

# Permanently Expanded Refundable Tax Credits Will Support an Equitable Economic Recovery

Even before the pandemic, many women struggled to make ends meet. But the COVID-19 health and economic crisis has exposed and exacerbated the deep racial and gender inequities in our economy. While [the American Rescue Plan Act of 2021](#) provided targeted and robust relief that addresses immediate needs, the impacts of the COVID recession on women and their families will be long-lasting. Moreover, without policy interventions, the [racial and gender wage gaps](#), [overrepresentation in poorly paid jobs](#), and [lack of caregiving supports](#) that undermined women's economic security prior to the pandemic will persist in the post-pandemic economy.

In short, additional significant and sustained public investments are needed to address the underlying flaws in our economy—and ensure an economy that works for everyone going forward.

## Refundable Tax Credits Support the Economic Security of Women and Families

Refundable federal income tax credits, such as the Earned Income Tax Credit (EITC), the Child Tax Credit (CTC), and the Child and Dependent Care Tax Credit (CDCTC), boost families' incomes, [increase the well-being of children and adults](#), and can help [reduce racial, gender, and economic inequities](#). The [EITC](#) benefits low- and moderate-income workers and their families, and the [CTC](#) helps families meet the costs of raising children. The [CDCTC](#) helps families who pay for child and dependent care in order to work. [Permanently expanding and improving](#) these credits would provide ongoing income support to struggling women and families, and help [rebuild a more equitable economy](#) in the recovery and beyond.

## Temporary Expansions of Refundable Tax Credits Will Help Low- and Moderate-Income Families Make Ends Meet in 2022

The American Rescue Plan Act of 2021 (“Rescue Plan”), [passed in March](#) of 2021, expands and improves the EITC, CTC, and CDCTC for Tax Year 2021.

- The Rescue Plan makes the EITC more generous and available to more workers who do not claim children for the credit. Before the Rescue Plan, people with very low incomes who don't have children or whose children don't meet the criteria to be claimed for the EITC were only eligible to claim a very modest EITC—[\\$540 maximum](#) in Tax Year 2020. For Tax Year 2021, the Rescue Plan raises this [maximum to \\$1,502](#) and lifts the income cap so more workers qualify for the credit. It also expands eligibility from workers ages 25 to 64, to workers ages 19 and older.

- The expanded EITC will benefit 17 million people, including 5.8 million low-income childless workers between the ages of 19 and 65—the only group of workers the federal tax code currently taxes into, or deeper into, poverty.
- The Rescue Plan’s expansions will especially benefit younger workers (who have experienced much higher unemployment rates), and a broad range of women workers, including women of color, working mothers without eligible children, women workers caring for relatives who are seniors or people with disabilities, older women who are approaching retirement, and essential workers (among who women are overrepresented).
- For Tax Year 2021, the Rescue Plan increases the amount of the CTC from \$2,000 per child under age 17 to \$3,600 per child under age six, and \$3,000 per child ages six to 17 (extending the cutoff age from 16 to 17). In addition, the Rescue Plan makes the CTC fully refundable, which will benefit 27 million children in families with low or no earnings, who previously were unable to access the credit. Starting in July 2021, the IRS will make one or more advance payments of the credit available (totaling up to half of the 2021 CTC amount), so families can receive needed income support throughout the year.
- The Rescue Plan also expands the CDCTC for Tax Year 2021. The Rescue Plan makes the CDCTC refundable, so that low- and moderate-income families can benefit from the credit. It also increases the maximum amount of the credit from \$1,050 to \$4,000 for one child or dependent, and from \$2,100 to \$8,000 for two or more children or dependents—helping millions of families across the country offset the cost of care.

