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How a Permanent Expansion of the Child Tax Credit Could Affect Poverty

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July 2021 (updated August 2021)

Expanding the child tax credit (CTC) is a demonstrably effective way to reduce child poverty. The American Rescue Plan Act of 2021 (ARP) temporarily increased the value of the credit from $2,000 to $3,000 for children ages 6 to 16 and to $3,600 for younger children, expanded the number of children eligible for the credit by including 17-year-olds, and made it fully refundable so that all families with low incomes and qualifying children can claim its full value, thereby increasing resources to families with the lowest incomes.[1] The Biden administration has proposed extending those changes through 2025.[2] In this brief, we consider how an expanded CTC would affect child poverty in a typical year, one not marked by massive unemployment and greatly enhanced federal support because of the COVID-19 pandemic.

Measuring poverty using the Supplemental Poverty Measure (SPM),[3] we find the following:

- Expanding the CTC would reduce child poverty by 5.9 percentage points, from 14.2 to 8.4 percent, using 2018 as a benchmark for a typical year (percentages rounded to nearest tenth). That means 4.3 million fewer children would be in poverty in a typical year, representing over a 40 percent decrease in child poverty.
- Children from all racial and ethnic groups would benefit from the expansion of the CTC, and racial and ethnic disparities in poverty rates would narrow. Poverty among Black, non-Hispanic children would be cut in half, falling by 10.3 percentage points, and rates for white, non-Hispanic children would fall by 3.3 percentage points. Poverty among Hispanic children and Asian American and Pacific Islander (AAPI) children would fall by 9.2 and 3.6 percentage points, respectively.
- Increasing the value of the credit alone, from $2,000 to $3,000 for children ages 6 to 16 and to $3,600 for younger children, would remove 166,000 children from poverty. Making the

credit fully refundable so all families with low incomes and qualifying children can claim its full value but keeping the value of the credit at $2,000 per child, the level before the ARP's temporary boost, would lift 2.2 million children out of poverty. Combining these two policy changes—full refundability and the higher credits—4.1 million children would be removed from poverty. Allowing families to claim the credit for 17-year-old children would lift an additional 200,000 children out of poverty.

- Not only would expanding the CTC reduce poverty, it would reduce the share of children living in deep poverty (below 50 percent of the supplemental poverty level) by 1.5 percentage points as well as the share living in near poverty (below 200 percent of the supplemental poverty level) by 3.2 percentage points.
- People living in both metropolitan and nonmetropolitan areas would benefit from the expansion of the CTC, with child poverty rates declining by 6.0 percentage points in metropolitan areas and by 6.4 percentage points in nonmetro areas.
- Residents of all states would benefit from the expansion, with the largest percentage-point reductions in child poverty occurring in Washington, DC; Louisiana; Mississippi; and New Mexico. Child poverty would decline more than 50 percent in 11 states.

Background

Congress enacted the CTC in 1997 (CRS 2018). Originally, the CTC provided a $400 per child nonrefundable credit largely targeted at middle- and upper-middle-income families.[4] Because it was nonrefundable, the credit could only offset federal tax liabilities. The Economic Growth and Tax Relief Reconciliation Act of 2001 gradually raised the credit to $1,000 per child and made it partially refundable; the refundable portion (i.e., the amount of the credit a family receives after their federal tax has been completely offset) is referred to as the additional CTC. The American Recovery and Reinvestment Act of 2009 temporarily expanded eligibility for the credit to more families with low incomes, and those temporary expansions were extended several times and eventually made permanent in 2015. In 2017, Congress further expanded the CTC (through 2025) by doubling the credit to $2,000 per qualifying child and raising the refundable portion to $1,400.[5]

The 2021 ARP temporarily increased the CTC, but without additional legislation, the CTC in 2022 will revert back to the provisions in force since 2018.[6] Under current law for 2022, the credit is worth up to $2,000 for each child under age 17. Families with no taxable income cannot claim the credit, and the credit phases in only as income rises above $2,500. The refundable portion of the credit is capped at $1,400 per qualifying child or 15 percent of earnings above $2,500, whichever is lower. The credit phases out at a rate of 5 cents on every dollar of taxable income above $200,000 for single-parent families and above $400,000 for married couples filing joint tax returns. Thus, the credit provides less assistance to families with very low incomes than to all but the highest-income families. Estimates suggest that 27 million children live in families without enough earnings to qualify for the full credit (Greenstein et al. 2018).

The ARP made several important changes to the CTC for the second half of 2021 that greatly expanded the credit for families with very low incomes.[7] It increased the credit to $3,000 per child for children between the ages of 6 and 17 and to $3,600 for children from birth to age 5. Not only did the size of the credit grow, it was also extended to 17-year-old children. Further, the credit became fully refundable, meaning that a family with no taxable income could still qualify for the full credit.[8] For many families the difference in the value of the tax credit can be substantial. For example, a single parent with two children above the age of 6 earning $14,500 a year would receive a "traditional" CTC of $1,800 as compared with $6,000 under the expanded credit (Hendricks and Roque 2021).[9]

President Biden has proposed making those changes to the CTC permanent as a tool for reducing child poverty.[10] Analysis of the ARP, which only calls for delivering half of the increased CTC for half of 2021 (through monthly payments from July to December), indicates that the expanded CTC would reduce child poverty from a projected rate of 13.7 percent (absent the other ARP provisions) down to 11.3 percent (Wheaton et al. 2021). Researchers at Columbia University find that had the currently proposed expansion of the CTC been in place in 2017, the child poverty rate would have been 9.3 percent rather than 14.9 percent (Collyer, Wimer, and Harris 2019).

Approach

In this brief, we examine how much poverty could be reduced if the ARP changes to the CTC became permanent. We compare poverty rates that would prevail under the CTC without the expansions in the ARP to those we anticipate in a typical year if the expansions were permanent. Because 2021 (and for that matter, 2020) is such an unusual year for the economy with large changes in employment rates and substantial increases in public assistance, we consider the impact of the CTC expansion in a more "normal" year (Giannarelli, Wheaton, and Shantz 2021). For our purposes we focus on 2018.

