The Child Tax Credit

DOUGLAS HOLTZ-EAKIN | SEPTEMBER 24, 2021

Eakinomics: The Child Tax Credit

I testified Wednesday before the Select Subcommittee on the Coronavirus Crisis, and a surprising amount of energy on the Democratic side of the (virtual) dais was devoted to defending the proposed modifications to the Child Tax Credit (CTC). To review, up to 2020, the CTC was a maximum of $2,000 for each child under 17. And the credit was close to really being a credit because if an individual's tax liability got to zero, they were not guaranteed to get the full $2,000. Instead, the "refundable" credit was capped at $1,400.

The American Rescue Plan (ARP) increased the credit to $3,000 per child under 18, with $3,600 for children under 6 years of age. Also, the CTC is now fully refundable; even if an individual has no tax liability, they receive a check for the full amount of the credit. To top it off, the $250 or $300 of the credit is mailed to the parents each month. The short version is that taxpayers are financing monthly checks to 90 percent of parents, no questions asked.

The first of these monthly checks has arrived and Democrats were vehement in their defense, with the argument being that the first checks showed that a woman making $25,000 would spend the money on an essential such as food, rent, or utilities. Fair enough; there is no reason to doubt America's commitment to helping lower-income individuals and children (after all, there is already a CTC, for example). But the CTC does not begin to phase out until $400,000 for a joint return and $200,000 in other cases. Why are we sending monthly checks to parents at such a high level of affluence?

After all, it is a lot of money. As noted by Gordon Gray, the CTC in the Ways and Means-passed reconciliation bill costs $556 billion – and that covers only the next 5 years. A permanent CTC would easily pass the $1 trillion mark, and it is the undisguised aim of the proponents for it to be permanent.