POVERTY & SOCIAL POLICY BRIEF Vol. 2 No. 4 July 26, 2018

A CHILD TAX CREDIT in CALIFORNIA:

Correcting Inequities Created by the Tax Cuts & Jobs Act (TCJA) Would Cut Deep Child Poverty by Nearly 1/3rd

Christopher Wimer[a], Sophie Collyer[a], David Harris[a,b]

a Columbia University Center on Poverty and Social Policy
b Children's Research and Education Institute

The Child Tax Credit (CTC) is the closest policy that the U.S. currently has to a universal benefit for families with children.[1] But under the current structure of the credit, many low-income families are left out (the credit also phases out for families with higher incomes).[2] Inequalities in the benefit structure have been exacerbated by the recent changes to the CTC under the Tax Cuts and Jobs Act (TCJA). In particular, higher-income families realize the full benefit of the expansion from $1,000 to $2,000 per qualifying child while lower-income families see much smaller benefits or even, in some cases, a net tax increase. For example, a single parent working full time, full year at the minimum wage receives a total CTC of $1,400 no matter how many children she has— while some families earning up to $400,000 receive $2,000 for each child. Approximately 1/3rd of all children are in families who earn too little to get the full $2,000 per child tax credit.[3] Those disproportionately left out of the full benefit include families working full time, full year at the minimum wage, larger families (those with multiple children), many military families, rural families (who are poorer on average), families with young children (who earn less than those with older children), as well as families generally struggling to find steady work.

The unevenness of the CTC expansion provides an opportunity for states to correct this imbalance and ensure that low- and moderate-income families benefit equally as compared to their higher-income peers. In this brief, we simulate the costs and benefits of such a correction in the state of California, which is currently considering ways of reducing child poverty. California has the highest rate of child poverty in the country, and the state recently enacted legislation creating a task force to come up with a plan to substantially decrease child poverty and eliminate deep poverty among children.[4] In related work, we have shown how an expanded child benefit could more fully support families with children.[5] But here we present a more modest opportunity that would provide a "down payment" on moving towards a more equitable CTC for families with

1. Prior to the Tax Cuts and Jobs Act of 2017 (TCJA), the Child Tax Credit was non-refundable, but part of the credit could be refunded through the Additional Child Tax Credit. When we refer to the pre-TCJA Child Tax Credit, we are referencing the combined credit that a tax filer would receive through the Child Tax Credit and the Additional Child Tax Credit.
2. The credit begins to phase out for joint filers with over $400,000 in earned income and single fliers with over $200,000 in earned income.
3. See https://www.cbpp.org/blog/canadian-style-child-benefit-would-cut-us-child-poverty-by-more-than-half.
4. See https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201720180AB1520.
5. See https://www.rsfjournal.org/doi/full/10.7758/RSF.2018.4.2.02.

Columbia Population Research Center
Advancing Research in Population, Health, and Society

CENTER ON POVERTY & SOCIAL POLICY at Columbia University

children in California. Child poverty is, however, an issue across the country, and a policy that expands the CTC is possible in any state looking to make sure that tax credits work to benefit all children and families.

If California were to pursue a proposal that eliminates the gap created by the TCJA, it would not be the first state to have a fully refundable CTC; Wisconsin recently enacted a universal $100 per child tax credit. But California would become the first state to have a fully refundable CTC that provides a more substantial benefit. Proposals to make the CTC fully refundable have been proffered before, most recently in a brief by the Gates Foundation Partnership on Poverty and Mobility. Here we provide what we believe to be the first proposal for a state to fill in the gap left by federal CTC policy.

In California, we find that a policy ensuring all Californian families (except for the wealthiest) receive a Child Tax Credit of $2,000 per child would:

- Lift more than 1 out of every 7 poor Californian children and their families above the poverty line, decreasing the child poverty rate in California from 20.9% to 17.8%; it would also lift 1 in 6 poor young children and their families above the poverty line, decreasing the young child poverty rate from 19.3% to 16.0%.

- Lift nearly 1 out of 3 children in deep poverty and their families above the deep poverty line (below 50% of poverty), decreasing the child deep poverty rate in California from 5.5% to 3.8%; it would also lift over 1 in 3 deeply poor young children and their families above the deep poverty line, decreasing the young child deep poverty rate from 4.7% to 3.0%.

