The Daily Dish

ARP and the Child Tax Credit

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Eakinomics: ARP and the Child Tax Credit

Among the most touted elements of the American Rescue Plan (ARP) is the expanded Child Tax Credit (CTC), which proponents advertise as cutting child poverty in half. The ARP increases the CTC to $3,000 per child – $3,600 for any child under age 6 – and increases the age limit to include 17-year-olds. Gordon Gray has a comprehensive review; let's just look at a few features.

First, the ARP makes the credit fully refundable. That means the "tax credit" doesn't simply reduce taxes, maybe even to zero. You get the full value of the credit in some combination of lower taxes and cash. A single parent with a 4-year-old and a 17-year-old with $0 earned income would be eligible for a $6,600 benefit under the ARP. The real-world characterization of this program is "writing checks," even to those that do not work.

Second, the ARP only authorizes the shiny, new CTC for 2021. If you believe that's the real plan, I've got a 2021 NCAA bracket to sell you. If the policy were made permanent, it would likely cost on the order of $1.6 trillion over the next decade. That's the plan.

Third, the most interesting (at least to me) part is tucked away under the euphemistically titled "Administrative Challenges" section of Gray's paper. That's because part of the great fanfare is the promise to send the checks every month. Technically, this means that the CTC is "advanceable," but that advanceability raises two issues. The first is it will take time to implement. Gray notes that the legislation anticipated this challenge. "The statute states (bold added): The Secretary of the Treasury (or the Secretary's designee) shall establish the program described in section 7527A of the Internal Revenue Code of 1986 **as soon as practicable** after the date of the enactment of this Act?." He adds: "In recent testimony, IRS Commissioner Rettig emphasized the significant workload confronting the IRS, not the least of which is the delayed filing season, and raised the potential for delay. Former U.S. Taxpayer Advocate Nina Olson, however, has stated that to get the program up and running, 'there needs to be at least 18 months lead time, and even that is a stretch.'"

The second issue is getting the payments right. Again, per Gray: "Advanceable individual income tax credits face administrative challenges and have been attempted in the past – specifically an advanceable Earned Income Tax Credit (EITC), which was repealed during the Obama Administration. Indeed, refundable credits can face significant error rates. The IRS, for example, has estimated that between 21 percent and 26 percent of EITC claims are paid in error." One in four paid in error is a LOT of errors, and an anti-poverty program for children should be better than sending checks randomly. Gene Sperling, the Coordinator for the ARP, has been tasked with protecting the taxpayer as this $1.9 trillion budgetary Frankenstein rolls out. He should pledge that no CTC checks be sent out until testing ensures an error rate of no more than 10 percent.

The ARP has transformed the CTC. It bears close watching going forward.