We estimate the effects of the CTC expansion on child poverty using the Urban Institute's Analysis of Transfers, Taxes, and Income Security (ATTIS) model and data from the 2018 American Community Survey (Pyati 2020). ATTIS simulates eligibility and benefits in the major means-tested benefit programs and models federal and state income taxes and credits. We assess poverty using the SPM, which considers a more comprehensive set of family financial resources and needs than the official poverty measure (Fox, Glassman, and Pacas 2020).[11]

We calculate the CTC and compute poverty rates under the traditional CTC provisions in effect before 2021 and then recompute them with the proposed expansions, increasing the benefit amount to $3,600 per child for children from birth to age 5 and to $3,000 per child for children ages 6 to 16; making 17-year-old children eligible for the $3,000 credit; and making the credit fully refundable. We consider the credit as augmenting income in the year that it is earned rather than in the year it is received—traditionally, families receive the credit after they file their taxes based on their income from the prior calendar year. This approach is consistent with part of the expanded CTC proposal, which would make advance payments to families on a monthly basis. In other words, they would receive the

credit in the year in which it is earned or accrued. Expanding the CTC also affects state taxes in some states (Maag and Weiner 2021). We account for those changes in our analysis.

Our results show how, absent other changes, the expanded CTC would change the incomes of recipient families and affect their poverty status. If the extra income from the CTC leads parents to reduce their work hours, then our approach may overstate the expansion's antipoverty effects. However, if features of the expansion such as advanced monthly payments help parents pay recurring expenses (like costs for food, clothing, housing, and child care) and meet destabilizing expenses (like a car repair or short-term health issues), then the expansion may increase time at work, and our approach may understate the expansion's antipoverty effects. Our estimates provide a baseline from which more sophisticated discussions can begin.

Some commentators[12] have raised concerns that previous estimates of the expanded CTC's effect on child poverty may be overstated because many of the poorest families do not currently file taxes. Without these families filing taxes, the IRS would not be able to reach them with the expanded credit. We account for imperfect take-up of the credit by assuming that 22 percent of families who are not required to file taxes, do not currently qualify for the earned income tax credit or additional CTC, and who have minimal (under $100) or no earnings do not receive the credit.

In the 2017 Tax Cut and Jobs Act, Congress limited the CTC to children who have a Social Security number—that is, children who are not undocumented or temporary residents. The ARP expansion of the CTC maintained this restriction, and we include it in our modeling.[13]

Results

Expanding the CTC would reduce child poverty from 14.2 to 8.4 percent, removing 4.3 million children from poverty using 2018 as a benchmark for a typical year (table 1).[14] Overall, this change represents a 41.3 percent decrease in child poverty. We also looked at families who would remain poor after the expansion. Even children who remain below the poverty level would have access to considerably more resources as a result of the CTC expansion. Without the expansion, these families have average resources equal to 58 percent of the poverty threshold. After the expansion, their resources increase to 71 percent of the poverty threshold.

Our estimates of the antipoverty effects of the proposed permanent expansion of the CTC fall in line with previous work. Looking at similar proposals to expand the CTC, two studies estimate the CTC expansion could cut annual child poverty by 45 percent (Center on Poverty and Social Policy 2021; Congressional Research Service 2021), and another study finds that expansion would lift 4.1 million children out of poverty (Marr et al. 2021). Finally, a study that projected the antipoverty effects of the 6-month expansion of the CTC in 2021 shows a 2.4 percentage-point decrease in child poverty, slightly less than half of our 5.9 percentage-point decrease for a full 12-month expansion (Wheaton et al. 2021).[15]

TABLE 1

Poverty and Poverty Gap Reduction

	Before and after Policy Implementation		Change after Implementation	
	Before expansion of CTC	After expansion of CTC	Change	Change (%)
Children in SPM poverty (%)	14.2%	8.4%	-5.9	-41.3%
Number of children in SPM poverty (thousands)	10,403	6,109	-4,294	-41.3%
Average resources relative to poverty threshold for families that remain poor	58.1%	71.3%	13.2	22.8%

Source: Urban Institute's Analysis of Transfers, Taxes, and Income Security model, using data from the 2018 American Community Survey.

Note: Poverty is measured using the Supplemental Poverty Measure, or SPM.

Antipoverty Effects of Each Expansion Provision

We decompose the effects of the expansion of the CTC into its major component parts to assess which parts have the biggest effect on child poverty (table 2). If the credit were made fully refundable, but with the dollar amounts kept the same as before the ARP ($2,000 per eligible child) and 17-year-olds remaining ineligible, then 2.2 million children would be removed from poverty. If instead the dollar amount of the credit was increased to the ARP amount ($3,600 for young children and $3,000 for older children) but the credit was not made refundable, 166,000 children would be removed from poverty.[16] Combining the refundability and the higher dollar amounts would lift 4.1 million children out of poverty. These two components combined accomplish most of the poverty reduction. Allowing parents to claim the credit for their 17-year-old children would remove about 200,000 additional children from poverty, achieving a total poverty reduction of 4.3 million children.

TABLE 2

Number of Children Removed from Poverty, by Aspect of Policy

	Refundability	Dollar increase	Refundability and dollar increase	Total expansion
Children removed from SPM poverty (thousands)	2,250	166	4,114	4,294

Source: Urban Institute's Analysis of Transfers, Taxes, and Income Security model, using data from the 2018 American Community Survey.

Note: SPM = Supplemental Poverty Measure.

CTC Expansion Reduces Poverty for All and Reduces Disparities between Racial and Ethnic Groups

Expanding the CTC would reduce poverty for children from all racial and ethnic backgrounds, with particularly large impacts for Black, non-Hispanic children (table 3). Expanding the CTC would cut

poverty among Black, non-Hispanic children in half, from 20.4 to 10.1 percent, meaning there would be 1 million fewer Black, non-Hispanic children living in poverty. Poverty among Hispanic children would also be cut dramatically: their poverty rate would fall from 24.2 to 15 percent, and 1.7 million fewer Hispanic children would be poor. Poverty rates for AAPI children would fall from 14.9 to 11.3 percent, a reduction of 127,000 children in poverty, and poverty for white, non-Hispanic children would fall from 7.7 to 4.4 percent, reducing the number in poverty by 1.2 million.

