

RESEARCH REPORT

# Issues in Child Benefit Administration in the United States

**Imagining the Next Stage of the Child Tax Credit**

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# Issues in Child Benefit Administration in the United States

A wide array of research documents the many harms associated with children growing up in poverty. Early in life, living in poverty is associated with slower brain development (Brito and Noble 2014). In early childhood, poverty reduces a child's readiness for school through a variety of channels (Ferguson, Bovaird, and Mueller 2007). Research shows that increasing income among low-income children can reverse this lack of school readiness, which in turn increases a student's probability of attending college, raises earnings, and reduces teenage pregnancy (Chetty, Friedman, and Rockoff 2011).

Despite these findings, child poverty remains relatively prominent. In 2019, just over 14 percent of children—10.5 million—were poor. Strikingly, almost 71 percent of children who were poor were children of color. Black and Hispanic children remain the most likely to be in poverty: just over 26 percent of Black children were in poverty, and almost 21 percent of Hispanic children were poor (Children's Defense Fund 2021). Child benefits can be used to reduce poverty.

Beyond reducing poverty, a broadly available child benefit could be a way to strengthen the American family (Hammond and Orr 2021), which has experienced substantial declines in marriage rates, particularly among middle- and working-class people (Reeves and Pulliam 2020). Although a child benefit may not be sufficient to reverse these trends, it is likely a necessary component.

Since its creation in 1997, the child tax credit (CTC) has grown to become a core component of American family tax and welfare policy. What began as a \$400 nonrefundable tax credit for households with dependent children that could only be used only to offset taxes owed has expanded in both its size and scope. These expansions include increasing the credit's amount and making the credit at least partially (and then fully) refundable, allowing families to receive some or all of the credit in excess of taxes owed. By allowing households that do not owe federal income tax to claim the credit, the refundable portion of the CTC provides income support to low-income households that would otherwise be ineligible. This change has allowed the CTC to contribute to reductions in child and adult poverty, while supporting families of all stripes with the extra expenses associated with raising children (Acs and Werner 2021).

Although child and family benefits are common across the countries in the Organisation for Economic Co-operation and Development, the US has historically restricted the poorest households' eligibility for the CTC through a minimum earnings requirement and a benefit structure that phases in

with income. Following the Tax Cuts and Jobs Act of 2017, for example, the maximum CTC was doubled to \$2,000 and extended to households up the income scale. But families needed to earn at least \$2,500 to be eligible for the refundable portion of the credit, and the maximum amount of the credit that could be refunded was restricted to \$1,400 (Maag 2018). The reform grew the budgetary cost of the CTC from \$54 billion in 2017 to over \$120 billion in 2018, but because it only made modest improvements to refundability, approximately 27 million children in low-income households remained excluded from the full credit because their family's income was too low (Greenstein et al. 2018).

As we detail below, the American Rescue Plan Act of 2021 (ARP) sought to eliminate this gap in access by increasing the credit's size and, for the first time, making the CTC "fully refundable." Although only enacted for one year, full refundability means households with low or zero income are now eligible for the full per child credit, the first half of which is being advanced by the Internal Revenue Service (IRS) as a monthly payment for the remainder of 2021. With a maximum annual credit of \$3,600 (\$300 per month) for children ages 0 through 5 and \$3,000 (\$250 per month) for children ages 6 through 17, an expanded CTC structured as in the ARP is anticipated to reduce child poverty by nearly 40 percent in a typical year (Acs and Werner 2021). The Biden-Harris administration has announced its intention to extend the reform in future legislation, with the expectation that a fully refundable CTC will ultimately become a permanent fixture of US social policy.

On a conceptual level, full refundability transitions the CTC from being a conventional tax credit to something resembling the family and child allowances common throughout Europe and countries such as Canada, Australia, and the United Kingdom. In 2019, a panel of experts identified child allowances as a powerful tool for reducing America's elevated rate of child poverty (National Academies of Sciences, Engineering, and Medicine 2019). In the past year, proposals to transform the CTC into a child allowance have received bipartisan support (Hammond and Orr 2021). Implementing a tax credit designed to resemble a child allowance as closely as possible raises potential administrative challenges. The purpose of this report is to explain those challenges and offer principles for efficiently administering a permanent child benefit in the US policy context.

The challenge facing the IRS in implementing the expanded CTC just four months after the legislation was signed in March 2021 was reflected in the Biden-Harris administration's decision to declare June 21, 2021, as Child Tax Credit Awareness Day. With many very low-income households newly eligible for the CTC, an awareness campaign was an imperfect but necessary measure to ensure families who do not normally file federal income taxes (because they are not required to and may not benefit from doing so) knew to apply for the program. To aid the effort, the IRS established an online portal that allows households to apply for the credit directly through a simplified return. Subsequently,

the IRS recommended using a similar portal developed by an outside organization that provided a simpler, mobile-friendly tool to claim a CTC.<sup>1</sup> Although a large share of families with children began receiving payments in July, the IRS's lack of experience in administering a monthly benefit program leaves questions about the agency's capacity to reach all eligible families (a question that also exists when other agencies deliver benefits such as Supplemental Security Income or the Supplemental Nutrition Assistance Program). However, a program like Social Security retirement benefits tends to have very high participation rates, likely because of the long-established relationship between the Social Security Administration (SSA) and beneficiary prior to the beneficiary's becoming eligible for benefits. The IRS continues to gain experience reaching families not traditionally connected to the tax system, and more will be known about participation rates of low-income families after 2021 tax returns have been analyzed.

Although often neglected in the public debate, issues of program administration can have a significant and enduring impact on policy outcomes. For example, the original introduction of the CTC as a nonrefundable tax credit may be one reason for the US's abnormally high child poverty rate (McCabe 2018). This decision entrenched the CTC within the logic and language of "tax relief," in contrast with countries where child benefits were enacted according to the logic and language of "income supplementation." Once that logic was laid down, attempts to expand the CTC to the poorest families faced an uphill battle.

The proliferation of tax credits in social policy is not unique to the US nor family welfare policy. Tax expenditures allow policymakers to harness the popularity of "tax cuts," even though refundable credits, by definition, do more than just reduce taxes owed. They provide income supplements to families who do not have sufficient tax liability to offset.

We use the remainder of this report to establish a case for a child benefit. We describe the CTC as it exists in 2021 as part of a one-year expansion. We develop principles to guide discussions of a permanent child benefit, discuss likely differences in tax credits and spending programs, and consider what steps might move tax benefits to be more like transfer benefits. Finally, we discuss how the best child benefit would likely draw on the strengths of the tax system and the transfer system.

## The Case for a Child Benefit

Prior to the 2021 expansion of the CTC, the US was one of the few developed countries in the world without a broadly available child benefit, that is, an unconditional, periodic payment to households with

children. Indeed, according to a 2020 Overseas Development Institute/United Nation’s Children’s Fund survey of 180 countries where information is available, 108 countries have some type of periodic child or family benefit anchored in national legislation (ILO and UNICEF 2020). Of these 108 countries, 23 have noncontributory universal child benefits (i.e., benefits funded by someone other than the recipient), and 40 countries have unconditional but means-tested child benefits to exclude high-income households.

When designing child benefits, other nations provide child allowances to help parents shoulder the expenses associated with raising children and in recognition of the fact that parents themselves are often in the best position to direct resources wisely. Multiple studies have shown that parents allocate these resources in ways that directly benefit children despite few or no restrictions on how child benefits may be spent (Curran 2019; Garfinkel et al. 2021). In a study of Canada’s child benefit, researchers found that parents use the support to increase spending on direct inputs like education or pediatric health care, as well to increase spending on so-called “household stability items.” (Jones, Milligan, and Stabile 2019). Stability items include routine household expenses, recreational activities, and other goods and services that reduce parental stress and create an overall healthier household. This reduced stress, in turn, appeared connected to decreased spending on alcohol and tobacco. Financial instability, conversely, is both a leading cause of divorce (Dew, Britt, and Huston 2012) and a risk factor for child abuse and neglect (Kovski et al. 2021).

