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INSIGHT

How much did the temporary ARPA changes to the child credit reduce child poverty in 2021?

December 12, 2022

In September 2022, the Census Bureau released its annual *Poverty in the United States* report for 2021. This report included analysis of the antipoverty impacts of various policies, including the child tax credit as temporarily expanded by the American Rescue Plan Act of 2021 (ARPA; P.L. 117-2). (For simplicity, the 2021 child credit as expanded by ARPA will be referred to as the "ARPA child credit.") The Census Bureau estimated that the ARPA child credit lifted 2.9 million children out of poverty in 2021, reducing the child poverty rate from 9.2% to 5.2%.

The *Poverty in the United States* report analyzes the effects of policies like the ARPA child credit by comparing poverty in 2021 to what poverty would have been if a given policy had not been in effect at all. Broadly, under this *leave one out* methodology, the Census Bureau first counts the number of people in poverty (including children) assuming all current-law policies are in effect. Then, Census subtracts one benefit (e.g., the ARPA child credit) from income and re-calculates the number of people in poverty. The difference in these counts isolates the impact of a given policy on poverty.

In November, Census Bureau researchers Kalee Burns and Liana Fox expanded upon the *Poverty in the United States* estimates in a working paper titled *The Impact of the 2021 Expanded Child Tax Credit on Child Poverty*. Of particular note, the Burns and Fox working paper provides an alternate methodology that makes it possible to isolate the antipoverty effect of the ARPA *changes* to the child credit, rather than the effect of the ARPA child credit as a whole. They estimated that the ARPA *changes* to the child credit lifted 2.1 million children above poverty.

Burns' and Fox's estimates reflect the fact that, absent ARPA, there would still have been a child credit in place in 2021—though it would have been smaller and less generous for many low-income families. (The credit that would have otherwise been in effect in 2021 itself reflects temporary changes to the child credit in effect through 2025 made by the law commonly referred to as the Tax Cuts and Jobs Act [TCJA; P.L. 115-97]. This credit is referred to below as the "TCJA child credit.") Unlike the leave one out approach used in the *Poverty in the United States* report, Burns and Fox isolated the antipoverty impact of the ARPA *changes* to the credit by comparing the number of people in poverty assuming the ARPA child credit was in effect to the number of people in poverty assuming the TCJA child credit was in effect.

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IN12060

ARPA Changes to the Child Credit for 2021

ARPA made three main changes to the child tax credit for 2021, which are summarized in **Table 1**. The Joint Committee on Taxation estimated that these changes would cost $105.1 billion over a 10-year period (this figure excludes the cost of changes ARPA made to the child tax credit for residents of U.S. territories).

Table 1. Comparison of Selected Parameters of the ARPA and TCJA Child Credits

Parameter	TCJA Credit	ARPA Credit
Maximum child credit amount	$2,000 per child	$3,600 per young child (0-5 years old) $3,000 per older child (6-17 years old)
Maximum amount of child credit that is refundable (i.e., amount available to low-income households)	15% of earned income above $2,500, not to exceed $1,400 per child.	Fully refundable, meaning eligible low-income households can receive the maximum credit amount irrespective of their income.
Maximum age for a child	16	17