TABLE 3

Percentage of Children in Poverty by Race and Ethnicity

Before and after Expansion of CTC

	Percent		Number (thousands)	
	Before expansion	After expansion	Before expansion	After expansion
All	14.2%	8.4%	10,403	6,109
Asian American and Pacific Islander	14.9%	11.3%	527	400
Black	20.4%	10.1%	1,982	981
Hispanic	24.2%	15.0%	4,489	2,778
White	7.7%	4.4%	2,818	1,631
Other	13.0%	7.1%	587	319

Source: Urban Institute's Analysis of Transfers, Taxes, and Income Security model, using data from the 2018 American Community Survey.

Note: Poverty is measured using the Supplemental Poverty Measure. Categories may not sum to totals because of rounding.

Even after the expansion of the CTC, substantial differences in poverty rates across racial and ethnic groups would remain, although most disparities would be reduced. Child poverty rates are highest among Hispanic children: absent the CTC expansion, it is 10 percentage points higher than overall child poverty. After the expansion, the poverty rate for Hispanic children is only 6.6 percentage points higher than the overall average. Before the expansion, Black, non-Hispanic children had the second-highest poverty rate, 6.2 percentage points above the overall average; after expansion, the poverty rate for Black children falls to 1.7 percentage points above the average. White, non-Hispanic children have the lowest poverty rates among all groups both before and after CTC expansion. And although AAPI children's poverty rate falls as a result of expansion, the decline is smaller than those for Black and Hispanic children. (For a discussion of factors that may influence poverty rates among AAPIs, see Wheaton et al. [2021].) Differences in child poverty rates between racial and ethnic groups reflect an accretion of historical and structural factors that influence parents' educational and employment opportunities and family circumstances (Iceland 2019). The expanded CTC would help to redress those accumulated economic disparities while providing support to children from all racial and ethnic backgrounds.

CTC Expansion Protects Children from Deep Poverty and Lifts Them Out of Near Poverty

In addition to substantial reductions in child poverty, the proposed expansions to the CTC also cut deep poverty among all children in half and lift the family incomes of children in near-poor and middle-income families (table 4). Nearly 3 percent of children live in deep poverty in a typical year, that is, in families with incomes below half the poverty level. Expanding the CTC would reduce the share of children in deep poverty to 1.4 percent. And children in near poverty (that is, in families with incomes between 100 and 200 percent of the poverty level) would be lifted into middle-income status. The share of children in families with incomes above 200 percent of the poverty level would grow by 3.2 percentage points (to 51.4 percent) as a result of expanding the CTC, meaning that more than half of all children would be in middle- and higher-income families.

TABLE 4

Distribution of Children by Family Resources Relative to SPM Poverty

Before and after Expansion of CTC

SPM poverty (%)	Before expansion	After expansion
< 50%	2.9%	1.4%
50%–100%	11.3%	7.0%
100%–200%	37.5%	40.2%
> 200%	48.2%	51.4%

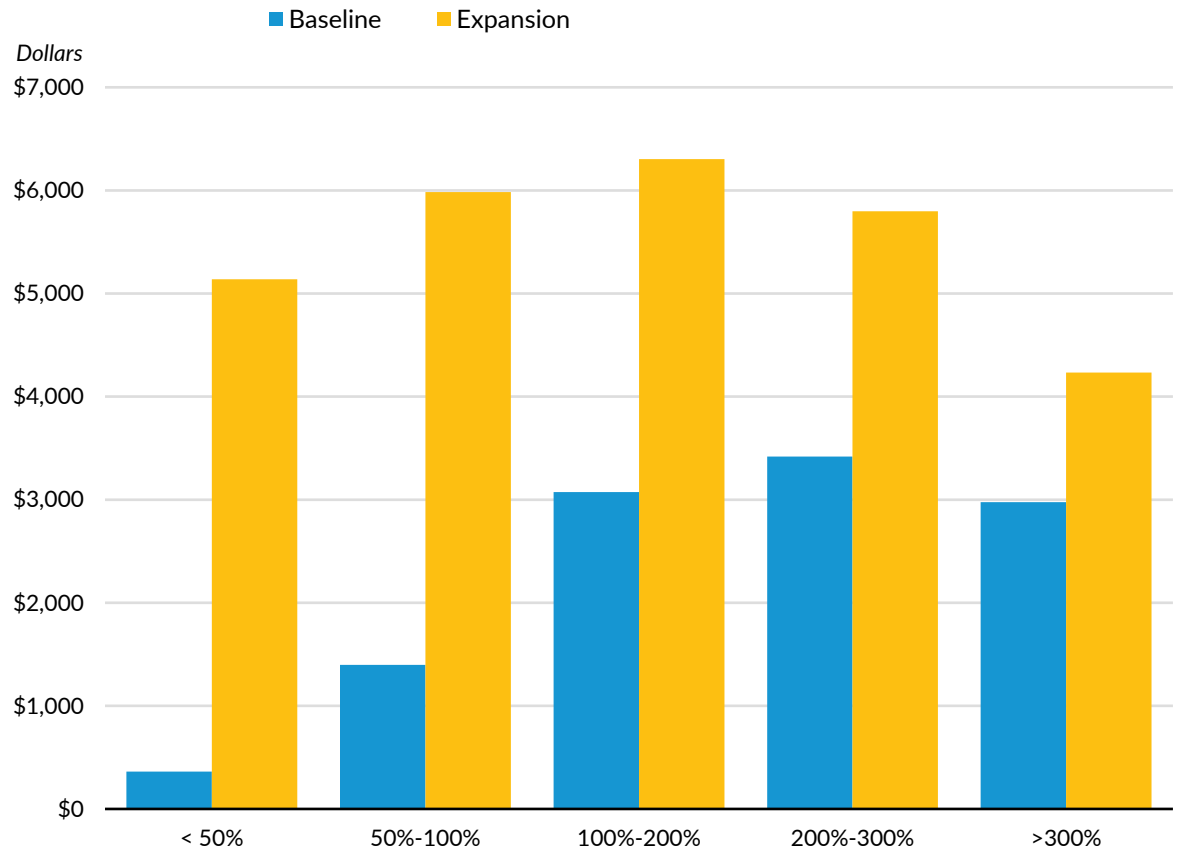
Source: Urban Institute's Analysis of Transfers, Taxes, and Income Security model, using data from the 2018 American Community Survey.