The household stability provided by a child allowance is in part a consequence of periodic payments. A periodic benefit paid monthly aligns income support to household budget cycles, which typically revolve around monthly bills like rent or car payments. Periodic child benefits are particularly valuable for low-income families with irregular earnings and limited savings, a relatively common experience (Maag et al. 2017). Conversely, providing child benefits in the form of an annual, lump-sum payment has been argued to represent a kind of forced savings mechanism, which some families find valuable (Maag, Congdon, and Yau 2021). But families who are under pressure from banks, landlords, and debt collectors are unlikely to be able to wait to pay debts until tax refund season. As a result, some families must dedicate a large portion of their annual refund to paying down credit cards and other unsecured debt holdings. This practice suggests that low-income families smooth their consumption across time one way or another, turning to costly forms of borrowing in lieu of a monthly payment (Jones and Michelmore 2019).

Child allowances also support household stability by being unconditional. Putting a predictable floor under family finances means child allowances provide a buffer against temporary job disruptions and other sources of income volatility. Workers in low-wage industries, for example, often face high

rates of job turnover and unpredictable scheduling, and they typically lack access to paid leave benefits (Hammond and Peirce 2021). The unconditionality of a child allowance thus provides families with a degree of both material and psychological security (National Academies of Sciences, Engineering, and Medicine 2019).

Programs that require recertification for benefits, even when circumstances have not changed, can result in families losing benefits. This “procedural churn” can be damaging to families, increasing short-term hardship (Rosenbaum 2015). Child benefits that do not require annual recertification are better suited to promoting stability.

The principal argument against unconditional child allowances, including fully refundable tax credits, is that they discourage work.<sup>2</sup> However, empirical analysis suggests that child allowances have a small to negligible effect on employment (National Academies of Sciences, Engineering, and Medicine 2019). In contrast to parents in strictly means-tested welfare programs, nonworking parents who enter the labor force retain the full value of their child allowance. This means that, on the margin, they face no direct work disincentive. The disincentive from the pure “income effect” of a child allowance, meanwhile, appears to be small and differential with respect to married and single parents. A recent study of Canada’s child benefit found no overall effect of its expansion on parental labor supply (Baker, Messacar, and Stabile 2021). Single parents, meanwhile, *increased* their labor force participation following the expansion of Canada’s child benefit (Kobel and Schirle 2016). Zheng (2020) found that a \$1,000 increase in the CTC was similarly associated with a 1.1 percentage-point increase in the labor force participation of single mothers. Under both the CTC and Canadian child benefit, the effect appears to be driven by single parents using child benefits to afford child care (Jones, Milligan, and Stabile 2019).

Phasing a child benefit in with earnings may nonetheless be attractive because it targets resources to working parents, irrespective of incentive arguments. When families face labor market disruptions, however, an earnings phase-in can have the perverse effect of amplifying the size of the income shock, *undermining* household stability. Consider the case of a single parent who takes temporary unpaid leave to care for an elderly family member. Although this parent may normally work and earn a reasonable wage, she will nonetheless report low or zero income within the period of her leave. By phasing the CTC in with annual earnings, any loss of wage income that results will thus come with an additional loss in transfer income, turning the social insurance value of a child benefit on its head.

Put differently, it is misleading to treat the annual income distribution as if it were static. In any given year, individuals move in and out of different income deciles depending on their life circumstances

(Lukens 2021; Rank, Eppard, and Bullock 2021). Over half of all Supplemental Nutrition Assistance Program cases last less than 12 months, for example, suggesting households become temporarily eligible for food assistance following an income shock, but then recover and lose eligibility within a year or so (US Department of Agriculture 2014).

Giving birth to a child can itself be a source of income volatility. Indeed, the introduction of a new child to the family is the third-leading reason women report turning to traditional welfare programs, and it accounts for 22.9 percent of all “poverty spells” (Crouse and Waters 2014). The US’s traditional welfare system, Temporary Assistance for Needy Families, is thus recognized to function as a kind of maternity leave of last resort for some new mothers close to the poverty level (Hill 2012). In lieu of a child allowance, some cash-strapped new parents are instead forced to turn to means-tested public assistance. Only about 20 percent of workers have access to family leave policies through their place of employment.<sup>3</sup> In a survey of recent leave takers, roughly half of families with incomes under \$30,000 with paid leave that did not fully replace wages ended up relying on public assistance after the birth or adoption of a child (Horowitz et al. 2017). The unconditionality of a child allowance can help divert these parents from public assistance in much the same way unemployment insurance programs can divert dislocated workers from turning to alternatives like disability insurance (which tend to turn into longer-term supports), which in turn can help promote work and mobility in the longer run by keeping people more closely tied to work.

Family tax benefits other than refundable tax credits such as per person exemptions or nonrefundable credits do a comparatively poor job of offsetting the expenses associated with raising a child relative to refundable credits that can provide the same benefit to all people. Consider that the average age of a woman’s first birth in the US is 26, but men and women only reach their peak earning potential at 44 and 55, respectively.<sup>4</sup> These ages imply that nonrefundable tax credits or exemptions provide the largest benefit to families late into their earnings life cycle. Child allowances or refundable tax credits rectify this timing mismatch, providing young parents with the income support that evidence suggests will raise their earning potential in the longer run.

## Tax Credit or Child Allowance?

A child benefit could be structured primarily as either a tax credit or a spending program, and both the IRS and the SSA, or even another government agency, could reasonably administer the program (Sammartino, Toder, and Maag 2002). A tax benefit or a spending program might affect other existing benefits or how the benefits are likely to be delivered (Sammartino, Toder, and Maag 2002).<sup>5</sup> We

describe differences in how basic tests of eligibility would likely be administered and also how choosing one path over another could cause interactions with other provisions in the tax system or transfer system. For example, refundable tax credits are not generally counted as income for purposes of determining program eligibility, nor do they affect the size of transfer benefits a person can receive. But Social Security income is sometimes taxable, offsetting some of the benefit. Moreover, any changes to remove the CTC from the tax system and make it into a child allowance may have unintended consequences if only some of the former CTC recipients are eligible for the new child allowance. Tax credits and child allowances tend to vary in the frequency and timing of how benefits are paid. We outline differences in how benefits would likely be paid under each type of program.

Spending programs typically reflect changes in income and living arrangements throughout the year, allowing them to be more responsive than tax credits to changes in circumstances. A person determines who else is in his or her assistance unit, applies for a benefit, is determined eligible, and then begins receiving that benefit, typically on a monthly basis. In contrast, eligibility for tax credits operates on an annual basis. A person typically determines what “tax unit” he or she is part of, and that tax unit files a tax return between February and April following the completed year. The tax unit generally includes children who have lived with the taxpayer for a majority of the past year and who are under a certain age limit at the end of the year. Spouses are included in the tax unit if they are married at the end of the year. Although members of an assistance unit in a spending program might move throughout the year, people typically belong to only one tax unit, even if they marry or change living arrangements, including how many children they are caring for. Some of the tax benefits from nonrefundable tax credits can be received throughout the year by adjusting tax withholding or estimated tax payments for the tax credits for which a person will be eligible. But refundable tax credits—those that can go beyond offsetting taxes—are typically paid in a single refund after the tax return is processed. Exceptions to this practice are the temporary provision of the ARP that allows up to half of the CTC to be paid monthly, in advance of filing a tax return, and the advance premium tax credit, which is paid throughout the year to insurers offering coverage through the Affordable Care Act.

Finally, even if the two programs were well designed, they would need to be politically feasible. A program lacking political support will not become law. Moreover, certain features of a program could cause it to become politically unsustainable.