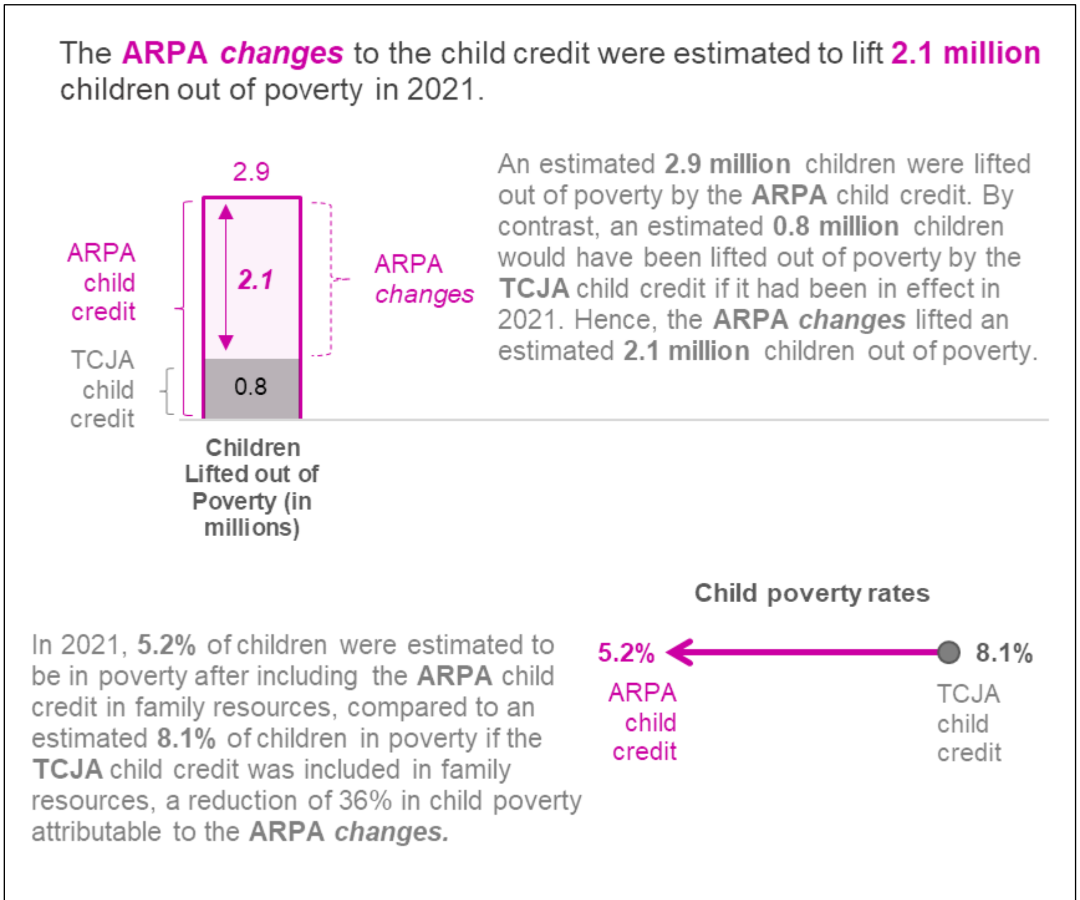
Source: Internal Revenue Code, 26 U.S.C. §24.

Notes: For more details, see Table 1 in CRS Report 46900. The $1,400 per-child amount is adjusted annually for inflation. In 2022, this amount was $1,500; in 2023, it is $1,600.

ARPA also temporarily changed the way the credit was delivered, advancing half of the total 2021 credit in six monthly payments between July and December 2021, with the remainder claimed on 2021 tax returns filed in 2022. (Other aspects of the credit were generally unchanged by ARPA and are hence assumed to be in effect for both the ARPA and TCJA credits.)

Estimated Impact of ARPA Changes to Child Credit on Child Poverty

Burns and Fox estimate that the ARPA changes to the child credit lifted more than 2 million children out of poverty, reducing the share of children in poverty by more than one-third, as illustrated below.