Note: Poverty is measured using the Supplemental Poverty Measure, or SPM.

On average, families with incomes between 50 and 100 percent of the poverty threshold prior to the expansion would receive the biggest increase from the CTC expansion (figure 1).[17] (These estimates focus only on families with children.) The average value of a CTC for these families would grow from $363 before expansion to $5,138 after expansion, an increase of almost $5,000 a year. The overall average amount of expanded CTC would be greatest for families with incomes between 100 and 200 percent of the poverty level ($6,304), but higher-income families would also receive substantial value from the credit. Under the expanded credit, families with incomes between 200 and 300 percent of the poverty level would receive an average of $5,798, and families with incomes over 300 percent of the poverty level would receive $4,233.

FIGURE 1

Average CTC per Family with Children by Resources Relative to SPM Poverty, Before and After Expansion



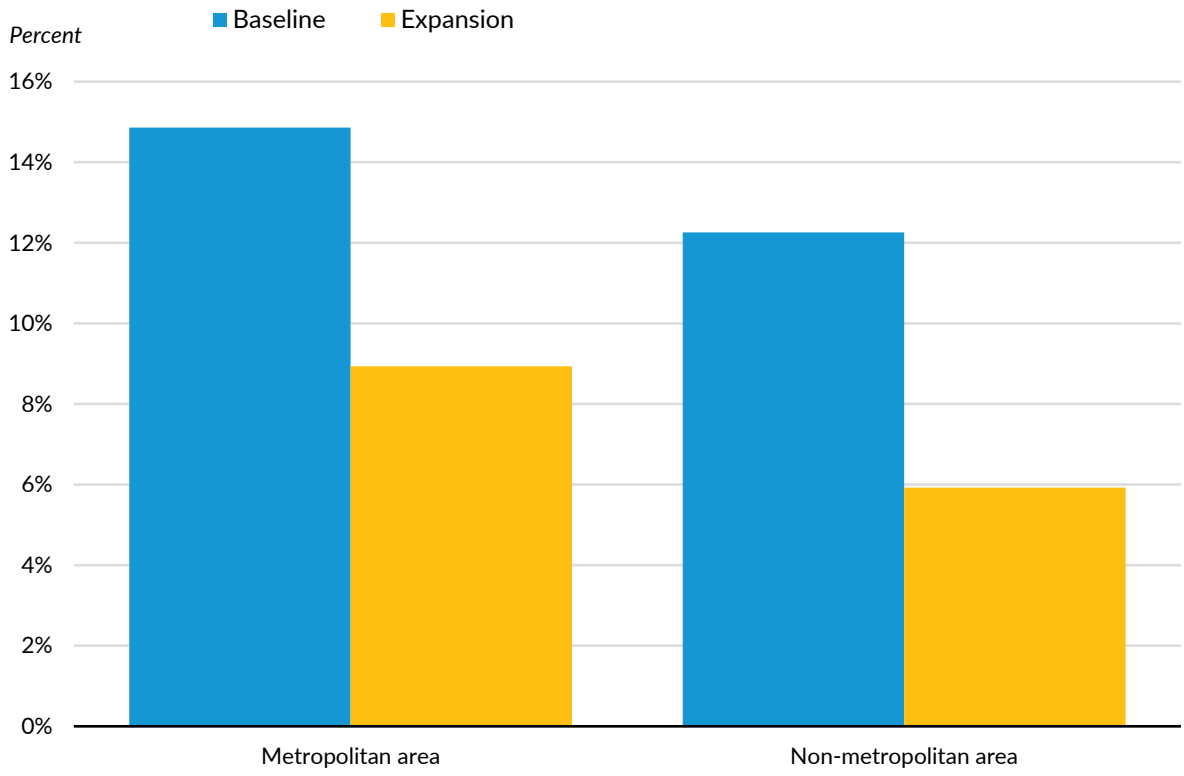
Source: Urban Institute's Analysis of Transfers, Taxes, and Income Security model, using data from the 2018 American Community Survey.
Notes: Poverty is measured using the Supplemental Poverty Measure, or SPM. Averages include families with children receiving $0 in child tax credits.

CTC Expansion Benefits Families in All Parts of the Country

Children in all parts of the country would benefit from the proposed expansion of the CTC. Children in metropolitan areas are more likely to be poor than children in nonmetropolitan areas when using the SPM measure (14.9 and 12.3 percent, respectively), but both groups would enjoy substantial declines in poverty from the expanded CTC (figure 2). In metropolitan areas, the child poverty rate would drop by 6.0 percentage points, down to 8.9 percent. In nonmetropolitan areas, expanding the CTC would cut child poverty by more than half, dropping the rate from 12.3 to 5.9 percent. Some of the difference in the antipoverty effects of the CTC likely stem from the fact that our measure of poverty, the SPM, considers differences in the cost of living, and the value of the CTC relative to the poverty level will be greater for those living in nonmetropolitan areas, which tend to have lower living costs than metropolitan areas.

FIGURE 2

SPM Poverty Rate by Metro Status, Before and after expansion of CTC



Source: Source: Urban Institute's Analysis of Transfers, Taxes, and Income Security model, using data from the 2018 American Community Survey.
Note: Poverty is measured using the Supplemental Poverty Measure, or SPM.

At the state level, no clear pattern emerges for the strength of the CTC expansion's antipoverty effects (table 5; reductions in child poverty by state by race and ethnicity appear in the appendix). Child poverty would be cut 50 percent or more in 11 states. On a percentage basis, the greatest relative decline in child poverty occurs in Vermont, where it would drop almost 63 percent, and the smallest decline would occur in California, where it would drop 33 percent. But child poverty in Vermont was low even before the expansion (7.1 percent), so the absolute reduction in child poverty is a more modest 4.5 percentage points there. In California, the absolute drop is 6.8 percentage points. In absolute terms, more children are removed from poverty in California than in any other state (613,000), but that in part reflects the fact that it is the most populous state. The states with the largest percentage-point drops in child poverty are New Mexico (9.1 percentage points); Louisiana (8.8 percentage points); Mississippi (8.3 percentage points); and Washington, DC (8.1 percentage points). Differences in the poverty reduction effects of the CTC across states partly reflect differences in the share of states' children living in families just below the poverty level.