## Description of the Child Tax Credit in the American Rescue Plan Act

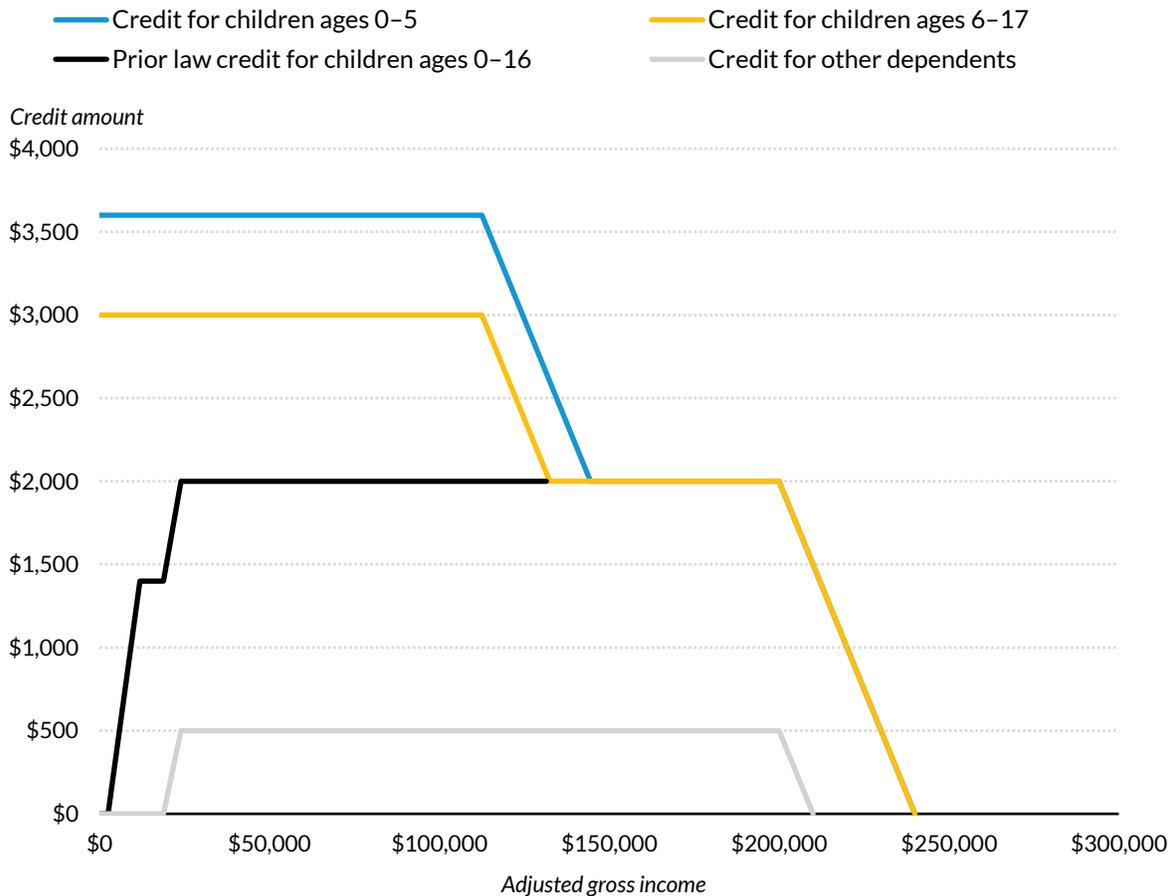
The ARP significantly expanded the CTC. This tax credit, available to over 90 percent of families with children, provides a benefit of up to \$3,600 per child under age 6 and up to \$3,000 per child ages 6 to 17 (figure 1, blue and yellow lines). There is no cap on the total credit amount that filers with multiple children can claim. The credit is fully refundable, so that low-income families qualify for the maximum credit regardless of how much they earn. If the credit exceeds taxes owed, families can receive the excess amount as a tax refund. With full refundability, the credit is now available to the lowest-income families, whereas previously the lowest-income children had been left out of the CTC (Goldin and Michelmore 2021; Greenstein et. al. 2018; Hammond and Orr 2016).

Only children with Social Security numbers (SSNs) are eligible for these benefits. The credit phases out in two steps. First, the credit begins to decrease at \$112,500 of income for single parents (\$150,000 for married couples), declining in value at a rate of 5 percent of adjusted gross income over that amount until it reaches the pre-2021 level of up to \$2,000 per child. Second, the credit's value is further reduced by 5 percent of adjusted gross income over \$200,000 for single parents (\$400,000 for married couples). The income level at which the credit is fully phased out varies based on how many children are in the family. Typically, families claim the CTC on their tax return when they file taxes. But in 2021, up to half of the credit will be paid in advance of filing a tax return. Individuals are receiving regular payments from July through December that will total 50 percent of their total 2021 CTC.<sup>6</sup> The remainder of the credit will be settled when a family files a 2021 tax return. Families may opt out of these payments and instead receive the full credit after they file their 2021 tax return. The ARP includes a provision limiting how much credit a person will need to pay back if advance monthly payments are sent in error, reducing the possibility that low-income taxpayers will need to pay back all or part of any CTC payments that have been advanced (Congressional Research Service 2021). The IRS has not released guidance on what happens if a person receives an advance payment but does not subsequently file a 2021 tax return.<sup>7</sup>

Paying the credit in advance of filing a tax return represents a radical shift in tax credit delivery for families whose CTC exceeds taxes owed. In the years prior to the ARP, no mechanism has existed to make regular payments to families.<sup>8</sup> Higher-income families who use the CTC to offset taxes owed have always been able to have the amount of tax withheld by their employer adjusted to account for the number of children in their family. In effect, these families can have less tax withheld each pay period relative to families with fewer or no children. By doing this, some or all of their CTC is effectively advanced to them throughout the year.<sup>9</sup> Advancing the credit on a monthly basis allows the credit to have the flexibility to meet the many unique needs of American families when needs arise (Hammond and Orr 2016).

Under current law, the CTC is scheduled to revert to its pre-ARP form in 2022 and would stop being advanced as a monthly credit and return to being claimed on a person’s annual tax return.<sup>10</sup> Under the credit’s prior design, which required a minimum of \$2,500 in earnings to benefit from the credit, the CTC could not exceed taxes owed by more than \$1,400 per child (figure 1, black line). In 2018, about 27 million children under the age of 17 lived in families who failed to receive the full \$2,000 per child benefit (Greenstein et al. 2018).

**FIGURE 1**  
**Single-Parent Child Tax Credit for One Child for Tax Year 2021 and Prior Years**



**Source:** Urban-Brookings Tax Policy Center calculations.

**Notes:** Figure assumes all income comes from earnings and child meets all tests to be a CTC-qualifying dependent. The \$3,000 and \$3,600 credits are fully refundable; prior law limited refunds to \$1,400 out of the maximum \$2,000 credit. Credit for married parents first phases out at \$150,000 of income until credit reaches pre-2021 level; the second phaseout begins at \$400,000 of income. Only citizen children qualify for the \$3,000 and \$3,600 credits for children under age 18. Noncitizens under age 18 who meet the dependency tests of eligibility can qualify for the other dependent credit.

Just as prior to the ARP, children and other dependents who do not meet the criteria to receive the CTC can instead receive a credit of up to \$500, often referred to as the “other dependent credit,” that can be used to offset taxes owed. The other dependent credit phases out with the CTC. In 2021, children who are 18; ages 19 to 24 and in school full-time in at least five months of the year; and some children who are not citizens are eligible to receive the other dependent credit (figure 1, gray line). A small number of nonchild dependents also receive this credit.

## Guiding Principles for Permanent Child Benefit Design

Whether a child benefit is delivered through a tax credit or a transfer program, we propose a set of principles to guide its design to maximize the positive impact it has on the well-being of children and their families.

- The benefit should be simple to understand by people who are eligible and simple to administer by the agency with primary responsibility.
- The benefit should be feasible to administer.
- The benefit should be considered in the context of other existing benefits.
- The benefit should support families when they are most in need.

