

Should we advance tax credits? Can we?

Thinking through monthly tax credit advances for families of young children

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National Tax Association

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TAX POLICY CENTER
URBAN INSTITUTE & BROOKINGS INSTITUTION

- Volatile incomes can be bad for low-income children
 - Increased risk of food insecurity
 - Can delay access to health care
 - Increase stress...
- Nearly 40 percent of low-income working age families have incomes that spike or dip in at least six months of the year
- Families, particularly those with young children, tend to experience income drops surrounding the birth of a child.

Refundable tax credits financially important



- Low-income families can get a substantial share of annual income from tax credits

Share of income from various sources, full year						
Less than twice poverty						
	Earnings	Other	CTC - 2018	EITC	CTC - 2021	
Total	67%	17%	7%	10%	19%	
Number of children under age 18						
1	68%	18%	5%	9%	13%	
2	67%	15%	7%	11%	19%	
3+	66%	17%	9%	9%	24%	
Filing Status						
Married	71%	12%	8%	8%	18%	
Head of household						
Male	71%	11%	7%	10%	19%	
Female	60%	24%	6%	11%	20%	

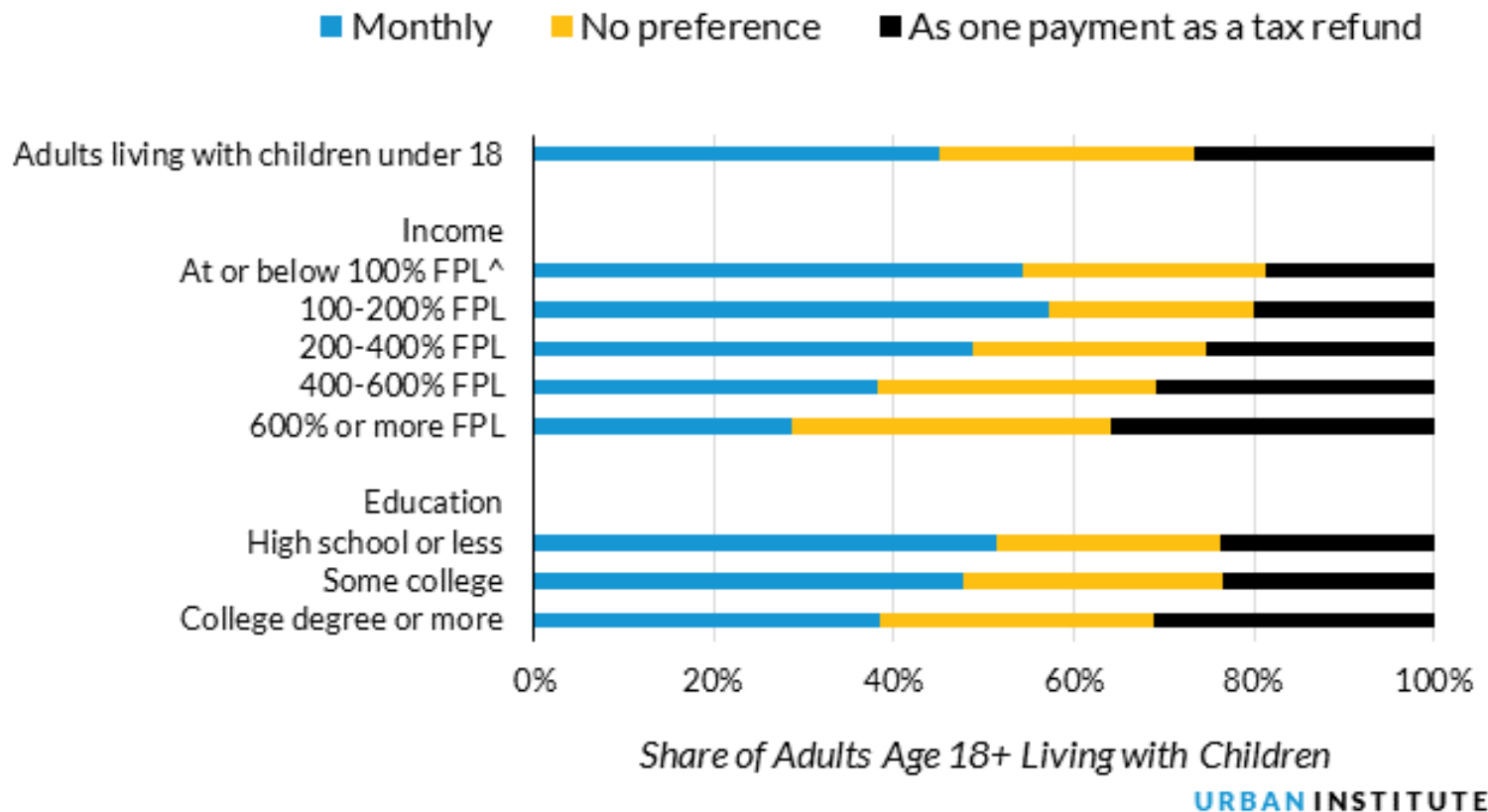
- Very low participation (3%)
 - Administered by employer
 - Fear of repayment
- High error rate
- Small amounts of money (~\$100 per month)

- For CTC...
 - \$500 if expanded
 - \$160 if not expanded (higher if fully refundable)
 - Higher for families with young children if CTC is expanded.
- Operated through government
- Opt-out / hold harmless
- More total aid coming through tax system

Is this a solution in search of a problem?

Preference for Monthly or Annual Child Tax Credit

Adults with children living at home



Source: December 2021 Urban Institute Well-Being and Basic Needs Survey

- Hold harmless will likely be controversial
 - Could cost a lot
 - Could be seen as a gaming opportunity
- Improve predictions using more recent data?
 - Look at quarter 1 of year – assume continuity for the rest of the year.
 - Compare to end of year
- Limit to families with young children?
 - No school lunch, more child care costs, less likely to be working

How good are annual predictions from Q1 data?



Predicting EITC and CTC Summary

	EITC	CTC - 2018	CTC - 2021
Predict within 10 percent	65%	69%	79%
Under predict	17%	19%	9%
Over predict	18%	12%	11%
Median error if under	-1,635	-983	-3,600
Median error if over	1,299	1,046	3,000

- Test various advancement schemes
 - Could families file taxes in Q1 and predict credits based on what's happened that year?
 - Begin payments in July (summer!)
 - When file tax return next year, opt to receive remainder – or – keep monthly payments going.
- Ongoing work on year-over-year changes