TABLE 5

Percentage of Children in SPM Poverty by State

Before and after Expansion of CTC

State	Before and After Policy Implementation		Change after Implementation		
	Before expansion	After expansion	Percentage-point change	Percentage change	Number removed (thousands)
Alabama	15.0%	7.5%	-7.5%	-49.9%	81
Alaska	12.0%	5.8%	-6.2%	-51.7%	11
Arizona	15.6%	8.8%	-6.8%	-43.6%	111
Arkansas	13.8%	6.8%	-7.0%	-50.8%	49
California	20.5%	13.7%	-6.8%	-33.3%	613
Colorado	11.7%	7.3%	-4.4%	-37.8%	56
Connecticut	11.1%	6.6%	-4.5%	-40.4%	33
Delaware	13.0%	8.2%	-4.8%	-36.6%	10
District of Columbia	15.2%	7.1%	-8.1%	-53.4%	10
Florida	18.2%	11.1%	-7.1%	-39.0%	298
Georgia	14.8%	8.8%	-6.0%	-40.6%	150
Hawaii	9.8%	5.0%	-4.8%	-48.6%	14
Idaho	10.1%	6.1%	-4.0%	-39.5%	18
Illinois	11.4%	6.6%	-4.9%	-42.4%	138
Indiana	11.8%	6.4%	-5.3%	-45.5%	83
Iowa	7.1%	3.8%	-3.3%	-46.2%	24
Kansas	9.0%	4.9%	-4.1%	-45.4%	29
Kentucky	13.7%	7.0%	-6.7%	-49.1%	67
Louisiana	16.6%	7.8%	-8.8%	-52.7%	96
Maine	7.2%	3.9%	-3.3%	-46.1%	8
Maryland	12.1%	7.4%	-4.7%	-39.0%	63
Massachusetts	10.6%	6.6%	-4.1%	-38.2%	55
Michigan	11.9%	6.5%	-5.4%	-45.6%	117
Minnesota	5.7%	3.2%	-2.5%	-44.3%	33
Mississippi	16.5%	8.1%	-8.3%	-50.7%	59
Missouri	11.2%	5.6%	-5.6%	-50.0%	77
Montana	9.2%	4.9%	-4.3%	-46.7%	10
Nebraska	6.8%	3.4%	-3.4%	-50.4%	16
Nevada	15.7%	9.2%	-6.4%	-41.0%	44
New Hampshire	8.4%	4.2%	-4.2%	-50.3%	11
New Jersey	14.3%	9.3%	-5.0%	-34.8%	97
New Mexico	18.0%	8.9%	-9.1%	-50.4%	43
New York	15.6%	9.6%	-6.0%	-38.2%	240
North Carolina	15.0%	8.4%	-6.6%	-44.3%	152
North Dakota	4.8%	2.6%	-2.2%	-46.3%	4
Ohio	10.3%	5.2%	-5.1%	-49.6%	133
Oklahoma	13.1%	6.9%	-6.2%	-47.3%	59
Oregon	13.2%	7.0%	-6.2%	-47.2%	54
Pennsylvania	10.5%	5.9%	-4.6%	-43.8%	121
Rhode Island	10.3%	6.9%	-3.5%	-33.5%	7
South Carolina	14.7%	7.8%	-6.9%	-47.1%	76
South Dakota	10.2%	5.2%	-5.0%	-49.0%	11
Tennessee	15.0%	8.1%	-6.9%	-45.9%	104
Texas	17.3%	10.1%	-7.2%	-41.8%	535
Utah	7.0%	3.9%	-3.1%	-44.0%	29
Vermont	7.1%	2.6%	-4.5%	-62.7%	5
Virginia	14.5%	9.4%	-5.2%	-35.5%	96
Washington	9.4%	5.3%	-4.1%	-43.4%	67

State	Before and After Policy Implementation: Before expansion	After expansion	Change after Implementation: Percentage-point change	Percentage change	Number removed (thousands)
West Virginia	13.8%	7.0%	-6.8%	-49.5%	25
Wisconsin	7.2%	3.8%	-3.4%	-47.2%	43
Wyoming	10.4%	5.1%	-5.3%	-51.0%	7

Source: Urban Institute's Analysis of Transfers, Taxes, and Income Security model, using data from the 2018 American Community Survey.
Note: SPM = Supplemental Poverty Measure.

Discussion

Since its enactment in 1997, the CTC has been expanded several times, increasing the benefits available to families with low incomes. The proposed expansions to the CTC would raise the maximum credit from $2,000 per child to $3,600 per child under age 6 and to $3,000 for older children, make 17-year-old children eligible for the credit, and make the credit fully refundable so families with very low incomes could receive the full value of the credit.

Those expansions, when taken together, would lift 4.3 million children out of poverty in a typical year and would reduce child poverty, as measured by the SPM, from 14.2 to 8.4 percent—a reduction in child poverty of over 40 percent. (Here we use 2018 to represent a typical year.) Children from all racial and ethnic backgrounds throughout the country would benefit from the proposed expansion. The antipoverty effects of the expansions would be particularly pronounced for Black and Hispanic children, lifting over 1 million Black children and 1.7 million Hispanic children out of poverty and cutting the Black child poverty rate by more than half. Child poverty is deeply concerning not only because it reflects current hardship but also because children who grow up in poverty experience worse outcomes as adults (National Academies of Sciences, Engineering, and Medicine 2019). Tax credits are an evidence-based strategy for improving economic outcomes.

We model an expansion of the CTC assuming a 78 percent take-up rate among families that do not file taxes. It is possible that in reality, take-up may be lower than 78 percent. However, if the CTC expansions are made permanent and a robust outreach effort increases awareness of the program, a 78 percent take-up may be too low.

How we model take-up has a noticeable impact on child poverty. We ran an additional simulation that assumed all eligible nonfilers would receive the credit. In that scenario, child poverty after expansion would be 8.0 percent, rather than the 8.4 percent in our main simulation. This difference demonstrates the importance of ensuring that nonfilers are aware of this new benefit to make the expanded CTC is as effective at reducing poverty as it can be.