First, the benefit should be simple to understand and to administer. A simple benefit lowers the recipient’s cost of complying with the benefit’s rules in time, money, and effort. Simpler benefits are also more likely to be used and will have fewer associated errors.<sup>11</sup> Programs with high noncompliance rates (errors or fraud) can become political targets and ultimately have their success undermined. Included in simplicity is the notion that the purpose of the program should be simple to understand. If people can count on the payments, research suggests the payments are more likely to be used to support children’s needs (Adams, Amadah, and Fougère 2020).

Second, the benefit should be feasible to administer. Some design choices may be preferred in the short term but not in the longer term. For example, the legislation making the CTC fully refundable and delivering it as a monthly benefit was enacted quickly and under the constraints of the Congressional budget reconciliation process. The IRS is now conducting the challenging task of outreach to find children of nonfiling tax units. At the time of implementation, the IRS most certainly had more reliable information on where the vast majority of children in the country were likely to be living than any other agency. That information aids greatly in having short-term success delivering a benefit to families with children. In the longer term, policymakers could decide a child allowance is better operated by another

agency, which should have adequate lead time to develop information on where children live.<sup>12</sup> Absent legislative changes, the IRS is limited in its ability to share taxpayer information outside of the agency.<sup>13</sup>

Third, the larger ecosystem of benefits should be considered not only to make sure programs can be streamlined as much as possible but also to make sure changes to one benefit do not undermine receipt of other benefits. For example, child benefits in the tax system typically do not affect eligibility for transfer benefits, such as receipt of Supplemental Nutrition Assistance Program benefits or Supplemental Security Income, unless they result in a family's failing an asset test because savings from CTC benefits put them over allowable thresholds. Benefits from Social Security programs tend to be counted as income for purposes of determining eligibility and benefit amount for other transfer programs. If this practice were followed with a child allowance administered by Social Security, it could reduce eligibility for Supplemental Nutrition Assistance Program benefits, offsetting some or all of the child allowance. Legislators could opt to not include a child allowance in income for purposes of determining eligibility for other benefits at the federal level. Moving the CTC out of the tax system and turning it into a transfer benefit could also undermine benefits from the other dependent credit, itself a part of the CTC. It is unlikely that the tax system would retain a benefit like the other dependent credit—which under current law affects some noncitizen children, dependents age 18, dependents ages 19 to 24 and in school full-time in at least five months of the year, and older dependents—absent the CTC.

Finally, benefits should be designed to provide support to children and families when their needs are highest. If a parent leaves the workforce to care for a newborn child, benefits should continue to support that child. The earliest years of a child's life are a formative period when the benefits of stable income to child development are greatest (Duncan and Brooks-Gunn 1997; Duncan, Ziol-Guest, and Kalil 2010; Shonkoff and Phillips 2000), which is reflected in the CTC's larger credit in 2021 for children below the age of six. Nonetheless, these are also the same years when parents are younger and have lower earnings and when they are most likely to reduce their work effort to care for and supervise their child. Analysis of US household income dynamics finds that family income declines by an average of 10 percent near the birth of a child and takes over six months to recover (Stanczyk 2016). Having children is a risk factor for turning to public assistance programs for this reason, which presents a conundrum for advocates of restoring an annual earnings requirement to the CTC (Hill 2012). Although parental employment raises household income and can have clear long-term benefits for children, policy must carefully distinguish between parents of young children who exit the workforce temporarily, or otherwise have low or no income for a transitory period, from those who are chronically underemployed.

Distinguishing between transitory and chronic shocks to income and employment is essential to the role child benefits play in promoting household stability (Milligan and Stabile 2011). When younger and lower-income workers with children suffer an income shock, a fully refundable CTC can serve as a stabilizing force, helping families smooth their income across a period of volatility. Conversely, if the CTC reverts to being phased in with annual earnings, the opposite will be true: an income shock that reduces a family's earnings will be *amplified* by a correspondingly smaller tax refund. Thus, were the CTC to revert to including an earnings test or similar work requirement as it did prior to 2021, a rule that considered work history over a multiyear period would be preferred to one based on concurrent earnings reported in a single tax year. More broadly, research generally finds that the income effects of a child benefit on parental labor supply are small, suggesting a work requirement of any kind may be unnecessary (Blundell and MaCurdy 1999; Milligan and Stabile 2009).

## Determining Eligibility: Differences in Taxes and Transfers

Among the first questions policymakers must address in designing a permanent child benefit is determining who will be eligible to receive the benefit. This decision has different implications that depend on whether the benefit is administered as a tax credit or a child allowance. Likely limitations on eligibility could include the child's age, relationship of the child to the claimant, who lives with the child and for how long, residency requirements, income limitations, and citizenship status.<sup>14</sup> Although either SSA or IRS could administer each of these tests with similar accuracy, there will be slight variations in how they do so. We briefly discuss these differences, and when appropriate we describe how the CTC was traditionally administered and changes that were made in the ARP.

### Age

Eligibility for a tax credit typically depends on the age of the child at the end of the year, while transfer benefits typically rely on age at the time of payment (this is true under both the pre-ARP CTC and the expanded CTC).<sup>15</sup> Typically, tax benefits end the year before a child reaches the maximum age (except for children born on December 31, in which case benefits end the same year a child reaches the maximum age). Transfer benefits typically end when a child reaches a given age. Both the IRS and SSA can verify the age of a child with information on children with SSNs. The IRS also obtains information on the ages of noncitizen children in the process of assigning an individual taxpayer identification

number,<sup>16</sup> which people without an SSN need to file a tax return. Presumably IRS could share information with SSA or another agency if a transfer program was extended to children without SSNs, if appropriate agreements were made between the agencies, though this has not been past practice.

Both tax credits and transfer benefits can deliver the same total benefits over a child's lifetime, but the timing of benefits will differ, particularly for children born later in the year, when benefits will be front-loaded with a tax credit, even if the CTC continues to be administered as a monthly benefit as it is under ARP. For simplicity, assume a benefit is available only during the first year of a child's life and everyone files their tax return on April 15. Under a transfer program that delivers benefits monthly, the child will receive the full year of benefits by 12 months after birth. Under a tax program, the child will receive the full year of benefits on the April 15 in the tax year *after* the child's birth. At the extreme, a child born on December 31 would receive the full year of benefits in just 4 and a half months, on April 15. At the other extreme, a child born on January 1 would not receive the full year of benefits for 16 and a half months. This varying time range would remain even if the credit were delivered as a monthly benefit. Most likely, under a tax credit, monthly payments would begin as soon as an SSN had been assigned to the child and benefit eligibility was established by the IRS. The IRS could deliver the full year of benefits divided equally in the remaining months of the year, or it could begin delivering a pro rata share of the annual benefit monthly, with the remainder of that first year's benefit delivered when the tax return was filed in April.

Payments of a tax credit could be paced like a transfer benefit if the tax credit was delivered monthly in advance of filing a tax return and a pro rata share of the annual benefit was available in a child's first and last year of eligibility. This arrangement has not been proposed, likely because the "bonus" a child would receive in its first year of life could be a welcome feature of a tax credit.

## Relationship

Tax benefits are determined on the basis of a tax unit. These units are typically defined on an annual basis and depend primarily on legal relationships, child residency, and support for the child. Though living situations may change throughout the year, people do not generally belong to more than one tax unit.<sup>17</sup>

A recent proposal to extend the CTC released by the Ways and Means Committee<sup>18</sup> suggests breaking the link between tax units and who is eligible for the CTC. This proposal was not adopted in the legislation that ultimately passed the House in November, 2021. How this will play out in the future is unknown. Spending programs can base benefits on units that are more comprehensive than tax units,

sometimes focusing on the group or people that share resources. For example, the Supplemental Nutrition Assistance Program determines benefits based on the group of people that shares food.

Eligibility tests for which there is no standard third-party substantiation are difficult for any agency to administer. No third-party data are submitted to either the IRS or transfer programs to verify relationship status, though some relationships can be inferred from birth records. Prior work has shown that relationships reported to agencies that administer transfer programs and to the IRS were largely consistent (Maag et al. 2015). Moreover, IRS audit studies have not detected noncompliance with respect to relationship (IRS 2014).