The improvements in the Rescue Plan mean that many low- and moderate-income workers and families will be eligible for larger tax refunds in early 2022, when they will likely still be struggling to recover from the COVID recession. For example, the figure above shows that low- and moderate-income families will enjoy significantly increased CTC benefits after the Rescue Plan:

Average CTC Amount for Families with Children Before and After the Rescue Plan



**Sources:** Tax Policy Ctr., T21-0043 – Tax Benefit of the Child Tax Credit (CTC) under Pre-American Rescue Plan Act Law, by Expanded Cash Income Percentile, 2021 (March 12, 2021), <https://www.taxpolicycenter.org/model-estimates/tax-benefits-provisions-affecting-children-march-2021/t21-0043-tax-benefit-child-tax>; Tax Policy Ctr., T21-0045 – Tax Benefit of the Child Tax Credit, by Expanded Cash Income Percentile, 2021 (March 12, 2021), <https://www.taxpolicycenter.org/model-estimates/tax-benefits-provisions-affecting-children-march-2021/t21-0045-tax-benefit-child-tax>.

## Permanent Expansions to Refundable Tax Credits Will Reduce Poverty and Help Ensure an Equitable Economic Recovery

While the temporary expansions in the Rescue Plan are important and effective policies that mitigate the impacts of the recession, more durable changes are needed. Allowing the temporary improvements to expire after Tax Year 2021 would deprive low- and moderate-income families of these important benefits just as they may be regaining a measure of financial security post-pandemic. Making the Rescue Plan’s expansions to these credits permanent, along with other improvements, would instead provide ongoing income support to struggling women and families, and help rebuild a more equitable economy in the recovery and beyond.

If made permanent, the expanded EITC, CTC, and CDCTC could help dramatically reduce child poverty, bolster the long-term economic security of women and families, and promote a more equitable economy. For example, the CTC expansions will lift 4.1 million additional children above the poverty line this year, reducing the remaining number of children in poverty by more than 40 percent.

However, the Center on Poverty and Social Policy estimates that poverty rates will likely return to, or surpass, their pre-pandemic levels, after many Rescue Plan provisions expire in 2022. If, instead, the Rescue Plan's expansions to the CTC were made permanent, researchers estimate that child poverty would [potentially be reduced by 50 percent](#).

Permanent expansions to refundable tax credits would also advance racial and gender equity in the economic recovery. Because women of color make up a [disproportionate share of poorly paid workers](#), the EITC and CTC [especially benefit women of color](#). Boosting wages for women of color can help ameliorate race and gender wage gaps. Moreover, research suggests that the EITC may be especially effective at increasing workers' incomes [when combined with an increased minimum wage](#).

In addition, permanent expansions to refundable tax credits will stimulate economic growth. Even under normal economic circumstances, families in need who receive refunds from tax credits like the EITC and CTC [tend to spend them quickly](#)—because they need to pay bills or rent, or for other necessities. During economic downturns, families are even more likely to spend income boosts provided by increases in refundable tax credits, stimulus payments, or UI benefits. These expenditures will not only stabilize the economy as it recovers, but often have a multiplier effect—[generating additional economic activity](#).

## Proposals to Make Permanent Expansions to Refundable Tax Credits

Policymakers have introduced legislation to make permanent expansions to the [EITC](#), [CTC](#), and [CDCTC](#). In addition, the Biden-Harris Administration has proposed making some of the Rescue Plan's expansions permanent in its [American Families Plan](#).

Any plan to permanently expand refundable tax credits should:

- Make permanent the Rescue Plan's expansions to the EITC for childless workers;
- Make permanent the Rescue Plan's expansions to the CTC, including full refundability, increasing the credit amount to \$3,000 per child (\$3,600 for younger children), and allowing for advance payments of the credit;

- Make permanent the Rescue Plan's expansions to the CDCTC, especially making the credit fully refundable; and
- Roll back the 2017 tax law's prohibition against claiming children with Individual Tax Identification Numbers (ITINs) for the CTC (which prevents roughly [1 million children](#) from receiving the credit).

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Ensuring an equitable recovery requires us to address both the long-term impacts of the COVID-19 recession on women of color and women more generally, and the deep underlying flaws in our economy that made the pandemic so devastating for women of color and their families in the first place. Making the Rescue Plan expansions to refundable tax credits permanent, along with other [improvements and policies that support women and families](#), is critical to rebuilding a more equitable economy that works for everyone.