Critics of the proposed expansion argue that it will discourage work among parents with very low incomes because it increases the resources available to families with very low and no earnings (Rachidi 2021). Recent research on prior CTC expansions, however, suggests that rather than reducing work

effort, the expansions increased labor force participation (Lippold 2020; Zheng 2020). Those findings are consistent with preliminary results from an experiment in Stockton, California, in which unconditional cash transfers to families with low incomes (i.e., the provision of basic-level income) increased market work (West et al. 2021). Further, prior simulations of policies similar to the CTC expansions that have incorporated assumptions about reductions in work effort suggest that any drop in earned income has exceedingly small effects on poverty. Child poverty would be one-tenth of a percentage point higher than it otherwise would be if recipients worked a little less (NAS 2019).

Note that our analysis focuses on the additional antipoverty benefits of expansions to the CTC. Even without the expansions, the CTC reduces child poverty. Recent estimates suggest that in 2018, the CTC without the recent expansions lifted 2.3 million children out of poverty (CBPP 2019). Further, our work focuses on annual poverty rates, but the proposed expansions of the CTC would provide advance payments of the credit on a monthly basis. Although that change would add to the complexity of administering the benefit, it would provide families with a steady source of income through the year that could help them deal with destabilizing events. The added financial stability could contribute to children's healthy development (Sandstrom and Huerta 2013). The proposed expansions could transform the CTC into one of the most effective tools for reducing child poverty in the US.

Appendix: Detailed Table

TABLE A.1

Percentage of Children in SPM Poverty in 2018 by State and Race

Before and after expansion of CTC

	White		Black		Hispanic		AAPI		Other	
	Baseline	Expansion	Baseline	Expansion	Baseline	Expansion	Baseline	Expansion	Baseline	Expansion
Alabama	9.6%	5.6%	21.6%	9.4%	NA	NA	NA	NA	NA	NA
Alaska	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Arizona	7.8%	4.3%	NA	NA	20.7%	12.4%	NA	NA	24.3%	13.1%
Arkansas	9.7%	5.2%	NA	NA	NA	NA	NA	NA	NA	NA
California	9.6%	6.5%	22.0%	12.5%	27.9%	18.4%	16.0%	12.4%	11.0%	7.0%
Colorado	6.6%	4.4%	NA	NA	20.1%	12.0%	NA	NA	NA	NA
Connecticut	5.2%	3.2%	NA	NA	23.7%	13.3%	NA	NA	NA	NA
Delaware	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
District of Columbia	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Florida	10.6%	6.5%	24.6%	12.5%	25.0%	16.5%	NA	NA	13.3%	7.9%
Georgia	8.4%	4.9%	18.2%	10.0%	26.4%	17.2%	NA	NA	14.1%	8.4%
Hawaii	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Idaho	6.6%	3.9%	NA	NA	NA	NA	NA	NA	NA	NA
Illinois	6.1%	3.4%	17.3%	8.3%	19.5%	11.7%	10.6%	8.9%	10.3%	6.1%
Indiana	7.5%	4.2%	NA	NA	23.8%	13.0%	NA	NA	NA	NA
Iowa	4.7%	2.5%	NA	NA	NA	NA	NA	NA	NA	NA
Kansas	4.2%	2.4%	NA	NA	NA	NA	NA	NA	NA	NA
Kentucky	11.8%	6.0%	NA	NA	NA	NA	NA	NA	NA	NA
Louisiana	9.4%	5.2%	25.7%	10.2%	NA	NA	NA	NA	NA	NA
Maine	6.9%	4.0%	NA	NA	NA	NA	NA	NA	NA	NA
Maryland	4.9%	3.0%	15.3%	9.0%	27.2%	16.4%	NA	NA	NA	NA
Massachusetts	6.3%	4.2%	NA	NA	21.7%	11.1%	NA	NA	NA	NA
Michigan	8.4%	4.7%	23.9%	12.6%	16.5%	8.2%	NA	NA	12.2%	6.2%

Minnesota	2.5%	1.1%	NA	NA	NA	NA	NA	NA	NA	NA
Mississippi	8.9%	5.0%	24.0%	11.6%	NA	NA	NA	NA	NA	NA
Missouri	7.8%	4.1%	NA	NA	NA	NA	NA	NA	NA	NA
Montana	8.3%	4.9%	NA	NA	NA	NA	NA	NA	NA	NA
Nebraska	4.1%	1.9%	NA	NA	NA	NA	NA	NA	NA	NA
Nevada	7.6%	4.7%	NA	NA	21.2%	13.4%	NA	NA	NA	NA
New Hampshire	6.4%	3.8%	NA	NA	NA	NA	NA	NA	NA	NA
New Jersey	7.2%	4.5%	18.2%	10.5%	26.4%	17.7%	9.3%	7.6%	NA	NA
New Mexico	NA	NA	NA	NA	21.2%	10.2%	NA	NA	NA	NA
New York	8.0%	4.1%	17.7%	10.3%	27.1%	17.4%	24.1%	19.0%	11.7%	7.6%
North Carolina	8.9%	5.3%	19.5%	9.6%	29.2%	16.5%	NA	NA	13.4%	6.3%
North Dakota	2.2%	1.3%	NA	NA	NA	NA	NA	NA	NA	NA
Ohio	7.5%	3.9%	19.7%	8.4%	18.2%	12.8%	NA	NA	13.9%	5.7%
Oklahoma	8.7%	4.8%	NA	NA	21.3%	11.3%	NA	NA	12.9%	6.9%
Oregon	8.8%	4.8%	NA	NA	25.0%	14.3%	NA	NA	NA	NA
Pennsylvania	6.4%	3.7%	17.5%	9.8%	22.5%	11.6%	NA	NA	13.3%	6.9%
Rhode Island	4.4%	1.7%	NA	NA	NA	NA	NA	NA	NA	NA
South Carolina	8.3%	4.8%	22.9%	11.0%	NA	NA	NA	NA	NA	NA
South Dakota	3.6%	1.6%	NA	NA	NA	NA	NA	NA	NA	NA
Tennessee	10.6%	6.1%	23.2%	9.7%	29.4%	19.1%	NA	NA	NA	NA
Texas	7.3%	4.6%	20.4%	9.3%	23.6%	14.0%	13.2%	8.6%	12.3%	8.1%
Utah	4.8%	2.4%	NA	NA	12.8%	8.4%	NA	NA	NA	NA
Vermont	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Virginia	8.5%	5.9%	21.9%	10.4%	28.1%	20.2%	16.5%	14.0%	11.4%	7.3%
Washington	6.7%	3.6%	NA	NA	13.5%	6.2%	14.1%	12.8%	11.1%	6.7%
West Virginia	13.0%	7.1%	NA	NA	NA	NA	NA	NA	NA	NA
Wisconsin	5.2%	2.5%	NA	NA	NA	NA	NA	NA	NA	NA
Wyoming	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Source: Urban Institute's Analysis of Transfers, Taxes, and Income Security model, using data from the 2018 American Community Survey

Note: AAPI = Asian American and Pacific Islander. We suppress cells when there are fewer than 1,000 unweighted children in a given state racial or ethnic group (denoted with NA).