This test can likely be administered in the same way by the IRS and SSA. The likely impact of defining a child benefit as a tax credit or as a spending program is that the tax credit will be available to a narrower set of people—those who meet specific legal relationship tests—than a child allowance, which may rely more on a standard associated with who is caring for a child.<sup>19</sup> At one point, early Ways and Means legislation proposed that the adult who cares for the child in the majority of the month would be eligible for the CTC in that month, and the IRS would need to administer a test it has never been tasked with administering. Although administering an eligibility test on a monthly basis to someone not traditionally included in the tax unit could prove difficult for the IRS, it could allow the CTC to be as flexible as a more traditional spending program. Such a test could also make the CTC more intuitive for families claiming the credit, reducing errors related to who should claim the child (Goldin and Kleiman 2021).

## Residency

Like relationship data, residency data are not reported by a third party that can be used to verify tax filers' reports of child residency. Compliance studies of the earned income tax credit (EITC) show the most frequent type of qualifying child error was the failure of the tax filer's qualifying child to meet the credit's residency test, that is, that the child lived with the taxpayer for over six months of the year (IRS 2014). Benefits that are not all-or-nothing over the course of the year may be less prone to claiming errors because the stakes are somewhat lower. For example, if two people shared custody and each received half the benefit, they may be less likely to claim the full benefit errantly.

## Citizenship

The requirement to file a tax return is not limited to US citizens, nor are all tax benefits limited to US citizens. Any individual engaged in a trade or business in the US during the year must file a tax return. The IRS will assign an individual tax identification number for tax processing purposes to individuals who must file a tax return but who are not eligible for an SSN. Citizenship requirements for various provisions are relatively easy for the IRS to administer because it receives reliable information from SSA. Similarly, SSA can verify eligibility for programs based on citizenship requirements.

Although both SSA and IRS can administer provisions aimed at citizens, IRS is in a position to administer benefits to some noncitizens as well. Moving the CTC out of the IRS and into SSA to be administered as a child benefit could put those noncitizens who receive a small, nonrefundable other dependent credit that is calculated as part of the CTC at risk of not receiving the benefit. Although tax benefits are extended to noncitizens in some cases (Marr et al. 2020), it would be unusual to extend a tax credit only to noncitizens. Moving the CTC from the tax system to a child allowance in the transfer system could, perhaps unintentionally, eliminate the current benefit that goes to noncitizen children.

## Eligibility Tests: Summary

Both SSA and IRS can administer multiple tests of eligibility with only slight differences, but administering the citizenship test outside of the tax system risks eliminating benefits for people who benefit from the other dependent credit portion of the CTC. These are children with individual taxpayer identification numbers instead of SSNs, children ages 19 to 24 and in school full-time in at least five months of the year, and older dependents.

A child benefit outside the tax system would likely cover citizens (or perhaps all children with SSNs) and children under a certain age. It seems unlikely that Congress would provide a benefit in the tax system to children without SSNs if no benefit was available to children with SSNs. It is less clear whether Congress would continue to provide a tax benefit to dependents who are not citizen children under a given age if citizen children under that age were receiving benefits outside the tax system. It is possible that these dependents would lose their tax benefit and not receive a replacement benefit outside the tax system.

Relying on tests that are difficult to administer, regardless of which agency administers them, can undermine a program's credibility and make it a target of legislative cuts. Individuals intended to

receive the benefits should be easily able to demonstrate their eligibility in order to maximize program participation.

## Timing: Payments and Eligibility Determination

There are likely to be differences in the time frame of delivering benefits, the period over which eligibility is determined, and whether benefits can support multiple households if the benefit is a tax credit versus a spending program. We discuss each of these factors, including options that could reduce differences between the two types of benefits.

### Monthly versus Annual Payments

The tax system is designed to deliver annual benefits after the relevant information from the year has been processed.<sup>20</sup> Even the expanded CTC under the ARP, though half of it can be delivered in monthly payments in advance of filing a tax return, will still determine eligibility on an annual basis. The ARP provides a robust safe harbor so that low-income people who receive payments based on outdated information will not be responsible, or will have only limited responsibility, for repaying those benefits, and the person who is actually determined eligible for the CTC on the 2021 tax return will receive the full credit (Congressional Research Service 2021). People with higher incomes who are not protected by the safe harbor provision will need to pay back benefits received in advance of filing a tax return.

In 2020 and 2021, the IRS delivered three economic impact payments in response to the COVID-19 pandemic. The payments were largely delivered to the correct people in the correct location (Government Accountability Office 2021). As of February 2021, the Government Accountability Office reported that the IRS had delivered 168.2 million payments from the first round of payments and 152.4 million payments from the second round. The IRS considered all first- and second-round payments for which they had information to have been distributed. On March 12, 2021, the IRS began dispensing a third round of over 160 million payments.<sup>21</sup> Each of these efforts showed the IRS could deliver payments to a very large swath of the population quickly. Whether these payments came at the cost of IRS's needing to reduce other activities has not yet been determined.

In August 2021, the second month of the monthly CTC program included in the ARP, the IRS sent out payments covering about 61 million children, covering an estimated 1.6 million more children than the first payments that were sent in July.<sup>22</sup> Again, the IRS appears to have the ability to deliver

payments covering a very large share of the eligible population, but the accuracy of those payments remains to be seen.

The SSA, on the other hand, delivers benefits to almost 70 million people each month.<sup>23</sup> Adding a monthly child benefit would roughly double SSA's workload and would, similar to the IRS, translate into questions about whether the SSA could deliver these new payments and current payments without needing to make changes to the agency.

Monthly payments were designed to provide a base amount of support to families with children throughout the year and are intended to increase the dependable cash resources available to cover core expenses. About half of all working-age adults have household incomes that spike above or dip below at least 25 percent of their average monthly income in at least one month of the year. Nearly 40 percent of low-income adults have incomes that spike or dip in at least six months of the year (Maag et al. 2017). These dips can damage children's development by disrupting education and housing and harming mental health (Hardy 2014; Smith-Ramani, Mitchell, and McKay 2017).

Research suggests that boosting the income of low-income families by about \$250 a month, with larger supports needed for very young children, can improve child development (Shaefer et al. 2018). Delivering the CTC on a monthly basis, as the ARP does, better aligns tax benefits with needs in some cases and is likely a particularly important positive feature of a child benefit. In fact, the US Census Bureau's Household Pulse Survey, conducted only two weeks after the first CTC payment on July 15, 2021, found that the payment may have led households with children to experience a decline in their reported difficulty paying household expenses, along with experiencing a 3 percentage-point decline in food insufficiency.<sup>24</sup>

Annual payments have long been the norm in the tax system. Research among EITC recipients has shown that these annual payments can help people save larger amounts of money and make larger purchases (Despard et al. 2015). It may be appropriate, as has been done with the expanded CTC in the ARP, to allow families to choose between a monthly or annual payment.

#### **ANNUAL BENEFITS SUPPORT ONLY ONE HOUSEHOLD**

The American family is changing, and these changes do not align well with the idea that people live with and maintain legal relationships with the same group of people for the entire calendar year (the typical basis for calculating a tax credit). Nonmarital births, complex custody arrangements, and multiple generations of families—each of whom could be supporting a child—are growing more common (Maag,

Peters, and Edelstein 2016). The extent of these changes is not well understood, but it is clear that the tax system has not kept pace.

By basing benefits on an annual determination of eligibility, the CTC leaves out some adults providing significant amounts of care. But allowing subannual determination of eligibility would increase complexity of the benefit and could strain the IRS's ability to administer the credits. It could also create more confusion among people who are eligible for the benefit. The former issue could undermine the CTC as errors increase, and the latter could undermine the CTC because the intended beneficiaries do not understand the benefit. One solution would be to split benefits across multiple tax units so that more than one person could claim the CTC over the course of the year. This solution is typically not allowed in the tax system, but it can happen in transfer programs in which benefits follow the child, as is the case with Supplemental Security Income.

