# How Fines and Fees Impact Families: Can Policies Like the Child Tax Credit Help?

*By Aravind Boddupalli and Elaine Maag*

Low-income families are overly burdened by financial penalties imposed for violations of the law, including parking and speeding tickets, court-imposed fees used to cover administrative costs of courts and prisons, and other criminal legal charges and penalties. Lacking financial resources, these families often turn to high-cost and predatory services and forgo basic necessities to avoid further legal consequences. When the federal Child Tax Credit (CTC) was temporarily expanded in 2021 to provide benefits to children in households with low or no incomes, it provided parents with new resources to invest in their children. Monthly deposits of CTC benefits also helped families better navigate their debt, including debt from fines and fees. Though, in some cases, CTC deposits were taken through garnishments by non-federal creditors reducing debt with involuntary payments. While the expanded CTC provided these families with some relief from onerous fines and fees, a temporary tax policy should not be used to solve the inequitable system of fines and fees in criminal law.

ALTANAKA VIA ADOBE STOCK

## THE RANGE OF FINES AND FEES ASSESSED HAS GROWN AND CAN CREATE BAD FISCAL INCENTIVES

As states face increased pressure to fund criminal legal systems without raising taxes, they have turned to increasing existing fines and fees and adding new ones. These can cover electronic monitoring devices, fees for public defenders, and room and board for jail and prison stays.

Using fines and fees to fund the criminal legal system can create perverse economic incentives. Because there is some discretion afforded to police officers and judges in enforcing fines and fees, they may impose them with the goal of generating revenues instead of prioritizing public safety, undermining trust in the government. This happened in Ferguson, Missouri, where the U.S. Department of Justice found in 2015 that city officials increased fine and fee amounts and asked police officers to ramp up ticket writing for municipal code violations in order to make up for sales tax shortfalls (USDOJ, 2015). More recently, an Alabama media investigation uncovered evidence of disturbing policing experiences and fines and fees assessment practices in the small town of Brookside, Alabama (Archibald, 2022).

## HOW FINES AND FEES CAN IMPACT FAMILIES

Fines and fees are not typically assessed on an ability-to-pay basis, and few jurisdictions cap how much revenue can be collected from them. This can create significant gaps between the amounts assessed and the amounts collected. Estimates of outstanding criminal legal debt suggest that up to 10 million people may owe between \$27 billion and \$50 billion (FFJC, 2021; CFPB, 2022). Some studies suggest nearly four in five people who have come into contact with the criminal legal system across the country owe a criminal legal debt, with 15 percent owing more than \$5,000 (FHN, 2021).

The consequences of being unable to pay outstanding fines and fees, and therefore accruing criminal legal debt, can be dire. Based on rules that vary by state, this can include surcharge fees, high-interest rates, bench warrants, driver's license suspensions, disenfranchisement of voting rights, loss of jobs, lowering of credit scores, and even incarceration. Families, aware of these consequences, tend to take out payday loans or forgo rent, food, medical bills, college expenses, or child support to make criminal legal debt payments and sometimes prioritize those debt payments over their basic necessities.

Various prior studies have shown that criminal legal debt disproportionately impacts low-income communities of color, burdening them with tens of thousands of dollars in court and prison costs. Those primarily responsible for paying court-related fines and fees for their family members are often mothers caring for children under 18 at home, especially Black mothers (deVuono-Powell et al., 2015; CFPB, 2022). For example, a respondent noted that "the impact of my crime was expensive for the simple fact that my wife had to put up everything that she had to retain an attorney. From the process of doing so, she went into poverty and lost custody of the children and then had to join the navy to support herself." (deVuono-Powell et al., 2015.)

### RECENT CASH PAYMENTS WERE USED BY FAMILIES TO REDUCE DEBT AND INVEST IN CHILDREN

In 2021, the American Rescue Plan Act temporarily increased the maximum CTC from up to $2,000 per child under age 17 to up to $3,600 per child under age 6 and up to $3,000 per child ages 6 to 17. The credit was made fully refundable—even families with very low or no incomes could receive the maximum benefit. The prior version of the credit left out 20 million children in families that did not receive the maximum benefit simply because their parents did not earn enough (TPC, 2022). From July through December 2021, almost all families with children received automatic monthly payments that totaled up to half of the value of the credit. As a result, the CTC dramatically reduced poverty across the United States.