Notes

[1] For more information about the law, see "American Rescue Plan Act of 2021," H.R. 1319, 117th Cong. (2021), https://www.congress.gov/bill/117th-congress/house-bill/1319/text/.

[2] "Fact Sheet: The American Families Plan," press release, White House, April 28, 2021, https://www.whitehouse.gov/briefing-room/statements-releases/2021/04/28/fact-sheet-the-american-families-plan/.

[3] For further details about our implementation of the SPM, see Wheaton, Giannarelli, and Dehry (2021).

[4] Elaine Maag and Nikhita Airi, "The Child Tax Credit Grows Up to Lift Millions of Children Out of Poverty," *TaxVox*, March 16, 2021, https://www.taxpolicycenter.org/taxvox/child-tax-credit-grows-lift-millions-children-out-poverty

[5] The 2017 legislation also created a $500 "other dependent credit" for children ineligible for the child tax credit and older nonchild dependents. Children who are residents of Mexico and Canada who would be considered dependents for tax purposes are ineligible for the other dependent credit. (They are also not included in the data for this analysis.) The credit phases out in conjunction with the CTC at a 5 percent rate with phaseout thresholds at $400,000 for those who file married joint tax returns and $200,000 for all other filers. The credit is not adjusted for inflation and, under current law, expires after 2025 (CRS 2018). The 2017 expansion of the CTC partly offsets the elimination of the dependent exemption in the same legislation.

[6] "What Is the Child Tax Credit?" Urban-Brookings Tax Policy Center, 2021, https://www.taxpolicycenter.org/briefing-book/what-child-tax-credit.

[7] Under ARP, the CTC begins to phase out at 5 cents on the dollar once a single filer's adjusted gross income reaches $112,500 and joint filers' incomes reach $150,000. The phaseout continues until the credit reaches $2,000 per child, then plateaus until incomes reach $200,000 and $400,000, respectively, when the phaseout begins again. See "What Is the Child Tax Credit?," Urban Institute and Brookings Institution Tax Policy Center, 2021, https://www.taxpolicycenter.org/briefing-book/what-child-tax-credit.

[8] The ARP also made the credit available in monthly installments. As poverty is measured on an annual basis, this provision has no effect on the estimates shown in this analysis.

[9] The credit in this example is $1,800 rather than $4,000 ($2,000 per child) because the credit without further expansion would not be fully refundable.

[10] "Fact Sheet: The American Families Plan," press release, White House, April 28, 2021, https://www.whitehouse.gov/briefing-room/statements-releases/2021/04/28/fact-sheet-the-american-families-plan/.

[11] We generally follow the Census Bureau's approach to SPM estimation, except that we use the income and resources developed by ATTIS. We use geographic adjustments and medical out-of-pocket expense imputations developed by the Census Bureau as part of their work to adapt the SPM to the American Community Survey (Fox, Glassman, and Pacas 2020). See Wheaton, Giannarelli, and Dehry (2021) for further details about our implementation of the SPM.

[12] Jeff Stein, "President Biden May Struggle to Get New $3,000 Benefit to Many of America's Poorest Families," *Washington Post*, February 12, 2021, https://www.washingtonpost.com/us-policy/2021/02/12/irs-democrats-child-tax-credit-plan/.

[13] Parents who file taxes using an Individual Taxpayer Identification Number instead of a Social Security number can still claim the credit for their eligible children and dependents (i.e., those with Social Security numbers).

[14] The findings are for a "typical" year. Here we use national representative data from the American Community Survey from 2018.

[15] That study considered a six-month expansion of the CTC on top of economic stimulus payments, expansions of unemployment insurance, and expansions of the Supplemental Nutrition Assistance Program. Those other provisions already lifted many children out of poverty, leaving fewer children to be moved above the poverty level by the CTC expansion. We consider a permanent expansion of the CTC in a "normal" year, so children

would not be benefiting from those other provisions, leaving more to be lifted above the poverty level by the expansion. Of course, for some children those other provisions brought them close enough to the poverty level that the CTC could lift them out of poverty.

[16] The cap on the amount that is refundable also increases in this simulation for children under age 6, from $1,400 to $2,000.

[17] *Family* refers to an SPM unit. If an SPM unit contains multiple tax units, the total amount of CTC in the family is summed across tax units. Families receiving no CTC are included as 0 values in these calculations.

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Errata

This brief was corrected on August 5, 2021. On page 1, we corrected a typo: poverty among Hispanic children would fall by 9.2 percentage points (not 7.2 percentage points) under the expanded CTC. We also corrected a coding error that inadvertently assigned $600 of credit to a small number of children under 6 who do not have a Social Security number. Correcting this error does not affect the main findings but causes slight changes in some results, including state-level results for Illinois, New Mexico, and Wisconsin. In addition, we corrected two minor typos on page 4 and 6. These changes are described below.

Page 1

- Children from all racial and ethnic groups would benefit from the expansion of the CTC, and racial and ethnic disparities in poverty rates would narrow. Poverty among Black, non-Hispanic children would be cut in half, falling by 10.3 percentage points, and rates for white, non-Hispanic children would fall by 3.3 percentage points. Poverty among Hispanic children and Asian American and Pacific Islander (AAPI) children would fall by ~~7.2~~ **9.2** and 3.6 percentage points, respectively.