Transfer benefits are determined based on current income streams and can adjust as income changes, so that recipients may gain or lose eligibility over the course of the year. Transfer benefits can also adjust as people move in and out of the household, better aligning current need with current benefits.

#### DELIVERING A TAX CREDIT TO MULTIPLE HOUSEHOLDS

In the long term, as the IRS gains expertise with delivering a monthly benefit, which is happening with the expanded CTC, shortening the eligibility determination period or providing additional flexibility on claiming for part of the year could improve the credit's ability to support vulnerable children and make it function more like a transfer benefit. If the benefit could be split between multiple parties,<sup>25</sup> splitting might hinge on the share of the year each person lived with the child or had primary responsibility for the child.

A system that would require parents to evaluate the amount of benefit they would be eligible for each month based on fluctuations in income would be cumbersome and antithetical to the tax system, which takes a longer view of finances and need. A potentially simpler task is projecting how many months a child will be living with someone and allowing benefits to fluctuate based on changes in residence. Of course, this method would be difficult for the IRS to administer because of competing claims (just as it is difficult for transfer programs to know exactly where a child is), but presumably some lessons on benefit delivery by programs that do allow benefits to move with a child have been learned. Moving toward a benefit that can be split among multiple caregivers, perhaps by allowing a person who claims the CTC to assign up to a quarter of the benefit to a second caregiver, might help balance a

system that traditionally assigns a benefit to one person but seeks to move toward allowing a child benefit that more closely aligns with who actually cares for the child.

As an example, a parent who claims a child on a 2022 tax return (filed in early 2023) could report that a second caregiver should be allocated up to one-quarter of the child benefit that he or she would be entitled to had that second caregiver claimed the child for the full year. Clearly, if the benefit amount is consistent across households of differing income levels, splitting the benefit would be simplified because the child would receive the same benefit regardless of where he or she lived during the tax year. Parents, likewise, would have no incentive to try and maximize their benefit by misreporting where a child was living. Allocating separate calculations of the annualized benefit amount would not be necessary. Only a single calculation would be required of the share of the year a caregiver spent with the child (if the benefit was split based on how long a child lived with a caregiver), or the full benefit would be allocated by formula (perhaps 75 percent to the primary caregiver and 25 percent to the secondary caregiver) if the earlier example was followed. Complexities arise when the benefit phases in (as was the case prior to 2021) or phases out (as was the case prior to 2021 and remains the case in 2021). Different caregivers may qualify for a different benefit level.

As long as benefits are determined at the end of the year and people at different income levels qualify for a different benefit amount, the notion of splitting benefits across households will be complex. It will also produce situations where families have an incentive to game the system, encouraging the parent who would qualify for the largest CTC to claim the child on a tax return rather than encouraging the parent providing the most care to the child to claim the child on a tax return. Any discussion of this issue should keep administration and compliance costs in mind. Additional research in this area could clarify both how important splitting benefits is for different types of families, including families at different income levels, and whether the advantages of splitting benefits outweigh the collateral costs. We describe options for continuing to determine the CTC retrospectively below.

If the child benefit instead moved to the transfer system, and eligibility was established and then payments were made, the task of splitting benefits would be simplified.

## Prospective versus Retrospective Eligibility Determination

### ELIGIBILITY FOR TAX CREDITS IS DETERMINED RETROSPECTIVELY

Final eligibility determination for a tax credit happens *after* the tax year has ended. If advance payments of the CTC continue, problems related to incorrect payments should be anticipated. If eligibility is based

on income, people with volatile incomes may incorrectly anticipate their credit amount. If eligibility is based on residency, people with volatile living arrangements, in which people move in and out of the tax unit, may incorrectly anticipate what children they will be eligible to claim on their tax return. To the extent that likely changes are known, people can provide information to the IRS that will accurately reflect their eligibility the following year. In the case of volatile incomes, making sure that the benefit cannot be reduced if income falls, as is the case with the fully refundable CTC in place in 2021, is one relatively straightforward way to protect low-income families from needing to repay advanced credits at tax time when income drops.

### ADVANCE PAYMENTS CAN LEAD TO OVERPAYMENTS

When eligibility for a tax credit is determined after the year has ended and a tax return is completed, there is little risk of a credit overpayment, though there may still be erroneous payments. Advance payments would introduce the risk of an overpayment, that is, someone getting more credit advanced to them than they are ultimately determined eligible for.

There are at least three responses to overpayments. Individuals who receive more credit than they qualify for could be required to pay the overpayments back, either in full or in part, or allowed to keep the overpayment. We discuss each of these options below. We also note that another way to solve the problem of overpayments would be to determine eligibility for a subsequent year based on a prior return. For example, a person with income below a certain level in 2021 would be eligible for a 2022 credit based on that income. No reconciliation would be needed because eligibility would not be concurrent with receipt. We discuss that option as well, noting that it has the potential to make the tax system less responsive to needs than it currently is.

### THREE OPTIONS FOR DEALING WITH OVERPAYMENTS

Fully reconciling how much tax is owed with how much tax has been paid would mean that families who received too much advanced CTC would be required to pay it back when they filed their tax returns. This was how the advanced EITC was handled when it existed, prior to 2010. In the case of the advanced EITC, the risk of repayment was reduced somewhat by only allowing a fixed share of the anticipated credit to be advanced throughout the year. However, taxpayers who ended up being eligible for less than the amount that was advanced were required to repay the full amount of the overpayment by receiving a lower refund than they were eligible for or by paying money to the IRS when they filed their tax return. In most years, Affordable Care Act advanced premium tax credits that families can use to offset health insurance premiums work similarly for people with incomes of at least 400 percent of the federal poverty level. Overpayments of the advanced tax credit must be reconciled on the tax

return when it is filed. The ARP removed this risk in 2020; no one who received advanced premium tax credits was required to repay them.<sup>26</sup>

Research shows that low-income families are more likely than higher-income families to move from one filing type (single or married) to another, which can change the amount of credit a family qualifies for as income that appears on a tax return is based on marital status at the end of the year (Maag, Peters, and Edelstein 2016). Such changes in filing type may make low-income families more susceptible to receiving advanced payments that turn out to be incorrect if those family changes are unforeseen. To understand whether it is appropriate to have errant payments reconciled, policymakers will need to grapple with how advanced tax credit payments differ from payments necessitated at tax filing that result from underwithholding of taxes throughout the tax year.

If there is a risk of repayment of advanced benefits at tax time, participation in any advanced payment option of the CTC is likely to be reduced, particularly among tax filers with low and moderate incomes. These families, who often have little or no savings, showed great aversion to risking owing money to the IRS at the end of the year when an advanced option for the EITC was available (Holt 2008). The same risk may exist with people who are self-employed and generally subject to higher income volatility, making repayment potentially more difficult.

Partially reconciling advanced payments would mean that only some overpayments would need to be repaid. As noted, some families are required to only pay back a portion of advanced payments of the CTC in 2021 because of the safe harbor provision. This provision phases out based on a family's income, gradually requiring more errant advanced payments to be repaid as income rises (Congressional Research Service 2021). This graduated system is similar to the treatment of families with incomes below 400 percent of the federal poverty level with respect to the advanced premium tax credit (IRS 2021). However, even partial reconciliation carries with it the fear of owing money to the IRS, which can dampen participation in an advanced credit option.

The economic impact payments sent in 2020 and 2021 were not subject to reconciliation. People who received too much economic impact payment were allowed to keep the full payment. If they did not receive the full economic impact payment for which they qualified, they could receive the payment as part of their tax refund. These were temporary provisions, unlike a child benefit that we imagine would be permanent, so individual behavior was unlikely to be affected.