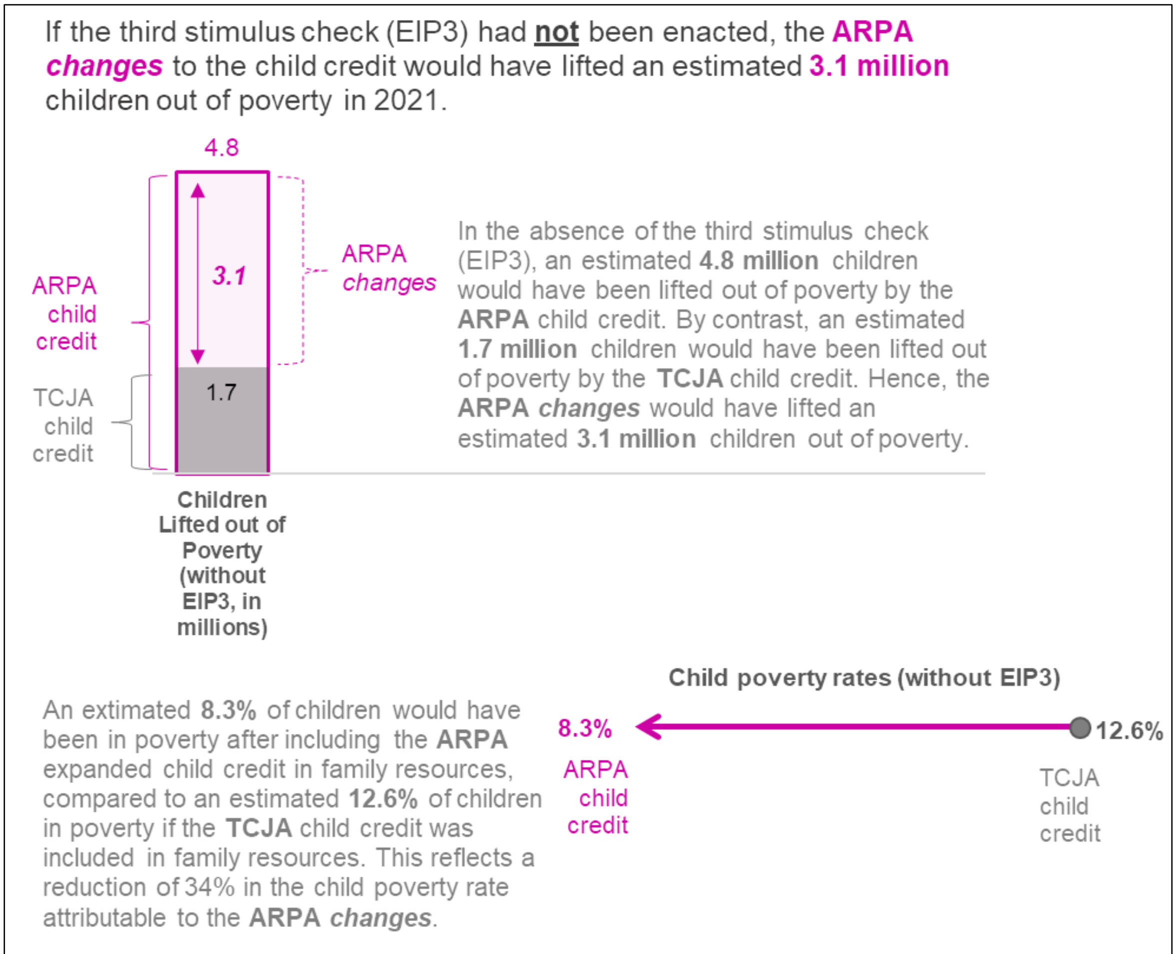
Source: Tables 3 and 5 of Kalee Burns and Liana E. Fox, *The Impact of the 2021 Expanded Child Tax Credit on Child Poverty,* SEHSD Working Paper #2022-24

Other Factors Affecting Poverty in 2021

In addition to the child credit, many policies in place during 2021 may have increased family incomes, and therefore affected the prevalence of poverty. For example, the third stimulus check (also referred to as the third economic impact payment, or EIP3), increases in Supplemental Nutrition Assistance Program (SNAP) benefits, temporarily expanded and extended Unemployment Insurance benefits, and other pandemic-related programs may have increased families' incomes, which, all else being equal, would reduce the number and share of people in poverty.

Policymakers may be interested in understanding the potential effects of the ARPA child credit separate from some of these other policies, including temporary pandemic-era policies. Burns and Fox also analyzed the effects of the ARPA changes to the child credit when excluding EIP3 from incomes—effectively estimating what poverty would have been in 2021 if EIP3 had not been enacted.

Burns and Fox estimated that if EIP3 had not been enacted, but all other 2021 policies (including the ARPA child credit) were in place, family incomes would have been lower, more (and a larger share of) children would have been in poverty, and more children would have been lifted out of poverty by the ARPA child credit, as illustrated below. However, without EIP3 more children would have been in poverty before including the ARPA child credit in family resources. Accordingly, the overall child poverty rate would have also been higher after including the ARPA child credit in family resources (8.3% vs. 5.2%).



Source: Tables 6 and 7 of Kalee Burns and Liana E. Fox, *The Impact of the 2021 Expanded Child Tax Credit on Child Poverty,* SEHSD Working Paper #2022-24

Sources and Methods

The estimates presented in this Insight are based on data from Tables 3, 5, 6, and 7 of Census Bureau SEHSD Working Paper #2022-24. The analysis in that working paper relies on data from the Census Bureau's Annual Social and Economic Supplement to the Current Population Survey. This is the same dataset used by the Census Bureau in its 2021 *Poverty in the United States* report. All references to poverty reflect the Supplemental Poverty Measure, because refundable tax credits such as the child credit and stimulus checks are not included in the Official Poverty Measure.

Burns and Fox briefly discuss their methodology in section I of the working paper. Additionally, the Census Bureau discussed the methodology it uses to model families' receipt of the child credit in another recent working paper.

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