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Expanding the CTC would reduce child poverty from 14.2 to 8.4 percent, removing 4.3 million children from poverty using 2018 as a benchmark for a typical year (table 1). Overall, this change represents a 41.3 percent decrease in child poverty. We also looked at families who would remain poor after the expansion. Even children who remain below the poverty level would have access to considerably more resources as a result of the CTC expansion. Without the expansion, these families have average resources equal to ~~59~~ **58** percent of the poverty threshold. After the expansion, their resources increase to 71 percent of the poverty threshold.

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TABLE 1

Poverty and Poverty Gap Reduction

	Before and after Policy Implementation		Change after Implementation	
	Before expansion of CTC	After expansion of CTC	Change	Change (%)
Number of children in SPM poverty (thousands)	10,403	~~6,107~~ **6,109**	~~-4,296~~ **-4,294**	-41.3%
Average resources relative to poverty threshold for families that remain poor	58.1%	~~71.4%~~ **71.3%**	~~13.3~~ **13.2**	22.8%

TABLE 2

Number of Children Removed from Poverty, by Aspect of Policy

	Refundability	Dollar increase	Refundability and dollar increase	Total expansion
Children removed from SPM poverty (thousands)	2,250	166	~~4,116~~ **4,114**	~~4,296~~ **4,294**

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TABLE 3

Percentage of Children in Poverty by Race and Ethnicity

Before and after Expansion of CTC

	Percent		Number (thousands)	
	Before expansion	After expansion	Before expansion	After expansion
All	14.2%	8.4%	10,403	~~6,107~~ **6,109**
Hispanic	24.2%	15.0%	4,489	~~2,777~~ **2,778**

Even after the expansion of the CTC, substantial differences in poverty rates across racial and ethnic groups would remain, although most disparities would be reduced. Child poverty rates are highest among Hispanic children: absent the CTC expansion, it is ~~10.2~~ **10** percentage points higher than overall child poverty. After the expansion, the poverty rate for Hispanic children is only 6.6 percentage points higher than the overall average. Before the expansion, Black, non-Hispanic children had the second-highest poverty rate, 6.2 percentage points above the overall average; after expansion, the poverty rate for Black children falls to 1.7 percentage points above the average. White, non-Hispanic children have the lowest poverty rates among all groups both before and after CTC expansion. And although AAPI children's poverty rate falls as a result of expansion, the decline is smaller than those for Black and Hispanic children. (For a discussion of factors that may influence poverty rates among AAPIs, see Wheaton et al. [2021].) Differences in child poverty rates between racial and ethnic groups reflect an accretion of historical and structural factors that influence parents' educational and employment opportunities and family circumstances (Iceland 2019). The expanded CTC would help to redress those accumulated economic disparities while providing support to children from all racial and ethnic backgrounds.

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On average, families with incomes between 50 and 100 percent of the poverty threshold prior to the expansion would receive the biggest increase from the CTC expansion (figure 1). (These estimates focus only on families with children.) The average value of a CTC for these families would grow from $363 before expansion to ~~$5,151~~ **$5,138** after expansion, an increase of almost $5,000 a year. The overall average amount of expanded CTC would be greatest for families with incomes between 100 and 200 percent of the poverty level (~~$6,306~~ **$6,304**), but higher-income families would also receive substantial value from the credit. Under the expanded credit, families with incomes between 200 and 300 percent of the poverty level would receive an average of ~~$5,801~~ **$5,798,** and families with incomes over 300 percent of the poverty level would receive ~~$4,234~~ **$4,233**.

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At the state level, no clear pattern emerges for the strength of the CTC expansion's antipoverty effects (table 5; reductions in child poverty by state by race and ethnicity appear in the appendix). Child poverty would be cut 50 percent or more in 11 states. On a percentage basis, the greatest relative decline in child poverty occurs in Vermont, where it would drop almost 63 percent, and the smallest decline would occur in California, where it would drop 33 percent. But child poverty in Vermont was low even before the expansion (7.1 percent), so the absolute reduction in child poverty is a more modest 4.5 percentage points there. In California, the absolute drop is 6.8 percentage points. In absolute terms, more children are removed from poverty in California than in any other state (613,000), but that in part reflects the fact that it is the most populous state. The states with the largest percentage-point drops in child poverty are New Mexico (~~9.2~~ **9.1** percentage points); Louisiana (8.8 percentage points); Mississippi (8.3 percentage points); and Washington, DC (8.1 percentage points). Differences in the poverty reduction effects of the CTC across states partly reflect differences in the share of states' children living in families just below the poverty level.

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TABLE 5

Percentage of Children in SPM Poverty by State

Before and after Expansion of CTC

State	Before and After Policy Implementation		Change after Implementation		
	Before expansion	After expansion	Percentage-point change	Percentage change	Number removed (thousands)
	11.4%	6.6%	-4.9%	~~-42.6%~~	~~139~~
Illinois				-42.4%	138
	18.0%	~~8.8%~~	~~-9.2%~~	~~-51.0%~~	~~44~~
New Mexico		8.9%	-9.1%	-50.4%	43
	7.2%	~~3.7%~~	-3.4%	~~-47.9%~~	~~44~~
Wisconsin		3.8%		-47.2%	43

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TABLE A.1

Percentage of Children in SPM Poverty in 2018 by State and Race

	White		Black		Hispanic	
	Baseline	Expansion	Baseline	Expansion	Baseline	Expansion
	6.1%	3.4%	17.3%	8.3%	19.5%	~~11.6%~~
Illinois						11.7%
	NA	NA	NA	NA	21.2%	~~10.0%~~
New Mexico						10.2%
	5.2%	~~2.4%~~	NA	NA	NA	NA
Wisconsin		2.5%				

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Acknowledgments

This work was funded by the Robert Wood Johnson Foundation. We are grateful to them and to all our funders, who make it possible for Urban to advance its mission.

The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders. Funders do not determine research findings or the insights and recommendations of Urban experts. Further information on the Urban Institute's funding principles is available at urban.org/fundingprinciples.

The authors gratefully acknowledge the large team that developed and maintain the ATTIS model as well as Laura Wheaton, who helped design and implement the policy simulations in this brief. The brief also benefited from thoughtful comments from Linda Giannarelli, Tracy Gordon, Genevieve Kenney, Elaine Maag, Elaine Waxman, Laura Wheaton, and Steve Zuckerman.

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