Not reconciling advanced tax credits at tax time in a permanent program could lead to gaming opportunities. For example, divorced parents often opt to share the CTC in the tax system. Because only one parent can receive the credit each year, parents have an agreement that one parent will claim

the credit in even-numbered years and the other will claim the credit in odd-numbered years. If there was no reconciliation at tax time, and advanced payments were based on who received the CTC in the prior year, the parent who was not entitled to claim the credit could receive advanced payments based on their prior tax return, and the parent who was supposed to properly claim the child in the current year could also do so. This practice would increase the cost of the program and could undermine political support for the program.

## **Determining Tax Benefits Prospectively**

It would be possible to eliminate the risk of overpayments by determining eligibility for a tax credit based on prior year income. For example, completing their 2021 tax return would make people eligible for their 2022 CTC. In that case, the 2022 CTC could begin being paid as early as June 2022, based on information on 2021 tax returns. This approach could solve the problem of needing to reconcile overpayments. The benefit, however, becomes less reflective of family circumstances for families who become newly eligible in 2022. Ultimately, the full benefit might not be delivered until the following May, which slows the payment of the full 2022 CTC relative to delivering the benefit at tax time or starting at the beginning of the year, determining eligibility retrospectively.

Policymakers could allow people to become eligible by updating their circumstances to reflect drops in income or increases to the number of children in the tax unit, but doing so would create a “one-sided” bet for individuals and presents a new gaming opportunity. Providing incentives to shift children into new tax units seems counter to the goal of promoting family stability with a child benefit.

Moving away from retrospective eligibility for a tax credit could also undermine the program’s integrity as a tax benefit because it would shift the IRS into a position of delivering benefits in ways akin to transfer programs, rather than resolving benefits by looking back at the year as is done with most tax provisions. Attempts to ask potential beneficiaries to precertify eligibility could be made, but precertification by the beneficiaries presents a potentially cumbersome task for recipients who are familiar with a tax system that resolves benefits annually after the year has ended.

# Other Considerations

## Participation Rate

In general, tax credits garner relatively high participation rates as most people who are eligible for the program receive benefits from the program. Estimates place the EITC participation rate at about 78 percent in tax year 2017. Earlier estimates place participation rates higher, between 80 and 86 percent in 1990 (Scholz 1994). The actual participation rate is unknown, but under either set of assumptions it is relatively high.

Similarly, 9 out of 10 individuals age 65 and older receive Social Security benefits, likely reflecting near universal participation among eligible individuals. High participation rates follow from relatively few administrative hurdles to accessing these benefits, as well as the long relationship between older people and SSA prior to their becoming eligible for benefits.

Most people eligible for the CTC are already filing a tax return, so if the child benefit remains a tax credit, as is the case under current law, claiming the CTC presents relatively little burden to them. If the CTC were to become a child benefit administered by SSA, there would be relatively high start-up costs, but as children were born, benefit take-up could become high as most new parents would already be interacting with SSA to get an SSN for their child and could possibly access automatic benefits at the same time. In contrast, targeted transfer programs like Social Security Disability Insurance tend to have much lower participation rates, related to the relatively high barriers to claiming benefits (Grosz, Foote, and Rennane 2018).

The highest costs associated with applying for the expanded CTC are for people who have not previously filed a tax return, who are likely to have the lowest incomes. As more people claim CTCs, presumably the group of nonfilers will shrink. Attempting to deliver a child benefit immediately through SSA would likely face difficulties as SSA does not have access to information on how families are structured and where children live.<sup>27</sup> That situation could change over time if SSA were given information from the IRS or SSA performed outreach among SSN holders.

## Benefit Sustainability

Benefit sustainability may differ depending on whether the benefit is administered as a tax credit or a transfer benefit. Benefits delivered through the tax code are, at least for now, more popular than those delivered through the transfer system. Recipients of benefits delivered through the tax system are

viewed as more deserving, making these benefits potentially more sustainable over the long run, relative to benefits delivered through the transfer system (Ellis and Faricy 2021). In the case of the CTC, which was first implemented in 1997, there is a long legislative history of revisions that made the credit more generous than the previous versions of the credit.

## Conclusion

Moving the CTC from the tax system to the transfer system could be advantageous for several reasons. The eligibility period might be more naturally timed to a child's life, with the ability to respond quickly to downswings in income, and SSA has more experience moving benefits to follow a child to different households. But it would come at some risk to people who benefit from the other dependent credit (older dependents, students ages 19 to 24, and children without SSNs), which seems unlikely to stay as a tax benefit if the CTC is removed. Moving the CTC to the transfer system could also come with relatively high start-up costs as people would need to apply for the benefit without SSA's having most necessary information available, unless the IRS were permitted to share information with SSA, something the IRS has a limited ability to do under current regulations.

Hybrid options for a child benefit, drawing on the strengths of both the tax and transfer systems, might be most effective at maximizing the positive benefits for children and their families. For example, the IRS could evolve to become more like a benefits administrator, rather than just as a revenue collector, as it has already done in the past year by performing outreach to long-neglected communities, increasing take-up rates of tax benefits.<sup>28</sup> The IRS could do even more, particularly if Congress appropriated funding specifically designed to improve its success in reaching people who are not already filing tax returns.

The IRS could be restructured to better reflect the tasks of the agency. Restructuring could include offices focused on outreach and customer service (akin to SSA benefits offices) that were not also responsible for collection and enforcement efforts (Hammond and Koggan 2021; Zucker, Robertson, and Olson 2021).

To successfully fill these new roles as well as its other roles, the IRS will need more secure funding. Congress could change the appropriations structure for the IRS to mandatory, consistent, adequate multiyear funding, which would allow the agency to plan appropriately (Rettig 2021).<sup>29</sup> Although such funding is needed by any government agency, it is particularly vital for an agency that provides the basis for funding for the rest of the government. Establishing mandatory funding could also make the IRS

more resilient to potential scandals—real or imagined—that could result in reduced funding for the agency under the current structure (Hammond and Koggan 2021).

The costs associated with filing tax returns, and in turn claiming the child benefit, could be reduced significantly if the IRS created direct filing software on the IRS website. Currently, the IRS maintains a memorandum of understanding among private tax preparation software providers that participate in the FreeFile Alliance. The initial electronic filing portal for claiming the CTC was developed outside the IRS. The IRS also expends resources toward oversight of the program that could be used for internal IRS projects. The reliance on third-party tax preparers hurts EITC recipients, in particular. As the Progressive Policy Institute notes, tax preparation companies trim more than 10 percent off of low-income workers' EITC refunds on average. A free, in-house filing system would also complement the online portal developed to help deliver the new monthly CTC, particularly if it was combined with prepopulated returns (Hammond and Koggan 2021).

Perhaps most important for serving the needs of children and their families would be for the IRS and SSA to have greater cross-agency collaboration, regardless of whether the benefit is administered as a tax credit or in a transfer program. One could imagine, for example, the ability to apply for the CTC via an SSA field office, with SSA sharing the appropriate information with the IRS. SSA also could provide substantial assistance to the IRS and eligible individuals by providing a way for people with children who attain an SSN to be automatically notified of the CTC. Likewise, if regulations regarding information sharing were relaxed, IRS could provide information to SSA on who claims children, providing the basis for SSA to locate eligible individuals.

As the CTC becomes familiar to more beneficiaries, it may become more difficult to move the credit from the IRS to SSA. People will have overcome the start-up costs associated with learning about a new benefit and then be required to face those again. But that difficulty does not mean that policymakers should not find opportunities for significant collaboration between the two agencies to create a benefit that is simple to understand and easy to administer, continues to provide considerable assistance to the lowest-income families, and remains coordinated with other child benefits.