- Lift nearly 2 out of every 5 extremely poor Californian children and their families above the extreme poverty line ($2 per day per household member), decreasing the extreme poverty rate for children in California from 1.3% to 0.8%; it would also lift 3 in 10 extremely poor young children and their families above the extreme poverty line, decreasing the young child extreme poverty rate from 1.0% to 0.7%.

Methods

To estimate the costs and benefits of a California CTC, we harness data from the Census Bureau's Current Population Survey (CPS), a nationally-representative household survey used to calculate poverty in the United States. We use the Supplemental Poverty Measure (SPM), an improved measure of income poverty that captures not just pretax cash income but also resources families receive from in-kind benefits and from tax credits like the CTC. We conduct two primary simulations: (1) All families with children with incomes lower than the CTC's current "phaseout" range receive the full $2,000 per child under age 17, regardless of whether they currently receive any CTC and (2) All families with children under 6 with incomes lower than the CTC's current "phaseout" range receive the full $2,000 per child, regardless of whether they currently receive any CTC. We examine the effects of these simulations on (a) child poverty; (b) young child (under 6 years old) poverty; (c) child deep poverty (under 50% of the poverty line); (d) young child deep poverty; (e) child extreme poverty (under $2 per person per day); (f) young child extreme poverty.

Results of a CTC Expansion in California

Table 1 below shows results of our first simulation, a California CTC that ensures all families with children below the CTC's current phaseout range receive the full $2,000 per child.

Table 1: Poverty Impacts of Child Tax Credit Expansion in California

Population	*Poverty Impacts*		*Deep Poverty Impacts*		*Extreme Poverty Impacts*	
Percent Reduction in Child Poverty (<17)	15.0%		30.3%		39.3%	
Percent Reduction in Young Child Poverty (<6)	17.4%		37.6%		31.6%	
No. of Children Moved Out of Poverty	269,000		143,000		43,000	
No. of Young Children Moved Out of Poverty	97,000		52,000		9,000	
	Pre-Reform	*Post Credit Expansion*	*Pre-Reform*	*Post Credit Expansion*	*Pre-Reform*	*Post Credit Expansion*
Child Poverty Rate (<17)	20.9%	17.8%	5.5%	3.8%	1.3%	0.8%
Young Child Poverty Rate (<6)	19.3%	16.0%	4.7%	3.0%	1.0%	0.7%
Cost	$3.6 billion					

A less costly plan, modeled in our second simulation, would eliminate disparities between the credits received by wealthier families and low-income families with young children under age 6 who are a target of much policy concern. Such a reform for these young children would reduce the child poverty rate for young children by 1/10th, the deep poverty rate by over a quarter, and the extreme poverty rate by almost 3/10ths, at a cost of approximately $1.2 billion. See Table 2 below.

Table 2: Poverty Impacts of Child Tax Credit Expansion for Young Children (<6 y.o.) in California

Population	*Poverty Impacts*		*Deep Poverty Impacts*		*Extreme Poverty Impacts*	
Percent Reduction in Young Child Poverty (<6)	10.4%		25.5%		30.0%	
No. of Young Children Moved out of Poverty	58,000		34,000		9,000	
	Pre-Reform	*Post Credit Expansion*	*Pre-Reform*	*Post Credit Expansion*	*Pre-Reform*	*Post Credit Expansion*
Young Child Poverty Rate (<6)	19.3%	17.3%	4.7%	3.5%	1.0%	0.7%
Cost	$1.2 billion					

In short, correcting the inequities embodied in the recent expansions to the CTC under the TCJA would yield meaningful reductions in child poverty, deep poverty, and extreme poverty. With state-level tax policies, California and other interested states face an opportunity to reduce poverty and disadvantage among families with children that are exacerbated by recent changes in federal tax law.

Future Research

While these analyses provide useful information for the state of California, there is much more that could be done to understand how tax policy could better support families with children. In future research, we will analyze the composition of the population currently left out of the benefits of the recent TCJA CTC expansion. We also hope to estimate the impacts and costs of a state-level policy that reverses the inequalities in the CTC created by the TCJA for all states.