To date, robust information is not available on whether the credit payments were used by families to reduce criminal legal debt or to pay for newly incurred fines and fees. Early surveys showed that about 40 percent of respondents reported using the credit mostly to pay off some of their debts, including credit card payments, student loans, and other debts. Black and Latinx families were more likely to use the CTC to pay off debts than white families, including families of color with incomes above $75,000 (Karpman et al., 2021). The payments also helped people avoid relying on high-cost financial services (Hamilton et. al., 2022). In this manner, the CTC may have provided some respite to affected families.

Broadly, there is evidence suggesting that parents who received the CTC frequently used the payments on food, clothing, utilities, and schoolbooks and supplies (Karpman et al., 2021; Hamilton et al., 2022). To the extent that families may have been prioritizing fines and fees payments, the CTC may have offered families some additional relief to also meet the basic needs of their children.

### GARNISHMENT FOR DEBT PURPOSES CAN BLUNT THE BENEFITS OF INCOME SECURITY TAX CREDITS

In some social safety net programs, be it at the federal or state and local level, there are rules in place for intercepting benefits with the intent of offsetting outstanding criminal legal debt, thereby making cash payments a temporary and incomplete transfer from governments to individuals (Zatz, 2021). For example, in California, nearly 1 million tax filers who are eligible for the state-level CTC or Earned Income Tax Credit (EITC) saw a portion of their tax benefits intercepted by the state to offset outstanding legal citations, state tuition, or child support in 2021 (Mays, 2022). Even if the reduction of outstanding debts contributes to some long-term financial stability, these offsets can limit families' abilities to meet current needs for their children.

The advanced portion of the expanded CTC payments in 2021 were made exempt from garnishment for overdue taxes from prior years or from other federal creditors (IRS, 2022). But this left some gaps: those payments could still be garnished by state and local agencies or private debt collectors, as well as by federal creditors for the second half of the credit amount in the form of reduced tax refunds in 2022 (IRS, 2022). Garnishment rules and protections can vary greatly by program, state, time period (some relief was introduced during the COVID-19 pandemic), and other circumstances (whether debts are to be collected by private actors or whether checks are deposited in bank accounts) (Carter and Kuehnoff, 2022). Altogether, the patchwork of complexities can be daunting for families to navigate. About half of defaulting borrowers have dependent children, and these families can risk losing out on multiple economic lifelines due to governmental debt offsets (NCLC, 2022).

### WHAT'S NEXT?

Flexible cash payments that deliver thousands of dollars to families in need, like 2021's CTC, can fill critical gaps for those facing financial hardships from fines and fees. On the one hand, they can provide resources to families that can be used to support children. On the other hand, they may be used to reduce outstanding fines and fees, putting them on a path toward greater financial stability. As of 2022, the expanded version of the CTC has expired. But states and localities do not have to wait for federal action to pursue similar tax provisions, as the infrastructure needed to deliver cash payments to their families exists already with many state-level EITCs and CTCs (TCWF, 2022). In general, these existing credits leave out families with the lowest incomes and are subject to garnishment under wider circumstances, though such policies can be reformed.

A more permanent solution to the inequities of fines and fees would be for policymakers to pass criminal legal debt reforms. In California, for example, Assembly Bill 1869 and Assembly Bill 177 permanently repealed 40 administrative fees; per some estimates, these bills also discharged over $16 billion in fee debt (EBCLC, 2022; SF Treasurer, 2022). Further, in Louisiana, New Jersey, New Mexico, Oregon, and a few other states, many juvenile fines and fees have been eliminated (JLC, 2022). Local governments are pursuing reforms too: in Birmingham, Alabama, and Durham, North Carolina, for example, millions of dollars in court debt from outstanding traffic and parking fines and fees have been forgiven (Birmingham, 2022; FFJC, 2022).

Delivering the expanded CTC to most parents allowed many more families to meet their children's basic needs. Some families were also able to use the CTC to pay off outstanding debt, which likely puts them in a better financial position moving forward. However, systemic problems with fines and fees, which often snowball into financial and criminal hardships (disproportionately for Black and Latinx families), cannot be solved by a temporary change in CTC policy. Governments ought to look for more permanent and targeted solutions that do not undermine a family's ability to meet their children's needs.

---

**Aravind Boddupalli** is a research associate at the Urban-Brookings Tax Policy Center, working on racial equity issues with tax and budget policies since 2017. Boddupalli graduated summa cum laude from the University of Minnesota, Twin Cities, with a BA in economics and political science.

**Elaine Maag** is a senior fellow at the Urban-Brookings Tax Policy Center, where she studies the taxation of low-income families. She is also a member of the National Academy of Social Insurance.