

Expanding Refundable Tax Credits In Response to COVID-19

The spread of COVID-19 has unleashed a health and economic crisis of unprecedented scope. Millions of workers have lost their jobs, despite the passage of sizeable stimulus packages, and unemployment rates are projected to remain high through 2021. Many families' incomes will drop precipitously this year, and boosting their incomes will be critically important to ensure their well-being, enable them to meet basic needs, and stabilize the economy. In addition to increasing [nutrition assistance](#), [housing assistance](#), [unemployment insurance](#), and [other income supports](#), lawmakers must expand refundable tax credits to help mitigate the economic devastation of COVID-19 and ensure an equitable recovery.

Refundable Tax Credits Increase Well-Being and Reduce Poverty for Women and Families

Economic insecurity is a common experience for the vast majority of American families. Many women [cannot provide for their families on their paychecks alone](#). While financial precarity is a common story, it is felt unevenly, with women – especially women of color, women with disabilities, older women, LGBTQ individuals, and immigrant women – [disproportionately likely to experience poverty](#) and hardship.

Refundable federal income tax credits like the EITC and CTC are an important tool to help families make ends meet and reduce the harsh effects of gender and racial inequity in our economy.

- If counted in the official poverty measure, [the EITC](#) would have lifted the incomes of more than 4.5 million people above the federal poverty level in 2017. This includes more than 1.2 million women 18 and older, more than 2 in 3 of whom were women of color, and nearly 2.5 million children, nearly 3 in 4 of whom were children of color.
- If counted in the official poverty measure, [the CTC](#) would have lifted approximately 4.3 million people out of poverty in 2018, including about 2.3 million children.
- The EITC [supports women's employment](#). As a result, it has been shown to [boost women's Social Security retirement benefits](#).
- The boost in income provided by refundable tax credits like the EITC and CTC improves [health and educational outcomes](#) for women and their children. [Research shows](#) that the added income from tax credits makes the biggest difference to the youngest and poorest children.
- Because women of color make up a [disproportionate share of poorly paid workers](#), the EITC and CTC [especially benefit women of color](#).

Refundable Tax Credits Are Effective Anti-Recessionary Measures

In general, when people with low incomes receive tax refunds, they spend them quickly because they need to pay bills, rent, or for other necessities. For example, even when the economy is not in crisis, families (and especially families with lower incomes) receiving tax refunds [increase their spending and reduce their credit card debt](#). When people's paychecks shrink or disappear during economic crises, they need additional income to make ends meet even more.

During the Great Recession, Congress expanded the EITC and CTC as part of the American Recovery and Reinvestment Act (ARRA) of 2009. Along with direct payments and other benefits (such as unemployment insurance and food assistance), refundable tax credits had a demonstrated positive impact on women and families.

- In particular, [it has been estimated that](#), if counted in the official poverty measure, the expansions to the EITC and CTC in ARRA would have lifted 1.6 million people [above the poverty line](#) in 2009.
- A 2014 report showed that the tax and other direct assistance, along with increased benefits, provided by ARRA [offset much of the loss](#) in low- and moderate-income families' market-based income.

Improvements That Build on the Success of the EITC and CTC Are Needed

While the EITC and CTC have helped increase the economic security and well-being of millions of families, improvements to these credits are long overdue. For example:

- **The EITC for workers not claiming children should be expanded.** Under current law, working people with very low incomes who don't have qualifying children or whose children don't live with them are only eligible to claim an extremely small EITC. [For tax year 2019](#), the maximum EITC for these workers was just above \$500. And working people under age 25 and over 65 are ineligible to claim the credit. Policymakers should:
 - Increase the amount of the credit;
 - Increase the income limits for eligibility to claim the credit; and
 - Expand the age range for eligible workers, from 25-64 to 21-67.
- **The CTC needs to be improved so that all low- and moderate-income families benefit.** The 2017 tax law left more than [26 million children in low- and moderate-income working families](#) with less than the full \$1,000 per-child increase. This is both because the 2017 law capped the refundable portion to the CTC (at \$1,400 in 2019) and because families cannot receive a refund until they have \$2,500 in earned income. In addition, the 2017 tax law requires a Social Security Number (SSN) for children claimed for the CTC. This precludes about 1 million children, [overwhelmingly "dreamers,"](#) from receiving the credit. Policymakers should:
 - Remove the cap on the refundable CTC amount;
 - Make the CTC fully refundable by eliminating the earned income requirement;
 - Eliminate the requirement that children claimed for the CTC have an SSN; and
 - Increase the amount of the CTC for young children.
- In addition, **the EITC and CTC should be increased for Puerto Rican families.** Puerto Rican families with one or two children are [ineligible for a CTC](#) and Puerto Rican families that do receive the CTC often receive a far smaller amount than families with children on the mainland. Furthermore, Puerto Rican families are ineligible for the federal EITC. Puerto Rico recently instituted its own Commonwealth-funded EITC, but [the maximum value](#) for a family with two children is currently \$1,500, compared to \$5,830 for the federal EITC. Policymakers should:
 - Provide federal matching funds to boost Puerto Rico's EITC; and
 - Make the full CTC available to Puerto Rican families, including those with one or two children.

- **Other tax credits for families**, like [the Child and Dependent Care Tax Credit](#), **should be made refundable**, since they are otherwise unavailable to families with low incomes.

Policymakers Should Expand Refundable Tax Credits to Mitigate a Recession

In the coming weeks and months, as it develops additional responses to the COVID-19 crisis, Congress must expand refundable tax credits to ensure an equitable recovery. Improving these tax credits would help families when they file their taxes in 2021. At that point, many families will likely still be experiencing the economic impacts of the crisis.

For too long, Congress and the administration have declined to build on the success of refundable tax credits, despite clear evidence that they help struggling women and families make ends meet. The COVID-19 crisis should be a wake-up call to immediately improve refundable tax credits both to address the current crisis and put people on a sounder footing when it ends.