# Notes

- <sup>1</sup> Kelly McBride and Gabriel Zucker, “Ensuring Families Who Qualify for the Child Tax Credit Aren’t Left Behind,” *News and Stories* (Code for America blog), August 5, 2021.
- <sup>2</sup> Angela Rachidi, “How Would a Child Allowance Affect Employment?,” *AEIdeas* (blog), February 8, 2021, <https://www.aei.org/poverty-studies/how-would-a-child-allowance-affect-employment/>.
- <sup>3</sup> National Partnership for Women and Families, “Paid Leave,” n.d., <https://www.nationalpartnership.org/our-work/economic-justice/paid-leave.html>.
- <sup>4</sup> Teresa Perez, “Earnings Peak at Different Ages for Different Demographic Groups,” *Payscale.com*, June 4, 2019, <https://www.payscale.com/data/peak-earnings>.
- <sup>5</sup> In theory, two programs could be developed, one a tax credit and one a spending program—perhaps to cover different groups of people—but doing so adds complexity and increases the chance that people will be unintentionally left out of benefits. For simplicity, we focus comments on the impact of structuring the main benefit as either a tax or spending program, recognizing that small add-on programs may be necessary to cover the full intended population, and suggest ways the IRS and SSA could work together in program administration.
- <sup>6</sup> “Advance Child Tax Credit Payments in 2021,” Internal Revenue Service, reviewed or updated October 22, 2021, <https://www.irs.gov/credits-deductions/advance-child-tax-credit-payments-in-2021>.
- <sup>7</sup> Keith Fogg, “Advanced Child Tax Credit,” *Procedurally Taxing* (blog), May 19, 2021, <https://procedurallytaxing.com/advanced-child-tax-credit/>.
- <sup>8</sup> Previously an option to receive a portion of the EITC in advance was available. Few people participated in the program, and it was discontinued in 2010. See “Advance Earned Income Tax Credit: Low Use and Small Dollars Paid Impede IRS’s Efforts to Reduce High Noncompliance,” GAO-07-1110, Government Accountability Office, August 10, 2007, <https://www.gao.gov/products/gao-07-1110>.
- <sup>9</sup> “Federal Income Tax Withholding Methods: For Use in 2021,” Publication 15-T, Internal Revenue Service, <https://www.irs.gov/pub/irs-pdf/p15t.pdf>.
- <sup>10</sup> As of this writing, a one-year extension of the 2021 has passed the House of Representatives. See Emily Chchrane and Jonathan Weisman, “House Narrowly Passes Biden’s Social Safety Net and Climate Bill,” *New York Times*, November 19, 2021.
- <sup>11</sup> See the Tax Policy Center’s Briefing Book at <https://www.taxpolicycenter.org/briefing-book>.
- <sup>12</sup> Elaine Maag, “Should IRS or Social Security Administer a Monthly Child Benefit?” *TaxVox* (blog), February 17, 2021.
- <sup>13</sup> See 26 U.S.C. § 6103.
- <sup>14</sup> Other issues may also be important to eligibility, such as who provides support for the child or how much of the year the child lives in the United States. We see these as secondary issues that would likely be dealt with similarly by both the IRS and SSA and do not address them further.
- <sup>15</sup> The IRS sometimes accounts for the age of the child at other points in the year. For example, during the year a child turns 13, taxpayers may claim benefits for the child and dependent care tax based on any qualifying expenses that were incurred prior to the child’s turning 13. The IRS could, similarly, deliver CTC benefits for only the portion of the year that a child meets the qualifying age test. However, it is more common for the IRS to use the child’s age at the end of the year when determining eligibility for benefits.
- <sup>16</sup> “How Do I Apply for an ITIN?,” Internal Revenue Service, last reviewed or updated September 28, 2021, <https://www.irs.gov/individuals/how-do-i-apply-for-an-itin>.

- <sup>17</sup> Exceptions exist for children of unmarried parents. It is possible that the custodial parent may claim the EITC, but the noncustodial parent may be able to claim the child as a dependent for purposes of the CTC and head of household filing status.
- <sup>18</sup> “Committee Print Consisting of Subtitles F, G, H, AND J: Budget Reconciliation Legislative Recommendations Relating to Infrastructure Financing, Green Energy, Social Safety Net, and Prescription Drug Pricing,” Budget Reconciliation Legislative Recommendations Relating to Infrastructure Financing, Green Energy, Social Safety Net, and Prescription Drug Pricing, September 10, 2021, [https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/SUBFGHJ\\_xml.pdf](https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/SUBFGHJ_xml.pdf).
- <sup>19</sup> There have been proposals to make the relationship test more flexible, such as adopting a “primary carer” standard like the one used in Australia (National Taxpayer Advocate 2016). To date, they have not been seriously considered by lawmakers in the US. Adopting this standard would mean more people may have claims on the benefit, potentially making it more difficult for the IRS to sort out competing claims.
- <sup>20</sup> There are at least two exceptions to the IRS’s waiting to pay refundable tax credits until after the tax year has ended. Since 2010, the premium tax credit has been available to offset the costs of health insurance for some people. Families assert eligibility for the credits based on prior year information and household composition, and then their insurance company receives payments on behalf of the family. At the end of the year, when a tax return is filed, the amount paid in advance is reconciled with how much the family actually qualifies for. In tax year 2015, about 1.6 million taxpayers overestimated the amount of premium tax credit they were eligible to receive. Although some low-income families do not have to pay back payments made in excess of what they were actually eligible for, some families must repay amounts that were overpaid. In 2015, the average amount of overpayment was just under \$800 (Cox. et al. 2015).
- The EITC was also paid in advance to a relatively small group of people from 1979 to 2010. Families could receive a portion of the credit they expected to be eligible for from their employers. The program suffered from very low take-up and a high error rate (GAO 1992). Both of these factors likely contributed to the program’s being ended in 2010.
- <sup>21</sup> “SOI Tax Stats—Coronavirus Aid, Relief, and Economic Security Act (CARES Act) Statistics,” Internal Revenue Service, last reviewed or updated June 28, 2021, <https://www.irs.gov/statistics/soi-tax-stats-coronavirus-aid-relief-and-economic-security-act-cares-act-statistics#EIP3#EIP3>.
- <sup>22</sup> “Treasury and IRS Disburse Second Month of Advance Child Tax Credit Payments,” Press Release, US Department of the Treasury, August 13, 2021, <https://home.treasury.gov/news/press-releases/jy0322>.
- <sup>23</sup> “Monthly Statistical Snapshot, September, 2021,” Social Security Administration, [https://www.ssa.gov/policy/docs/quickfacts/stat\\_snapshot/](https://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/).
- <sup>24</sup> Daniel J. Perez-Lopez, “Economic Hardship Declined in Households with Children as Child Tax Credit Payments Arrived: Household Pulse Survey Collected Responses Just before and Just after the Arrival of the First CTC Checks,” *America Counts: Stories behind the Numbers* (blog), August 11, 2021, <https://www.census.gov/library/stories/2021/08/economic-hardship-declined-in-households-with-children-as-child-tax-credit-payments-arrived.html>.
- <sup>25</sup> If a child meets the test to be a qualifying child for more than one person, generally only one person can claim all of the tax benefits for that child (i.e., the CTC, head of household filing status, child and dependent care tax credit, and EITC). If the rules were changed to allow splitting of benefits between multiple parties, this rule would also need to be modified.
- <sup>26</sup> “IRS Suspends Requirement to Repay Excess Advance Payments of the 2020 Premium Tax Credit; Those Claiming Net Premium Tax Credit Must File Form 8962,” Internal Revenue Service, April 9, 2021, <https://www.irs.gov/newsroom/irs-suspends-requirement-to-repay-excess-advance-payments-of-the-2020-premium>.

- <sup>27</sup> Elaine Maag, "Should IRS or Social Security Administer a Monthly Child Benefit?," *TaxVox* (blog), February 17, 2021, <https://www.taxpolicycenter.org/taxvox/should-irs-or-social-security-administer-monthly-child-benefit>.
- <sup>28</sup> *Taxpayer First Act: Report to Congress*, Internal Revenue Service, January 2021, <https://www.irs.gov/pub/irs-pdf/p5426.pdf#page=36>.
- <sup>29</sup> "Senate Finance Committee Hearing on 2021 Tax Filing Season," C-SPAN, April 13, 2021, <https://www.c-span.org/video/?510750-1/senate-finance-committee-hearing-2021-tax-filing-season>.

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