Should we advance tax credits?  
Can we?  

Thinking through monthly tax credit advances for families of young children  

May 2022  
National Tax Association  
@ElaineMaag  
Emaag@urban.org
Reasons to advance payments / smooth income

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

### Share of income from various sources, full year

<table>
<thead>
<tr>
<th>Source</th>
<th>Less than twice poverty</th>
<th>Earnings</th>
<th>Other</th>
<th>CTC - 2018</th>
<th>EITC</th>
<th>CTC - 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td></td>
<td>67%</td>
<td>17%</td>
<td>7%</td>
<td>10%</td>
<td>19%</td>
</tr>
<tr>
<td>Number of children under age 18</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td></td>
<td>68%</td>
<td>18%</td>
<td>5%</td>
<td>9%</td>
<td>13%</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td>67%</td>
<td>15%</td>
<td>7%</td>
<td>11%</td>
<td>19%</td>
</tr>
<tr>
<td>3+</td>
<td></td>
<td>66%</td>
<td>17%</td>
<td>9%</td>
<td>9%</td>
<td>24%</td>
</tr>
<tr>
<td>Filing Status</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Married</td>
<td></td>
<td>71%</td>
<td>12%</td>
<td>8%</td>
<td>8%</td>
<td>18%</td>
</tr>
<tr>
<td>Head of household</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td></td>
<td>71%</td>
<td>11%</td>
<td>7%</td>
<td>10%</td>
<td>19%</td>
</tr>
<tr>
<td>Female</td>
<td></td>
<td>60%</td>
<td>24%</td>
<td>6%</td>
<td>11%</td>
<td>20%</td>
</tr>
</tbody>
</table>
Past failures: Advanced EITC

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

- 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

- Monthly
- No preference
- As one payment as a tax refund

Adults living with children under 18

- Income
  - At or below 100% FPL
  - 100-200% FPL
  - 200-400% FPL
  - 400-600% FPL
  - 600% or more FPL

- Education
  - High school or less
  - Some college
  - College degree or more

Share of Adults Age 18+ Living with Children

Source: December 2021 Urban Institute Well-Being and Basic Needs Survey
New way to predict

- 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

<table>
<thead>
<tr>
<th></th>
<th>EITC</th>
<th>CTC - 2018</th>
<th>CTC - 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Predict within 10 percent</td>
<td>65%</td>
<td>69%</td>
<td>79%</td>
</tr>
<tr>
<td>Under predict</td>
<td>17%</td>
<td>19%</td>
<td>9%</td>
</tr>
<tr>
<td>Over predict</td>
<td>18%</td>
<td>12%</td>
<td>11%</td>
</tr>
<tr>
<td>Median error if under</td>
<td>-1,635</td>
<td>-983</td>
<td>-3,600</td>
</tr>
<tr>
<td>Median error if over</td>
<td>1,299</td>
<td>1,046</td>
<td>3,000</td>
</tr>
</tbody>
</table>
Next Stage

- 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