. *The American Rescue Plan Act of 2021 (ARPA; H.R. 1319) Title IX Subtitle G—Tax Provisions Related to Promoting Economic Security*. Congressional Research Service, March 1, 2021. https://www.everycrsreport.com/files/2021-03-01_R46680_d7c1640ca264c50e0993e8c614e2ba4e2f653ff3.pdf.

Social Security Administration, Program Operations Manual System (POMS) § (2021). https://secure.ssa.gov/apps10/poms.nsf/lnx/0200204003.

Sveriges Riksdag, Socialförsäkringsbalk (2010:110) § (2010). https://www.riksdagen.se/sv/dokument-lagar/dokument/svensk-forfattningssamling/socialforsakringsbalk-2010110_sfs-2010-110#K15.

Tong, Patricia K. "Tracking EITC Qualifying Children Over Time." Essay. In *Proceedings. Annual Conference on Taxation and Minutes of the Annual Meeting of the National Tax Association* 107, 107:1–15. National Tax Association, 2014.

Weinstein, Paul, and Bethany Patten. *The Price of Paying Taxes II: How Paid Tax Preparer Fees Are Diminishing the Earned Income Tax Credit (EITC)*. Progressive Policy Institute, April 2016. https://www.progressivepolicy.org/wp-content/uploads/2016/04/2016.04-Weinstein_Patten_The-Price-of-Paying-Takes-II.pdf.

Wielobob, Kirsten, Ken Corbin, Mary Beth Murphy, and Jeffrey J Tribiano. Rep. *IMPROPER EARNED INCOME TAX CREDIT PAYMENTS: Measures the IRS Takes to Reduce Improper Earned Income Tax Credit Payments Are Not Sufficiently Proactive and May Unnecessarily Burden Taxpayers*. Internal Revenue Service, 2018. https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/07/ARC18_Volume1_MSP_06_ImproperEarnedIncome.pdf.